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ENVIRONMENT AND MANAGEMENT IMPLICATIONS: A STUDY OF VIETNAM

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ABSTRACT

The paper discusses several environmental factors and management implications using the five different cultural dimensions of Hofstede and Hofstede and Bond as applied to the various management practices in Vietnam. The report is based upon discussions and information provided by senior management of various businesses, U.S. officials, and faculty members from universities operating in Vietnam. In addition, the paper reviews and reinforces earlier scholarly research about management practices in Vietnam. The findings of this study together with those of previous studies could provide relevant information to managers who plan to conduct business in Vietnam.

INTRODUCTION

For companies wishing to be successful in their business endeavors in international markets, it is imperative for their managers to pay attention to the environments of the countries in which they do business because environmental factors such as economic, demographic, technological, social and cultural, political, and legal vary from country to country. These environmental differences among countries require managers to adjust their management practices to those regions of the world in which they wish to do business (Cateora, Gilly & Graham, 2011; Deresky, 2011; Luthans & Doh, 2012).

In the last thirteen years, Vietnam has achieved a steady annual gross domestic product (GDP) growth of 7.7 percent (Ohno, 2009; Schwab, 2011). This trend led to a gradual increase in its average per capita from the United States (U.S.) U.S. $98 to U.S. $1,174 (Ohno, 2009; Schwab, 2011). During this same time, the poverty level of more than 40 percent of the population has been reduced to 10 percent (Asian Development Bank, 2011; *CIA-The World Factbook,Vietnam 2013*; *FDIB Vietnam*, 2012). These developments are the result of a combination of stimulants such as the liberalization of economic reforms. The "doi moi" by the Vietnamese government in 1986 which has attracted direct foreign investment (FDI) in the country (*CIA-The World Factbook, Vietnam 2013*; *FDIB Vietnam*, 2012; http://vietnambusiness.asia) and exports of low-value-added products and private-sector development have also been effective stimulants. Following the World Bank's classification of GDP per capita between U.S. $976-3,855, Vietnam with a GDP of U.S. $890 per head in 2008 is considered as a 'middle-income country' (Ohno, 2009; Tran, 2012) and as an emerging economy with a relatively large population and availability of cheap labor (*FDIB Vietnam*, 2012; http://vietnambusiness.asia). Moreover, its membership in the World Trade Organization since 2007 has provided an opportunity for continued business investment and economic stimulus in the country (http://vietnambusiness.asia). Vietnam is also an active member of the ASEAN alliance and has major trade alliances and bilateral treaties with the U.S. (U.S. Department of State, 2012), the European Union, and Japan (*FDIB Vietnam*, 2012).

Despite the fact that Vietnam is considered an emerging economy, little has been written about the management implications of doing business in Vietnam for international companies. Although a few articles related to various aspects of management in Vietnam have appeared in literature, these articles have not addressed the environmental factors and Hofstede (1980) and Hofstede and Bond (1988) cultural values dimensions in order to discuss management implications. Therefore the aim of this paper is to bridge this gap by (i) reporting on selected environmental factors of Vietnam, and (ii) discussing several management implications to international managers based on these differences as they relate to five different cultural dimensions of Hofstede (1980) and Hofstede and Bond (1988) schema (henceforth called H&HB dimensions). These perspectives concerning Vietnam's environmental factors are based upon discussions and briefings provided by senior management of various businesses, U.S. officials, and faculty members from universities. They also include personal observations, and experiences acquired during a visit to Vietnam (2012) as a part of a Faculty Development Program. In addition, the paper reviews scholarly research dealing with several management practices in Vietnam.

The report consists of common threads arising from a sample of fifty-four respondents in two major cities of Vietnam – Ho Chi Minh and Hanoi. Out of these fifty-four respondents, twenty-six were senior managers (19 males and 7 females) employed at eight multinational corporations (MNCs) in Vietnam (7 Western and 1 Far East MNC). Seventeen were senior managers (13 males and 4 females) employed in four local Vietnamese companies; three were U.S. officials working in the U.S. Consulate (2 males and 1 female); four were faculty members from the two U.S. Universities having branches in Vietnam (4 males); and four faculty members were from a local Vietnam University (3 males and 1 female). The findings of this study together with those of previous studies could provide relevant information to international managers who are planning on conducting business in Vietnam and also to further expand on the stream of research on Vietnam.

BACKGROUND

Literature On Management In Vietnam

Organizations in Vietnam generally are hierarchical in structure, patriarchal in operation, and more centralized at the top (Truong, 2013; Truong & Nguyen, 2002). Decision-making in Vietnam is based on a consensus, checks and balances, and occur between party officials and organizations' top personnel. Therefore making any important decisions requires lengthy negotiations, extensive compromises, and networks to satisfy the vested interests of stakeholders (Ohno, 2009). Decisions are mostly made by top management and there is a one-way flow of communication down through hierarchical levels. Participation, especially in strategic matters, is often not encouraged and practiced; however, at times, discussions and ideas are allowed in the implementation phases. Managers are often reluctant to delegate authority down the line, displaying typical characteristics of a socialist system for family-owned, small and medium-sized enterprises. Because of its deeply-rooted, centrally planned system, firms still follow the characteristics of 'mechanistic' organizations where centralized decision-making, complex structures with many layers and departments, task duplication, and cumbersome procedures are present (Truong, 2013). Vietnamese managers are more collectively oriented and thus place more emphasis on collective action, formal structures, and particularistic management philosophies (Mead, 1994). Few Vietnamese mangers openly question the reasoning behind the orders of top management (Wright & Newton, 1998).

The Vietnamese managers in the sample of Berrell, Wright, and Hoa (1999) study found that they were predisposed to accept the unequal distribution of managerial power in their companies and were more tolerant of hierarchical management styles and positions of authority. They developed working relationships with those above them in the management structure and generally worked according to instructions from management. However, at their own level, managers considered themselves to be benevolent decision-makers; thus, they were more cautious and subtle in voicing their displeasure or concern to reflect control and forbearance. Vietnamese managers displayed "masculine" traits culminating in male achievement and leadership and patriarchal attitudes in the execution of their managerial duties. They were high on uncertainty avoidance index and did not like change and placed great value on "job security," a career path and "personal benefits" of various types. The Vietnamese managers were more rigid because of the homogeneous nature of the group. A strong respect for the position gave managers the legitimate authority to carry out their tasks. They were committed to fulfilling the shared values of the group.

Vietnam is a relationship-based society where developing trust is very important in business culture and practice (Norlund, 2006). People prefer doing business based on personal relationships and through informal, rather than formal talks and it takes time to build this interpersonal relationship (HR Solutions Vietnam, 2010). Priority for building personal relationships and harmony is very important rather than conflict and competition (Berrell, Wright & Hoa, 1999; Perri & Chu, 2012). Although this long-term relationship built on trust can be good, it also tends to lead to corruption in terms of nepotism and cronyism of business practices (Le, Rowley, Truong & Warner, 2006; Pei, 2012; Schwab, 2011) in absence of an effective legal system and strong social norms (Le, Rowley, Truong & Warner, 2006). In Vietnam, entrepreneurs must take a moral approach rather than an economic one while doing business where respect for life, dignity of subordinates, and seeing employees as "brothers" are important considerations (Heberer, 2003).

Industrial disputes in the form of wildcat strikes are common mainly over issues such as wages, working conditions, unpaid bonus/allowances for special occasions, and payments of social insurance (Truong, Le & Rowley, 2008; Tran & Coleman, 2010). Vietnam lacks a complete and consistent wage policy (Pham, 2010) and the labor force is less competitive (Schwab, 2011), its quality is low, and retraining becomes necessary to fit the job requirements (Truong, van der Heijden & Rowley, 2010). Dismissing a poor employee is extremely difficult, due to rigid labor regulations and usually requires consultation with local labor representatives (Perri & Chu, 2012). Efforts are made by local enterprises and MNCs to improve competitiveness by investing more in Human Resource Development (Le & Truong, 2005; Zhu, Collins, Weber & Benson, 2008). Organizations are slow in bringing about changes due to fear of losing their own identity, losing a competitive advantage, and the fact that the government requires that changes do not disrupt the real Vietnamese characteristics (Le, Rowley, Truong & Warner, 2006).

In terms of employees' performance, Vietnamese managers give equal weights to their personal qualities (e.g., dependable, trustworthy, honest, responsible) and managerial qualities (e.g., strategic vision, problem solving, consistent decision-making); however, they give a higher emphasis on employees depicting honesty in business relationships (Truong, Swierczek & Dang, 1998). Vietnamese managers tend to assimilate achievement rather than seeking recognition for their contributions, they find more gratification in family and community activities. They give less importance to meeting deadlines and schedules; they rely on past actions in helping them to evaluate present actions in terms of their fit with tradition and to justify implementation from previous experience. The managers' planning activities do not reflect future outcomes or goals since they believe that long-term goals can be achieved by perseverance and sustained by appropriate expressions and language. The cooperation and involvement in the workplace both by employees and managers in Vietnam manifest in sharing and working with scarce resources like the use of private and public places within the company (Berrell, Wright & Hoa, 1999).

H&HB Cultural Dimensions

Hofstede's cultural dimensions and country clusters are widely accepted and used in the study of international management (Luthans & Doh, 2012). Hofstede's (1980 also see 1994, and 1997 studies and the revised and extended study of 2005) seminal research was based on 116,000 questionnaires administered in 72 countries and in 20 languages between 1967 and 1973 (Alkailani, Azzam, Jordan & Athamneh, 2012). The subjects of his study were all employees from the international company of IBM (Daller & Yildiz, 2006). Based on the results of factor analysis of the study, Hofstede concluded that work-related values of national cultures differed along four primary dimensions in all business cultures. He classified these dimensions as the 'Power Distance Index;' 'Individualism/Collectivism Index;' 'Uncertainty Avoidance-Index;' and 'Masculinity/Femininity Index.' Hofstede's original study identified four dimensions; however, a fifth dimension called the 'Long-term/Short-term Orientation' also known as "Confucian Dynamism" was later added by Hofstede and Bond in 1988 after conducting additional research using a survey developed in the Chinese culture (Khatri, 2009). The descriptions of each of these five dimensions are provided in Exhibit-1. Hofstede's cultural dimensions were empirically developed and are shown to have considerable face validity (Chandy & Williams, 1994; Clark 1990; Kolman, Noorderhaven, Hofstede & Dienes, 2003), and are still considered as the most robust measure of national culture available today (Gong, Lee & Stump, 2007; Yoo, Donthu & Lenartowicz, 2011).

Exhibit – 1
Description of H&H/B Five Cultural Dimensions

Power Distance: … "the extent to which a society accepts the fact that power is distributed unequally" (Hofstede, 1980, p. 45). In cultures with large power distance, each person has his/her rightful place in society, where there is respect for old age, and status is important to show power. In cultures with small power distance, powerful people try not to show their status and power (De Mooij & Hofstede, 2002).

Individualism/Collectivism: … implies a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only, while collectivism is characterized by a tight social framework in which people distinguish between in-groups and out-groups (relatives, organizations, etc.) to look after them, and in exchange for that they feel absolute loyalty to it (Hofstede, 1980, p. 45).

Uncertainty-Avoidance: … indicates the extent to which individuals in a society feel threatened by uncertain and ambiguous situations and try to avoid these situations by providing greater career stability, establishing more formal rules, not tolerating deviant ideas and behaviors, and believing in absolute truths and the attainment of expertise (Hofstede, 1980, p. 46).

Masculinity/Femininity: … "Masculinity" is concerned with the extent to which the dominant values in a society are "masculine," i.e. assertiveness, the acquisition of money and things, and not caring for others, the quality of life, or people. Femininity on the other hand … a situation in which the dominant values in society are caring for others and quality of life. Masculinity is an assertive or competitive orientation of thinking and acting (Hofstede, 1980, p. 46).

Long-term/short-term orientation: developed by Hofstede and Bond (1988) means fostering of virtues oriented towards future rewards, and in perseverance and thrift. Short-term stands for encouraging virtues related to the past and present, respect for tradition, preservation of face, and fulfilling social obligations (Hofstede & Hofstede, 2005).

Hofstede did not include Vietnam in his initial (1980) study but his subsequent research in 2005 included Vietnam and found it high in power distance, low on individualism, strong on uncertainty avoidance, and moderate on masculinity scores. Other studies have also reported that the Vietnamese culture is low on individualism, high in power distance, but medium on uncertainty avoidance and high on masculinity index (Berrell & Hoa, 1998, Berrell, Wright & Hoa, 1999; Haley & Tan, 1999; Lowe & Corkindale, 1998; Quang, Swierczek & Chi, 1998; Swierczek & Hirsch, 1994).

DISCUSSION AND IMPLICATIONS

Environmental Factors

A major portion of an overview of the selected environmental factors consisting of economic, technological, demographic, social and cultural, political, and legal factors presented in this section is based on several briefings (sources of these briefings are listed under *Environmental Factors Briefings* in the Reference section). These briefings were provided to the present authors of this report during their 2012 visit to Vietnam through the Center for International Business Education and Research (CIBER) program sponsored by the University of Wisconsin and the University of Hawaii as a part of a faculty development program (FDIB, 2012). Also included in this section are the present authors' personal observations and experiences.

Economic Factors

Vietnam is an emerging economy with an annual GDP of U.S. $104,600 billion dollars. Per capita income is around U.S. $3,100 dollars. The real growth rate is about 6-8 percent, the unemployment rate is 6.5 percent and inflation rate is about 19 percent. The interest rates are high and credit remains tight; these factors make investments expensive, put pressure on small and medium size businesses by making products expensive for common people. Capital flight is common because people do not want to hold currency due to high inflation. The labor consists of nearly 47.37 million with the greatest number of people engaged in agricultural activities. In short, Vietnam has an abundance of labor and natural resources but it lacks the availability of capital and skilled labor.

Demographic Factors

According to the July 2011 estimate, there are 90,500,000 residents and the population is expected to grow to over 150 million by 2050. A two child policy is being strictly enforced, especially in the urban areas. The median age of the population is 27.8 years with males around 26.8 years and females around 28.9 years; 34 percent of the people is under the age of 14 years and the life expectancy is around 70.61 years. The literacy rate is about 90 percent. The largest ethnic group is the Vietnamese-Kinh although there are other ethnic groups as well. Three-fourths of the population still lives in rural areas and many natives migrate to urban areas for better economic opportunities; 30 percent of the population live in urban areas. Many urban Vietnamese desire to be traders, or businessmen.

Technological Factors

Businesses are given preferential treatment by the government to promote and incorporate technology and yet, modern technology is still in its infancy in Vietnam. Most corporations do not have sophisticated software programs but efforts are being made to boost the economy through improving technology along with investment in human capital, manufacturing, and urbanization; a considerable effort is being made to modernize and expand the telecommunications system. The Internet is not readily available in rural areas but is commonly available in urban areas. Oil and natural gas are used to produce and consume energy; however, the supply of electricity remains scarce in terms of its demand.

Social And Cultural Factors

Vietnamese people are humble, gentle, and friendly people; they respect those who respect them. Children must respect their parents, elders, and teachers. They value marital fidelity, generosity, and hard work and the Vietnamese despise laziness, selfishness, and disloyalty. The Vietnamese have a deep sense of national pride since they had to struggle for independence from Chinese and French domination and had to fight civil wars including that with the U.S. Their focus in life is on the present and future and the younger generation does not want to be reminded about the country's struggles. In general, the Vietnamese people have a positive attitude towards life.

Extended families are commonly found in rural areas although nuclear families are common in urban areas, and extended family members provide support and assistance to each other whenever needed. Friends and family members visit each other often, depending upon the distance between their homes; holidays are the best time for visitations. Both men and women share most responsibilities in the family, both are breadwinners, and if farmers work in their fields. However, men are considered to have the authority in the family and women are responsible for taking care of children. Men are encouraged to marry when they are at least 25 years of age and women at about 23 years of age.

The Vietnamese strive for a good education and occupation to improve not only their lives but the lives of future generations. In general, both public schools and college education are very expensive. Public schools lack a good educational reputation and facilities; people have to pay for private schools. It is common for parents to bribe school officials for good grades for their children. Vietnamese is the dominant and official language spoken by an estimated 86.7 percent of the population while English is the most favored second language and is taught in schools throughout the country. The dominant religion is Buddhism and the core religious belief for almost all Vietnamese is the worship of the spirits and souls of their ancestors. Rice is the staple food eaten along with meats, seafood, vegetables, and fruits. Since it is a conservative society, both men and women generally wear pants/slacks, cotton or knit shirts/blouses on a daily basis. On special occasions and in certain places, women wear the traditional dress “ao dai,” a long dress with front and back panels worn over satin trousers.

Political Factor

Vietnam is a communist one-party state. The economy is predominantly dominated by State Owned Enterprises (SOEs). However, the government is stable and pragmatic and in recent years, the government has undertaken structural and economic reforms to modernize the economy and to allow and encourage foreign organizations to invest in the country. Efforts are being made by the government to restructure the banking system and SOEs including measures supporting technology, investment in human capital, natural resources, the stock market, manufacturing, urbanization, and international integration. In addition, the government has come up with tight flexible monetary and fiscal policies to curb inflation, maintain economic growth, improve the standard of living, along with the quality, efficiency, and competitiveness of the economy.

Political parties comingle personal finances with state finances. Local authorities sit on central committees and have tremendous power to make decisions while trade decisions are made by bureaucrats. Corruption and bribery are common and there is very little accountability and transparency.

Legal Factors

The country follows a civil law system based on the European style civil law; however, the legal framework for doing business is generally not well developed. Laws regarding management issues, wages, working conditions, mergers, and bankruptcy to name a few, are not well-defined. Financial sectors are not well developed and are loosely regulated while labor unions are strong and illegal strikes are common. Real estate and energy sector laws are well developed and regulated by the government.

Management Implications

Based on the briefings and discussions on environmental factors, personal observations and experiences in Vietnam, in this section we discuss the management implications for conducting business in Vietnam using the H&HB cultural dimensions. The results of these studies are consistent with the results of earlier research studies considering various management practices in Vietnam presented in the earlier section of this report. The implications of our study could provide useful information about several management practices for international managers and their companies wishing to do business in Vietnam (see Exhibit-2 for a brief summary).

Exhibit- 2 Implications of Management Practices Based on H&HB Dimensions
Know superiors have final authority in patriarchal, hierarchical, and centralized structures
Delegation of authority down the line is not common
Build and maintain interpersonal relationships
Develop mutual trust, loyalty, and cooperation
Pay attention to social and cultural values pertaining to family, friends, religion, verbal and non-verbal cues
Observe general etiquette of dress, gender, food, and gestures
Avoid talking about politics and controversial issues
Keep the government or party officials in the loop
Know to work around nepotism, favoritism, and corruption
Important to be patient, polite, less aggressive, and less boisterous
Negotiations and decisions should not reflect “loosing of face”
Know the legal system is weak
Provide training to abundant supply of unskilled workers
Usage of modern technology can be slow and limited
Make decisions based on long-term perspectives and collective goals
Changes in ideas and strategies are accepted provided they do not violate traditional values

Power Distance

High power distance was found in Vietnamese organizations. In organizations, it is important to know who the boss is. Subordinates have to listen to seniors and managers for the final decisions. Decisions are made from top-down and managers are often reluctant to delegate authority down the line. Political party officials must be included during negotiations and decision-making. Bribes can be offered to party officials to carry out business favors. Negotiations and decision-making by local business people are based on not “loosing face” since it is synonymous with prestige and thus very important to the Vietnamese people. Negotiations, meetings, and dinners begin on time and general etiquette of dress, gestures, and food must be observed. In short, like other Asian countries, the family, friends, and interpersonal relations are very important considerations with regards to business interactions.

In general, one should not make off color jokes during meetings at the work place and men should not flirt with women at the work place. Both men and women are expected to be professionally dressed; women employees are expected to avoid alcohol and tobacco, speak softly, and dress modestly. Discussions regarding sensitive issues, for example, those related to politics, should be avoided. Polite behavior is expected from all employees at all times and formal greetings are either indicated by shaking hands, or could be verbal, with bowing of the head slightly and standing at a distance of about three feet. A variety of appropriate phrases may be used to greet each other based on the age, relationships, and profession which is usually accompanied by a title. Political party officials must be addressed by their appropriate titles. The family name should initially be used to address, followed by first, followed by a middle name, and a given name. In introducing oneself during meetings, negotiations, or at the work place, the practice of giving business cards with two hands should be followed. Touching of another person’s head should be avoided since it is the most spiritual part of the body. It is considered rude to call a person with an index finger, rather all the four fingers with the palm down should be used and mangers should verbally communicate with subordinates rather than using body/hand gestures.

Managers could rely on nepotism and favoritism in hiring and firing practices. The present legal framework does not provide recourse for hiring and firing policies. Most companies lack good organizational structure to find and hire the right people with skills and talents. The education system does not provide good opportunities to develop human skills and therefore managers have to hire and train unskilled labor. To combat this problem, some businesses are hiring global consulting firms to help with strategy formulation. Many skilled workers prefer working with the private sector rather than the government and SOEs because of the lower pay offered by them than the private sector.

The work force consists of local workers, expatriates who return after obtaining their educational degrees from abroad, and employees from Malaysia, Philippines, and other countries. The Vietnamese government offers good monetary benefits to expatriates. Both males and females work in organizations while educated women work in both domestic and international companies along with male counterparts and can hold managerial jobs unlike women in China and Japan. Working hours are long especially for factory workers while most offices have six working days per week-from Monday through Saturday with one hour of lunch in the afternoons.

Individualism/Collectivism

According to managers sampled, the Vietnamese workers are group oriented and the Vietnamese society is a collective society. Hence managers attempt to make decisions based on long-term perspectives and collective goals of the organizations. In other words, decisions should reflect how the entire group will benefit rather than certain or few individuals. Managers develop good long-term working relationships based on mutual trust, cooperation, and loyalty with all the stakeholders. The western managers in particular indicated that for international managers to be successful they have to find local partners and develop a long term relationship of trust and loyalty with them since Vietnam is a relationship-based society.

Uncertainty-Avoidance

The experiences and discussions with managers seemed to imply that the Vietnamese are ready for change and companies sampled were moving slowly towards integration of modern technology and market-based strategies in their organizations. The briefings also indicated that the economy is still mainly dominated by SOEs. Privatization of companies is rather slow; however, it is encouraged through economic reforms of foreign direct investments, joint ventures, franchising, and even 100% foreign ownership (e.g., KFC). Foreign banks are allowed to compete with local Vietnamese banks.

Masculinity/Femininity

The Vietnamese seem to depict a feministic culture where people tend to be polite, respectful, humble, friendly, and hardworking individuals. They are not very competitive and are very group oriented. The western managers sampled were of the opinion that they do not encounter problems dealing with the Vietnamese people. Interestingly, during the discussions it was found that instead of being Anti-American, most Vietnamese have an interest in all things American.

Long-Term/Short-Term Orientation

The people of Vietnam in general want to forget about the wars that they had to fight in the past and are optimistic of leading a better life in the future through the improved economic situation of the country. This orientation has made them open to change, caused them to strive for a good education, good jobs, and hard work. In general, they have a positive attitude towards life, and Vietnamese workers are receptive to new ideas, technologies, processes, and strategies in the work place. However, these changes should not work against the traditional values of the Vietnamese culture.

CONCLUSION

While interpreting the results of the study, some of its limitation should be addressed. The study’s sample size was small. The two major cities of Vietnam were considered. The study did not include a structured questionnaire and no hypotheses were developed and tested. It was qualitative in nature and the findings reflect the briefings, discussions, observations and experiences with the managers of the companies visited, faculty members, and U.S. officials. The findings of the study are consistent with the results of other research studies on management practices in Vietnam. The report on environmental factors implies that management practices in Vietnam are influenced by economic, demographic, technological, social and cultural, political, and legal factors. For example, this includes the role of the communist government, the weak management laws, corruption, nepotism, an unskilled and less competitive work force, inflation, low wages and income, less developed technology, and social relationships.

The discussions on H&HB cultural dimensions indicate that the management style in Vietnam is based on collectivism rather than individualism and short-term orientation; what is good for the society as opposed to oneself. These values imply that managers have to develop good working relationships with their employees based on: friendship, personal relationships, harmony, cooperation, loyalty, reciprocity, patience, and avoidance of risks. Since it is a high power distance society, each individual is conscious of his/her position in the organization. Vietnamese organizations tend to depict a feministic culture where people are humble, polite, and hardworking individuals with a positive attitude towards life and future. The managers sampled in the present study seemed to indicate that Vietnamese people are receptive to changes in the workplace as long as these changes do not violate the traditional values of Vietnamese workers. This attitude seems to suggest that Vietnamese people are medium on the uncertainty-avoidance index and have a short-term orientation towards life.

In essence, international managers, to be successful in Vietnam, must be knowledgeable and sensitive to the environmental factors of Vietnam. Such knowledge will be useful in the development of appropriate management practices. Insights about these factors can make managers more effective in dealing with their subordinates, colleagues, and negotiating partners in Vietnam. It can also help in integrating operations through strategic alliances and mergers/acquisitions. When international managers understand and appreciate the differences in environmental factors of other countries, it is more likely, they will be in a position to accommodate these differences to the benefit of all the stakeholders.

Vietnam is emerging as a major market with its growing economy, availability of cheap and abundant supply of labor, and governmental policies favoring foreign investments. This opportunity for economic growth provides an attraction for international companies to conduct business in Vietnam today.

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FREQUENT FLYER MILES AS COMPANY SCRIP: IMPLICATIONS ON TAXATION

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ABSTRACT

Frequent flyer programs encourage airline brand loyalty by customers. These popular programs have been the subjects of much discussion on whether or not the frequent flyer miles received by customers are taxable. Although many scholars favor taxing the miles, we propose that there are considerable problems of timing and valuation. Therefore, the frequent flyer miles should not be taxed.

INTRODUCTION

Frequent flier miles aren't so enticing when they're taxable. (Choi, 2012)

FREQUENT FLYER PROGRAMS

History

The first frequent flyer program was started in 1981 in the wake of U.S. airline industry deregulation. The anticipated effect of deregulation was increased competition among the U.S. airlines. American Airlines was the first firm in the industry to recognize the potential benefit to customer brand loyalty of a frequent flyer program. American formed its AAdvantage program in an attempt to capture these potential benefits. Other airlines quickly started their own frequent flyer programs to match AAdvantage. By 1984, there were an estimated ten million members in the various airline programs. The six largest programs were run by the major airlines: American, Delta, Eastern, Pan Am, TWA, and United. By 1985 airline customers had fully embraced the programs. The airlines awarded an estimated $100 million of frequent flyer bonuses to program members in that year (Hall, 1987).

Frequent flyer programs allow travelers to earn miles, or points, every time they travel. The number of points earned by a traveler during any given trip depends upon the: 1) number of actual miles flown, 2) type of ticket purchased, and 3) price paid for the ticket (Daher, 2001). Once earned, the miles can be used to receive flight upgrades and free flights. For example, at 15,000 miles a passenger may receive a voucher for an upgrade to a first class ticket. At 25,000 miles, the passenger may receive a free round-trip flight within the continental United States. Although many frequent flyer miles are earned and used entirely within the airlines' ecosystems, there are many alternative ways to earn and use frequent flyer miles. For example, renting cars, staying in hotels, using credit cards, and buying flowers all may earn airline miles. Miles can also be redeemed not only for flights, but also for hotel rooms, car rentals and more.

One of the most famous examples of alternate ways of earning frequent flyer miles is David Phillips, who will forever known as the "Pudding Guy." He saw an offer to buy 10 Healthy Choice items for 1,000 miles. The smallest item that would count was chocolate pudding for 25 cents each. He calculated that he could get 25,000 miles for a mere $62.50 in pudding. So, he purchased a total of $3,000 of pudding and earned 1.25 million miles. He could not eat all 12,000 cups of pudding so he gave most to charity for an estimated $800 tax savings (Lopez, 2000).

Daher (2001) argued that frequent flyer programs are the most successful marketing tools ever invented in any industry at any time in history. There is little argument that frequent flyer programs have been overwhelmingly successful in achieving their stated goal of increasing customer loyalty (Daher, 2001). It is currently estimated that frequent flyer programs have more than 80 million members in the United States. The largest are the American AAdvantage program, Mileage Plus from United, and Delta Sky Miles. Each of these programs has than 20 million members (Escobari 2011). As participation in the various programs has grown over the years, so too have the mileage awards and the various benefits attached to those awards. By 2005, global travellers had accumulated an estimated 14 trillion frequent flyer miles worth an astounding $700 billion. This lead *The Economist* to name frequent flyer miles as the world's leading "currency" (Frequent-Flyer Miles, 2005). "Miles are the global currency right now," says Jim Davidovich, who runs United Airlines' frequent-flyer program "It's not the euro, it's the mile. And it's hot" (Lopez, 2000, 15)

Taxability of Frequent Flyer Miles

As the popularity of the loyalty programs grew, many legal and tax experts started to question the taxability of frequent flyer miles. Some of the best papers on the taxability of airline miles were written in the early days of the frequent flyer programs. Forman was one of the first scholars to ask, "Are such frequent flyer passes and similar travel benefits gross income to the recipients?" (1985, 742). Aidinoff in 1986 called frequent flyer bonuses a "tax compliance dilemma" (1345). Hall (1987) opined that although frequent flyer miles were probably gross income under the broad definition of income in the Internal Revenue Code, they were generally excluded based on the assumption that the awards were similar to rebates and discounts.

Table 1 shows a list of academic papers on the taxability of frequent flyer miles. This is a representative list and is not comprehensive. The message from Table 1 is that most authors consider the miles to be taxable based on current U.S. tax law. Most of these authors considered the question, "Do frequent flyer programs meet the definition of taxable income?" The answers, albeit with different approaches, mostly pointed to notion that the frequent flyer programs should be taxable to the passengers that receive the miles and awards. However, the authors did not agree on how or when the passengers should be taxed. Some authors recommended that miles should be taxable when received. Some authors recommended that mile should be taxed when redeemed or when the trip is actually taken. And finally, other authors did not address the mechanics of how when the passengers should be taxed.

Table 1
PRIOR ACADEMIC PAPERS ON THE TAXABILITY OF FREQUENT FLYER MILES

PAPER	TAXABLE WHEN RECEIVED	TAXABLE WHEN USED	TAXABLE BUT TIMING NOT SPECIFIED	NOT TAXABLE
Forman (1985)	X			
Hahn & Passell (2012)	X			
Aidinoff (1986)		X		
Guttman (1988)		X		
Dodge (1990)		X		
Pouzer (1998)		X		
Daher (2001)		X		
Sheppard (1993)			X	
Cunningham (1999)			X	
Oliveria (2002)			X	
Zelenak (2012)			X	
Hall (1987)				X

Despite the vigorous debate among academics and tax experts, frequent flyer miles have generally not been taxed in the United States. Miles that are earned by passengers or by credit card holders and used later to purchase flights and services have not been taxed, though miles earned in other ways may be taxed. There are many reasons for this, but the most basic is that the program awards have generally been viewed as "discounts", not as income. Forman argued, "Frequent flyer programs are basically just complicated discounts for the purchase of multiple airline tickets (1985, 742)". Since discounts on purchases are not subject to income tax, the frequent flyer miles received by airline customers have not been taxed. Forman also argued that the only difference in a traditional volume discount and airline miles is that airlines allow customers to buy airline tickets over a long period of time (1985).

Table 2 shows the different ways that miles are awarded to club members along with the potential tax consequences of each award. The right column shows the best estimate of the position of the IRS. There are no laws or regulations specifically about frequent flyer miles, so estimating the IRS's position is more an art than a science. Saunders (2012) created the list of six different ways of earning frequent flyer miles. We have split her number 4 into two separate situations (4a and 4b) for clarity. She stated, "Put simply, most miles earned by most taxpayers most of the time are probably tax-free."

Table 2
SIX WAYS TO EARN FREQUENT FLYER MILES
Saunders 2012

	ACTIVITY	BEST ESTIMATE OF THE IRS POSITION
1	Miles Awarded by Flying	Nontaxable
2	Miles Awarded by Credit Card Use	Nontaxable
3	Miles Awarded for Business Travel	Taxable but not Enforced (per the IRS 2002 Announcement)
4a	Miles Awarded as a Promotion for Opening a [Credit Card] Account	Nontaxable
4b	Miles Awarded as a Promotion for Opening a [Checking/Savings] Account	Taxable but not Enforced
5	Miles Awarded for Putting Money in a Mutual Fund	Taxable and Enforced
6	Miles Awarded as Prizes	Taxable and Enforced

Taxable Income Defined

The U.S. Congress has written the Internal Revenue Code to define gross income quite broadly. It defines gross income as “all income from whatever source derived” (Internal Revenue Code § 61(a)). The Treasury Regulations further expand this definition to include “income realized in any form, whether in money, property, or services.” (Treasury Regs § 1.61-1(a)). The intended definition of gross income includes all income unless Congress specifically excludes it. The courts have supported the broad taxing powers of Congress by being reluctant to limit its taxing authority. The Supreme Court, in *Glenshaw Glass Co.*, defined gross income using three criteria. Gross income was “accessions to wealth, clearly realized, and over which the taxpayers have complete dominion (Commissioner v. Glenshaw Glass Co. 1955, 431).” This three-part test has led to the modern definition of gross income.

The Internal Revenue Service (IRS) has used what Zelenak called a “don’t ask, don’t tell” (2012, 829) policy regarding taxpayer reporting of frequent flyer miles. There has never been any law or regulation regarding the taxability of frequent flyer miles. There is not now, and has never been, any requirement to report miles earned or received. There also is no accepted method of determining the value of miles or awards. This combination of factors has led most tax experts and taxpayers to assume that frequent flyer miles are never taxable.

One fascinating exception to the tax treatment of frequent flyer miles almost occurred in 1995. Tax scholars had long argued that frequent flyer miles earned on business trips then later “spent” on personal use constituted an “additional benefit” to employees that should be taxed. The IRS never pursued enforcement of this issue, but in 1995 it released a Technical Advice Memorandum (1995) that caused alarm. The Memorandum applied to only one unidentified company that allowed employees to keep miles for personal use that had been earned on business travel. The IRS deemed that these miles caused a tax liability for the employees. The reporting of this decision in the *Wall Street Journal* caused a firestorm (Herman, 1995). In an unusually fast response, the IRS reversed its position in the following day’s *New York Times*. The IRS announced that it did not intend to tax the business travelers who received miles from business trips and later used them for personal travel (Hershey, 1995).

The 1995 IRS reversal illustrated that the IRS considered miles earned on business travel to be taxable. However the IRS never assigned a value to the miles or enforced any tax liability. The IRS had discovered that the co-mingling of business and personal miles made it very difficult to audit taxpayer accounts. In short the IRS recognized that the miles could be taxed but also recognized the impracticality of taxing those miles.

One exception to the non-taxability of frequent flyer miles occurs when the miles are sold for cash. The *Charley v. Commissioner* (1996) court ruled that miles sold for cash are taxable when sold. However, selling miles outright is a fairly rare event. Most miles are redeemed within the airline ecosystem for tickets, upgrades, car rentals, or lodging.

A fairly definitive official statement from the IRS regarding the taxability of frequent flyer miles was made in 2002, when the IRS issued guidance that it would not pursue enforcement in taxing frequent flyer miles. The guidance was issued as Announcement 2002-18 (shown in Exhibit A). The IRS said there were "numerous technical and administrative issues… relating to the timing and valuation of income." It also stressed the difficulty separating personal expenditures and business expenditures. The announcement also said,

> *the IRS will not assert that any taxpayer has understated his federal tax liability by reason of the receipt or personal use of frequent flyer miles or other in-kind promotional benefits attributable to the taxpayer's business or official travel (IRS, 2002).*

Nevius in 2012, summed up the position of the IRS to pursue taxing of frequent flyer miles as, "the IRS has seemed willing at times to give taxpayers a pass on certain items that are relatively modest in amount, involve subjective estimates of value, and are difficult to enforce." This is probably why the agency has remained relatively silent on the frequent flyer issue for many years.

It is important to note that the IRS did not say the frequent flyer miles were not taxable in the 2002 statement. It only stated that it would not pursue enforcement on the taxability of frequent flyer miles. This implies that the IRS thinks that miles are taxable but chooses not to tax them because of the many administrative problems including timing and valuation. This statement seemed to close the issue of taxation of frequent flyer miles.

Citibank Surprise

The taxation of airline miles seemed to be a settled issue until early 2012, when Citibank appeared to unilaterally decide that frequent flyer miles were taxable income for its customers. In January 2012, some customers of Citibank were surprised when they received Form 1099s from Citibank. These customers had received frequent flyer miles from Citibank for opening new checking or savings accounts in 2011. With the receipt of the 1099s these customers learned that their free frequent flyer miles were actually taxable income – according to Citibank. Many banks have special promotions that give airline miles for opening an account. However, Citibank was the first to claim that these "free" airline miles were taxable income for the account holder (Maranjian, 2012a and 2012b).

Form 1099 is issued by a business when it pays at least $600 for services. Citibank did not report how it calculated the dollar amounts that it included on the Form 1099s sent to customers. However, customers who received 25,000 airline miles also received a Form 1099 for $625 the following year. Therefore, Citibank valued each mile at 2.5 cents ($625 / 25,000 miles = $ 0.025). Since 25,000 miles are generally needed to receive one round-trip domestic coach ticket, Citibank was essentially claiming that the average value of round-trip domestic coach tickets was $625 (Perkins, 2012a).

Because frequent flyer miles had not been taxed previously, Citibank's actions were a shock to many tax and travel professionals. The IRS also seemed to be caught off-guard. Michelle Eldridge, IRS spokeswoman stated, "When frequent flyer miles are provided as a premium for opening a financial account, it can be a taxable situation subject to reporting under current law" (Lazarus, 2012b). This was a surprising statement from the same IRS that issued the 2002 announcement that promised not to pursue tax enforcement on airline miles. The IRS has apparently always maintained that the frequent flyer miles are taxable, but based on the 2002 announcement, the IRS had not decided to enforce the tax. So, many professionals were concerned that this represented a change in the IRS enforcement policy.

Media and Political Reaction

Since the issue had not come up in recent years, the Citibank decision caused a controversy. The Citibank story initially broke in an article in the *Los Angeles Times* by David Lazarus. After describing Citibank's opinion that the miles represented miscellaneous income, Lazarus underscored the surprise felt by many with a one-sentence paragraph, "This is news to tax pros" (2012a). *USA Today* quickly followed with its own article headlined, "Frequent fliers jolted as Citibank says some miles are taxable" (Mutzabaugh, 2012).

Travel expert Ed Perkins wrote about the Citibank issues as a "scam" and that it was a "bombshell" to its cardholders (2012a and 2012b). In *Forbes*, tax expert Kelly Phillips Erb, observed that Citibank was "going to new heights to tick off customers… quite literally (Erb, 2012)." *The Wall Street Journal* reported that some customers are furious at Citibank (Saunders, 2012). A class-action lawsuit was filed against the bank from customers because the "free" frequent flyer miles could actually cost them hundreds of dollars in extra taxes (Mirando, 2012). One travel site was especially negative in the article, "Citibank Scam Will Cost You Money – Even If You Don't Use Citibank (Perkins, 2012a)."

Perkins (2012a) speculated that the price paid by Citibank was probably 1 cent per mile. The miles given to new customers were valued at 2.5 cents per mile, without any explanation by the bank. The 2.5 cents made a 25,000 award worth $625 on the Form 1099s issued to the customers. Perkins thought the "scam" could be that Citibank wanted to write off the "fair value" of the miles instead of its cost and one way to demonstrate that 2.5 cent value was to calculate it for its customers. So, Citibank would get to expense a number larger than what it paid. This was Perkins' hypothesis of a "scam" by Citibank, but the bank remained silent on the issue.

Even U.S. Senator Sherrod Brown (D-Ohio) sent a letter (shown in Appendix B) to Citibank CEO Vikram Pandit requesting that the bank stop sending tax forms to its customers. Brown said, "The last thing Citibank should be doing is creating baseless fear in middle-class families, or placing a nonexistent tax burden on the backs of families who are already struggling (Brown, 2012)."

Additional Considerations

Before addressing the specific factors that make taxation of airline miles incredibly challenging there are two additional areas of discussion that may add some useful context.

Airline Miles Are Company Scrip

One of the aspects of airline miles that makes the "pro-tax" argument appealing is that Airline miles can be thought of as a type of "currency" or "money." If customers received (real) currency from Citibank or from an airline, then that currency receipt would almost certainly be taxable income. However, frequent flyer miles make a poor currency in real life. At best it can be viewed as a "controlled currency" or "captive currency" (Perkins, 2007).

Money has three primary traits from an economic perspective. It is:

1. A unit of account – We use money to measure the value of other goods and services in an economy.
2. A store of value – Money does not have to be spent immediately upon receipt. It does not expire or spoil. It can be saved and spent later.
3. A medium of exchange – Money can be "traded" for other goods and services. It is widely (preferably universally) accepted in the economy.

A cursory examination of the above traits should make it clear that frequent flyer miles do not really qualify as "money."

1. We do not measure the value of all goods and services in terms of frequent flyer miles. Miles are only a useful unit of account for a very tiny subset of goods and services (plane tickets, hotel rooms, etc.).
2. Most frequent flyer miles do in fact "spoil" or expire a few years after being earned. Miles have very short lifespans compared to "real" forms of money.
3. Miles can be traded for only a very small subset of goods and services. We cannot generally use miles to buy groceries, pay the rent, or pay for other common expenses.

The common theme of the limitations above is that frequent flyer miles only have the uses allowed by the issuing airline. The miles expire because the airlines want them to expire. The miles cannot be used to buy groceries because that is not in the best interest of the airline (likely due to the costs involved in getting grocery stores to go along with this). In short, frequent flyer miles are a "controlled currency" that is subject to the whims and limitations of the issuing company.

When viewed in this light we can conclude that frequent flyer miles are quite similar to the concept of company scrip that was often used in mining and lumber towns in the nineteenth and early twentieth centuries. The mining company would issue IOUs in the form of company scrip that could only be redeemed at the company store or in the near geographic proximity (Timberlake, 1987)

There may have been some legitimate economic reasons for the use of company scrip. For example, company scrip was usually used in remote areas that had little access to actual currency. However, the disadvantages of scrip (for employees) were tremendous. The company had a complete monopoly on the items that were sold in the company store (Timberlake, 1987). When combined with the monetary monopoly created by the company scrip, the company had complete control over what employees could buy and where it could be purchased. Of course implicit in this control is that the company had complete control over the prices charged to employees for products at the company store (Tan, 2011). In short the "captive currency" created by the company gave it an enormous amount of control over the life of its employees.

Obviously the comparison of company scrip to airline miles is not perfect. Participation in a frequent flyer program is entirely voluntary, not compulsory, and has many potential benefits. However, the problem with airline miles, like company scrip, is that the miles are only worth what the issuing company says they are worth. That value can go up and down arbitrarily. If the company changes the "prices" of tickets and other goods in the program then the value of all accrued miles is diminished.

One way an airline can devalue its miles is to put more restrictions of using miles. For example, to use 25,000 miles for a round trip ticket, you must book months in advance. To book the same flight only a few weeks in advance, it may take 50,000 miles. Jacobs (2011) says points are meaningless unless you play a game of "3 Dimensional Chess" to get the right 1) destination, 2) date, and 3) desired class of ticket. Since the miles are a "captive currency" and the airline has complete control over the "company store", when airlines devalue their miles customers have little recourse – other than to potentially withdraw from the program or switch to another airline.

One of the basic rules of taxation is that we cannot tax something that we cannot value. The "captive currency" and "company store" phenomena cause incredible difficulty in valuing airline miles and therefore make taxation very problematic.

Airline Miles Are Virtual Assets

Another challenge that must be overcome is that frequent flyer miles are really virtual assets that only exist in digital form. Because of the increase in online games and worlds there have been many recent academic papers on taxing virtual or digital assets. Games like World of Warcraft (WoW), EverQuest, and Second Life have within their virtual economies items that may be sold for real currency in the real world. This raises the question of whether these items in the virtual world should be taxed. If someone pays $120 per year to play an online game, and then sells items from within that game for $100, does the sale constitute taxable income or is the sale simply a reduction in the total cost of playing the game for the year? If that sale is a taxable event, then receiving any virtual asset within the game could also be taxable. In practical terms this situation becomes a taxing impossibility for the IRS because it has no knowledge of what happens within the virtual world (at least as of the time of this writing).

The 21st century has brought new challenges to our income tax system. Several papers have been written about taxing virtual assets, most notably Mennecke, Terando, Janvrin, and Dilla (2007), Camp (2007), and Wisniewski (2008). These articles are good primers on virtual worlds and they use the tax definition of income to determine the taxability of virtual items. The issue is that virtual world assets sometimes have substantial real-world value. Arnold (2012) reported that the virtual economy has an estimated value of $3 billion. Arnold concludes that income generated online should be taxable, but the taxing authorities will be unable to enforce it.

The problem with most virtual assets mirrors the previously discussed problem of company scrip. Virtual assets only have value as long as their virtual world continues to exist. If World of Warcraft closes, then the value of its in-game virtual items is zero. World of Warcraft items cannot be used in EverQuest or Second Life. This is essentially the same situation that exists with frequent flyer miles. You cannot use American miles on Delta, or Delta miles on United. If an airline goes bankrupt, the miles would be worthless. A competitor airline could buy the failed airline and choose to honor the old miles, but that decision would be completely out of the hands of the customers who owned the miles. By themselves, the airline miles have no inherent value because they are virtual and not tangible assets.

Another type of virtual asset is digital currency like Bitcoin. “Bitcoin is an open-source, peer-to-peer digital currency...it is the world’s first completely decentralized digital-payments system (Brito and Castillo, 2013, 3).” Unlike other digital payments system, Bitcoin does not require a third party to be an intermediary, such as PayPal. Instead, it relies on a peer-to-peer network where the transactions and balances can be verified within the system. This “cryptocurrency” is private and not managed by any central authority, company, or country (Lemieux, 2013). Bitcoin has been seen as a new modern currency for the new digital age. However, in early 2014, the leading Bitcoin exchange, Mt. Gox, announced nearly $470 million of the currency had disappeared from its digital accounts due to theft. Most of the loss was customers’ money. The Japanese company has filed for bankruptcy protection (Sidel, Warnock, and Mochizuki, 2014).

If frequent flyer miles are the new “currency,” they can be vulnerable to 21st century cybercrime and can be stolen or destroyed. This experience with Bitcoin and fraud is a cautionary tale to the development and growth of the virtual assets and digital currency.

OK, The Miles Are Taxable, But They Should Not Be Taxed

Many papers by legal and tax scholars agree: frequent flyer miles should be taxed. The IRS has always maintained that the miles represent taxable income, even if the agency chose not to pursue tax enforcement. However, as a practical matter, based on many administrative and procedural hurdles, frequent flyer miles should not be taxed. Taxing frequent flyer miles is an example of what one writer calls “good tax policy but bad politics” (Daher, 2001). As with any tax-related issue, there are many details to be worked out. In the following section, we will show several different problems of taxing frequent flyer miles. In its 2002 announcement, the IRS specifically identified timing and valuation as two difficult issues. Pouzer in 1998, had dismissed these when he proposed taxing the frequent flyer miles. He stated, “issues of valuation and timing are easily resolved" (Pouzer, 1998, 8). We completely disagree. The reason that frequent flyer miles should not be taxed hinge on the difficulty of timing and valuation. When to tax and what amount to tax are hard issues to resolve.

When to Tax: The Timing Issue

If frequent flyer miles are taxable, then the first step is to determine when they will be taxed. In the U.S. income tax system, there are two types of income: ordinary income and capital gains income. Ordinary income includes items like salaries, wages, and dividends. If an item is ordinary income, then it is taxed when received. Capital gains taxes apply to assets like stocks, bonds, and land. Capital gains accrue overtime and are taxed when the asset in question is sold. This timing issue has been a point of controversy among legal and tax scholars. But this is a fundamental question that must be answered if frequent flyer miles are to be taxed. Does a taxpayer have taxable income when miles are received or does a taxpayer have income when the miles are redeemed or used?

It is easy to say that frequent flyer miles should be taxed, but the much harder question is the how to tax. What are the rules and what are the requirements? That is what tax policy is all about. Slemrod and Bakija (2004) warn against oversimplification:

After eight decades, the US income tax system grown has grown encrusted and Byzantine. In comparison, a two-page sketch of a replacement is bound to look breathtakingly simple. But be warned that, in taxation, the devil is in the details. All text systems have grey areas that require rules and regulations (310).

If a taxpayer accrues miles over four years, and redeems the miles in year 4 for a trip in year 5, when is it income to the taxpayer? If the miles were treated as ordinary income, then the taxpayer would have taxable income in years 1-4. If the miles were treated as capital gains, then the taxpayer would have income either when the miles are redeemed in year 4 or alternatively when the trip is actually taken in year 5. Table 3 illustrates the two types of income, when it would be taxed, and the top tax rates as of 2013.

Table 3
TYPES OF INCOME

TYPE OF INCOME	WHEN TAXED	SIMILAR EXAMPLES	HIGHEST TAX RATE IN 2013
Ordinary Income	When Received	Salary, Wages, Dividends	39.6%
Capital Gain	When Redeemed or When Used	Stocks, Bonds, Land	20.0%

The timing issue, or when frequent flyer miles would be taxed is an important issue that must be resolved if the miles are to be taxed. This issue is so large that the IRS specifically mentioned problems with timing in its 2002 announcement. This could be an area of controversy as there is no consensus among legal and tax scholars. Simplicity argues for the ordinary income approach. However fairness argues for the capital gains approach. The “company store” and “captive currency” effects discussed earlier are powerful arguments in favor of the capital gains approach since they make it impossible to know the true value of the miles at the time they are received.

What is the Value: The Valuation Issue

The other issue that the IRS specifically identified was the valuation issue. In other words, what is the value of a frequent flyer mile? Citibank valued its miles in 2012 as worth 2.5 cents each. The fact that Citibank did not bother to explain how it arrived at this valuation caused quite a bit of concern from its customers and from tax and travel experts.

What is a frequent flyer mile worth? One way to look at the cost of a frequent flyer mile is to look at the price of the average domestic round-trip ticket. Table 4 shows the average cost for domestic round-trip tickets for each year from 1995 through 2012. Most airlines require 25,000 miles to purchase a round-trip ticket. This rate has many restrictions so only customers who plan trips and buy tickets well in advance of actual travel dates get this special rate. Airlines also offer round-trip tickets with fewer restrictions for 50,000 miles. In 2012, the average ticket price using 25,000 miles would be about 1.51 cents per mile. This is the “plan ahead” rate. If the average ticket cost is divided by 50,000 miles, the “anytime” rate, the cost per mile would be about 0.76 cents per mile in 2012. If we take a longer view, by averaging the costs per mile over several years, we find the “plan ahead” rate is between 1.26 and 1.44 cents per mile. Likewise the average “anytime” rate over several years is between 0.63 and 0.72 cents per mile.

In addition to the data above, there are several other estimates of the value of airline miles. Travel expert Ed Perkins estimated the cost from 0.7 cents to 1.5 cents per mile (Perkins, 2007). Travel author Tim Winship estimated miles to be worth about 1.2 cents per mile. He noted miles increasing resemblance to money including the ability to trade miles on a secondary market. Frequent flyer miles sold on Points.com sold at 0.42 cents per mile in 2011, which is only a third of the estimated value when used in the airlines ecosystem. Even though airline miles are like currency, the fact that they are a controlled currency means cashing out and getting real currency incurs a heavy discount (Winship, 2011).

It is certainly interesting to note that the estimates of value above are all over the map. The low estimate of 0.42 cents per mile is in some ways the most reliable of all since it represents a “real world” value outside of the airline ecosystem. Value estimates from inside the airline ecosystem rage from 0.63 cents per mile to 1.5 cents per mile. It is also interesting that all of the estimates of the value of an airline mile from Table 4 and from the travel experts are substantially less than Citibank’s estimated value of 2.5 cents per mile. This simply illustrates the magnitude of the valuation dilemma that will have to be addressed if airline miles are to be taxed.

Another challenge with valuing frequent flyer relates to the “company store” issue discussed earlier. Miles are only valuable with one airline and its partners. The miles are only valuable when the airline is healthy financially. If an airline goes through bankruptcy the value of the miles held by all its customers may be reduced (Jacobs, 2011). Also, when an airline changes its rules the value of the miles may be devalued. An example of the devaluation of miles occurred very recently. In early 2014, Delta announced changes to its frequent flyer program from the traditional miles approach to an approach based on what the customer actually spends. This change will go into effect in January 2015. The change to a revenue-based mileage system will reduce the number of elite passengers and devalue most passengers' miles (Bachman, 2014).

If frequent flyer miles have value, then surely the miles have different values over the years. A mile from 2000 cannot have the same value as a mile in 2014. In Table 4, the average ticket price slowly rises, so the value of miles rises also. Taxpayers would need to know the value of a mile for each year. Who would set this amount? Would it be the IRS setting the rate similar to the standard mileage rate for car travel? This is a necessary hurdle that must be overcome.

Deductions and Recordkeeping

The two biggest issues that hinder any system of taxing airline miles are timing and valuation. Assuming those issues could be equitably resolved, the new system for taxing airline miles would ideally be consistent in concept with other tax systems already in place. However there are many administrative challenges that could make that consistency hard to achieve.

Table 4
AVERAGE COST PER MILE OF A DOMESTIC ROUND-TRIP FLIGHT
(Airlines for America, 2013 and Bureau of Transportation Statistics, 2012)
Cents Per Mile = Average Cost / Miles

YEAR	AVERAGE COST OF A DOMESTIC ROUND-TRIP FLIGHT	"PLAN AHEAD" CENTS PER MILE USING 25,000 MILES	"ANYTIME" CENTS PER MILE USING 50,000 MILES
1995	$279.41	1.12	0.56
1996	$286.63	1.15	0.57
1997	$290.43	1.16	0.58
1998	$301.75	1.21	0.60
1999	$300.92	1.20	0.60
2000	$316.96	1.27	0.63
2001	$294.03	1.18	0.59
2002	$276.39	1.11	0.55
2003	$280.33	1.12	0.56
2004	$272.65	1.09	0.55
2005	$278.64	1.11	0.56
2006	$303.89	1.22	0.61
2007	$302.95	1.21	0.61
2008	$329.60	1.32	0.66
2009	$307.63	1.23	0.62
2010	$338.10	1.35	0.68
2011	$365.23	1.46	0.73
2012	$378.62	1.51	0.76
3 Year Average	$360.65	1.44	0.72
5 Year Average	$343.84	1.38	0.69
10 Year Average	$315.76	1.26	0.63

For example, in the U.S. tax system, taxpayers can reduce taxable income by incurring expenses (or deductions) that are related to the income being taxed. There are several potential deductions that would make sense if airline miles were taxable. Each of these potential deductions creates its own administrative issues. For example, donating miles to charity is not currently tax-deductible because the miles are not taxed. However, if the miles were to be taxed, the gift to charity should be deductible. Donating current miles could be a relatively easy valuation but donating miles from previous years could be a difficult calculation, assuming that different years have different values. If the miles are donated, how do we identify which miles are used? Would a first-in, first-out (FIFO) method be acceptable? What about last-in, first-out (LIFO)? Would weighted average or specific identification methods also be used?

Another issue to be resolved is the recordkeeping and reporting requirement. Currently, there is no system to report mileage earned in frequent flyer programs. To have a fair system, accurate miles must be reported. Would the airlines be responsible to report the miles received by its customers? Would the banks have to report customer mileage from their customers? Would the taxpayers self-report their miles? The U.S. system taxes worldwide income. Would taxpayers be forced to report and pay taxes on miles received from trips on foreign airlines? To have a fair system, these details must be settled.

Airline Miles Are Not Free

One of the common themes that some scholars assert is the idea that miles represent “getting something from nothing” (Oliveira, 2002, 647) and therefore must be taxed. This implies that the airlines are giving miles as gifts. This is logically not true. There are no academic articles about restaurants having frequent dining cards where the tenth cup of coffee is free that assert that the restaurant is “giving” away free coffee. The restaurant wants to increase customer loyalty and is willing to provide ten cups of coffee for the price of nine cups. The tenth cup is not free, but paid for by buying the nine previous cups. This is not charity or a gift, this is providing a good deal for loyal customers.

In the same way, airlines are in the business of selling flights and travel. They are not in the business of giving free flights because of their charitable intent. The airlines, like the coffee shop, are willing to provide a good deal to their most loyal customers. This leads to an axiomatic conclusion: airline passengers pay for everything, including the “free” flights, by paying for all the preceding flights. As travel expert Randy Petersen observed, “They're not giving anything away for free” (Lopez, 2000). The airlines are not giving, they are selling: selling miles to Citibank and Healthy Choice so they can sell more to their customers. Every frequent flyer miles that a company gives its customers has been purchased from the airline first (Lopez, 2000).

Researchers have found that frequent flyer miles lead to higher average prices on all flights to cover the cost of the frequent flyer program. Escobari (2011) found that there is a Frequent Flyer Premium that passengers pay because of frequent flyer programs. For every 1% of travellers using frequent flyer miles, average airline fares increase by 1.16%. This is a great deal for the airlines - and it is all paid for by the passengers in the form of higher prices to pay for the “free” flights. Airlines are not giving away miles or flights, but using incentives to increase revenues (Oliveira, 2002).

CONCLUSION

Frequent flyer miles are very popular with airlines and travellers. Many have argued for taxing frequent flyer miles, but they have not explained how to tax. The important issue is not whether to tax but how to tax. The problems of timing and valuation are too large to ignore. We recommend that frequent flyer miles should not be taxed because it is not really a currency and it looks more like a ‘controlled currency’ or company scrip.

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APPENDIX A
INTERNAL REVENUE SERVICE ANNOUNCEMENT 2002-18

Part IV
Items of General Interest
Frequent Flyer Miles Attributable to Business or Official Travel
Announcement 2002-18

Most major airlines offer frequent flyer programs under which passengers accumulate miles for each flight. Individuals may also earn frequent flyer miles or other promotional benefits, for example, through rental cars or hotels. These promotional benefits may generally be exchanged for upgraded seating, free travel, discounted travel, travel-related services, or other services or benefits.

Questions have been raised concerning the taxability of frequent flyer miles or other promotional items that are received as the result of business travel and used for personal purposes. There are numerous technical and administrative issues relating to these benefits on which no official guidance has been provided, including issues relating to the timing and valuation of income inclusions and the basis for identifying personal use benefits attributable to business (or official) expenditures versus those attributable to personal expenditures. Because of these unresolved issues, the IRS has not pursued a tax enforcement program with respect to promotional benefits such as frequent flyer miles.

Consistent with prior practice, the IRS will not assert that any taxpayer has understated his federal tax liability by reason of the receipt or personal use of frequent flyer miles or other in-kind promotional benefits attributable to the taxpayer's business or official travel. Any future guidance on the taxability of these benefits will be applied prospectively.

This relief does not apply to travel or other promotional benefits that are converted to cash, to compensation that is paid in the form of travel or other promotional benefits, or in other circumstances where these benefits are used for tax avoidance purposes.

For information regarding this announcement, call (202) 622-4606 (not a toll-free number). Alternatively, taxpayers may transmit comments electronically via the following e-mail address: Notice.Comments@irscounsel.treas.gov. Please include "Announcement 2002-18" in the subject line of any electronic communications.

APPENDIX B
LETTER TO CITIBANK CEO

SHERROD BROWN
OHIO

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
APPROPRIATIONS
BANKING, HOUSING, AND URBAN AFFAIRS
VETERANS' AFFAIRS
SELECT COMMITTEE ON ETHICS

United States Senate
WASHINGTON, DC 20510

January 30, 2012

Mr. Vikram Pandit
Citibank
399 Park Avenue
New York, NY 10043

Dear Mr. Pandit:

As Chairman of the Senate Banking Subcommittee on Financial Institutions and Consumer Protection, I write to express my concern regarding recent reports that Citibank is sending 1099 tax forms to customers who received frequent-flier miles as a reward for opening a checking or savings account.

During these challenging economic times, middle-class families are pinching pennies to help pay for the cost of a flight to fly home from college, visit an ailing relative, or see friends. To some, signing up for a bank account in exchange for frequent-flier miles to help make a trip more affordable is an offer that is too good to resist. However, your actions are leaving working families with the seemingly incorrect impression that when they rack up miles, they are hiking up their taxes, too.

Citibank arbitrarily calculates the value of each frequent-flier mile as 2.5 cents of taxable income. Based upon its incorrect interpretation of a rule requiring individuals to report rewards and prizes as taxable income, Citibank has been sending its customers 1099 tax forms to report their frequent-flier miles. A spokesperson stated that the bank is following instructions from the 2012 Internal Revenue Code, and that income tax must be paid if at least $600 in "prizes and awards" is received. These miles are neither a prize nor an award.

Furthermore, the Internal Revenue Service (IRS) has made clear that frequent-flier miles are not taxable income. In a ruling made in 2002 – which still stands – the IRS highlighted that frequent-flier miles are not subject to income tax due to the "numerous technical and administrative issues relating to these benefits." Furthermore, the IRS stated that it "will not assert that any taxpayer has understated his or her federal tax liability by reason of the receipt or personal use of frequent-flier miles or other in-kind promotional benefits attributable to the taxpayer's business or official travel."

Most importantly, given the IRS's ruling, why is Citibank sending its customers 1099 tax forms? Reporting frequent-flier miles as taxable income is inconvenient to consumers, raises their anxiety unnecessarily, and is not required by law.

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I urge Citibank to halt this practice. The last thing Citibank should be doing is creating baseless fear in middle-class families, or placing a nonexistent tax burden on the backs of families who are already struggling to make ends meet.

Thank you for your consideration of this matter.

Sincerely,

Sherrod Brown

Sherrod Brown
United States Senator

COMPARING THE QUALITY AND QUANTITY OF INFORMATION RECEIVED FROM TRADITIONAL, WEBCAM AND BOARD CHAT FOCUS GROUPS

William C. Ingram, Lipscomb University
Randy A. Steger, Lipscomb University

ABSTRACT

In qualitative marketing research, conducting online focus groups is becoming an increasingly popular method. The main benefits of Internet-based focus groups include lower cost such as no travel expenses, automatic capture of the discussion data, and the ability to reach remote or busy populations that tend not to participate otherwise because of inconvenience. Although internet focus groups have become popular, little research has been done to compare the quantity and quality of information received from these newer methods of communication. Using multiple measures of data quality, this study compares the information collected from three methods of focus group communication: a traditional face-to-face offline focus group, an online asynchronous group (Discussion Board) using text, and an online synchronous webcam group. Using a single-blind test, where two levels of independent judges evaluated three standardized scripts, the research indicates that the asynchronous discussion board gave the best overall information to answer the market researcher's questions. The traditional face-to-face group had the most interaction while the webcam group was rated poor on most of the quantity and quality criteria measurements.

INTRODUCTION

Marketing research has been impacted by the rapid growth of the internet. Newer methods of collecting and analyzing customer information are changing as the internet's ability to communicate increases. In the arena of quantitative research new online research methods such as website surveys or e-mail surveys appear to have been widely evaluated, especially when compared to more traditional methods of survey research. (Deutskens 2006; Tuten, D and Bosnjak, 2000; Schillewaert, N. & Meulemeester 2005) However, very few studies have concentrated on qualitative research. This is especially true when looking at one of the most popular methods of qualitative research, the focus group (Bruggen & Willems, 2009).

Traditional focus group investigation has involved clients sitting in an observation room looking through a one-way mirror at the adjacent room where the group discussion is taking place. With online focus groups, all participating members are able to share information and responses via their computer screens. People participating in these groups can be divided into three groups: moderator, participant and observer. Online focus groups work as if there is a virtual two-way mirror in the room: Observers can conduct special "back room" chat sessions to which only the moderator or the other observers have access. Online focus groups can be conducted in two ways: synchronously (all respondents interact at the same time) or asynchronously (respondents participate at different times), or using a combination of both. In synchronous mode, participants go online at a prearranged time, and immediately react to each other's responses. When people are using text as the means of communication and are online synchronously, this is usually referred to as "chat". The asynchronous mode participants are free to log in during a longer open period, read or listen to each other's comments and then post their comments at a time convenient for them on the "board". Some evidence suggests that asynchronous discussions allow more respondents to participate, therefore leading to more information. (Bruggen & Willems, 2009) Recently a new synchronous method of conducting online focus groups has been developed using a webcam approach. This is where all group participants see each other's face on their computer screen at the same time. This method is so new that very little research has been done to date.

Critics have asserted that online focus groups do not create the quality of information that people in the same room creates. Hughes and Lang (2004) summed up the more common criticisms of online focus groups. Most of their criticism is summarized as follows:

1. Lack of non-verbal inputs
2. Loss of face-to-face group dynamics
3. Difficulty of insuring attention to topic
4. Limited role of the moderator
5. Slower interactions
6. Participants have time to consider and edit their remarks while typing
7. Participants, typing more slowly than they speak, contribute fewer words
8. Difficulty of encouraging equal participation
9. Screening – no way to insure the identity of the person participating
10. Difficulty in fully exposing subjects to the desired stimuli (seeing, handling products)

Despite these criticisms, qualitative research using online focus groups continues to grow in popularity by the private sector wanting to collect meaningful marketing data, while at the same time enjoying the cost savings and convenience benefits for all the parties involved (Hughes and Lang, 2004).

RESEARCH CONTEXT

The purpose of this study will be to evaluate the quality of information between three different kinds of focus group methods. Those three methods and their description are listed in Table 1.

Table 1
THE THREE FOCUS GROUP METHODS

NAME	DESCRIPTION
Traditional	A group in the same room at the same time
Discussion Board	A group of people interacting by text messages at different times
Webcam	A group of people seeing each other's faces online at the same time

A real client-respondent study was done for a healthcare company using the same questions using all three methods of focus groups. The resulting three focus group scripts where evaluated by two levels of judges to determine the method of focus group communication that created the highest quality of information. Their evaluation included a detailed list of data quality issues that are defined as follows:

DEFINITION OF DATA QUALITY WHEN COMPARING DIFFERENT FOCUS GROUP SCRIPTS

One past study considered a definition for data quality from focus groups as it related to the research method's ability to answer the client's questions. To determine quality, information was evaluated by outside judges as to the information's depth, breadth, efficiency, and group dynamics. (Bruggen & Willems, 2009)

Bruggen and Willems (2009) also measured the quality of information by comparing three different methods of qualitative research. Their research included a traditional face-to-face focus group, a synchronous online chat focus group and an asynchronous email focus group using a questioning method call e-Delphi. The e-Delphi method is where the discussion leader analyses the initial responses and returns a summary with the "most interesting comments and polarizing statements" to the respondents who are then asked to give feedback to the discussion summaries. This e-Delphi probing method was only used in one of three groups Bruggen and Williams studied making comparison of quality and quantity of data from the three methods problematic. Therefore, if the intent of a study is to compare the difference in data quality between different online and offline communication formats, the method of questioning needs to be as similar as possible among all the evaluated focus groups.

Bruggen and Willems (2009) did provide a list of criteria to measure the quality of focus group information. Those methods are listed as follows:

DEPTH

When an answer is given to a moderator's question, the information is considered deep when the respondent has more than a shallow idea. To be considered meaningful, an answer needs to include a fundamental reason behind the idea given. (Groenland 2002) Some have argued that a lack of visual contact between the respondents and the resulting nonverbal communication would cause less in-depth answers to moderator's questions. (Scholl et al. 2002) Moreover, Greenbaum (1998) was concerned that the moderator of an online group would be more limited to "draw out quiet or shy participants, energize a slow group, and use innovative techniques that will delve a little deeper into the minds of participants." Coomber, has argued the opposite. He argued that text interaction among a group will cause more openness to answering the question because of the shield of anonymity afforded by the technology. (Coomber, 1997)

For the purposes of this study a distinction is made between a shallow answer and an answer that gives the fundamental reasoning behind it. For this study a shallow answer will be called "an answer". Answers that give the reasoning behind their response will be called a "substantive answer".

BREADTH

Information is considered to have breadth if all aspects of a research question have been answered Groenland (2002). Researchers have disagreed on what communication method would give the best well rounded answers to individual research questions. Poynter and Quoigley (2001) suggest that written communication, especially when it is asynchronous, tends to generate more answers but possibly at the expense of thorough coverage of multiple aspects of the topic. Others state that written communication takes more time than face-to-face verbal communication. They state additional time required for written comments limits the number of aspects covered during an online focus group (Groenland 2002). The issue of time does bring up some interesting questions. Since a participant in an asynchronous board discussion has time to read and reflect on other participants' comments before contributing their own responses, would not that result in deeper, more well-rounded responses? Because of the disagreement in existing literature, this study will include the measures of breadth.

EFFICIENCY

When participants discuss topics that do not relate to the subject being addressed, a waste of time and effort occurs. Information is efficient if the remarks of respondents relate only to the topic under discussion and do not include a lot of useless comments. The goal of efficiency is to have fewer words leading to more significant insight. This makes the role of the discussion leader critical. If the method used for a focus group is in real time (synchronous), then the leader would appear to have more control over respondents who are getting off the subject or using too many words to express answers that are not meaningful. Discussion leaders are actually taught to control those respondents who are not adding appropriate answers. Thus it would be expected that an online asynchronous board discussion would have more useless words and topics that do not relate to the research question.

GROUP INTERACTION

One generally accepted advantage of a focus group discussion over in-depth, individual interview research is that synergy should occur. In other words, people interacting with other people should have some spontaneous reactions that lead to newer ideas that would not have occurred if you asked those same questions to people individually. The quality of data from groups is improved as more ideas lead to even more ideas (Fern 1982). Therefore, face-to-face interaction should create more group dynamics and more group dynamics should create better quality answers. A point of emphasis of this particular study involves the method of face-to-face communication. Will a webcam focus group generate the same quality of data as a traditional group since you can see the other respondent's faces? This question is of particular importance because of the increase use of the webcam format, not only for qualitative research, but also as a general communication tool in higher education and in the business world. Figure 1 shows an example of webcam focus group with six respondents and one moderator. Each respondent's screen shows the moderator and the other five participants.

Figure 1

RESEARCH METHODOLOGY

This study was conducted for a healthcare client of a large qualitative market research firm that offers both online and off-line focus group services. The research firm has traditional focus group facilities in multiple cities. Their online focus group services are controlled at their corporate headquarters. They have online customers all over the world.

The healthcare organization was interested in comparing the attitudes and perceptions of working adults about various regional hospitals. The client agreed to have the same questions asked using three types of focus groups; one being traditional (in the same room), one asynchronous online discussion board and one webcam format. The webcam format is the marketing research firm's newest service for online research.

All three groups of people were recruited by the research firm using their normal procedures. Respondents had to possess certain demographic and lifestyle characteristics to meet the target market definition. The final participation rate on each group was as follows:

1. Traditional - 8 respondents
2. Discussion Board - 13 respondents
3. Webcam - 6 respondents

Each group was generally led through the same session plan and the separate discussions were captured into scripts. For the traditional and webcam focus groups a transcription was generated from videotapes of each session. All three scripts were put into a similar format and listed as script R, T and V to insure that the judges could not tell what script was associated with what method. Each script listed the respondent's first name and then gave the exact quote of what each said. Figure 2 shows an example of the script format.

Figure 2

Example of Focus Group Script Format
Script R

Moderator
Are people saving for the future?

Deborah
Most of the people that I know are not able to save for the future because their employers are freezing raises, no bonuses, and just the fact that everything is costing more there is not enough left to save.
Other people I know are trying to save since there is a feeling that us older folks will not be seeing any Social Security benefits when eligible and that will be the only source of income.

Stan
Right on sister. Very good answer.

Deborah
You must be in the same "older folks" group as me! But it is scary to think that by the time we get there nothing will be left or the government will keep raising the age limit past the time we will not be physically able to spend any more money!

Delcinia
Deborah, U hit the nail on the head!

Sherry
Yes, some people are still able to save for the future. They have to be disciplined to do so.

Stan
Many are unemployed and can't save. Some who do have money to invest are holding cash because of concern on markets dropping.

ANALYSIS

Three levels of analysis were use on the scripts. First, a computer program tabulated the total number of words and answers generated. Calculations were made on average words spoken or written per respondent for all three scripts. Then two judges independently tabulated the amount of interaction, the number of answers, and the number of substantive answers given by each respondent. These judges then got together and compared their findings and recorded the number of times they agreed or disagreed on their evaluation of each answer.

Finally, to give more credibility to this study, three marketing professionals who had extensive experience working with focus group scripts were recruited to evaluate the overall quality of each script. All three professionals had either the title “Director of Marketing” or

"Director of Marketing Research". In addition, all three judges work for large organizations that depend heavenly on qualitative research. These three professionals were given a short questionnaire asking their evaluation on the depth, breadth, efficiency and group interaction of each script. Multiple questions were created on several of the criteria. The professionals were asked to pick the best, second best, and third best script on each of the four criteria. They were also asked to give comments to their answers. Figure 3 lists the basic questions to the three experts.

Figure 3
Professional Judge's Questionnaire

1. Which script provided the most different answers to the research questions?
2. Which script created the most relevant (or meaningful) answers to the research questions?
3. Which script best revealed the attitudes and reasoning behind the respondents answers?
4. Which script created the least unnecessary (irrelevant) information that did not relate to the research questions? (Used fewer words to make significant comments)
5. Which script created the most superficial answers?
6. Which group appears to have the most interaction among the respondents when they were answering the questions?
7. Overall which script would have been the most useful in answering the research questions?

PRELIMINARY FINDINGS

Since qualitative research uses a "real world setting [where] the researcher does not attempt to manipulate the phenomenon of interest" (Patton, 2002, p39), a problem occurs in how the questions are asked. All three groups started with the same questions. However, based on the context of the discussions before each additional question, the moderator would sometimes differ in how they asked the next question. Because of the importance of wording each question to compare the different methods on the quantity and quality of answers, it was decided to delete questions from the analysis that were not asked the same way in all three groups. Out of the twenty-three basic questions on the moderator's discussion guide, twelve questions were taken out of the script because of wording discrepancies. That left eleven questions that were asked the same way in all three groups for the judges to analyze. Table 2 shows a summary of the findings.

Table 2
SCRIPT ANALYSIS

	Script 1 Traditional	Script 2 Board	Script 3 Webcam
Total number of words (All respondents)	7,407	10,524	2,249
Number of respondents	8	13	6
Average number of words per respondent	926	809	375
Average # of times spoken/written per	41.1[a]	25.6[b]	16.5[c]

respondent			
Low/high range of # of times spoken/written	9/64[d]	22/40	16/18
Total number of different answers to all questions	79	136	45
Average number of answers per respondent	9.9	10.5	7.5
Total substantive answers to all questions	27	46	13
Average substantive answers per respondent	3.38	3.54	2.17
Amount of respondent interaction for all questions	74	24	3
Number of times the two judges disagreed on either an "answer" or a "substantive answer"	7	13	3
Percent of judges disagreement	7%	7%	5%
[a] In the traditional group, 58.7% of the "times spoken" were from 3 individuals			
[b] 48.9 % of the times written on the discussion board were from 5 individuals			
[c] The average number of times spoken per respondent on the webcam group was almost identical among all the respondents			
[d] One person spoke or wrote only 9 times during the entire session, while another spoke or wrote 64 times			

KEY FINDINGS

Two judges independently reviewed each script and counted up the number of answers, substantive answers and interaction. Then they compared their findings and found they agreed at least 93 percent of the time on the evaluation of the traditional and board discussion scripts. They agreed 95 percent of the time on evaluating the webcam script.

Table 2 reveals that the asynchronous discussion board generated the most total words from all respondents. This is not a surprise because there were more respondents in that group. However, when comparing the average number of words spoken or written per respondent, the traditional focus group generated the most words per person (926), followed by the discussion board (809) and the webcam group (375).

Since an average can be misleading, a count was done to see if one or more respondents dominated any of the group's discussions. This would lead to higher averages per respondent. Comparisons were made on what percent of total words came from each respondent. Three out of the eight respondents in the traditional group spoke 59 percent of the time and contributed 64 percent of the total words. Even though the moderator of this group made several attempts to control dominating members, the least participating discussant spoke up only nine times compared to sixty-four times for the most participating discussant. The webcam group on the other hand had the most balance among its respondent's participation. The most talkative respondent spoke 18 times while the least talkative spoke 16 times.

When considering the amount of information generated, the traditional and board discussion groups were very similar in the number of general answers (9.9/10.5) and substantive answers (3.38/3.54) given per respondent. However, when comparing the traditional group to the webcam group, the webcam group generated approximately 25% less general answers per respondent and 34% less substantive answers per respondent.

The biggest difference of all the measurements was the amount of interaction between each groups' respondents. Interaction was defined for this study as occurring when it was obvious from the script that one persons comments were influenced by another persons' comments other than the moderator. Many times in the traditional group a respondent would reference another person by name, resulting in a total of 74 interactions. The discussion board had 24 written statements that referred to someone else's comments; however the webcam group only had three examples of interaction.

A question that needs to be addressed is why did the traditional group talk more than the webcam group? This was a surprise since both groups could see each other's faces during the synchronous (real time) discussions.

Even considering the three dominating respondents in the traditional group, the fact that the webcam generated approximately half the total number of answers and substantive answers as the traditional group causes concern. This is especially true when the webcam method of communication is becoming so popular with education and business group communication. An additional reviewing of both the traditional and the webcam group's video were done to examine this issue.

The traditional group had a large amount of inter-group conversation and multiple times had more than one person talking at the same time. Those who analyze traditional focus group scripts can attest to the problem of having a script writer state that they cannot understand the conversation because more than one person is talking at the same time. This is a common problem with traditional groups. The webcam participants simply waited their turn to give their opinion on each questioned asked. Many times the moderator had to call upon participants during the webcam discussion.

Another explanation could be the size of each respondent's online face. A typical computer monitor can present one individual's face close to life size. However, when the conversation includes a group meeting, the size of each person's face is quite small. (See Figure 1) The difference in computer monitors and the quality of each local bandwidth might have had some impact on their ability to see the facial expression of the other participants. The online webcam respondents did appear to be more intimidated and looked less comfortable than the traditional offline group. They hesitated in responding to the questions; however they did provide a number of substantive responses. The webcam group all indicated that this was their first online group experience. Three of the six had experience using a webcam for a one-to-one conversation. With constant improvements in technology, it is possible that webcam group communication will improve in its interaction ability over time. Bigger computer monitors, better internet service and more experience on the part of the population using this type of communication will most likely improve the levels of group interaction and participation.

In addition, these findings appear to indicate that a discussion board will give more information per respondent than either of the other two methods. Adding to the idea that an asynchronous discussion board also allows more respondents to participate, this would lead to more total information. (Bruggen & Willems, 2009) The asynchronous character of the board discussion may explain why this method generated more general answers and more substantive answers which is one of the purposes of doing any research. In an asynchronous study each respondent has more time to read and think about their answers, which should create more variety and better quality answers on average. However, this research also implies the level of interaction in a board discussion will be approximately a third of what a traditional focus group will generate. The tradeoff between the two methods appears to be the synergy generated from a traditional group's interaction versus the time to contemplate for deeper thinking from the board discussion group.

ANALYSIS OF PROFESSIONALS' REVIEW OF SCRIPTS

In order to further examine the difference in information quality, three marketing professionals who had extensive experience with focus group analyses were asked to pick the best script based on criteria listed in Figure 2. The three scripts were standardized in every possible way to avoid any influence that might come from their own preferences and/or bias to a given method.

When asked which script provided the greatest number of distinctive answers to the research questions, all three picked the board discussion group as their best choice. Despite this unanimous selection, there was still variation in their views. One of the professionals commented that the Board script "seemed to offer longer and more complete answers". Another professional added this group "gave the most answers, but not necessarily the most insightful", also indicating that the moderator let that group discussion go unguided too long. Of course, this is a disadvantage of asynchronous discussions. The moderator is not conducting a live continuous discussion, but is periodically reviewing respondent's answers.

When asked which script gave the most relevant answers to the questions, the same two judges who agreed on the most different answers selected the board discussion group. One of those judges commented that "Script T [Board] seemed to have more exchanges of opinions between respondents". The third judge, who picked the webcam as the best script for relevant answers, noted that its moderator did a better job of "probing and restating [questions] to get to clarity."

An issue of reliability was indicated by the one of the judge's answers concerning relevant responses. The professionals were also asked which script best revealed the attitudes and reasoning behind the respondents' answers. In order for a response to be considered substantive (meaningful), it needs to include some justification for the idea given (Groenland 2002). Both judges who selected the board discussion group as their best choice for substantive answers also picked the board discussion for the best script that revealed attitudes and reasoning behind those answers. However, the third judge, who listed the webcam group as the best for relevant answers, then listed the offline traditional group for the best at giving the attitudes and reasoning behind answers. One possible explanation for this lack of consistency in answering these two questions is called the Halo effect. When a person sees the answer from a source like a script that fits their own assumptions and attitudes, then all other answers from that same source are considered to be correct. In this case one script gave the "right answers" while another script did a better job of probing the attitudes and reasoning behind the answers.

When people discuss topics that do not relate to the subject being addressed, a waste of time and effort occurs. Information is efficient if the remarks of respondents relate only to the topic under discussion and do not include a lot of useless information. There was no agreement among the judges with respect to which session was able to provide the most significant comments relative to the total word count. Each judge picked a different script. However, when asked which script created the most superficial or short keyword answers, two of the three judges picked the board discussion group. One judge commented that "Script T [board discussion] was superior in minimizing irrelevant and superficial discussion." The other judge commented that "Script T [board discussion] seems to be asking a question, going around the room, and then asking the next. Not much probing or digging. No flexibility to follow a key thought."

In measuring interaction between respondents, two of the three judges rated the off-line traditional focus group as their top choice, while the third judge picked the board discussion script. No major statements were given by the judges on the level of interaction.

When asked to select the best overall script that was the most useful in answering the research questions, two of the three judges chose the board discussion group. These two judges included one director of marketing research and a director of marketing. Both worked for large organizations that depend and use marketing research information. The third judge who was a director of communication and marketing rated the traditional off-line group as the best and the webcam as the second best. This judge commented that both the off-line and webcam scripts were "very close to call" as the best overall script. This is the same judge who commented that the board discussion gave the most answers but not necessarily the most insightful.

CONCLUSIONS

Depth

Information is considered deep when respondents give answers that are not shallow but are meaningful and include some fundamental reasoning behind their answers (Groenland, 2002).
In contrast to Scholl (2002), this study suggests that an asynchronous web board discussion group can produce similar if not more qualitative information when compared to a traditional off-line focus group. The asynchronous discussion group gave more answers per respondent and slightly more substantive answers (answers that have some explanation or reasoning behind them) per respondent than a traditional focus group. A possible explanation of this finding is that respondent's ability to read other's comments, think about what they read, and write their own answers creates a form of interaction similar to face-to-face discussion with both methods resulting in a wider range of topics being discussed. Two of the three marketing professionals chose the discussion board as providing the most useful overall information. The one judge who did not pick the board discussion script as the best overall repeatedly commented that the moderator was not in control or did not probe enough. This will always be true with an asynchronously study when people are going online at different times to review comments and then give their answer. However, in contrast to Greenbaum (1998), this study suggests that even with less moderator influence and control, a group of respondents with more freedom to independently give their own answers to researcher questions can create a similar level of high quality data as compared to an off-line traditional group. We would not argue that online focus groups should totally replace their traditional counterparts, but for those researchers who only use traditional methods because of data quality issues, they might want to experiment with an asynchronously board discussion and make their own mind up on the quality issue. In addition, the fact that asynchronous discussion groups can include more people than traditional (in the same room) groups is another significant advantage for board discussions.

Breadth

Information is considered to have breadth if most aspects of research have been answered. Considering two levels of analysis which includes the quantitative counts from Table 2 as well as the assessment of two of the three marketing professionals, the asynchronous board discussion group gave the most thorough information in answering the questions. The third professional picked the board discussion group as having more substantive answers but questioned the lack of probing on the part of the monitor. This judge commented that the monitor in the discussion board group was simply asking a question and not probing to follow up key thoughts. This judge felt that the traditional group monitor did a better job of probing but created a lot of "burdensome, not insightful" comments that were harder to interpret. The result was that this third judge decided that the webcam group, which gave fewer answers, did give the best overall useful information. However, this judge ended their comments with saying that it was a "very, very close call."

Efficiency

Respondents in the traditional focus group spoke more words on average to answer questions than either of the other two methods. There was no agreement among the three professionals as to which script gave the least unnecessary (irrelevant) information. All three picked a different script. Two of the three professionals stated that the asynchronous discussion board group created the most superficial short answers. It should be noted that this discussion group had thirteen respondents while the traditional group had eight respondents and webcam group had six respondents participating in the discussions.
Efficiency could also be measured by comparing the average number of answers per respondent to the average number of substantive answers per respondent. Both the traditional group and the board discussion group had approximately one third of their answers with some substantive reasoning behind it. (34.1%, 33.7%) The webcam group was again the outlier with less than thirty percent (28.9%) of their answers being rated as substantive.

Group Interaction

When comparing comments given by respondents that showed reference to another person's comments, the traditional group had by far the most interaction (Table 2). Moreover, when evaluating the overall script, two of the three professional marketers agreed. The third judge felt that the board discussion group had more interaction. Again the larger number of participants in the board discussion might explain the difference in the findings.

SUMMARY

The most disappointing and confusing finding from this study were the results for a webcam group. Our initial expectation was that when people see each others faces, either offline or online, and enter into a real time discussion; the quantity of in-depth answers and overall data quality would have been similar. Instead, we found that the webcam format created the least results on most all the criteria used to measure information quality. With the webcam method of communication becoming so popular in education and business group communication, this finding is most disturbing and needs to be further researched as to what can be done to improve webcam communication.

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HOW INCORPORATING A SUSTAINABLE BUSINESS MODEL CREATES VALUE

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ABSTRACT

Clearly, sustainability initiatives will have little or no credibility with shareholders, the Board of Directors, or members of the senior management team whose bonuses are dependent on performance if the link between sustainable business and performance is not demonstrated. Therefore, it is imperative for the firm to develop some framework for assessing how sustainability initiatives directly or indirectly impact performance. This paper provides input toward such a framework and demonstrates how the integration of sustainability into business processes and products creates value for all of a company's stakeholders.

INTRODUCTION

What is sustainability? It is much more than environmentalism. For many in the corporate world, its meaning has moved beyond a single-minded focus on environmental responsibilities to include a business's social and economic impacts. In the investment community, for example, many investors, analysts, and other users track a business's sustainability initiatives and consider the economic, social, and governance (ESG) effects material to a complete company valuation, including indicators measuring labor practices, water use, carbon emissions, and sustainable supply-chain management [Chouinard, Ellison, & Ridgeway, 2011]. The Brundtland Report [1987] defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainability encompasses ways of living and working today that will not compromise the future of our social, economic, and natural resources. From a business perspective, sustainability means the management of human and natural capital with the same robust vigor and stewardship as we apply to the management of financial capital. Corporate sustainability requires a broader scope of awareness or wider, more panoramic focus in order to understand and fully measure the true cost of every decision alternative.

Corporate sustainability can be viewed as an evolving corporate management paradigm. An alternative to the traditional growth and profit-maximization model, corporate sustainability also recognizes the importance of growth and profitability, but also requires the pursuit of societal, environmental, and governance goals for long-term value creation and success.

More and more corporations and other organizations are reporting their sustainability activities---initiatives rooted in organizational responsibilities to maintain a clean environment, treat people fairly and humanely, as well as to achieve economic goals. Sustainability reporting has become a core requirement for many corporations, enabling them to increase their value and sustain long-term profitability [PwC, 2004]. Sustainability reporting includes economic, social, and environmental indicators that facilitate monitoring progress toward sustainable practices.

Sustainability reporting has become an integral component of the information set used by internal and external decision makers. According to a 2010 McKinsey & Company study of 1,946 executives, 50 percent consider sustainability "very" or "extremely" important to shaping corporate strategy, brand recognition, image building, and informing product development. PwC's 17th Annual Global CEO Survey [2014] shows that recent organizational changes are now more focused on preparing for the future as opposed to sheltering from the economic downturn. Survey results indicate that 61% of U.S. CEOs (compared to 31% in 2013) favor integrated reporting (financial & non-financial). Performance metrics for total firm impact contribute to value creation and long-term success. Further, 39% indicated that scarcity of resources and climate change are among the top three trends expected to impact their business over the next five years. 75% of U.S. CEOs surveyed are committed to measuring and reducing their company's environmental footprint, compared to 43% last year.

Sustainability is not just a trend in the U.S. According to a KPMG 2011 International Survey, 95 % of the Global 250 (G250), representing the largest companies in the world, publicly report on sustainability performance within their companies [KPMG, 2011]. Global Reporting Initiative (GRI) reports that its guidelines are followed by 80 % of these same G250 companies, as do 95 % of the companies on the Dow Jones Sustainability Index [Wallace, 2012]. Sustainability is also resonating in China. According to KPMG [2011], 60 % of China's largest companies report on corporate citizenship. Therefore, sustainability reporting is becoming a mainstream practice.

Executives are increasingly recognizing that long-term economic growth is not possible unless such growth is socially and environmentally sustainable. Striving for balance among economic progress, social responsibility, and environmental protection, usually referred to as triple-bottom-line reporting, can improve an organization's competitive advantage [Hill & Seabrook, 2013]. Traditional sources of business value are being eroded through climate change and resource depletion. CEOs must navigate the transition from business as usual to new, more holistic business models that factor in these emerging risks in pursuit of sustainable success. Through an understanding of processes and products, a company can more comprehensively assess its effect on society and the environment, while discovering the optimal intersection between improved environmental and social impacts and increased long-term financial performance.

LITERATURE REVIEW

A review of the literature suggests that corporate sustainability as a relevant concept encompasses concepts from ethics doctrine as well as sustainable development, social responsibility, stakeholder theory, and corporate accountability theory [Wilson, 2003].

Social, economic, and environmental impacts of organizational actions must be evaluated to make effective operational and capital investment decisions that positively affect organizational objectives and satisfy the objectives of various stakeholders. Reducing theses impacts often increases long-term corporate profitability through higher production yields and improved product quality [Epstein, 2008].

Evidence suggests that sustainability issues are critical to a company's future success. The U.N. Global Compact CEO Survey results indicated that 96 % of CEOs surveyed believe that sustainability must be fully integrated into a company's strategy and operations (up from 72 % in 2007) [U.N., 2010]. 93 % of global CEOs surveyed stated that sustainability issues are critical to their companies' future success. More than 3000 corporations participated in sustainability reporting in 2008 (up from 26 corporations in 1992).

Increasingly, sustainability is important to investors. Socially responsible investing now accounts for $2.71 trillion (12%) of the $25.1 trillion invested in the American marketplace. More than 800 investment institutions have signed the "Principles for Responsible Investment," an initiative backed by the United Nations that "aims to help investors integrate consideration of ESG issues into investment decision making and ownership practices, and thereby, improve long-term returns to beneficiaries" [Social Investment Forum, 2010]. This function in companies has an opportunity to demonstrate value and help achieve organizational sustainable goals.

Sustainability may also affect market access, competitive position, customer satisfaction, and product acceptability. For example, market access may be influenced by the presence or absence of a particular sustainability management practice (e.g., ISO 14001/ OHSAS 18001 certification). Market access could also be prohibited by possession of prohibited substances. Companies now understand that customers, consumers, suppliers, and other stakeholders are increasingly proactive in their approach to ESG issues. A study by Goldman Sachs indicated that among the six industry sectors included---beverages, food, energy, media, mining, and steel---companies that are considered leaders in implementing ESG policies have outperformed the general stock market by 25% since 2005 [Alderton, 2007; Averill, 2011]. Another Goldman Sachs study indicates that investor returns could have increased from 25 % to 38 % over the past 4 years had the reporting companies integrated workplace safety and health initiatives into their strategy [Averill, 2011; Were, 2007].

Sustainable market leaders believe that embracing sustainability will create more value for shareholders and other stakeholders [Lowitt, 2011]. These companies convert their sustainability-led competitive strategy advantages into actual earnings-drivers of enhanced financial performance by identifying new business opportunities for revenues based on their sustainability efforts [Hill & Seabrook, 2013]. An analysis of pharmaceutical industry stock performance based on the EcoValue 21 Rating Index reveals that companies with above average environmental ratings have outperformed companies with below-average ratings by approximately 17 % (1700 basis points) since May 2001 [Averill, 2011; Baue, 2002]. A comprehensive literature review by Innovest Strategic Value Advisors, an international research firm, found that "good environmental performance can benefit financial performance. In 85% of the 70 studies assessed, we found a positive correlation between environmental governance and/or events and financial performance" [Averill, 2011; White & Kiernon, 2004].

SUSTAINABLE DEVELOPMENT AND VALUE CREATION

Sustainability development directly drives (or limits) value creation within a company [Slater & Gilbert, 2004]. It is an integral part of good process control, product/process innovation, avoidance of liability, and enhancement of an organization's intangible assets. The quality of sustainability management allows investors to distinguish between efficient companies positioned to protect their market advantage, and those that are not. Specific factors that can help drive a company's value are: innovation, risk exposure, and future competitive advantage.

Choi and Ng [2011] demonstrate that, based on the established premise of customer-corporate identification, consumers favor sustainability by giving positive evaluations of the company and purchase intent. Consumers respond more negatively to poor company sustainability. In comparison, consumers respond more negatively to the company's poor commitment to economic sustainability. They also found that consumers evaluate a company more favorably if the company shares the consumers' social causes. Their empirical study supports the idea that consumers do respond to multiple dimensions of sustainability.

Corporate management increasingly focuses on managing elements within the value chain in order to eliminate waste, cut costs, operate more efficiently, and thereby add value to the business. At the heart of the value chain is customer focus, which in turn affects management of all other components of the value chain. While prior empirical research gauging the impact on market value of sustainable business initiatives has produced mixed results, there has been little research regarding how sustainability has changed business management. The question addressed in this study is: How will sustainability change management and the firm's business model? This paper focuses on those sustainability-driven changes to the competitive landscape.

The subject of sustainability is garnering ever-greater public attention and debate. This subject ranks highly on most governmental legislative agendas; media coverage of the topic has proliferated; and sustainability issues are of increasing concern to humanity. The business implications of sustainability extend far beyond the "green" focus that is most common. Will sustainability change the competitive landscape and reshape the opportunities and risks that companies face? If so, how will it change? What specific capabilities and characteristics must organizations cultivate in order to compete most effectively in the new, sustainability-altered landscape? How will the relationships among companies, communities, customers, employees, and governments be changed by sustainability issues? What opportunities will be created?

Currently, there is no single established definition for sustainability---there are myriad definitions with varying emphasis. However companies define sustainability, my research indicates that companies consistently view sustainability as a major force to be reckoned with. Sustainability will have a material impact on how businesses think, act, manage, and compete. The 2009 MIT Sloan Management Review Survey interviewed more than 50 global thought leaders and surveyed more than 1500 worldwide executives and managers regarding their perspectives on sustainability and business strategy as well as related risks and opportunities. Over 92 % of respondents indicated their company was already addressing sustainability in some way.

A sustainability focus has persisted even given the pressure of the economic downturn. In fact, some survey respondents believe the downturn has accelerated a corporate focus on sustainability---specifically toward sustainable initiatives with an immediate bottom line impact [MIT Sloan, 2009]. Overall, according to survey respondents, the biggest drivers of corporate sustainability investments---those forces having the greatest impact on companies---are government legislation, consumer concerns, and employee interest in sustainability.

A number of recent studies [Brown, 2011; Murray, 2001; Kobb and Bernstein, 2012] suggest that sustainability is gaining momentum as a central business concern. The number of company sustainability reports published has grown exponentially in the past few years. Companies are defining energy and water consumption goals and measuring greenhouse gas emissions. Companies are using sustainability as a marketing tool, promoting their efforts to reduce their carbon footprint and other environmental impacts, advance social agendas, and maintain profitability goals. However, many customers do not have a clear understanding of what is and is not a sustainable product. Likewise, many companies lack a clear understanding of why sustainability is important to their business or how a sustainability focus should be integrated into their business strategies. Kurt Kuehn, CFO of UPS, pointed out 3 business reasons why companies must address sustainability. Kuehn pointed out that being sustainable reduces costs and improves efficiency, mitigates risks, and creates new competitive revenue opportunities. In order to achieve these benefits, companies must apply their innovation processes to sustainability-related issues such as minimizing the resources consumed by their operations, eliminating toxic materials from their factories and products, discontinuing use of materials that support nefarious political regimes (i.e., conflict minerals), and providing solutions that improve the lives of those at the bottom of the pyramid [Kuehn, 2010; Hynds, 2013].

Companies must address sustainability from a strategic standpoint and incorporate sustainability into their innovation processes. Hynds [2013] states that managers must explore how they can enhance their company's position in the marketplace by looking at opportunities to innovate through the lens of sustainability. Looking through the lens of sustainability can have real value. Companies that endeavor to operate more sustainably are increasingly finding that some of their customers are willing to pay more for sustainable products and solutions. New products and services that minimize their environmental impact or that allow customers to reduce their use of natural resources generate productive customer benefits by reducing total ownership costs. This in turn generates benefits for the customer through reduced costs, the supplier through increased revenues, and the planet through conservation of natural resources. Sometimes customers are willing to pay higher upfront prices. Consider the efficiency innovations in HVAC systems. Newer systems have the potential to significantly reduce the operating costs of a building. Building owners have demonstrated a willingness to pay more for these more efficient HVAC systems, knowing they will more than pay for them over the life of the building in addition to conserving natural resources and reducing pollution.

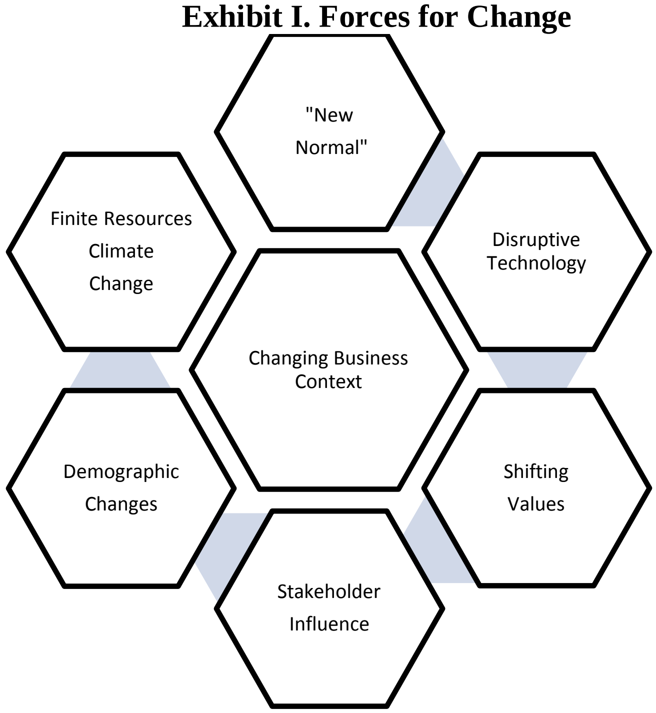
Ingersoll Rand's Center for Energy Efficiency and Sustainability conducted a recent survey focusing on sustainability-related jobs in the construction industry, such as managing waste, managing energy, and avoiding environmental hazards. In a random sample, 45 % of participants were focused on building and operating more environmentally friendly buildings. Their results suggest real opportunities for innovative solutions to create value for customers. While there exists currently a very target-rich environment for new sustainable products and services, sustainability aspects will not be considered unless the proposed innovation or solution adequately addresses the primary functional job. For example, a manager buys an HVAC system in order to provide a productive work environment for employees and customers. A sustainability-conscious manager might choose a chilled-water HVAC system. However, if the chilled-water system does not solve the primary need of a comfortable work environment, sustainability concerns will be secondary.

In addition to customer demands, the current regulatory climate may also require companies to consider the sustainability lens. The European Union (EU) has already adopted a directive making manufacturers responsible for electrical waste. The Sustainability Accounting Standards Board recently adopted a project to identify and define industry-specific sustainability issues that could potentially have a material impact on a business and thus, must be reported in the 10-K for all publicly traded companies, a reporting requirement of the U.S. Securities and Exchange Commission. The U.S. Environmental Protection Agency has implemented mandatory greenhouse gas emissions reporting; the U.S. Department of Energy recently raised minimum efficiency standards for residential HVAC units. Therefore, the regulatory environment as well as the marketplace provides business levers that companies can use to create value.

THE FORCES DRIVING CHANGE

Exhibit I describes the changing business context driven by 6 groups of integrated change forces: the "new normal," disruptive technology, shifting values, increasing stakeholder influence, demographic changes, and climate change and limited resources [PwC, 2013]. Global economic shifts are creating a "new normal" where economic growth rates have slowed and become more volatile. The economic balance of power is shifting toward emerging economies, notably in China and India, where a large growth in the middle class is expected. As a result, cheap labor and materials will become a thing of the past, and instead, the competitive edge will be based on a global battle for access to knowledge and talent.

Exhibit I. Forces for Change



Source: PwC

The pervasive effects of technology will allow direct access to customers and new markets. Businesses, customers, and communities can assemble virtually instantaneously, better enabling small businesses to compete with larger ones---disrupting established rule of competition. The internet and social media enable enhanced transparency and also make business lapses difficult to contain.

Evidence suggests that values are shifting toward a greater focus on relationships, experiences, and meaning rather than material gain. As a result, consumers are more environmentally and socially conscious, particularly the younger generation. Younger consumers tend to want to know more about the products and services they use and about the company producing/providing them. There is also research evidence suggesting that trust in business has been declining [Edelman Trust Barometer, 2013].

Stakeholders, other than shareholders, are demanding more and better information in their quest for higher business standards for responsibility and accountability. Collaborative consumption and the growth of the sharing economy are expected to continue. Value networks are replacing value chains; consumers are considered value creators in the marketplace. Since consumers have access to diverse and broad sources of information regarding key social and environmental issues, irrespective of whether or not businesses market their social and environmental credentials or not, their buying decisions are no longer made solely on the basis of price and quality.

In regard to demographic change, the world's population will grow by 2.64 billion (38%) between 2010 and 2050 [UN, 2013]. The world's population is also aging, and the 'bottom of the pyramid' is expected to emerge as a significant market segment. The threat of climate change heightens risk to capital investments, and the risk of natural resource depletion continues to be a concern globally. As a result, new raw material sources will become more valuable and costly. The threat of loss of biodiversity persists. All such risks may be reflected in higher costs, government regulation, and/or resource depletion.

HOW BUSINESSES ARE INTEGRATING SUSTAINABILITY INTO CORE PRINCIPLES & PROCESSES

McKinsey & Company's 2011 Global Sustainability Survey queried 3,203 executives representing the full range of regions, industries, company sizes, and functional specialties. The survey explored why and how companies are addressing sustainability and to what extent it affects their companies' bottom line, now and over the next 5 years. Results indicate that many respondents are pursuing sustainability goals that go far beyond earlier reputation management concerns. Exhibit II shows how companies are integrating sustainability at the core business level.

Exhibit II. How Companies are Integrating Sustainability

1. Reducing energy use in operations.
2. Reducing waste from operations.
3. Managing corporate reputation for sustainability.

4. Responding to regulatory constraints/opportunities.
5. Reducing emissions from operations.
6. Portfolio management to capture sustainability trends.
7. Reducing water use in operations.
8. Committing R&D resources to sustainable products.
9. Leveraging sustainability of existing products to reach new customers or markets.
10. Managing product impact throughout the value chain.
11. Improving employee retention and motivation.
12. Mitigation of operational risk related to climate change.
13. Achieving higher prices or greater market share for sustainable products.

Source: McKinsey & Company, 2011.

Exhibit III indicates survey responses for business processes in which complete or significant integration of sustainability has been achieved.

Exhibit III. Business Process Integration

1. Mission and values.	6. Strategic planning.
2. External communication.	7. Marketing
3. Corporate culture.	8. Employee engagement.
4. Internal communication.	9. Supply chain management.
5. Operations.	10. Budgeting.

Source: McKinsey & Company, 2011.

SUSTAINABILITY BENEFITS

All business managers must apply a benefit/cost analysis to any decision. What are the potential benefits of sustainable business?

1. Improved Company Or Brand Image And Competitive Advantage

As described above, both customers and regulators are demanding sustainable products and processes. Highly negative political costs have been associated in the past with companies who produce their products in sweatshops, carelessly dispose of toxic waste without concern for the environment or humankind, or have little concern for the safety of their employees, customers, or future generations. A positive, responsible company or brand image engenders trust and loyalty on the part of employees, customers, suppliers, and investors. This in turn creates value for the company through future revenues, reduced information and political costs, and reduced economic costs through lower employee turnover as well as higher quality through improved productivity gains. A stronger brand also creates greater pricing power in the market, a strong value creation lever. Customers are looking for companies they can trust. When a customer is choosing between a company's products and services and those of a competitor, a company's reputation for or commitment to sustainability can tip the balance. That competitive advantage can translate into growth and increased revenues.

2. Cost Savings

Environmentalism is rooted in using resources wisely. More efficient use of resources means less waste, fewer defects, less down-time, time-motion efficiencies, less material handling, supply chain optimization, greater operational efficiencies, lower inventories, and lower costs and taxes. Cost savings through innovations in efficiency are another value creation lever. A more efficient producer is more advantageously positioned in the marketplace, creating a competitive edge. In the logistics industry, UPS reduces fuel and miles through more efficient delivery routes. Their routing is managed by their flow technology (PFT) which includes process enhancements like shortening delivery routes, minimizing engine idling times and combining multiple deliveries into a single stop. It also helps to minimize left turns. PFT has shaved 100 million miles from UPS delivery routes since 2003 and reduced fuel by 10 million gallons and carbon emissions by more than 100,000 metric tons. When fuel usage is reduced, costs are reduced and in the process, carbon emissions are reduced. Lean is green. Cost savings translate into margin improvement and greater profits.

3. Enhanced Employee Recruitment, Engagement, And Retention

Lower employee turnover allows companies to avoid costs associated with finding and training new employees. In turn, companies that provide safe work environments, promote employee health, have a strong commitment to fair employment practices and integrity, and reward employee loyalty and productivity tend to have lower turnover and resulting costs and also typically have an enhanced ability to attract, retain, and motivate employees. Many product and process innovations have been generated by employees, who have first-hand knowledge of business processes and products.

Some companies also demonstrate their commitment to employee health through provision of in-house gym facilities or through sponsorship of external gym memberships. UPS sponsors community volunteerism among its employees. UPS believes this opportunity creates leadership skills, builds teamwork, and makes valuable business connections. The community perspectives gained may lead to new solutions, ideas, and insights into new markets. UPS cites their commitment to community involvement and volunteerism as inspiring co-workers, which can ultimately lead to innovation, higher retention, and company loyalty.

4. Market Share And Access To New Markets

Given the value creation levers of pricing power from a stronger company or brand image, cost savings from greater operating and labor efficiencies and productivity, a company has an enhanced ability to enter new markets, potentially generating more revenue sources. Within a company's existing market, improved customer loyalty due to a stronger, more sustainability-conscious image may allow a company to increase its market share, generating revenue growth, increased profitability, and improved cash flow. Shareholder returns are also enhanced.

5. Sustainability Mitigates Risk

Looking through a sustainability lens presents a new way of looking at forecasts and risks. In this way, companies can identify potential risks through a much broader lens and prepare strategies to deal with them. For UPS, one risk scenario involves the price of oil and the resulting impact on fuel costs. For other companies, the issue might be water scarcity, climate change, or activist pressure. When companies understand that sustainability affects an organization's long-term viability, they are in a better position to prepare for these risks. It broadens their scope for decision making and risk assessment.

There are also shareholder preference risks. Socially responsible investing is growing faster than overall investments. Wise investors look for companies with responsible business practices, a promising future and a long-term perspective that reduces risks. There are also regulatory risks. With the emergence of climate-change legislation, smart companies are determining how to report and reduce their environmental impact. Those who don't will face financial risk. For example, in London, companies are being taxed on their electricity bills, a tax that will be returned if the company meets carbon reduction targets in the next five years.

Exposure to risk and liability represents an integral part of valuing a company. In some industry sectors, sustainability issues can have a direct impact on market access and cost structure, and therefore, represent a key risk and uncertainty for investors. The growing number of companies that have suffered business setbacks due to mishandling of key environmental and social issues over the last decade has spurred the measurement and management of these issues in an attempt to effectively anticipate new risks and opportunities in the marketplace. Such liabilities and risks can rapidly and unexpectedly depress shareholder value. Consider, for example, the impact of the Exxon Valdez oil spill [Liptak, 2004]. Investors face the threat of decreased earnings due to fines and penalties, increased regulatory costs, and greater than expected expenses resulting from understated or undisclosed liabilities. In addition, loss of customer loyalty, reduced market share, and higher insurance premiums could also ensue.

The risk that poor or incomplete disclosure poses for investors is twofold: first, those investors are hindered in their ability to choose companies with the best future earnings growth and potential for shareholder value creation, and second, when liabilities eventually come to light, corporate value is suppressed [Slater & Gilbert, 2004]. With the need for full and adequate disclosure, sustainability reporting has become increasingly relevant for investors as a source of information on environmental and social performance. Many companies recognize that sustainable performance matters, and that even the degree of disclosure by companies may provide some indication of potential outperformers. Public disclosure of sustainability information also indicates that a company has the ability to monitor, measure, and manage the risks and opportunities associated with complex issues. Strong performance in these areas provides cost-saving measures in the short term and strengthens the organization's ability to avoid risk and capitalize on opportunities associated with sustainability issues in the longer term.

Therefore, the sustainable business potentially faces lower market risk, lower balance-sheet and operational risks. A less risky company has a correspondingly lower cost of capital and greater access to capital, financing, and insurance. Lower risk premiums create a positive valuation multiple, potentially increasing shareholder returns per unit of risk.

6. Sustainability Fuels Innovation

Sustainability can drive innovation in new products and services, business processes, and energy-efficient facilities. One caveat: innovation, like research and development, is a long-term investment. Environmentally driven innovation can create shareholder value by lowering costs, improving production processes and service delivery, and helping to find new markets. Increased process efficiency is an example of a proven sustainability strategy for decreasing costs and adding revenue, thereby improving profitability. Additional opportunities to cut costs and create revenues through increased yield and the sale of waste streams (e.g., scrap metal and agricultural by-products) exist throughout the business value chain, in areas such as product design, manufacturing processes, and the use and disposal of materials. Particularly for sectors with low margins, environmentally driven innovation can offer significant benefits and enhance overall competitiveness. Over the longer term, process innovations can also lead to the creation of new products to meet emerging customer needs.

For the investor, these numbers should matter. Environmental performance indicators related to resource use and waste generation can support assessments of the cost savings and revenues that are available to, or already utilized by, a company that is being scrutinized by potential investors. The trend in performance should also give an indication of the company's overall ability to manage the associated risks and capitalize on the opportunities they present.

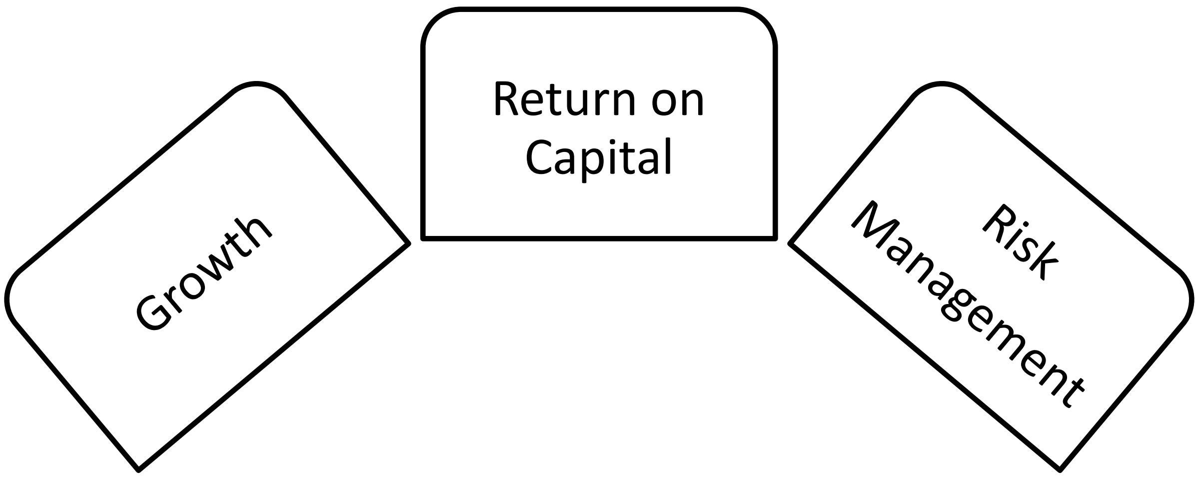
Exhibit IV summarizes these 6 potential benefits derived from the integration of a sustainable business model.

Exhibit IV. Benefits of a Sustainable Business Model

Improved Brand Image	Cost Savings	Enhanced Employee Recruitment/Retention
Market Share Increases	Risk Mitigation	Product & Process Innovation

The McKinsey & Company 2011 Global Sustainability Survey results suggest 3 value-creation levers---growth, return on capital, and risk management---and how companies are leading with action (Exhibit V).

Exhibit V. Value Creation Levers



<u>Growth</u>

● Committing R&D resources to sustainable products.
● Leveraging sustainability of existing products to reach new customers/markets.
● Portfolio management to capture sustainability trends.

<u>Return on Capital</u>

● Achieving higher prices or market share from sustainable products.
● Improving employee retention/motivation.
● Managing product impact throughout the value chain.
● Reducing emissions from operations.
● Reducing energy use in operations.
● Reducing waste from operations.
● Reducing water use in operations.

<u>Risk Management</u>

● Managing corporate reputation for sustainability.
● Mitigating operational risk related to climate change.
● Responding to regulatory constraints/opportunities.
Source: McKinsey, 2011.

SUMMARY AND CONCLUSIONS

Sustainable business and sustainability reporting allow companies to capture the influence they have on their stakeholders and on their physical, social, and economic environments---and vice versa. Strong investors understand that the fate of the companies they own is tied to the nature of the relationships these companies have with other stakeholders. As the business case for sustainability practices becomes increasingly clear, reporting offers real value to those whose business is to assess the current financial health of companies and anticipate future performance. Much of the sustainability reporting data captured in nonfinancial terms or as qualitative policy descriptions can be readily translated into financial terms.

Clearly, sustainability initiatives will have little or no credibility with shareholders, the Board of Directors, or members of the senior management team whose bonuses are dependent on performance if the link between sustainable business and performance is not demonstrated. Therefore, it is imperative for the firm to develop some framework for assessing how sustainability initiatives directly or indirectly impact performance. For example, the impact of green initiatives might be assessed by energy usage, packaging cost, or waste disposal cost; the impact of employee focused activities might be assessed in terms of employee turnover, satisfaction, and productivity relative to industry standards; while the impact of philanthropic activities might be assessed in the same way as an advertising campaign with perceptual measures such as awareness, quality, and reputation.

Essentially, companies require a sustainability system of leadership, strategy, activity analysis, and performance assessment. Elements of a triple bottom line report might include: energy saved due to conservation and efficiency improvements, initiatives to provide energy-efficient or renewable products or services, habitats protected or restored, total direct and indirect greenhouse gas emissions by weight, fines for noncompliance with environmental laws and regulations, processes to ensure retention and renewal of a skilled workforce, average hours of training by employee category, participatory decision-making processes with stakeholders, and nature of programs and practices that assess and manage the impacts of operations on communities, among others.

Pollution indicators showing the nature, volume, and trends in pollution releases will allow investors to assess whether individual facilities are at risk from regulatory scrutiny. Performance indicators regarding employee health and safety support assessment of costly accidents or demands for workman’s compensation. Comparing the eco-efficiency of two companies can give indications of their relative ability to innovate efficiently processes and technologies. Understanding a company’s biodiversity impacts can support how the organization’s level of customer loyalty may change in the future.

Increasingly, a clear business case is emerging that sustainable performance is relevant to creating or destroying shareholder value. The lens for viewing and managing a business’s relationships with its stakeholders has expanded to include a more holistic business model---one characterized not only by financial performance or profit, but also characterized by its influence on people and the planet and likewise, how the business is influenced by people and the natural world. A new paradigm for business management and reporting is emerging that provides not only financial disclosures, but also sustainability-related disclosures. Sustainability reporting will be necessary along with financial statement reporting in order to provide all stakeholders with a complete picture of the business prospects of a company. Developing such a reporting framework will require adopting commonly accepted measures for reporting sustainability information that will allow analysts to compare and contrast performance. There is currently very little literature on how to create a sustainable business model---one that integrates sustainability at the core business process level. This paper provides a framework for such a model and reinforces the business case for sustainability. A sustainable business model will involve both a technical process for determining the specific causal relationships that drive value creation and a social process. Our qualitative research demonstrates how the integration of sustainability into business processes and products creates long term value for all of a company's stakeholders.

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CUSTOMER SATISFACTION IN QUEUE

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ABSTRACT

Customer satisfaction is heavily influenced by the service waiting time. There are different types of waiting time, expected, perceived, estimated, and actual waiting time. Those gaps affect customer satisfaction. Therefore, the service providers usually devote themselves to managing the gaps among various types of waiting time. A gap model of service waiting time is built to examine the relationships between customer satisfaction and different gaps among expected waiting time, perceived waiting time, estimate waiting time, and actual waiting time. Situational and personal factors (power dependency and customer personality) are controlled in this model. More details regarding gaps among waiting time are discussed. Through the framework of this paper, we hope to provide a foundation for further studies on managing customer satisfaction through controlling different types of waiting time.

INTRODUCTION

Queuing is everywhere. When we park cars, there is a queue. When airplanes land, there is a queue. When we go to bank, there is a queue. When we buy fast food from a drive-through, there is still a queue. The amount of time we waited in a queue is defined as Actual Waiting Time. Most people do not enjoy but tolerate queuing. When the queuing is longer than anticipated, people will renege or balk. Therefore, service providers have to decrease the negative emotions caused by long queuing at the possible lowest costs.

Firms usually consider increasing the service capacity to decrease the actual waiting time, but doing it could be costly. Some new and cheaper ideas come out in an attempt to buffer the annoyance from waiting by changing the perception of a queue. People don't usually have a sense of how many minutes have passed but a perception of how short/long we have waited for a service. The prior studies found that improving the perceived waiting time, instead of reducing the actual waiting time, could help buffer queuing problems at relatively low costs. For example, customers are displayed various TV programs while waiting for auto services so that customers feel the time they have waited passing faster.

People usually anticipate waiting for different services or at various locations. For example, people expect to get faster oil change service at Lubricant than at other places. Expected Waiting Time is defined as the expectation on the duration of waiting. Oftentimes, the expected waiting time affects how people perceive waiting time. If the perceived waiting time is longer than the expected waiting time, then the gap will be a negative gap which leads to lower customer satisfaction.

Another method firms use is a provision of the Estimated Waiting Time in order to somewhat manipulate the perceived waiting time. However, the estimated time is not always accurate. If a customer was told to wait approximately for 5 minutes but eventually waited for 20 minutes, then a negative gap between the estimated and actual waiting time has occurred and results in lower customer satisfaction.

This paper aims at providing a theoretical framework to facilitate future discussion on waiting time. Various situations among different types of waiting time will be discussed in more details.

LITERATURE REVIEW

Hornik (1984) conducts empirical test on waiting time in the retail industry. However, Maister (1985) is the first one proposing the concept of perceived waiting time with 8 propositions. Jones and Peppiatt (1996) further conduct empirical tests to examine the relationship between perceived waiting time and three possible factors mentioned in Maister's (1985) paper: 1) unoccupied time feels longer than occupied time, 2) solo waiting feels longer than group waiting, and 3) new users feel they wait longer than repeat users. All three hypotheses are supported in their study.

Durrande-Moreau (1999) goes through 30 articles from 1984 to 1997 discussing waiting time and 18 of them are empirical studies. She focuses on these 18 studies in an attempt to synthesize the empirical results from these studies, and then provides a categorization on the factors causing the difference between perceived and actual waiting time. She classifies the factors based on three criteria: 1) before and during the wait, 2) individual and situational, and 3) duration and other factors (duration, wait, and service, three levels of waiting time in service). Based on these criteria, the author comes out 6 groups of factors. Group 1: real time, Group 2: personal expectation, Group 3: individual factors before the wait, Group 4: situational factor before the wait, Group 5: individual factors during the wait, Group 6: situational factors during the wait.

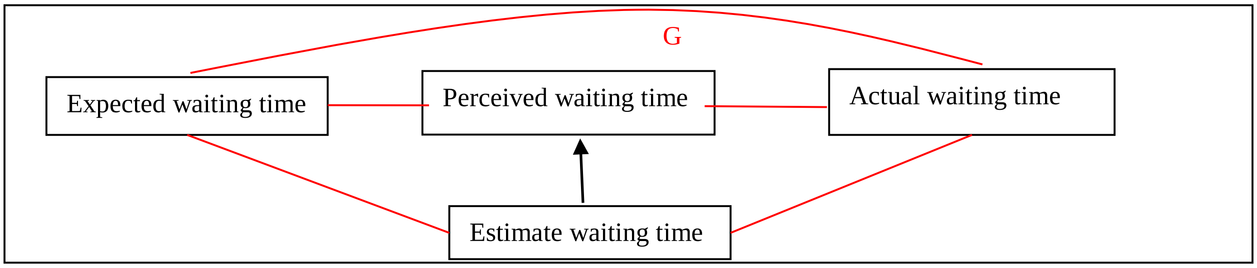
Recent studies focus on examine the complex relationship between different types of waiting time and customer relationship with some other situational factors controlled. For example, Luo, Liberatore, Nydick, Chung and Sloane (2004) conduct an experimental research on waiting time. They change the service process in a pizza shop and then compare the difference between the actual and perceived waiting time, and customer satisfaction before and after they change the process. The results show no relationship between either improved actual, or perceived waiting time and customer satisfaction but it does show the improvement in actual waiting time before and after the service process was changed. However, there is no signification relationship between changed service process and perceived waiting time.

Oberholzer-Gee (2006) discusses an interesting idea regarding the exchange behaviors of their waiting time. The article mentions three reasons why waiting time is not traded more often are listed: 1) the transaction costs of exploiting arbitrage possibilities, fairness concerns and the negative externalities created by some trading strategies. The author conducted an experiment research to support the above arguments. He offered money for the customers waiting in line to cut the line and he found out that the more he offers, the higher possibility others let him cut the line even though most of time they don't take the money.

Shimamura et al. (2013) mentioned the perception of waiting time can be changed because that is customers' subjective feeling so we believe our research framework can provide a deeper insight in gaps between different types of waiting time.

THEORETICAL DEVELOPMENT

Based on the literature review, there are generally five different gaps between various waiting times, as illustrated below:



Gap 1

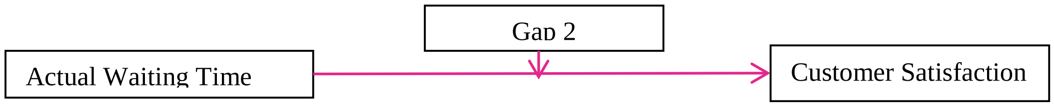
As defined in the introduction, expected waiting time is the time customers anticipate waiting before entering service facilities. Estimate waiting time is the approximate waiting time provided by the service provider. Service providers tell customers the estimate waiting time in an attempt for customers to better manage their own time. When the estimate waiting time is equal or longer than the expected waiting time, customers can decide whether they want to wait in the queue or leave for something else and come back later when the waiting line is shorter. When customers were told a shorter-than-expected estimate waiting time, they are happy and more likely to wait in the queue. Both situations benefit customers in different ways. Therefore, customers would prefer an estimate waiting time provided in advance. Therefore, we propose:

P1 *Customers prefer a given estimate waiting time no matter the gap between expected waiting time and estimate waiting time is positive or negative.*

Gap 2

Perceived waiting time is created by service providers in order to change the actual waiting time customers might experience. Previous research () suggests that customers perceive shorter waiting time when their minds are preoccupied while they are waiting. Therefore, there are TVs, magazines, games, or toys in the waiting area to distract customers' attention in an attempt to manipulate customers' Perceived Waiting Time. If the service providers successfully reduce the customers' perceived waiting time even lower than the expected waiting time, customers are more likely to be satisfied with the service. However, if the reduced perceived waiting time is no shorter than the expected waiting time, customers are still frustrated with the long waiting. Thus, the customer satisfaction does not improve as service providers expected. The perceived waiting time is longer than the expected waiting time, the customer satisfaction will be low. Here we propose:

P2 *When the Perceived Waiting Time is longer than the Expected Waiting Time, customers will be more satisfied with the service no matter the length of actual waiting.*



Gap 3

Even though service providers intend to improve customers' perceived waiting time by providing mind-distracting mechanisms, if the gap between perceived waiting time and actual waiting time is too big, customers will be really unhappy. On the other hand, if the gap is small, then the shortened perceived waiting time will help improve customer satisfaction. So we propose:

P3 *The gap between Actual Waiting Time and Perceived Waiting Time is positively related to customer satisfaction.*

Gap 4

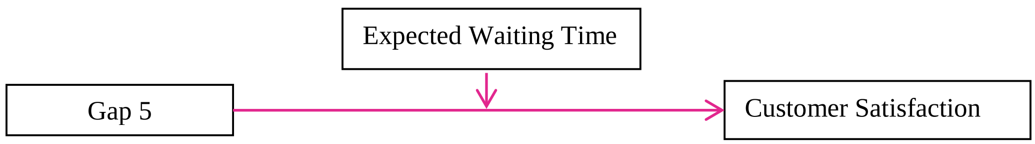
As mentioned earlier, estimate waiting time is provided for customers to understand the waiting they might experience. When customers decide to stay in the queue, it implies that they accept the estimated waiting time or even change their expected waiting time according to the estimation provided. Therefore, if customers are informed an estimate waiting time but experienced a shorter-than-estimated actual waiting time, customers are more likely to express higher customer satisfaction. Even though their actual waiting time is still longer than the competitors' waiting time. Dell computer is a good example. When people buy computers from Dell, they will be informed an approximate 7 to10-day waiting period. When customers receive the computer earlier than 7 days, they are still satisfied with the shorter-than-estimated waiting from Dell instead of zero waiting from other PC companies. Customers tend to compliment Dell's delivery speed while the actual waiting time is longer than the competitors' actual waiting time However, if customers experience an actual waiting time longer than the estimate waiting time provided, customers might feel deceived and thus express a lowered customer satisfaction. Therefore, we propose:

P4 *When the estimate waiting time is longer than the actual waiting time, customers are more likely to show higher customer satisfaction.*

Gap 5

When customers expect to wait long for a certain service, then the tolerance on actual waiting time is bigger. On the other hand, when the expected waiting time is short, the tolerance becomes small. For example, people expect to have fast service from fast-food restaurants. So people will be more upset if they have to wait for more than they expect. If the service is expected to wait for a long time, then the tolerance on actual waiting time is big. Therefore, the expected waiting time is a moderator between the gap of actual waiting time and expected waiting time and the customer satisfaction.

P5 *The expected waiting time is a moderator between the customer satisfaction and the gap of actual waiting time and expected waiting time.*



CONCLUSION

This model provides a guideline for further empirical research to understand how different service gaps will affect customer's satisfaction. For industry practitioners, this study will help managers prioritize various decisions made to narrow different service gaps. Further studies could be done to look at how different variables such as cultural differences, demographical differences, or industries etc. would impact our model. In conclusion, this model is to serve as an initiative to observe waiting time phenomena.

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ADOPTION OF ACTIVITY-BASED COSTING: ABRAHAMSON'S FOUR PERSPECTIVES MODEL AS AN ILLUSTRATION

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ABSTRACT

This paper conceptually examines Activity-Based Costing (ABC) literature, which is one of the most researched topics in management accounting. A large number of studies are considered, and general trends are investigated. Worldwide, ABC adoption levels remain low, although several developing countries show promising usage rates that surpass developed nations.

This study considers Abrahamson's model of innovation diffusion and applies it to Activity-Based Costing in order to illustrate why some companies adopt ABC. Abrahamson's model is composed of four perspectives or motives for adoption: efficient choice, fad, fashion, and forced selection. Efficient choice appears to be the dominant perspective. Fad and fashion play a significant role in certain periods of the ABC life cycle. Forced selection is not significant in any of the research analyzed.

Based on the accumulated data, this study divides the adoption process into three stages: consideration, adoption, and outcome. For each, acceptance and rejection factors are considered independently to clarify the related motives at each stage in the diffusion process. The insights obtained from examining the compiled data can provide a basis for planning and developing future studies aimed at clarifying the ABC adoption process.

INTRODUCTION

A large number of firms have experimented with Activity-Based Costing (ABC) as an alternative to traditional costing, which was developed under a very different business, social, and technological environment than exists today (Chan and Lee, 2003). Activity-Based Costing allocates overhead costs based on the consumption or use of resources and purports to provide managers and analysts more accurate cost data. Interest in ABC grew in the 1990s worldwide, and ABC is now one of the most researched topics in management accounting, ranging from adoption rates to effect on profitability to behavioral and organizational reasons for adoption (Kaplan and Anderson 2004). Managers have begun using ABC outside manufacturing in service and retail firms (Stapleton et al., 2004).

ABC's goal is to increase from the customer's point of view the number of value-added activities and to reduce non value-added activities (Stapleton et al., 2004). Perceived major benefits of adoption include more accurate cost information for product costing (Clarke, Hill, and Stevens 1999), improved cost control (Hussain, Gunasekaran, and Laitinen 1998), cost reduction (Bescos et al., 2001), and improved insight into cost causation (Cohen, Venieris, and Kaimenaki

2005). Perceived downsides to implementation are that managers may have difficulty identifying relevant cost drivers or experience a lack of resources when implementing and operating the system. Managers who have rejected ABC systems claim that implementation is associated with high costs and that ABC is perceived inadequate to provide more accurate cost information (Cohen, Venieris, and Kaimenaki 2005).

The goal of this paper is to examine ABC usage trends over time using Abrahamson's model to help explain the motives for adoption. Maelah and Ibrahim (2006) note that a variety of other models such as the following have been employed in the past: Daft's (1991) planned change, Lewin's (1952) three-stage change theory (1952), Kwon and Zmud's (1987) expansion of it into six stages, and Krumwiede and Roth's (1997) ten-stage model. Abrahamson's model proposes four perspectives on why a company chooses to adopt an innovation like ABC: efficient choice, fashion, fad, or forced selection. Previous researchers have used this model to examine ABC in Finland (Malmi 1999), Jordan (Nassar, Al-Khadash, and Sangster 2011), and Saudi Arabia (Al-Omiri 2012). This paper will expand on Abrahamson's initial model and seek to examine the factors influencing the adoption or rejection decision, the motivations for initial interest in ABC, and the adoption process's success or failure.

LITERATURE REVIEW

Perceptions of Activity-Based Costing

Companies can reap significant rewards from ABC in terms of cost control, improved operations, and increased profitability (Khalid, 2005). Al-Omiri (2012) identified several motives for adoption, which include not only the desire to better understand costs and profitability, but also support of the organization's broader strategy and integration with operational methods like Just in Time (JIT) and Total Quality management (TQM), as listed in Table 1. Perceived benefits of ABC include providing better cost management, either from efficiency gains or cost reductions (Maelah and Ibrahim 2006; Sartorius, Eitzen, and Kamala 2007; Al-Omiri and Drury 2007; Al-Omiri 2012), as shown in Table 2-A, which is an expansion of Cohen, Venieris, and Kaimenaki's (2005) investigations. The data suggest that many successful adopters link ABC with competitive strategy, using the cost system to create better pricing decisions and to improve business processes in pursuit of strategic goals (Shields 1995; Khalid 2005; Maelah and Ibrahim, 2006; Eden, Lay, and Maingot 2006).

TABLE 1 – MOTIVES FOR ABC ADOPTION	
• Support of strategic and tactical decisions	• Support for JIT, TQM, etc.
• Improved cost management capability	• Increasing cost consciousness
• Better understanding of profitability	• Improved product/process design
• Budgeting purposes	• Improved product quality
• Performance management purposes	• Increased overheads
• Increasing competition	• Increased pressure from regulators
Adapted from Al-Omiri (2012)	

TABLE 2 – PERCEIVED BENEFITS AND PROBLEMS OF ABC ADOPTION	
A - Perceived Benefits of ABC Adoption	
• Improved	• Optimization of service mix offered[1]
o overall profitability[2]	• Synergy with TQM
o profitability analysis	• Synergy with JIT
o assessment of operational efficiency[1]	• Better overhead allocation
o cost control effectiveness	• Identification of costly consuming activities
o cost information for pricing	• Replacement of a less reliable system
o product/service redesign	• More meaningful comparisons[1]
o budget preparation procedures	• Support of profitable product development[2]
o cost information for product costing	• Identification of cost consuming products
o allocation of indirect costs	• Cost reduction
o insight into cost causation	• Reduction in
o operational efficiency	o number of design changes[2]
o customer profitability	o expected costs of new products[2]
o depiction of costs	o costs of purchased materials[2]
o identification of activity costs	
o business processes	
B - Perceived Problems of ABC Adoption	
• Difficulty in	• Lack of
o identifying activities	o time
o selecting cost drivers	o resources
o accumulating cost data	o top management support
o replacing an established system	o appropriate expertise
• Overrun of cost budgets	o appropriate software
• Overrun of implementation timetable	o usefulness
• Scale of implementation	• Complexity of implementation
C - Difficulties Encountered During ABC Implementation[2]	
• Complexity in	• Lack of
o plant layout	o top management support
o product design	o adequate competent personnel
o process design	o cooperation from suppliers
• People's unwillingness to change	o relevance to the business
• Implementation too lengthy	• Inadequate return on expenditures
Adapted from Adams (1996)[1]; Kiani and Sangeladji (2003)[2]; Cohen, Venieris, and Kaimenaki (2005)	

Perceived problems of adoption, identified in Table 2-B, involve ABC implementation's drain on company resources (Lawson, 2005; Sartorius, Eitzen, and Kamala 2007; Al-Omiri 2012) and the difficulty of identifying appropriate cost drivers and activities (Cohen, Venieris, and Kaimenaki 2005). Companies that do not seriously consider adopting ABC tend to be satisfied with their existing costing system and lack interest in exploring the benefits of such alternative costing systems as ABC (Chan and Lee 2003; Khalid 2005; Lawson, 2005; Cohen, Venieris, and Kaimenaki 2005; Maelah and Ibrahim 2006; Sartorius, Eitzen, and Kamala 2007; Al-Omiri 2012).

Difficulties of implementation, as noted in Table 2-C, include lack of support by top management, lack of relevance to the business, complexity of implementation effort, personnel's resistance to change, and lengthy and expensive implementation process (Kiani and Sangeladji

2003). If management does not feel the process is cost effective, implementation may be abandoned.

Some companies reject ABC for the reasons outlined in Table 3. The perceived benefits contribute to strategic success by providing more accurate and relevant information than a traditional costing system. Expected problems accompanying adoption include technical issues such as the identification of cost drivers and the sheer scale and complexity of implementation (Cohen, Venieris, and Kaimenaki, 2005). The most significant detriment to success is non-accountants', especially top management's, lack of program ownership (Lawson, 2005; Sartorius, Eitzen, and Kamala 2007; Al-Omiri 2012; Nassar, Al-Khadash, and Sangster 2011). Without support from top management, the accounting department will expend large amounts of time and energy and produce few results, which can quickly derail implementation efforts.

TABLE 3 – REASONS FOR REJECTION OF ABC AFTER CONSIDERATION	
• Lack of	• Perception of ABC as
o management support	o inadequate
o employee support[1]	o a passing fad[1]
o cross-functional cooperation[1]	o associated with high costs
o resources to implement[1]	• Restriction by parent company
o time to assess ABC	• Satisfaction with the existing cost system
o familiarity with ABC[1]	• Cost accounting change not a priority
o knowledge	• Information system not ABC-compatible
o resources	• Unsupportive company culture
o relevance to the business[1]	
Adapted from Kiani and Sangeladji (2003)[1]; Cohen, Venieris, and Kaimenaki (2005)	

Review of Adoption Rate Studies

Since the 1990s, researchers have studied ABC's adoption rates worldwide. Many of these findings are summarized in Table 4, listed by the date the research was published, with averages listed by geographic area. Innes and Mitchell conducted studies in 1991, 1995, and with Sinclair in 2000 examining ABC adoption in the UK among Britain's 1,000 largest companies. While many large companies use ABC, its impact is limited in scope, and many organizations have rejected it (Innes and Mitchell 1995; Innes, Mitchell, and Sinclair 2000). These studies found adoption rates of 10 percent in 1991, 19.5 percent in 1995, and 17.5 percent in 2000. Innes and Mitchell (1995) and Innes, Mitchell, and Sinclair (2000) found that 25.6 and 32.8 percent, respectively, of the largest firms had implemented ABC.

Research in the United States found adoption rates as high as 53 percent (Hrisak, 1996) and as low as 11 percent (Armitage and Nicholson 1993). UK adoption levels appeared to trend downward slightly while North American results were mixed. Bescos et al. (2001) found adoption levels were 23.1 percent in Canada, and Booth and Giacobbe (1997) reported Australian manufacturing firms' adoption rate at 12 percent. In New Zealand, Cotton, Jackman, and Brown (2003) found results similar to the United States' and Canada's, with 20.3 percent of companies using ABC. Adoption levels in Europe are not as well studied as in America; but they appear to lag behind slightly, possibly due to language barriers (Bescos and Mendoza 1995). Bescos et al. (2001), in the same survey, found adoption levels in France at 20 percent. Groot (1999) found use of ABC in the Netherlands at 12 percent and 17.7 percent in the United States. Cohen, Venieris, and Kaimenaki (2005) found 40.9 percent of firms using ABC, with service companies reporting the highest levels of adoption. Khalid (2005) reported 33.3 percent adoption and Al-Omiri (2012) reported 35.4 percent in Saudi Arabia. In Jordan, Nassar, Al-Khadash, and Sangster (2011) interviewed accounting department heads who reported usage rates of 29.5 percent. In India, Joshi (2001) found adoption levels of 20 percent. Sartorius, Eitzen, and Kamala (2007) reported usage in South Africa at 12 percent.

As of 2005, ABC adoption levels remained surprisingly low worldwide with many organizations continuing to use traditional costing (Sulaiman, Ahmad, and Alwi 2005; Lawson 2005). No worldwide upward trend emerged from an examination of research conducted over the last two decades. However, ABC usage rates in developing nations was promising and surpassed levels detected in many highly developed countries. These higher rates may reflect the need for adopting the most efficient accounting and management techniques to compete with well-established first-world economies. Alternatively, the relatively higher levels of adoption may reflect business cultures which value innovation and the adoption of new and foreign ideas necessary to modernize a developing nation's economy.

If ABC helps in making better decisions and improves operations, why has it not been adopted steadily over time? Cohen (2005) notes this "ABC paradox," as termed by Gosselin (1997), in most of the research surveys examined, such as those in Table 4. Gosselin found that, despite ABC's perceived advantages and academics' considerable interest, adoption rates have remained low in most of the world. One possible explanation is the lack of support from educational and professional institutions. Most management accounting courses still teach standard costing as their core curriculum (Sulaiman, Ahmad, and Alwi 2005). Managers who completed their education before ABC was popularized had no academic exposure to the technique. Cohen, Venieris, and Kaimenaki (2005) found that 75 percent of individuals surveyed with no knowledge of ABC were top executives.

TABLE 4 – ABC ADOPTION RATES IN SELECT COUNTRIES					
	Authors	**Year Published**	**Location Studied**	**Adoption Rate %**	**Note on Studied companies**
North America 29.7%	Green and Amenkhienan	1992	USA	**45.0**	Advanced tech
	Shim and Sudit	1995	USA	27.0	Manufacturing
	Hrisak	1996	USA	**53.0**	Multiple
	Shim and Stagliano	1997	USA	27.0	Multiple
	Groot	1999	USA	17.7	Food companies
	Frey and Gordon	1999	USA	24.4	Multiple
	Kianni and Sangladij	2003	USA	**52.0**	Large industrial
	Lawson	2005	USA	14.0	NY healthcare
	Armitage and Nicholson	1993	Canada	14.0	Multiple
	Bescos et al.	2001	Canada	23.1	Multiple
Europe and Great Britain 15.8%	Innes and Mitchell	1991	UK	***10.0***	CIMA members
	Nicholls	1992	UK	***10.0***	Multiple
	Drury et al	1993	UK	13.0	Manufacturing
	Innes and Mitchell	1995	UK	19.5	Largest UK
	Innes, Mitchell, and Sinclair	2000	UK	17.5	Largest UK
	Drury and Tayles	2000	UK	15.0	Multiple
	Al-Omiri and Drury	2007	UK	15.0	Largest UK
	Clarke, Hill, and Stevens	1999	Ireland	12.0	Manufacturing
	Pierce and Brown	2006	Ireland	27.9	Multiple
	Groot	1999	Netherlands	12.0	Food companies
	Bruggeman et al.	1996	Belgium	20.0	Multiple
	Bescos et al.	2001	France	20.0	Multiple
	Lukka and Granlund	1996	Finland	***5.0***	Multiple
	Malmi	1999	Finland	***2.0***	Multiple
	Venieris, Zorgios, and Cohen	2000	Greece	12.7	Manufacturing
	Cohen, Venieris, and Kaimenaki	2005	Greece	**40.9**	Multiple
25.1%	Booth and Giacobbe	1997	Australia	12.0	Manufacturing
	Chenhall and Langfield-Smith	1998	Australia	**56.0**	Multiple
	Brown, Booth, and Giacobbe	2001	Australia	12.0	Multiple
	Cotton, Jackman, and Brown	2003	New Zealand	20.3	Multiple
Asia and Africa 24.5%	Khalid	2005	Saudi Arabia	33.3	Multiple
	Al-Omiri	2012	Saudi Arabia	35.4	Multiple
	Nassar, Al-Khadash, and Sangster	2011	Jordan	29.5	Multiple
	Joshi	2001	India	20.0	Multiple
	Maelah and Ibrahim	2006	Malaysia	36.0	Manufacturing
	Maelah and Ibrahim	2007	Malaysia	36.0	Manufacturing
	Ghosh and Chan	1997	Singapore	12.0	Multiple
	Bescos et al.	2001	Japan	***6.0***	Multiple
	Sartorius, Eitzen, and Kamala	2007	South Africa	12.0	Multiple
Note: **5 highest** and ***5 lowest*** adoption rates in bold face type					

Professional bodies like the following significantly influence accounting practices through promotions and self-regulation: Institute of Chartered Accountants in England and Wales (ICAEW), American Institute of Certified Public Accountants (AICPA), Institute of Management Accountants (IMA), and International Accounting Standards Board (IASB). Activity-Based

Costing is not part of Generally Accepted Accounting Principles (GAAP) and cannot be used in external financial reporting. The same is true under International Financial Reporting Standards (IFRS). In contrast, organizations that offer professional certifications, like the Certified Management Accountant (CMA) designation, can further influence knowledge of accounting techniques by the type questions included on the examination. The IMA tests ABC in the CMA exam and supports the use of Activity-Based Costing through professional publications (IMA, 2013). The Chartered Institute of Management Accountants (CIMA) also actively promotes ABC (Maelah and Ibrahim, 2007). The AICPA has issued publications positively discussing ABC's use (AICPA 2013). The Uniform CPA Examination in the United States may include questions concerning ABC, both conceptual and mathematical, in the Business Environment and Concepts (BEC) section.

ABRAHAMSON'S FOUR PERSPECTIVES MODEL

This study applies Abrahamson's model (1991), which uses four perspectives of innovation diffusion: efficient choice, forced selection, fad, and fashion. Table 5 summarizes these perspectives. According to Rogers (1995), the dominant perspective in diffusion literature reinforces "pro innovation biases" and assumes adopters make independent, rational choices based on technical efficiency. An example of "efficient choice" selection of ABC is a firm gathering information about multiple costing systems, comparing them to discover which would benefit the organization the most, and evaluating the adoption's possible effects (see Table 5-A).

Abrahamson (1991) developed three alternative perspectives of diffusion. Some organizations, such as regulatory bodies and governments, have sufficient power to dictate which technologies will diffuse across companies, as shown in Table 5-B. Abrahamson termed this concept "forced selection." These organizations may have a vested interest in forcing the diffusion of a technically inefficient technology. Examples of forced selection include professional accountancy bodies setting standards on inventory valuation and income measurement (Nassar, Al-Khadash, and Sangster 2011).

Furthermore, Abrahamson (1991) proposed that in the real world, companies are often very uncertain and cannot rationally select technically efficient technologies (Al-Omiri 2012). Consequently, according to Abrahamson, companies often imitate external "trend-setter" organizations, such as consulting firms and business schools (Al-Omiri 2012), as shown in Table 5-C. This concept is called the "fashion" perspective. Trend- or fashion-setters inspire organizations to trust their technology choices and instill confidence in their level of technical knowledge. However, fashion setters may select only those technologies they believe they can market profitably (Al-Omiri, 2012); however, they may lack necessary expertise and inadvertently promote inefficient technologies. An example of the fashion perspective is a firm adopting ABC on the basis of consultants' or business schools' advice.

Alternatively, the "fad" perspective states that companies sometimes imitate closely related organizations, such as suppliers, distributors, and competitors, in order to conform to emerging norms or standards (DiMaggio and Powell 1983), as illustrated in Table 5-D. This conformity may be done to keep competitors from gaining an advantage by using a new innovation (Abrahamson and Rosenkopf 1990). Businesses may also mimic organizations with reputations higher than their own (DiMaggio and Powell 1983). "Bandwagon pressures" may motivate them to adopt a technology based on the number of organizations in their social circle adopting the innovation without assessing the efficiency for themselves (Al-Omiri 2012). Malmi (1999) noted that while "fad" and "fashion" have negative connotations, they can inspire beneficial change in companies that are unable to rationally assess an innovation.

TABLE 5 – ABRAHAMSON'S FOUR PERSPECTIVES MODEL

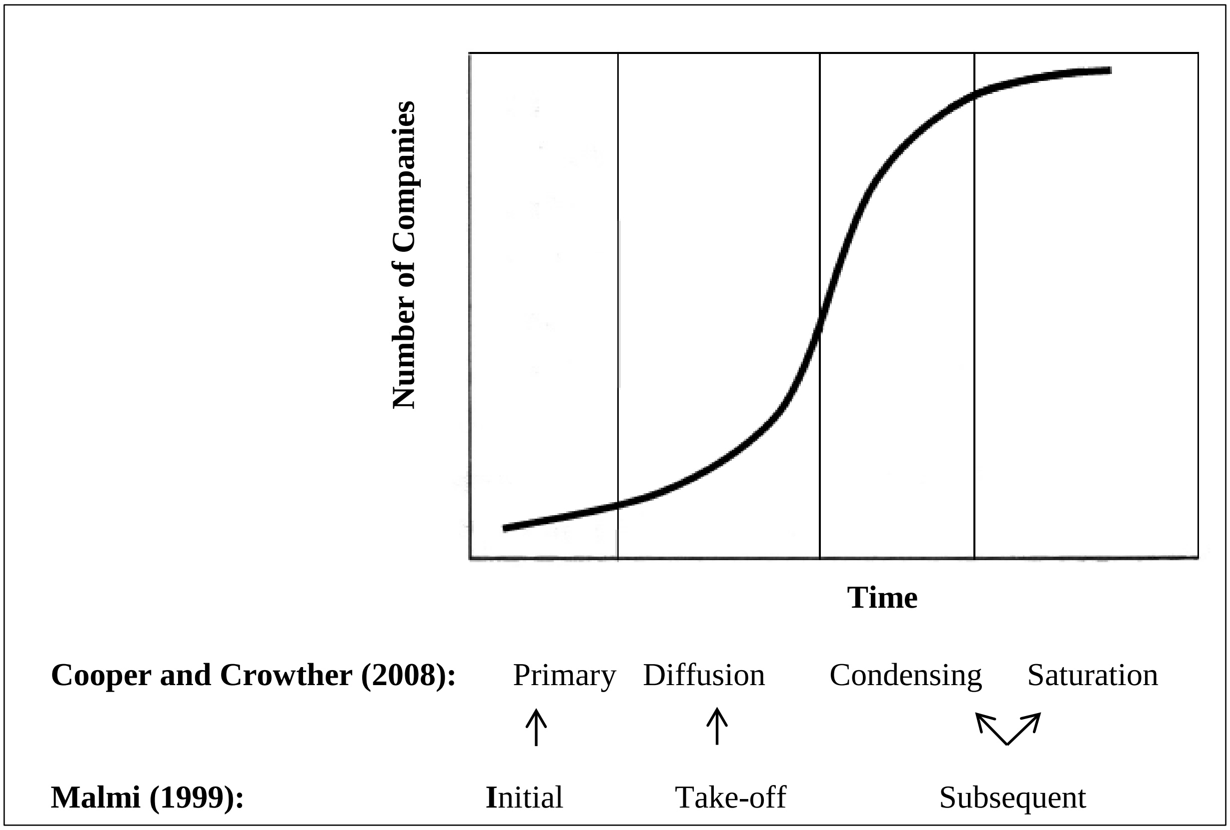
	Imitation-focus dimension	
Outside-influence decisions	Imitation processes do not impel diffusion or rejection.	Imitation processes do impel diffusion or rejection.
Organizations within a group determine diffusion and rejection within the group.	**A.** **Efficient Choice** *Adopt the most technically efficient innovations and reject inefficient ones.*	**B.** **Fad** *Imitate "trend-setters," such as consultants, conferences, and business schools.*
Organizations outside a group determine diffusion and rejection within the group.	**C.** **Forced Selection** *Adopt/reject innovations based on outside pressure.*	**D.** **Fashion** *Imitate similar organizations, competitors, suppliers, distributors, etc.*

Adopted from Abrahamson (1991, p. 591)

ABC Life Cycle

The four perspectives can be examined to see which is dominant at each stage of the diffusion process. Malmi (1999) used a three-stage diffusion model: the initial stage, the take-off phase, and the subsequent phase. Cooper and Crowther (2008) developed a similar four-stage diffusion model. In the primary stage, a relatively small number of innovators adopt; and the diffusion stage follows as the number of users grows dramatically. A condensing stage follows when the rate of adoption slows. In the saturation stage, the diffusion process ends. Plotted on a graph, the four stages create an S-shaped curve, as shown in Figure 1. Cooper and Crowther's (2008) primary stage is roughly equivalent to Malmi's (1999) initial stage, and the diffusion stage is the same as the take-off stage. Malmi's (1999) subsequent stage involves both the condensing and saturation stages. Figure 1 illustrates the two classification schemes. For the remainder of this paper, Malmi's classification will be used to explain the stages in adopting ABC.

FIGURE 1 – ABC LIFE CYCLE



Malmi (1999) explored whether Abrahamson's model could explain ABC's diffusion in Finnish companies between 1986 and 1995 and found that in the initial phase (1986-1990) the efficient choice category was the most cited and that consultants did not significantly influence the adoption process. ABC was not taught in Finland at that time, and almost no courses or seminars were available (Al-Omiri 2012). Furthermore, no suitable software was available to run an ABC system, no local companies were available to imitate, and awareness about ABC was lacking overseas (Nassar, Al-Khadash, and Sangster 2011). Malmi concluded that the efficient choice perspective had the strongest power in explaining adoption behavior during the initial phase of innovation diffusion. During the take-off period (1990-1992), Malmi found that both efficient choice and fashion motives dominant diffusion drivers. Consultants influenced adoption decisions, and the number of business articles dealing with ABC increased. For the subsequent stage (1993-1995), Malmi reported that the data did not provide clear signals as to which perspective explained the diffusion after the take-off phase. Innes and Mitchel (1997) found some support for the imitation perspective in their study of financial institutions in the UK. Parent-company influence on adoption was discovered with 23 large Greek firms (Ballas and Venieries 1996). Four of the firms were either using or phasing in ABC because of a parent company's influence.

Al-Omiri (2012) found the efficient choice perspective to be the dominant influence on ABC adoption for large Saudi Arabian manufacturing and service companies. In contrast, consultants' influence was not significant. Furthermore, Al-Omiri found no strong evidence to suggest that motives change over time. A possible explanation for these results is that Saudi Arabian organizations have not yet left the initial stage of adoption. Alternatively, the discrepancy in results may stem from different research approaches. Al-Omiri also found no difference between the responses of manufacturing versus non-manufacturing companies surveyed. This result differs from Cohen, Venieris, and Kaimenkai's (2005) findings in Greece in which service firm adoption of ABC was significantly higher. In South Africa, Sartorius, Eitzen, and Kamala (2007) found that banks and other financial institutions had higher than average rates of adoption. This finding agrees with Innes, Mitchell, and Sinclair's (2000). Efficient choice was the dominant driver of ABC adoption in South Africa.

Nassar, Al-Khadash, and Sangster (2011) conducted interviews with individuals in the Jordanian industrial sector and also found the classical S-shaped adoption curve from 2000 to 2009 as described by Malmi (1999) and Cooper and Crowther (2008). During the initial stage, efficient choice and fashion were the most important motives (Nassar, Al-Khadash, and Sangster 2011). When operating in an environment of uncertainty about goals and the operations' efficiency, companies hired consultants (Nassar, Al-Khadash, and Sangster 2011). During the take-off stage, Nassar, Al-Khadash, and Sangster (2011) found evidence to support the fad perspective. Advice from consultants played a large role in considering Activity-Based Costing. Requesting more academic journals, conferences, and seminars to discuss accounting issues like ABC, respondents in Jordan were concerned about the lack of PhDs specializing in managerial accounting and cited a lack of active research at public universities (Nassar, Al-Khadash, and Sangster 2011). Nassar, Al-Khadash, and Sangster (2011) noted that Clarke, Hill, and Stevens (1999) found a similar result in their survey of 511 Irish manufacturing companies. ABC was not as widely used in Ireland as in the UK or US because the managerial accountants acted as record-keepers and not as innovators and decision facilitators (Clarke, Hill, and Stevens 1999).

TABLE 6 – DOMINANT PERSPECTIVES IN ADOPTION STAGES

Stage	Malmi (1999)	Nassar, Al-Khadash, and Sangster (2011)	Al-Omiri (2012)
Initial	Efficient Choice	Efficient Choice & Fashion	Efficient Choice
Take-off	Efficient Choice & Fashion	Fad	Efficient Choice
Subsequent	Unclear / Learning	Unclear / Not investigated	Efficient Choice

A summary of the life-cycle based research findings is contained in Table 6, using Malmi's (1999) 3-stage classification. In the data examined, efficient choice appears to play a significant role in the initial stage, while fad and fashion motives may begin to significantly influence the decision process during the take-off phase based on each situation's particular economic, cultural, and technological circumstances. The dominant motives for adoption in the subsequent stage are unclear from the research examined.

In the context of innovation diffusion, Rogers (1995) identified change-agent roles, such as consultants for Activity-Based Costing. He found that change agents should first develop the need for change, begin a relationship with the client, and understand their business processes. The change agent must then diagnose the problems, viewing the system from the client's perspective,

TABLE 7 – ROLES OF CHANGE AGENTS IN THE ADOPTION PROCESS	
Change Agent's Roles	**Application to ABC**
Develop need for change	Show inaccuracies in existing costing system, and explain impact of ABC on operations
Establish an information-exchange relationship	Develop rapport with client, and understand the client's particular business processes
Diagnose problems	View the costing system from the client's perspective, and discover areas for improvement
Create client's intent to change	Adopt a client-centered versus an innovation-centered approach
Translate intent into action	Influence the client's behavior by working indirectly with opinion leaders to influence peer networks.
Stabilize adoption and prevent discontinuance	Reinforce messages to adopters to ensure they maintain the new behavior
Achieve a terminal relationship	Develop client system's self-renewing behavior to create client self-reliance
Factors Related to Change Agent Success	**Description**
Effort	Devote sufficient time and resources to client
Client orientation	Empathize and give priority to their problems
Compatibility with client's needs	Tailor solutions to client's particular needs
Empathy	View the situation from client's perspective
Homophile	Be socially/culturally similar to client
Credibility	Ensure that client perceives change agent as credible
Use of opinion leaders	Work through opinion leaders to influence client
Client's ability to evaluate innovations	Increase client's technical competence long-term
Adapted from Rogers (1995)	

and foster the client's intent to change. Table 7 summarizes his findings, with possible application to ABC noted in the description. Also presented in Table 7 are factors related to the change agents' success, such as sufficient effort, client-orientation, perception by the client as a credible source, and use of opinion leaders to influence client's perception and acceptance of the innovation. A proper understanding of these roles and factors related to success will aid in future implementation efforts where the fashion perspective plays a significant role in the adoption process.

DISCUSSION

Meta-Analysis of Accumulated ABC Studies

Abrahamson's (1991) model clarifies the influences on the adoption process, yet it does not differentiate between interest in ABC and the adoption decision. The ABC Life Cycle also appears to be significant in determining which factors influence the adoption decision the most. Table 8 contains the accumulated research findings of 17 Activity-Based Costing studies, divided into three stages. In the consideration stage, companies decide whether to seriously consider ABC. In the adoption stage, companies decide whether or not to adopt ABC. The outcome stage reflects the ABC implementation effort's success or failure. These stages are illustrated in Figure 2.

In the accumulated research, no company reported adopting ABC because of "force selection." This perspective can be discarded as a factor currently influencing the adoption process. Several studies reported the significance of headquarters' influence in the adoption decision. Top-management support, as shown in Table 8, plays a very large role in almost all stages of the adoption decision. Assessments of ABC's costs and benefits, which are part of the efficient choice perspective, are also highly significant. Some companies appear to discount ABC as a passing fad or believe it is not relevant for their business environment. For organizations that do not adopt ABC, lack of appropriate resources, training, and expertise is frequently reported. Most adopters understand that ABC is a management tool that can be used with multiple goals, and often they desire to use ABC in conjunction with other competitive strategies, such as Just in Time or Total Quality Management.

The second-most significant factor in the ABC decision process is the level of satisfaction with the existing costing system. Chan and Lee (2003); Khalid (2003); Lawson (2005); Cohen, Venieris, and Kaimenaki (2005); Sartorius, Eitzen, and Kamala (2007); and Al-Omiri (2012) among others found that organizations failed to adopt ABC unless they were first dissatisfied with their existing system. Several studies reported using ABC pilot programs to test the system's usefulness and relevance. In general, pilot tests allow adopters to correct any glaring issues before fully implementing ABC implementation. However, Wegmann (2012) noted that managers often fail to make the move from small-scale experimentation to full adoption.

FIGURE 2 – THE ABC DECISION PROCESS

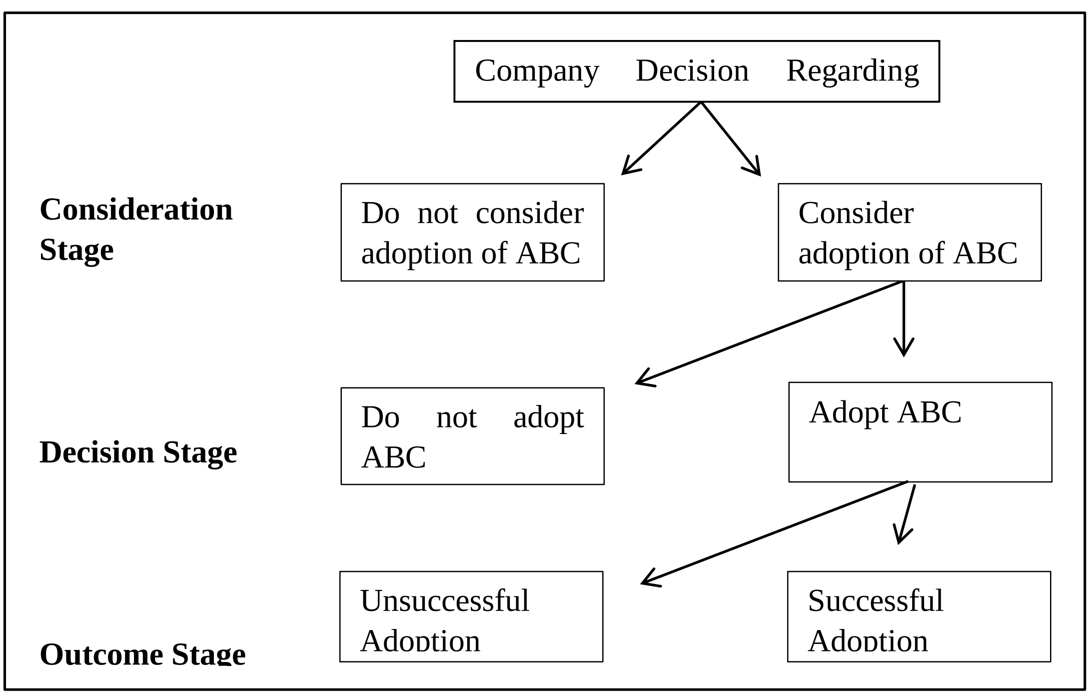


TABLE 8* – FACTORS IN THE ABC DECISION PROCESS	
Reasons firms do not consider ABC adoption[4, 5, 6, 7, 8, 9, 10, 11, 14, 15, 17]	
• Satisfaction with existing costing system	• ABC not suitable to the business environment
• Lack of top management support	• Failure to link to JIT, TQM, Six Sigma, etc.
• Lack of	• Unsupportive company culture
o knowledge about ABC	• Parent company's directives
o time to assess effectiveness	• Belief that ABC is a passing fad
o cost control incentives	• Company's small size
Reasons firms consider ABC adoption[3, 4, 5, 8, 9, 14, 16]	
• Dissatisfaction with existing system	• Recommendations from consultants, educators
• Use as a management tool with multiple goals	• Imitation of other successful companies
• Gain a competitive advantage	• Changing business environment
• Pressure from competitors	
Reasons firms do not adopt ABC after consideration[6, 8, 9, 10, 11, 12, 13, 14, 16, 17]	
• Lack of appropriate	• Belief that
o top-management support	o ABC will not improve cost control
o non-accounting support	o identifying cost drivers is difficult
o resources	o non-accountants will not support ABC
o software	• Benefits not justifying cost
o training	• High cost of implementation
o expertise	• Complexity of implementation
o education	• Significant time investment required
• Unwillingness of individuals to change	• Prioritization of other methods
Reasons firms adopt ABC after consideration[1, 3, 5, 8, 9, 13, 14, 16]	
• Belief that ABC will improve cost control	• Headquarters requirement
• Belief that the company will benefit generally	• Strongly trusted consultants
• Integration of ABC with competitive strategy	• Bandwagon effect
Reasons for failure of implementation[1, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17]	
• Lack of appropriate	
o top management support	o resources
o performance evaluation links	o training
o ownership by non-accountants	o expertise
o time dedicated to implement	o education
• Labor intensive	• Difficulty identifying cost drivers
Reasons for success of implementation[1, 2, 8, 10, 11, 12, 13, 14, 15, 17]	
• Top management support	• Appropriate
• Non-accountants' ownership of the program	o performance evaluation links
• Organizational culture conducive to ABC	o training
• Organizational structure conducive to ABC	o expertise
• ABC objectives communicated clearly	o education
• Use of pilot program	o resources
• Useful output for users	

* Shields (1995)[1]; Adams (1996)[2]; Malmi (1999)[3]; Chan and Lee (2003)[4]; Khalid (2003)[5]; Kiani and Sangeladji (2003)[6]; Stapleton et al. (2004)[7]; Cohen, Venieris, and Kaimenaki (2005)[8]; Lawson (2005)[9]; Eden, Lay, and Maingot (2006)[10]; Maelah and Ibrahim (2006)[11]; Al-Omiri and Drury (2007)[12];Maelah and Ibrahim (2007)[13];Sartorius, Eitzen, and Kamala (2007)[14];Byrne (2011)[15] Nassar, Al-Khadash, and Sangster, (2011)[16];Al-Omiri (2012)[17]

In most studies examined, software considerations were of limited importance while behavioral factors were far more significant in successfully adopting ABC. Company size was sometimes reported as a significant factor in the consideration phase. However, Bjorneak (1997) and Cohen, Venieris, and Kaimenaki (2005) found no difference in ABC adoption rates based on company size. Innes and Mitchell (1995); Groot (1999); Innes, Mitchell, and Sinclair (2000); and Brown et al. (2001) found size to be a statistically significant factor, with higher adoption rates among larger firms. In general, the studies examined found the highest adoption rates in mid-sized and large organizations.

LIMITATIONS AND FUTURE RESEARCH AVENUES

This research is conceptual and relies upon the quality of data gathered. It is not exhaustive, and its purpose is to provide supplementary information for future ABC researchers. Prior studies often used differing techniques and methods to gather data and were conducted in different years and locations. As such, directly comparing the data, particularly adoption rates, is very difficult. An analysis of the accumulated body of research on Activity-Based Costing identifies trends which are not readily apparent by independently examining any one research publication.

With this study's limitations in mind, future researchers can use this study's findings as a foundation for identifying significant factors in the ABC adoption decision process that should be examined further. This study could be used as a basis for further analysis of Activity-Based Costing, which may include qualitative methods such as focus groups, case studies, and in-depth interviews, in addition to quantitative methods based on questionnaires to build upon the insights of this conceptual research. Empirical longitudinal studies, such as the one conducted by Innes and Mitchel (1995) and Innes, Mitchell, and Sinclair (2000), would further clarify the ABC life cycle. Conducting Al-Omiri's (2012) Saudi Arabian research again in several years could determine if the companies surveyed are still in the initial phase of ABC adoption, which would explain why no stage-based differentiation was found among those companies initially.

Additional studies should be conducted in Japan, Finland, and the United Kingdom, where some of the lowest ABC adoption rates were reported, to discover the factors related to low adoption and to see if these countries have experienced increased ABC use over time. Categorizing the motives of adoption or non-adoption by country to see if regional or cultural differences are present would be helpful. Although this study examines a variety of countries' ABC adoption rates, it does not consider cultural factors that may play a significant role in the adoption-decision process. Including the cultural influence on the adoption decision process as outlined in Table 8 might further clarify each stage and help explain the varying levels of worldwide ABC acceptance. Another possibility is to research nation-wide adoption trends in the model Abrahamson (1991) described (Table 5) to see if certain countries tend to fall into a single perspective consistently or if regional trends emerge, such as Asian companies being more motivated by fashion perspectives than their American and Western European counterparts.

Furthermore, most studies either focus on manufacturing companies or include a mixture of manufacturing, service, and retail organizations but do not clearly differentiate the adoption motives for each. Therefore, examining individual economic sector's motives for adopting or not adopting might further clarify the adoption process. For example, the service sector—such as healthcare, tourism, and financial services— should be examined in detail to see if its adoption-decision process differs from that of manufacturing organizations.

Moreover, most studies place companies in binary adopter or non-adopter categories and do not focus on the extent of adoption within the company or the complexity of the ABC system used. Because one of the complaints about ABC is that it is too complex, it would be interesting to see how complicated adopters' systems actually are, and whether a simplified version of ABC correlates with successful adoption and retention. It would also be interesting to investigate how many ABC firms are partial implementers and in what sectors partial implementation is most prevalent. Age-based factors may also play a role in ABC's prevalence since older managers and officers received their training before ABC was popularized in the 1980s. Therefore, studies should seek to determine if such a link exists. The findings of this study suggest that some ABC rejection factors may be independent of acceptance factors and not merely their opposite. Thus, future research should explore this avenue of ABC research more thoroughly using the above-mentioned qualitative and quantitative methods.

CONCLUSION

This study has examined the large body of ABC adoption-rate literature and found that ABC use is promising in particular developing nations and in some American and European business sectors. However, if ABC brings as many benefits as proponents claim, overall adoption levels are considerably lower than expected. This gap between perceived benefits and adoption levels is referred to as the ABC Paradox.

This study used Abrahamson's model of innovation diffusion to illustrate the motives for ABC adoption. This model proposes four perspectives—efficient choice, fad, fashion, and forced selection—which are considered in conjunction with the ABC life cycle concept. Efficient choice is the most significant driver of diffusion, followed by fad and fashion motives. Forced selection is not significantly present in any study.

Based on the accumulated research, a more comprehensive list of influences on the adoption process was considered. Those influences fall into three stages: consideration, adoption, and outcome. During the consideration stage, the level of satisfaction with the traditional accounting system is significant, while in the latter stages the degree of top-management support and "buy-in" from non-accountants are critical.

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BACKGROUND INVESTIGATIONS A COMPARATIVE ANALYSIS OF BACKGROUND CHECKS AND FEDERAL SECURITY CLEARANCE INVESTIGATIONS

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ABSTRACT

The thoroughness and accuracy of background checks and security clearance investigations have long been scrutinized. The Edward Snowden case has increased the attention in this area; however, the Snowden case likely deals more with a phony background check and not a properly performed check. This paper discusses the similarities and differences between private sector background checks and federal security clearance investigations. The purpose is to provide an overview of the investigation process and associated costs, legal obligations, and obstacles within both types of investigations. Investigation processes are at times defined by legal requirements; therefore, businesses outsource to background check companies that determine which process they will utilize. A security clearance is more extensive and invasive than a background check. Furthermore, the costs are difficult to define whether conducting a private business background investigation or a security clearance investigation because there are numerous variables to consider. Legal obligations are an integral part of the investigation process for both. The information in this paper will assist businesses and the federal agencies with identifying risks within the investigation process and provide unique alternative solutions.

Keywords: background check, background investigation, obstacles, legal obligation.

INTRODUCTION

For 16-year-old Marissa Mathy-Zvaifler, it was to be an exhilarating night out on the town at the Sunshine Theater in Albuquerque, New Mexico. Her request to meet the band backstage was hindered by the theater's 300-plus-pound janitor. Three days after the concert, Marissa was found in the storage room, strangled to death. "The rape and murder of Marissa Mathy-Zvaifler would have never happened if someone had done an employment background check on her accused killer Dominic Akers prior to him being hired," said Wayne Brewer (as cited by Bear, 2003, para. 2).

This story and others about murder, fraud, waste, and abuse as they relate to background investigations, also referred to as background checks, fill the daily news. Publicity regarding lawsuits against private businesses for unethical and illegal hiring practices and faulty federal government security clearance investigations seems to be increasing. Thereby, multiple solutions to revamp the background investigation process are circulating on the Internet. Yet, do the individuals that promote system improvements thoroughly understand the inherent differences between federal security clearance investigations and private sector background checks? Both are ultimately intended to protect the U.S citizens. This paper will analyze the similarities and differences between federal security clearance investigations and private sector background checks. Understanding the fundamental characteristics of each is the first step towards developing lasting and distinct solutions to improve both systems.

THE IMPORTANCE OF BACKGROUND INVESTIGATIONS

Businesses and organizations that do not conduct background investigations expose themselves to potential fraud, litigation, and loss of reputation. The average cost of a negligent hiring lawsuit for businesses and organizations is one million dollars; plus, 79% of employers lose the case ("Who are you really," 2012). Trusted workers and volunteers are capable of stealing substantial sums of money as illustrated in the case of Anita Collins, who was an employee for the Roman Catholic Archdiocese of New York. Sixty-seven year old Collins was known as a "quiet and unassuming woman" and worked in the finance office (Coscarelli, 2012, para. 2). Within a seven-year period, she skimmed over $1,000,000 from donations made to the Archdiocese; background checks were not conducted when Collins was hired in 2003.

Identity theft, which can be caused by a lack of background checks, is a concern to individuals as demonstrated with the state insurance exchanges that have been established under the newly implemented Patient Protection and Affordable Care Act. At the Senate Finance Committee Hearing in October 2013, Health and Human Services Secretary Kathleen Sebelius testified that the "navigators" - employees who will assist individuals with the medical insurance application process and will have access to personal information such as social security numbers - are not required to pass a criminal background check. Sebelius confirmed that it "is possible" that "a convicted felon could be a navigator and could acquire sensitive personal information from an individual unbeknownst to them" (Chakraborty, 2013, para. 5).

Background checks also serve as a deterrent of heinous crimes. Serial killer Cary Stayner serves on death row for murdering three women in 1999 at the Cedar Lodge, located outside of California's Yosemite National Park, and a fourth woman within the park (Chicago Tribune, 2000). Cedar Lodge was sued for not conducting an adequate background check on Stayner, who was employed as a handyman at the lodge (Chicago Tribune, 1999).

THE PROCESS

Small businesses and the federal government use different processes for conducting background checks. Prior to conducting an investigation, both must learn about and comply with the federal and state laws that impact how an investigation is conducted, including the Fair Credit Reporting Act (FCRA). The FCRA, which was enacted in 1970, regulates the use of personal information acquired during a background investigation. The FCRA's initial focus pertained to credit reports; however, current provisions refer to additional types of collected information. Obtained information may include: criminal, court and driving records, employee references, employment verifications, and education verifications, all of which may be acquired during an employee screening (Cox & Duleba, n.d.). The FCRA must be considered when the personal information is collected by a Consumer Reporting Agency (CRA), defined as “any person which, for monetary fees, dues, or on a cooperative nonprofit basis, regularly engages in whole or in part in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties” (Fair Credit Reporting Act, 2012, p. 3). Thus, the FCRA applies to businesses and organizations that retain an investigative company defined as a CRA in which the purpose is to conduct employment screenings. An example of a FCRA provision states that prior to the investigation, full disclosure about the consumer report must be made in writing to the employee or job applicant; plus, he/she must authorize the investigation either, in writing, orally, or electronically (Fair Credit Reporting Act, 2012). In other words, the background check process will always begin by obtaining consent.

The FCRA does not specify time restrictions for CRAs’ reporting of criminal convictions; thus, regardless of how old it is, a criminal conviction can be reported. Additionally, the FCRA does not authorize a CRA to report “any other adverse item of information, other than records of conviction, which antedates the report by more than seven years” (Fair Credit Report Act, 2012, p. 22). Consequently, civil suits, civil judgments, arrests, and dismissed charges older than seven years cannot be reported by a CRA. Several states expand upon the FCRA with laws that prohibit CRAs from reporting criminal convictions that are over seven years old (Preston, 2013). In addition to this “7 year rule,” the Ban the Box legislation has been adopted by twelve states to assist with employment barriers for individuals with criminal records. The purpose of Ban the Box is to postpone the inquiries of a candidate’s criminal history until later in the process, and at times, until a conditional employment offer is made; therefore, to comply with the law businesses must remove the criminal record question from job applications (National Employment Law Project, 2014). The FCRA, 7-year rule, and Ban the Box will impact numerous job applicants and employers, for according to the United States Bureau of Justice Statistics (2012), approximately one third of the United States population is on file within their state criminal record system.

Businesses that conduct background checks usually outsource the investigation. These background check companies have several means to access personal information. Investigators typically search criminal and court records, sex offender registries, driving records, employment verification, and bankruptcy records (SOS International, n.d.). Many offer extra services like fingerprinting, credit checks, and drug tests. They can also widen criminal record searches to more counties and conduct social media screenings. Many background check companies tailor the thoroughness of the check according to the employer’s needs (J. Garringer, personal communication, October 21, 2013). Each additional feature adds time and expense to the process. Each background check company has its own unique process. For businesses, the process is as simple as outsourcing to a background check company.

Pre-employment background investigations for new government employees are routine, and similar to those of business. The federal government must follow FCRA guidelines when conducting a background investigation. For security clearances, the federal government’s background check process is even more invasive. First, employees must complete Standard Form-86 (SF-86), a hundred plus page questionnaire (United States. Office of Personnel Management [US OPM], 2010). The depth and scope of the questionnaire is contingent on the employee's type of clearance. There are three types of government security clearances. From lowest to highest they are Confidential, Secret, and Top Secret (United States. Department of State, n.d.). The United Stated Government Accountability Office (US GAO) states its background investigation process has four phases: the questionnaire submission, scheduling and initiation, investigation, and review (2010). During this process the federal background investigators meet the employees, their friends, and their neighbors. Adding this additional element of verification makes the investigations more personal; therefore, information about personality, trustworthiness, and integrity, which can easily be missed via written documentation, is evaluated. The federal investigation process is generally far more thorough than those of the private sector.

COSTS

A major consideration when deciding to conduct a background check is cost, as it can determine how extensive an investigation can be considering the fiscal constraints. A company can perform a cost benefit analysis, but putting a dollar figure on costs is not that simple. In both the federal government and small business, many factors need to be considered, such as how many employees need a background check, how extensive the background check needs to be, and what is the agreement between the background check company and employer. Also, regardless of the cost of the investigation, it may not successfully deter fraudulent acts. The Top-Secret security clearance acquired by Edward Snowden, the NSA contractor who allegedly stole more than 1.5 million top-secret National Security Agency (NSA) files and leaked classified information from the stolen files, cost thousands of dollars (United States. Government Accountability Office [US GAO], 2012). His most recent reinvestigation, performed by United States Investigation Services (USIS), occurred in 2011. According to the federal security clearance investigation process described further in the paper, the NSA would have been the final adjudicator to approve Snowden's security clearance. Many questions arise regarding the thoroughness of Snowden's investigation. Did the USIS investigator conduct the investigation as mandated by the federal process or falsify any portion of the report? Furthermore, did the USIS report specify red flags that would indicate security clearances issues, such as Snowden not completing high school and his five-month service with the U.S. Army Reserve (Ackerman, 2013)? The USIS investigator may not have had access to those records. The Army has not released Snowden's service record and Standard Form-86 does not request educational history prior to age 18; therefore, Snowden's military and high school dropout record may not have been reflected in the investigator's report (US OPM, 2010). Finally, did the NSA security clearance adjudicator clearly evaluate the USIS report and red flags that may have been indicated in the report? The success and/or failure of an investigation are not determined solely on its costs as multiple factors are incorporated in the process.

Direct Costs

For a government security clearance, estimates have suggested that the cost is between several hundred dollars and $15,000 per check, factoring security level and the employee's circumstance (Transition Assistance Online, n.d.). It is unclear whether reinvestigations are included in this figure or not. "The fiscal year 2012 base price for a top secret clearance investigation conducted by OPM is $4,005 and period reinvestigation is $2,711, while the base price of an investigation for a security clearance is $260" (US GAO, 2012, p. 19). Additionally, the frequency of reinvestigations is 10 years for secret and 5 years for top secret (US GAO, 2012). These estimates seem reasonable, particularly if reinvestigations are included. Other factors to be considered include: residency, credit and employment history, and clearance level. All of these factors influence the depth of the investigation; therefore, they demonstrate why investigation expenses differ dramatically from person to person.

Costs for businesses can be equally difficult to define. The prices for background checks vary from company to company. For example, HireRight Express' background check fees range from $30 for a basic investigation to $100 for an extensive investigation (HireRight Express, n.d.). Alternatively, As a Matter of Fact's basic fees range from $50-150 and comprehensive fees range from $200-500 (As a Matter of Fact, [AMOF], n.d.). A questionable alternative is the $10 online background check that promises immediate results. Advanced Surveillance Group (ASG) tested dozens of online services and found they included: outdated, missing, and incorrect records (n.d.). Employers leave themselves open to litigation if they utilize online background check companies that do not provide accurate and thorough reports.

Indirect Costs

In addition to the financial costs of background checks, businesses need to consider liabilities associated with both, conducting and not conducting a background investigation. The misuse of the information obtained during a background check could incur costs. For example, noncompliance with the Employee Equal Employment Opportunity Commission (EEOC) can result in litigation costs. For example, *Forbes Magazine* reported that the new EEOC guidelines prevent employers from omitting potential candidates who have a criminal record. Dollar General Corp and BMW are named in suits and they could face fines because they violated EEOC (Adams, 2013). Also, costs may be incurred for not conducting a background investigation. This idea may seem obvious with regards to theft and financial fraud; for instance, if an employer hires someone who has been convicted of stealing, the likelihood of internal theft would be increased. Approximately forty three percent of ex-cons repeat their crimes within three years (Bluestein, 2011). Internal theft within the workplace is common and a cause of business failure and owner bankruptcy. Human Resources Journal reports that "three out of four employees will be stealing from their employers this year" and "one of these people is a habitual thief" (n.d., para. 1). Employee theft not only involves money and property, but also includes time. Cumulatively, U.S. companies are estimated to annually lose twenty to forty billion dollars from employee theft (n.d.). In addition, the 2013/2014 Kroll Global Fraud Report concludes that "fraud statistics are back on the rise" and when not disclosed, has "the potential to grow into a life-threatening corporate disease-just read the stories of Enron, Satyam, Madoff, Parmalat and other major scandals, each of which started with small frauds that grew to consume the business" (p. 9). Considering the high probability of internal theft and fraud, it is imperative that businesses conduct thorough background investigations for both current employees and future candidates to mitigate these risks.

Situations that include working with children and medication, or conducting business alone with a customer are types of scenarios that should be considered. In the aforementioned case, janitor Dominic Akers raped and killed 16-year-old Marissa Mathy-Zvaifler. Akers was a registered sex offender and a pre-employment background check may have prevented the murder (Bear, 2003). In 2004, Mathy-Zvaifler's parents filed a suit against the Sunshine Theater for unspecified compensatory and punitive damages because of Akers actions (Oswald, 2004). Another case involved a Kirby Company salesman with a history of sexual misconduct, who raped a Texas housewife in her home while on the job. Kirby was sued, and the victim was awarded $160,000 in damages (Jaburg Wilk Attorneys at Law, n.d.). Additionally, these businesses suffered the indirect cost of damage to their reputations. These examples demonstrate not only the hidden financial costs associated with conducting a background investigation, but also the importance of due diligence within each company. Both, the federal government and businesses have costs associated with investigations, but each scenario is unique resulting in varied costs.

Although the background investigation process is imperfect, it is a necessary function of the employee selection process for it does cull potential candidates as it uncovers hiring issues. Statistically, thirty nine percent of background checks have one discrepancy; plus, serious flags are found in 10% of criminal record checks, 23% of employment verifications, 10% of education verifications, and 44% of driving records (AMOF, n.d.).

LEGAL OBLIGATIONS

The legal obligations for background checks and federal investigations are similar. Numerous local, state, and federal laws must be considered. Laws with which investigations must comply are the following: the Fair Credit Reporting Act (FCRA), Title VII of the Civil Rights Act of 1964 (EEOC), the Privacy Act of 1974, and the Americans with Disabilities Act (ADA). Other laws and regulations apply; however, the applicability will vary according to jurisdiction ("Background check laws," n.d.). Credit and debt issues are red flags for investigators; therefore, credit histories are commonly investigated, which requires businesses to comply with the FCRA. *Fraud Magazine* reports, "almost any information that an employer receives from a consumer reporting agency, even if it does not relate to credit history, triggers the application of the FCRA" (Prendergast, 2001, para. 21). Lester Rosen, attorney and president of Employment Screening Services, Inc. explains, "an employer has a legal responsibility to hire someone who is safe, qualified, and fit for the position" ("Background check legal obligations," n.d., para. 3). As stated earlier, a legal obligation for federal agencies and businesses is that they must receive consent prior to beginning an investigation. Plus, requests for pre-employment screenings must be issued as a separate document and not included on the job application, which emphasizes the importance of the consent (Prendergast, 2001).

Privacy laws, including the Privacy Act of 1974 and E-Government Act of 2002, must be considered during investigations. The United States Government Accountability Office (US GAO) reports that investigators must protect “information resources from loss, theft, misuse, and unauthorized access” (2010, p. 7). The US GAO “reviewed the privacy protection provisions for information collected and maintained by FIS (Federal Investigative Services) as it relates to the background investigation process” and concluded, “OPM should better monitor implementation of privacy related policies for background investigations” (2010, p. 1). Federal agencies, employers, and background investigators must strike a delicate balance between complying with the FCRA, Equal Employment Opportunity Laws, and other regulated hiring practice requirements and acquiring the necessary background information to determine potential security risks.

Unlike in the case of background checks, federal investigations must comply with the timelines described in The Intelligence Reform and Terrorism Act of 2004 (IRTPA), which was fully implemented in 2009. The Act states that 90% of investigations for a security clearance must be completed within 60 days; and, “a period of not longer than 40 days to complete the investigative phase of the clearance review, and a period of not longer than 20 days to complete the adjudicative phase of the clearance review” (p. 73). Investigators must verify, within the timeline, completed information on (SF-86).

OBSTACLES

Background Checks

Background check companies need adequate time to prepare reliable reports. There is no unified database from which screeners can retrieve information, so investigators must search within state, county and municipality records. Investigative reports may be incomplete without a single, online database (Brody, 2010). Moreover, criminal records are sealed in some states. State laws vary according to when these records are sealed; thus, employers may not have a full picture of employees’ backgrounds. Also, mental health records cannot be accessed in many states, as “the federal government does not make relevant records [medical] available to its National Instant Criminal Background Check System” (Timmins, 2013, para. 6). Also, the background check company must verify the client. In other words, the company must confirm the client is who it claims to be. Verification methods include website searches, physical visits to the business, and research to confirm that the company name matches its marketing material (J. Garringer, personal communication, October 21, 2013).

Federal Investigations

The investigator’s primary function is to verify the completed information on SF-86. Background investigators face numerous obstacles during the verification process: interviewees’ honesty, federal guidelines, limited access to military records, job pressure, and time constraints.

First, interviewees are not always honest during an investigation. In general, interviewees do not want to disclose potentially damaging information regarding the applicant, as they are usually a neighbor, friend, or relative. Also, some are fearful of retaliation if negative information is disclosed during the interview. Second, the federal guidelines, to which investigators must adhere, regulate the line of questioning. An investigator who had worked for USIS and OPM for a total of 11 years explains that the guidelines “specify what you can say and not say” (Anonymous, personal communication, September 19, 2013). Therefore, potential leads that may signal a clearance issue are not identified. Third, “investigators, generally, don’t have access to military information” and “they [the military], at times, handle their own issues” (Anonymous, personal communication, September 19, 2013). Occasionally, military disciplinary actions are a security clearance issue; however, they are not always incorporated in the investigative reports. Fourth, job pressure for contracted investigators has increased. Job pressure at USIS, over the years, has “gradually been ramping up” to the point where they are “squeezing blood from a turnip” but “at OPM there was less pressure…they would take a smaller portion of the cases making it easier to meet our goals” (Anonymous, personal communication, September 19, 2013).

Job pressure ties into the final obstacle, time constraints. Deadline pressures begin with the legal mandate and trickle down to the investigators; therefore, investigators often lack sufficient time to schedule interviews with the most relevant interviewees. A Homeland Security and Government Affairs subcommittee reported, “in June 2012…the time for initial investigations was down to 44 days, from 189 in 2005” (Edwards & Wilkinson, 2013, para. 3). Additionally, USIS was “penalized (financially) if they [investigators] did not meet the deadlines” (Anonymous, personal communication, September 19, 2013). Investigations will not be thorough if investigators do not have sufficient time to conduct the most relevant interviews and to verify all of the information on SF-86.

Obstacles for background investigators may lead to cursory screening; and, given enough pressure, investigators will succumb to falsifying reports. Since 2009, the United States Attorney’s Office in Washington D.C. (USAO DC) has prosecuted two record checkers and twelve background investigators for falsifying reports (D.C. Federal Defense Attorney, 2012). A Reuters report claimed, “Federal prosecutors have documented [in recent years] at least 350 instances of faulty background investigations…illustrating…systemic weaknesses in the granting of federal security clearances” (Zakaria, 2013, para. 1). The obstacles described above help explain the increase of background investigator prosecutions due to the falsification of reports.

SOLUTIONS

New technology has made background checks and federal investigations more efficient and thorough, as electronic records and databases have reduced clerical errors. According to Miles (2012), “Reforms in the personnel security clearance process have improved the speed and efficiency of background investigations” (para. 1). Yet, screenings and investigations are under scrutiny and proposed improvements are frequently debated. Jurisdictions must balance the pros and cons of prospective solutions. Technological advances such as universal databases and readily accessible database links should be further developed, as they will continue to streamline the investigation process. Moreover, criminal records should be accessible for all screenings and investigations. Also, public awareness should be increased regarding the risks of using online background check companies. Contractors for OPM should implement honesty tests as part of the hiring process thereby reducing the number of falsified reports. Plus, caseloads must be reduced for contracted federal investigators to alleviate work pressure. Federal investigations with flagged security concerns must be allowed more time, requiring a change to the IRTPA; this will reduce the number of risky security clearances that slip through the cracks. Finally, federal adjudicators should have comprehensive training regarding how to analyze investigative reports. Full understanding of the report will allow adjudicators to recognize whether there is a security risk; thus, appropriate action can be taken. Not all of these solutions are perfect; many are costly and others will certainly prompt political debate. Yet, it is imperative, for those who want to improve the system to think “out of the box.” Only then, will continued solutions and improvements be recognized for a system that protects the people.

CONCLUSIONS AND FUTURE STUDY

In many cases, the two types of investigations are similar. Both must consider the many laws that pertain to privacy and hiring practices. Thorough and accurate investigations are essential in order for them to be of use; yet, they are time consuming and costly. The “perfect” investigation is unachievable and costs will increase as improved strategies are incorporated within the process. Many questions must be answered before effective, new solutions can be developed. For example, have report falsifications increased recently, or are they simply more heavily publicized? Government data must be uncovered to answer this question; yet, government websites are challenging to navigate and thereby it is difficult to acquire the essential data. Also, federal investigator pressure and integrity should be researched, as this might be a major cause of report falsifications. Finally, the pros and cons of a unified database should be analyzed, as the issues of cost, privacy, and information security should be considered. Federal security clearance investigations and private sector background checks do screen out potential candidates; yet, improved solutions to these systems must continually be examined in order to effectively safeguard the American people.

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AN ETHNOGRAPHY: AN INQUIRY INTO AGENCY ALIGNMENT MEETINGS

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ABSTRACT

This paper seeks to demonstrate the effects of organizational culture change through a detailed Agile Ethnography of a company meeting with Agency partners. The organization in being examined is changing culture and this is demonstrated to the Agency through meeting structure, vocabulary, and organizational customs. This story demonstrates that in a culture where power structure and understood status are of key importance to all involved, whether through assumption or documentation, if clear definitions are not given to all terms and historical norms are not followed, these businesses risk their power.

Keywords: Organizational Change, Organizational Culture, Agency, Partner, Ethnography

METHOD

This is the story of agency alignment meetings at company ACME. These meetings happen twice a year and have been going on for five consecutive years. The meetings take place in a large conference room at ACME's headquarters building. Traditionally, these involve discussion and presentation time for each organization and then entertainment and meals provided by ACME. The goal of these meetings is to align on roles, responsibilities, and reporting structures between ACME and its agency partners. What is found is a unique dynamic of power and influence and the struggle to maintain a position at the apex of this structure. As Clifford Geertz states, "social actions are comments on more than themselves; that where an interpretation comes from does not determine where it can be impelled to go," (1973, p 41) and this is exactly what I discovered in ACME. Through this story, ACME goes to lengths to assert its control and power and attempts to justify an incongruency, however, assumptions are made by the agencies and this leads to doubts about ACME's financial standings.

ACME is in the consumer packaged good industry. Specifically, ACME produces, distributes, and markets 5 major brand name food products. Their products are in world-wide distribution. In order to market these products successfully, ACME employs a number of agency groups, which are responsible for different aspect of the marketing. They cover everything from media buying, sampling and event tactics, to in-store shelving and consumer interaction pieces. While each organization is siloed, they do have an accountability to ACME in that if ACME struggles financially, the employment of the agency might be at risk and hence the employment of each agency member. ACME's products have a long history and are easily recognizable. They have very established brand names with excellent reputation in quality, packaging, and distribution.

The key issue at hand in these meetings resides around ACME being able to maintain control, power, and dominance through a set of rituals and meeting structures. However, as participation in these meetings continued and the economic climate for the packaged goods industry became more strained, an organization trying to maintain dominance had to take into account all variables and status symbols. In the most recent meeting, it was noted that ACME has begun to ignore one of Hofstede and Hofstede's (2010) dynamics and this caused doubt as to the prosperity of ACME among their agency partners.

I made a very interesting discovery as this exploration progressed. What I found was an intricate web of signs and symbols expressed through a unique vocabulary that establishes a power structure. In the conservative personality of the leading organization, this power is never questioned. It is a culture of fear that keeps this organization at the top of the structure. However, this culture of fear risks the future stake for all organizations when it leads to assumptions. During this meeting, new information is introduced. When the participants are left to independently interpret this information and make assumptions that are left uncorrected, this culture of fear creates a potential slippery slope situation.

EXPLORATION

Meeting Format

The schedule of these meetings is almost always a two-day affair opening with a formal breakfast, proceeding through an ice-breaker and overview of an agenda and finishing with a dinner and entertainment. Day one consists of issues pertaining to the interests of the agency partners. This is ACME providing the agency partners information that will help them better perform their jobs. This also subtly endows ACME as having humbly provided information to help the agencies. Day two flips this idea and consists of ACME providing their expectations, rules, and regulations for their brands during the next fiscal year which sets up a power dynamic. This is when ACME asserts its influence and since the Agency partners have already adopted a submissive posture and are expected to submit due to the "good will" of ACME in day one.

Along with these days of work related discussion, the various entities interact in social ways that serve to reinforce cultural norms as dictated by ACME. ACME is responsible for providing meals, entertainment, and social time to the agency partners in attendance. An evening activity is tradition, which is sponsored by ACME in order to show off some sort of asset. This asset is presented in a way that the agencies are made to feel partially responsible for the resources that allow ACME to showcase the asset.

The format of the meeting is always entirely of the ACME mandate. The participants show up on the first day and are presented with an agenda including times and destinations dictated by ACME. This reinforces who is in control of these meetings and whose business is truly being served by the agencies work and financial success. This format serves to regulate and control the ACME norms in the sense of values, and interorganizational productivity and information flow. The information transferred at each stage of these meetings is tailored to each audience. The participants of each meeting session are tailored by the ACME agenda and the agency members are expected to abide by this schedule and these attendance expectations.

Bubbles of Influence

Bubbles of influence are the different agency organizations and ACME as a whole and the members that make up these factions. These meetings are coming together of a number of bubbles of people in the interest of the ACME organization. In Hofstede and Hofstede's book, it is claimed that, "Organizing always requires answering two questions; (1) who has the power to decide what? And (2) what rules or procedures will be followed to attain the desired ends?" (2010, p 302) This is the entirety of the culture brought about by these meetings. What I found is that the power to decide resides solely with ACME. This is only amplified in the second consideration since ACME creates the rules and through a series of assumptions and creates a culture of fear, which ensures their power. This forms a cycle that, to this day, has not been broken and props up ACME's power.

These bubbles of influence interact in a way that conveys and reinforces cultural bonds. The bubbles are well defined with members who are charged with fulfilling a role and a responsibility. These roles and charges are meant to serve a goal. This goal is always the continued success of ACME in order to preserve the structure and economic viability of the greater organization. The bubbles also serve to segregate information sharing and transfer.

Only certain bubbles are privileged to certain meeting session and therefore certain sets of information. It is generally accepted without question, that ACME has tailored the information and the attendance requirements to these bubbles in a way that should benefit the greater good. However, as shown in the following story, this can also serve to create silos, which segment information in a way that allows uncertainty and eventually a culture of fear.

Power Structure

ACME is the lead organization as it employs all other organizations as agencies. The internal ACME teams are the Shopper Marketing team, integrated marketing VP, Seibel data team, MIS team, and finance analysis teams. The Integrated marketing VP was the person of absolute power symbolized by:

- *Her ability to come and go as she pleases*
- *Casual dress*
- *Ability to interrupt the conversation*

This member of the group seemed to be able to make decisions that would affect all parties involved, including the future employment of the agency partners. This was represented through complete respect and attention when she spoke. No one interrupted or debated points with her. There seemed to be a sense of fear when dealing with this VP.

Next in the power structure of the ACME organization for this meeting is the shopper marketing team. This team is made up of three people who split responsibility for different aspects of the ACME product portfolio. The Shopper Marketing department is responsible for the planning and execution of any in-store brand marketing for the ACME portfolio. They deal directly with the agencies and are intimately involved with the agency reporting to ACME. The meetings were called to serve the specific needs of the ACME Shopper Marketing department, which put the rest of the organizations at the service of this group.

This relationship creates an interesting dynamic with financial implications for all parties involved. It is in the agencies best interest to stay in favor with ACME because they rely on ACME for their financial well-being. However, ACME is also dependent on the agencies in order to effectively get their products to the retail landscape and create a need with the consumers. The agencies are at slight disadvantage here because the supply of potential agency partners is much greater than brands needing to employ agencies. It would be much harder for the agencies to find employment than it would for ACME to find new agencies. While this dynamic certainly puts ACME at an advantage, they work very hard to maintain control over their agencies and perpetuate these relationships. For the agencies, this creates a very delicate situation in that they must be able to clearly and effectively market these products while staying in bounds of what ACME desires of them.

After the ACME teams, in terms of power, would fall the agency teams. There are three teams here, Agency 3 (A3), Agency 1 (A1), and Agency 2 (A2). A3 is housed entirely in house. A2 is housed in Pittsburgh and is a subset of a larger partnership with the Distribution organization (D1), which handles retail sales for ACME. Finally, A1 handles only specific customers; however, this team has the most representatives and had traveled from Chicago to attend. A1 was also the only organization that was at every session of the meeting besides the internal ACME Shopper Marketing team. These agencies are the coordinating body between the ACME groups and their customer bases in the retail outlets. ACME cannot effectively market without these groups, however, there are other groups who do what the agency partners do. This means that while these meetings were there to benefit their functioning, they could be replaced by other agencies.

The internal ACME teams that attended would be next in the power rankings as they are part of the oversight organization and have direct and unfettered lines of communication to the controlling parties. These organizations are the MIS, Seibel, and finance teams. These teams represent knowledge bases that have information to educate the A1, A2, and A3 teams. Internal ACME elements work with each of the attending agencies but in different ways, more one on one with A3 and A2 due to proximity, and virtually with A1, with A1 on a more personal level indicated through use of humor in communications but much more corporately with A3 and A2.

Incongruence

One of the key dynamics discovered in this meeting and a historical look at past meetings like this one, is found in the newest of Hofstede's list and is known as Indulgence-Restraint. While the entirety of the meetings procedures seemed fairly routine and regimented for environment, the glaring misplaced element was the food. The history of these meetings shows a pattern of indulgent meals and plans of entertainment as well as extended visits in order to facilitate more social bonding. However, in this most current meeting, the food, entertainment, and length of stay indicated some change and incongruence with the past. The light food fare and lack of emphasis on social bonding time, seemed to suggest a possible economic strain on the hosting organization. This was confirmed through post event discussion with other participants and through meeting feedback.

It is at this point that an the idea of the "new normal" surfaces. One of the key pieces of information for this story is that ACME, just before this most recent meeting, had introduced this term as a new business practice. The "new normal" meant that ACME recognized the tough economic climate that the US was experiencing. In order to function effectively with customers and partners, ACME was now going to make an effort to cut back on excess and move to represent a more humble and streamlined business model. In the following story it should be noted as to how the ACME team introduced this idea of "new normal," and how they left it up to the agency partners to deeply define this term.

The incongruence of the need to hold and enforce a power structure with a humble business model creates conflict for ACME and their agency partners. Leaving this incongruence unaddressed and floating for interpretation opens a culture of fear and cautiousness.

RESULTS

The goal of these meetings was to align on goals, objectives, processes, and products for the 2013 Fiscal year. The title of the meeting was "ACME Shopper Marketing Agency Partner Meeting." It was set up as a two-day meeting involving different factions presenting to all partners on behalf of the corporate goals of ACME for the following fiscal year. The meetings took place in a conference room on the twelfth floor of the ACME HQ building. This room was set up in an "L" shape and included a small kitchenette, two entrances, a conference table, conference telephone, presentation projector and screen, and seating for 20 or so people. The room was nicely lit and had artwork and plant life to create a less sterile environment. It was evident that this set up is comfortable for these groups since this meeting has been repeated so many times. Each group had its assumed seats so there is no political jockeying for seats.

In each session of this meeting ACME was prominently positioned at the head of the rooms placing them at the focus of each of the other groups as well as placing them in a position to direct the meetings. Each agency then assumed its seats generally with the leaders being closest to ACME. Flowing back through the room was a mixture of agency personnel generally sorted by rank with the administrative assistants at the furthest point from ACME.

Prominently posted 3 places throughout the room were the "ACME rules for meetings."

These rules are framed in a ACME keystone symbol, which reflects the artwork and many of the details of the room. The ACME Logo never seemed to be far out of the frame of sight. It was very difficult to forget whose "house" we were in for this meeting due to the constant reinforcement of the "ACME experience." All of these elements of this setting and landscape established The ACME rules as the accepted governance for these meetings as well as aligned the ACME symbols, rituals, values, and vocabulary as pervasive and the accepted norm.

Day 1

The Tuesday portion of the meeting opened with a light breakfast of simple bagels and cream cheese. The A1 and A2 teams were presented with gift bags that included three new ACME products (hot sauce, beans, balsamic ketchup), a baseball (reflecting the theme for the meeting), and a "strength finder book (a basic personality test)." A3 was not included in this gift, presumably due to their in-house status. These gifts seemed to be for the agencies that did not have daily face-to-face interaction because it is more customary to give a gift to a visitor than an resident family member. It is interesting how the book on personality and strengths was not questioned. It could have easily been seen as a suggestion of sub-par performance; however, it was accepted without a second thought. As I saw later, I think this was out of the culture of fear that ACME has created. Questioning the gifts could have viewed as lacking respect and putting the future employment of the agency at risk. These gift bags contained less than what I have experienced at other corporate meetings with business partners but I dismissed it as ok for this group. Later I would discover that this assumption was wrong, as the agency partners would point out the lack of following tradition. This was only done privately and was never presented to ACME, which further indicated the culture of fear that was present. Dress was business casual which is more standard at ACME, occasionally required at A2, and a step up from casual at A1. At 1:30 pm the meeting commenced with a short icebreaker between the ACME Shopper Marketing team, A2 team, and A1 team. No one else was present which identified these as the key players for the action items to be discussed. At this point, all relationships seemed to be pretty jovial and casual. The next two days would change this dynamic due to new information. These relationships would change and shift to more guarded communication and sharing.

As the meeting progressed, different groups were brought in to present knowledge relating to their function and how it affects the business. This ranged from internal ACME employees from departments such as Seibel, MIS, and finance as well as another agency, A3. Each team was given approximately an hour to present and answer questions. These presenting ACME groups did not seem to gain anything from these meetings. They simply seemed to function as knowledge transfer agents with suggestions in how to improve relationships between the key agents of the meetings. They were representatives of other ACME departments and therefore were not present to acquire anything new.

All of the groups that presented stood or sat in the front of the room. Some used a projector as well as PowerPoint presentation. Generally the closer to the front of the room you moved, the higher ranking in the organization the person. All of the ACME employees sat at the first three seats accompanied by the leader of A1. From here the room devolved to a mix of account executives and support staff from both A1 and A2. All of the presenters, who were assumed experts in their sphere of knowledge as laid out by the knowledge transfer basis for this meeting, were reserved 5 seats at the front of the room, facing the group. This posture also created a setting where we assume that the smaller group facing the larger group is the expert and therefore should be given full attention.

The power-distance principle, as per Hofstede and Hofstede (2010) deals with how power is distributed and established among groups of people. I saw a clear example of this in how the communication and information flowed between groups in this room. Since the group leaders and presenters were located at the front of the room, they were the bases of knowledge. This group was made up of the three ACME shopper marketing managers (Angie, Drew, Megan) and one manager per group (Gary, Jody, Amy, Wendy). This centered the power through the use of knowledge with a select few at the front of the room. As the conversation moved to the back of the room and became more muddled, the power of this information became more specialized but less broadly applicable. This dynamic set up a power center at the front of the room with decreased power as information distanced itself from the source. The select seven members were gifted with power to manage the mass of twenty employees in attendance, and even within this select seven it was evident of the power structure with ACME at the top and the agencies filling in just behind them in the seating.

The seating layout placed the knowledge bases at the front of the room. Most discussion began here and slowly moved to the back of the room. Information started out as headlines and concepts with the presenters and group leaders, as this information flowed back in the room through questions and analysis, this information became more and more defined. This definition was characterized through more use of symbols and meaning specific to an individual. The created a scenario where information was clear in the front of the room, but devolved into confusion towards the rear of the room; hence most of the discussion and clarifying happened in the rear of the room until meaning was created when a confirmation of knowledge acquisition was sent back to the front of the room.

This dynamic of the understood power dynamic was further reinforced through the seating arrangement that took place without any formal prompting. The front of the room was occupied by the highest level knowledge holders. With people storing the least amount of knowledge seated towards the rear, this seemed to connote a submissive policy among the work force. The power distance dynamic is directly related to the amount of knowledge as power an employee has in this setting. The seating arrangement such as this also served to preserve everyone's place in the structure. As we will see, vocabulary is a key identifier of status in this culture. Since complex vocabulary will originate at the front of the room and filter back, the persons in the rear of the room will not be equipped with the tools to decode this vocabulary. This is where the culture of fear in ACME is first seen. Questions in this culture are scoffed at and are assumed as signs of incompetence or challenges to power, both of which could risk a lower level employee's status and financial stake in this relationship.

This day ended with a group activity. This seems very normal for these groups; however, the invitations were limited to the A1, A2, and 1 person from each of the presenting ACME groups. The activity was a Pittsburgh Pirates baseball game in the ACME corporate suite. Food was served in the form of hot dogs and turkey sandwiches with chips. This seemed to be in a bit of conflict with the setting. The corporate box for ACME is very highly appointed with mirrors, soft lighting, leather furniture, AV equipment including a broadcast of the game. There was also a waiter/suite attendant. The setting said "very high class" but the food represented average ballpark food. In my past experience, these suites serve only the best food. There was also beer and wine on hand.

This activity seemed to represent the ACME team wanting to show good will to their partners. However, this type of event can also serve to show the dominance of ACME through the use of their suite, their food, their choice of activity, a range of their employees, all in a setting that represents corporate wealth. This seemed to be a delicate balance. One could have assumed that while ACME wanted to put on a wealthy facade, they were in fact confronting financial trouble represented by the lack of incremental luxury in food and drink and this idea would show up again later.

It was a cooler September evening and it was raining. While there were about 8 outdoor seats that were under an overhang to shield from the rain, the majority of attendees watched about the first 4 innings from the indoor portion of the box. When someone discovered the how to turn on the heaters there was a small migration outside. This was lead by the younger portion of the crowd that made up the lower side of the power scale. This group was far more social and discussed life issues while the power-wielders remained inside until late in the game. This group spent most of the evening discussing work and the work relationship that we were examining in the meetings.

It was at this point some interesting observations were expressed to me in confidence. The agency partners began to ask why the luxuries of past meetings were being spared. They inquired about the day's food and lack of supplies in the suite as opposed to the history of these meetings. The representatives of ACME began to speak of a concept they labeled "the new normal." According to the ACME management, this concept consisted of purposeful savings in business dealings so as not to look opulent in a down economy. The agency partners had not heard of this concept before which made it seem a bit unfounded to them. At this point the ACME management quickly dismissed the topic and actively tried to move to more casual conversations. It seemed a bit hurried and very purposeful which had an effect on the proceeding actions on part of the agencies.

Since the concept of "the new normal" was not introduced formally and in any other business dealings, the agency partners doubted the validity that it was the cause of the incongruence in comparison to other meetings. This allowed the members of the agencies to create the narrative of "the new normal" on their own and make assumptions. It was concluded that each agency should be very careful in their upcoming dealings with ACME through the next fiscal year due to the assumption that "the new normal" was just a way to disguise poor financial standing for ACME.

Day 2

The enlightenment gained on the previous night changed the dynamic of the second day in considerable ways. The first half of the second day of meetings included only ACME employees and A1 employees. All other agencies were excluded. Since A1 is in Chicago and not in-person accessible, this day was to deal with issues relating specifically to their business. The morning began with another light breakfast with no frills.

The meetings began with a review of the A1 performance grading metric called the scorecard. This discussion involved a review of performance metrics, as well as a discussion into what the scorecard should look like in the future. The objective of the ACME team seemed to be to get A1 to use the same quantitative process that is used by A2. A2 is much closer to ACME in that A2 is part of a larger organization call D1. D1 provides ACME with various services and is located in Pittsburgh. This set up a distinct relationship between A2 to which A1 is not privileged and includes its own set of knowledge transfer systems and technologies.

A1 seemed to be much more focused in this discussion. Much of the informality of the first day faded from their communication. A sense of doubt was very thick in the air. It seemed that a meeting or communication had been made from the director of A1 to his employees to the affect that they needed to take precautions in order preserve the good standing of the agency.

At noon, the ACME team provided lunch. As I stated in Day 1, traditionally these meetings would involve an off site lunch at a semi-formal restaurant. However, this meeting was different in that it echoed the dichotomy of food and setting from the baseball game. Instead of going out, the team was served pizza in the preparation kitchen. The upscale nature of the offices and formal nature of the meetings, did not match the cost-saving form of food. This only served to reinvigorate the internal debates among the agencies as to the financial standing of ACME.

At this point this point in Day 1, A2 and A3 rejoined the meeting. It seemed as if the knowledge of the "new normal" affected the way they approached this meeting. Now the members of A1 seemed to pay extreme attention and ask questions pertaining to their specific performance. A2 focused on whether or not they should be on-site more due to their geographical proximity. A3 seemed the lease bothered and most assured which was mostly a result of their in-house status. The behavioral affect of the doubt created by the agencies and the true meaning of "the new normal" as it pertained to their futures was clearly evident.

As the afternoon progressed, groups from the finance team and information tracking groups came in to speak. While the physical layout and set up of the rooms did not change, these meetings seemed a bit more quieted, reserved, and guarded. These meetings were more of a discussion of shopper marketing in general and of practices that could be implemented to make the business more efficient. They were less about knowledge transfer and more about business feedback and the discovery process.

As the day progressed, I noticed evidence of a reserved posture and a need for the agencies to have ACME's approval on all points start to surface. There was constant clarification being made. Every time ACME made a point and the discussion filtered to the back of the room, a clarification was certain to come back forward. Even the lowest level employees wanted to ensure that they were gaining the knowledge they needed to ensure their future employment and success in their jobs.

The afternoon wrapped up at 4pm with an unceremonious closing. At this point most of the A1 employees moved away from the meeting space and out to other offices in the building to visit with colleagues. The nature of A1 being an integrated partner within ACME, yet residing in Chicago creates a unique dynamic when the A1 team comes to the ACME offices. It seemed to be understood that it was important to close the meeting in order to capitalize on the rare occasion where this group could be face to face. This unceremonious closing signified the tenuous tone of the last day of the meeting. There seemed to be a glass coating on every action which no one wanted to risk shattering.

DISCUSSION

It was noted that in some of the conversations throughout the meetings, as the employees of ACME became frustrated and felt that their needs were not being served, vocabulary became a weapon of choice. When the directors of the conversation from ACME wanted to assert authority, a clear progression from simple vocabulary to a complex set of internal abbreviations, acronyms, and symbols was made. This seemed to serve to perplex the guest agencies since they are not privileged to the daily use or practice of this vocabulary. When this is butted up against the unquestioned power structure, it was evident that no one wanted to question these symbols out of fear. Heated discussion was peppered with acronyms such as IMP, PFP, DMA, NAM, CD, ACV, NSV, PPA, HFRA, FY, and CY. All of these relating to a specific position or group within ACME but had no application in any of the agency partners.

In order to avoid uncertainty, ACME managers and presenters would also begin to interrupt and speak with a quicker pace. By combining this fast pace and the specialized vocabulary, ACME was certain to perplex their partners, which would move any uncertainty from ACME into A1, A2, and A3. This also helped to move ACME into the position of power. ACME seemed to be making the statement that the only way to avoid uncertainty is to separate oneself as the expert through specialized knowledge. If you are the expert, then no one can question your authority and in a system with a very defined and unquestioned power structure, this becomes dangerous. The agency teams seemed to leave these meetings with a sense of questioning and fear, which served to perpetuate the control of ACME.

It is this sense of fear that seems to serve as the controlling force in the culture of ACME. This fear ensures that the bubbles of influence remain in tact with only the information that they need. It is out of fear that the segregated meeting sessions are respected. Each agency fears that if they do not attend their session, they will be ill equipped to function within the ACME structure. The other agencies respect being excluded under the assumption that uninvited attendance is against ACME culture and norms. Attending a session while uninvited would show suspicion and uncertainty, both of which could signal weakness and an inability to do their job.

The culture of fear perpetuates ACME's allows immense room for assumptions which lead to information gaps. The agencies did not understand the out of place entertainment portion of the meeting. The meeting format enhanced this through constant reinforcement of ACME as the dominant and empirical force. The fear to ask questions led to the assumption that the "new normal" is a symbol of economic hardship.

The future implication of this fear is immense. With the casual dismissal of the meeting, the sense of fear and aversion to questions allows the agencies to go back into the field and work to serve a misplaced purpose. They are now allowed to do business on behalf of ACME under the assumption that the financial standing of ACME is unhealthy. Budgets can be withheld leading to initiatives that can be under funded or cancelled in a critical time. The agencies also have the potential to be more guarded in their information sharing so that they are insulated from any potential impacts. This can lead to decreased creativity and more siloed information.

In the end, the culture of fear created though assumptions, unguided information flows, and incongruences in structure and format have paradoxical implications. First, it serves ACME through keep the agencies aligned and in subjection to ACME's doctrine and value systems. However, the fear and lack of corrective action risk the financial viability of all parties involved. The culture of an organization such as ACME is so powerful that it seem s to be propagated without question which can lead to a slippery slope scenario. Slippery Slope, as defined by the Merriam-Webster Dictionary is, "A course of action that seems to lead inevitably from one action or result to another with unintended consequences." Authors on Wikipedia take this definition a bit further when they state, "the slippery slope is an argument for the likelihood of one event or trend given another. It suggests that an action will initiate a chain of events culminating in an undesirable event later…The slippery slope can be valid or fallacious." We can see this in action with the assumptions of the agencies leading unintended consequences which can lead to ACME asserting more power and control, leading to more assumptions and eventually a financial risk. This could have all been prevented through clarity of communication and openness in information sharing.

LIMITATION AND FUTURE RESEARCH

This study of ACME clearly shows that an organization can take all precautions to retain power and structure, but if they fall short of expectations in a single sense, this blind acceptance of power can be shaken and create fear and confusion. Hofstede would define this as a result of a move from indulgency to restraint. There was an expectation of indulgence by ACME to show off their wealth and success brought on by their agency partners. However when meals and entertainment began to fall short of these expectations a doubt arose in the agency groups as to the true financial standing of ACME. These doubts were enhanced through a discussion of a “new normal” which seemed to be a buzz-word without a clear definition. A fear of the unknown disallowed any questions as to the true meaning of this term and the accepted tradition of ACME’s vocabulary as pervasive and accepted further prevented certainty from being established.

Going back to Geertz we can see that the quote from his 1973 book to be very true. A social action that takes place in a culture is not justification for meaning in itself alone. ACME clearly took the idea of “the new normal” and the perceived short cuts as having minimal consequence and the agency partners should just accept this. However, their lack of concern for a shared definition allowed the agency partners to create meaning of their own. The meaning that they created involved a negative connotation on the financial well-being of ACME which could have severe impact on their future businesses. ACME only furthered this uncertainty through the drive to maintain power through increasing complexity in action and vocabulary meant to confuse their partners.

In the end there were and still are questions as to how much of a partnership is this relationship. Is it simply a way to support a financially driven business? This story demonstrates that in a culture where power structure and understood status are of key importance to all involved, whether through assumption or documentation, if clear definitions are not given to all terms and historical norms are not followed, these businesses risk their power. In the case of ACME, it seems that pride and a sense of honor drives them to stay in power. For the agencies involved, abiding by ACME’s rules, norms, and values, is a result of a need to remain in good standing for future financial viability. To question the powers that be is a sign of incompetence and a challenge for power in this culture as well as a risk to the agencies future employment. Through assumptions and failing to account for all possible a meaning of symbolic terms, ACME has created a culture which not only propagates is future stake in power but aligns the agencies in submission out of fear. Although there was doubt created through vocabulary used, the culture of fear and accepted practice filled the void of uncertainty in a way that aligned the agencies with the agenda of ACME.

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INTER-ORGANIZATIONAL COLLABORATION FOR TRAINING OF NEW EMPLOYEES IN THE SHIPBUILDING INDUSTRY IN IMABARI

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ABSTRACT

The purpose of this paper is to clarify functions of place and role of intervention on the building process of inter-organizational collaboration. As a case study, we focus on inter-organizational collaboration between the public sector, such as the city of Imabari, etc., and the shipbuilding industry. Through the study, functions of the place and the role played by intervention to encourage the process of establishing inter-organizational collaboration were made clear. Moreover, there was an indication that it is necessary to consider the impacts of the situations which concerned parties were facing in the beginning of the establishment process.

INTRODUCTION

Establishment of inter-organizational collaboration of business-to-business or business-to-public sectors, etc. for creation of new businesses and promotion of local industries, has been more commonly seen as a trend in recent years. However, existing studies of inter-organizational collaboration do not make clear what led to the establishment of such inter-organizational collaboration.

Establishment of inter-organizational collaboration in this study is defined as the establishment of a cooperative system between members of different organizations. Based on this definition, functions of place to encourage establishment of such collaboration as well as the role of intervention will become clear in this study. This study focuses on the building process of such relationships through interactions between the parties concerned until such inter-organizational collaboration was established, through a case study on inter-organizational collaboration between the public sector, such as the city of Imabari, etc., and the shipbuilding industry.

At first, we will explain the outline of the inter-organizational collaboration between the shipbuilding industry, businesses providing training for new employees in the industry and the public sector in the city of Imabari, which forms the structure of the case study. Review of the functions of place to encourage establishment of such inter-organizational collaboration as well as the role of interventions in the previous studies will be followed. After the explanation of the research design, the building process of inter-organizational collaboration, functions of place as well as the role of intervention, which focus on the building of interactions and relationships of people that have become apparent through the case study, will be analyzed and interpreted.

OVERVIEW OF THE SHIPBUILDING INDUSTRY IN THE CITY OF IMABARI, THE OUTLINE AND THE HISTORY OF THE ESTABLISHMENT OF THE SHIPBUILDING TECHNICAL CENTER OF IMABARI

Imabari City is an agglomerated area of industrial shipbuilding, and is the largest in Japan with about 17 % of the vessels built in Japan. The shipbuilding industry in this area consists of small to medium size companies including the Imabari Shipbuilding Group and the Shin Kurushima Dockyard Group which are the two leading companies in the area, totaling 55 companies including shipbuilding-related businesses.

The shipbuilding industry in Imabari district has survived to compete with South Korea, etc. because of in-depth rationalization and cost reduction regardless of the fact that the shipbuilding industry has often been described as being in a typical structural recession. They have achieved excellent results while other major shipbuilding businesses in Japan have been downsizing their operations. For instance, according to the data concerning vessels built by the shipbuilding industry in Imabari in 2006 and 2011, the number of vessels built had increased from 81 to 99, while the number of workers in the business increased from 5,954 to 6,925 (Imabari City, 2012). Meanwhile, the shipbuilding and marine related business has been positioned as the core industry of the city of Imabari, resulting in a clear vision of “Maritime Imabari”.

One of the reasons for such excellent results in the shipbuilding industry of Imabari is the initiative taken to develop design technology and efficient shipbuilding plans. A big part of other critical forces for such success has been the accumulation of skilled craftsmen in the area. However, as the time of the mass retirement of middle-aged people with skills has come, maintaining and training for such skills has become a challenge in recent years.

Small to medium size shipbuilders could not afford to train their young employees by themselves in the past, and used to hire skilled workers who worked for large shipbuilders outside of the area. This situation has changed to fewer human resources transfers to small to medium size businesses, because only a moderate number of workers who were born after the baby boomers were employed due to the recession in the shipbuilding industry. As a result, companies were faced with the need to perform training by themselves to maintain the supply of workers with skills.

Based on such circumstances of the shipbuilding industry in the city of Imabari, the “Shipbuilding Technical Center of Imabari” was established in March 2005 through collaboration of shipbuilding-related businesses and the local governments. Imabari City not only provides subsidies, but plays a central role in fulfilling administrative functions. Public and private sectors have united to operate the centers to manage subsidies provided by the Cooperative Association of Japan Shipbuilders as well as by Ehime Prefecture, and memberships (35 full members, three supporting members), and the centers receive free textbooks provided by the Shikoku Department of Transportation.

First of all, the Shipbuilding Technical Center of Imabari carries out “Training for beginners” (welding, assembly and safety education from April to June) for the purpose of training new technicians. Small and medium size shipbuilding businesses in the Imabari region were actively involved with this beginner training which had 732 graduates in total by 2012. In addition, the training centers have been established in the Imabari plant of the Imabari Shipbuilding Co., Ltd. and in the Ohishi plant of the Shin Kurushima Dockyard to use existing facilities which require no permanent facilities in the center. Skilled technicians in the area are selected to perform training during such training period. The centers provide “Advanced skill training” in the reading of drawings and safety education in three to five days to training recipients who have completed an introductory course. “Intermediate training” has been provided by such means as a “shipbuilding intermediate welding course for the professional skills” and a “hull assembly intermediate course for the professional skills” to pass down the advanced skills to mid-career technicians since 2011.

PREVIOUS STUDIES OF THEORY

We will review the functions of place and the role of interventions to encourage establishment of such inter-organizational collaboration in the previous studies. Moreover, we discusses the conceptual model based on the studies.

Functions of Place

The following is a discussion of place for developing interaction among people to establish inter-organizational collaboration: Kanai (2005) described place as a social system that encourages interaction of people, it fills the structural holes that Burt (1992) advocated as well, and promotes entrepreneurial activities among organizations to create new business.

Gray (1989) described meeting committee bodies, which are of one style of place, by gathering all legitimate stakeholders who are specified at a table by focusing on the functions of the conference convener. The following is required for the conference convener in order to realize this:

1. The conference convener should have the power to convene stakeholders.
2. Legitimacy, authority and fairness should be maintained.
3. The purpose of collaboration should be made clear in order to understand the potential value of collaboration as well as to organize the area of collaboration.
4. There should be skill in carrying out a cooperative process and in forming the details.
5. Appropriate stakeholders should be specified.

Gray (same) also suggested that involvement of key stakeholders with a strong interest in advancing collaboration is important in order to establish social norms and to put them into practice.

Role of Intervention

Intervention is something which gives an impact on the process of interaction between allied partners according to Gray (2008), and it also reduces limiting factors or enhances driving factors in the interaction between organizations.

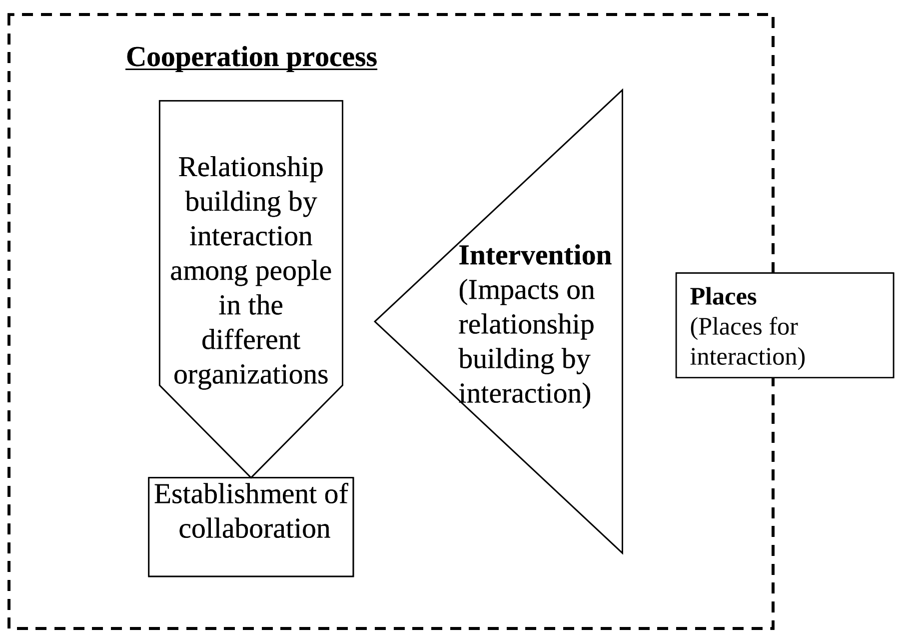
Ring, Doz and Olk (2005) explained that the role of “triggering entities” is “to make clear to potential partners the benefits of collaboration, to support the formation process (of collaboration), to ensure various contributions in a timely and harmonious manner and to double-check each incentive”. Sagawa and Segal(2000) introduced the role of the “Relationship manager” who constructs and strengthens relationships between organizations. Williams (2002) has discussed the role of “Boundary spanners” who have skills to build and maintain relationships among people and manage the interdependencies between organizations in order to increase the likelihood of collaboration as honest intermediaries. “Civic entrepreneurs” facilitate collaboration between governments or between companies that are in different fields, and support for the creation of new businesses or contributions to promote local industries, as Henton et al. (1997) has queried about the role of civic entrepreneurs. The motivation of being civic entrepreneurs shall be “to realize broad, enlightening and long-term benefits” according to Henton et al.

At last, Gray (2008) asserted that normal intervention should be carried out mainly by alliance partners or third parties. Radin (1996) suggested that expansion of boundaries may be carried out by several people, and that it does not necessarily have to be done by a single person.

Conceptual Model

We will verify the validity of the following conceptual model (Figure 1) through a case study on the basis of the previous studies.

Figure 1: Conceptual Model



Source: Drawn up by authors

This conceptual model is focused on building relationships through interaction among the members that belong to different organizations through the process of establishing inter-organizational collaboration. The places refer conventions and study groups etc. for stakeholders to get together to establish inter-organizational collaboration, and develop interaction among them. Besides, intervention effects the interaction developed by the members to build relationships in order to establish collaboration.

RESEARCH DESIGN

Research Theme and Research Questions

The theme of this study is to clarify the role of intervention and functions of place which encourage interaction to order to build relationships among participants in the process of establishing inter-organizational collaboration. Research questions (R.Q.) are as follows:

R.Q.1: When, where and by whom, have place been prepared, and what functions are performed?

R.Q.2: By whom and how, have interventions been made to interactions between members of different organizations? What role was played?

Case and The Data

Local shipbuilding-related companies and Imabari City have established inter-organizational collaboration through consultation of the study group, and have established, and are operating, training centers to train new employees with the support and influence of Imabari City and the Shikoku Department of Transportation of the Ministry of Land, Infrastructure and Transport (MLIT). This case was valid as a subject of this case study which will examine the functions of place and the role of intervention in the process of inter-organizational collaboration. For the purpose of carrying out the qualitative analysis of the case, data were collected for this case study. First of all, since this study is intended to clarify the process of establishing inter-organizational collaboration to train new employees in the shipbuilding industry of Imabari, data was collected on the activities that were going on in the situations being faced by concerned parties of the study group who discussed collaboration, upon their establishment in January 2004, till the Shipbuilding Technical Center of Imabari was established in March 2005. Second of all, the main focus of this study is the people who have established inter-organizational collaboration by the interaction. Therefore the 5W1H will be clarified upon examination of the process of establishing of inter-organizational collaboration. At last, the data were collected from the materials which were published, related documents that were provided by the city of Imabari, and interviews. Interviews were conducted of two staff members of the Industrial Site Promotion Section of Imabari City in July 2012. Employees of the three shipbuilding-related companies, which were members of the study group as of September of the same year, were also interviewed.

Analysis Methods

This study mainly uses qualitative analysis. First of all, our focus lies on the interaction of the participants to arrange the process of establishing inter-organizational collaboration. What place were provided and intervention was carried out will be clear in the process of such arrangement to identify the cause and effect of the events. As for the place which had encouraged the process of establishing collaboration directly and indirectly, the people who had provided such place, other constituents, and the functions of such place will be examined. How intervention impacted on the interaction for building relationships among participants in the process of establishing collaboration will be examined. Lastly, we will describe the interpretation which is based on the analysis.

THE CASE: THE PROCESS OF ESTABLISHING THE SHIPBUILDING TECHNICAL CENTER OF IMABARI

In this section, we will talk about the activities that were going on, in the situations that were being faced by concerned parties of the study group (hereinafter referred to as "the Study Group") that discussed collaboration, from the time of the establishment of the Study Group in January 2004 till the training for new employees had begun with the establishment of the Shipbuilding Technical Center of Imabari (hereinafter referred to as "the Centers") in March 2005.

The Situations Which Concerned Parties Were Facing Upon Discussion of Collaboration

Existing networks among concerned parties of collaboration

There was no inter-organizational business collaboration established before the Study Group had begun its activities in January 2004, among existing networks of shipbuilding businesses which eventually had come together for the establishment of the Centers. There was no noteworthy technical exchange activity between businesses either. No fact is found that indicates there was an intimate network among senior managements of businesses. They only talked at the meetings of the industry.

On the other hand, there were networks of the staff from the general affairs departments of the companies who participated as companies' representatives of the Study Group for the establishment of the Centers, and these are remarkable networks which gave impacts on the establishment of collaboration. As informal networks, employees of such general affairs departments who were participants of the Study Group had a number of connections with local people because they are friends from their high schools and colleges. In addition, even before the Study Group was formed, they had place to share information and discuss problem solving measures for labor unions and working conditions, etc. among employees of the general affairs departments of the shipbuilding related businesses, through the incorporated association of the "Imabari Regional Management Association". They have very close relationships. They had been discussing challenges of the establishment of the Centers because such employees of the general affairs departments had been involved in the Study Group as companies' representatives. They even exchanged ideas for approaching the Presidents of their companies for approval, etc. In fact, interviews with former employees of the general affairs departments who had participated in the Study Group revealed that they had shared the need for establishment of the Centers, and had the common goal which led to the establishment of the Centers.

Background of the support of the city for the shipbuilding industry

The shipbuilding business has been prosperous for a long time in the city of Imabari. It became the largest industry including shipbuilding and marine-related businesses in the region with 120 billion yen in sales with about 7,800 employees in 55 companies after the merger of 11 towns and villages into one city in January 2004, from about 3,300 employees in 25 companies with sales of about 50 billion yen before the merger. The relationship between the shipbuilding industry and the city was not close due to the direct control by the Japanese government (the Shikoku Department of Transportation of MLIT), including the permission and authorization process, etc. Imabari City had begun getting involved in the activity to promote the shipbuilding industry, mainly because the industry had grown.

Share of the needs for human resource development in the shipbuilding industry as a local industry of Imabari

Issues residing in recruiting, structure and skills to be passed down in the shipbuilding industry were what all shipbuilding-related businesses were facing as explained in the overview of the shipbuilding business in the city of Imabari. However, the need for education has long been recognized even before these issues had become apparent. Loss caused by reworking, and the slow process of their employees to develop their skills due to the insufficient knowledge of theories acquired by the employees, had been the issues focused on by many key people in charge in the companies. These problems did not lead to their taking initiatives to solve such problems, because such loss was covered enough when the shipbuilding industry prospered. Strong needs for competitive business by strengthening productivity and technologies against neighboring countries which are taking over the share, some companies went bankrupt due to the recession while competition was intensifying in the depression in the shipbuilding industry, the movement had begun to solve the problems among management. All companies shared the need for human resources development in the shipbuilding industry in Imabari which is the local industry with a push from the existing awareness of the problems, the movement had been encouraged beyond the business organizations in order to provide education for their employees.

Previous experience of the Innoshima Technical Center

The Innoshima Technical Center , which is a pioneer in the establishment of centers for providing education to new employees with the public sector such as city, and shipbuilding-related companies, working together, had an impact on the following two matters for the establishment of the Centers in Imabari: First, people from Imabari City and concerned shipbuilding-related businesses visited the Innoshima Technical Center upon discussion of the establishment of the Centers, to view the training and operation methods, etc. An employee of the Chugoku Department of Transportation of MLIT, who was at the time, involved with the establishment of the Innoshima Technical Center, was transferred to the Shikoku Department of Transportation when they began discussion of the establishment of such center in Imabari. He provided support and arrangements using his/her experience in Innoshima, which may be a factor in stimulating the movement for the establishment of the Centers.

Efforts to support human resource development in the shipbuilding industry by MLIT, related organizations and the city of Imabari

MLIT held shipbuilding industry competitive strategy meetings starting June 2002 before the Study Group for the establishment of the Centers was initiated. In June next year, the report titled, “Vision and Strategy of Japan's shipbuilding industry,” was published, resulting in the budget for 2004. The report also addressed the importance of human resource development and the passing on of skills. The Ship & Ocean Foundation has investigated "the nature of human resource development for shipbuilding technicians in the future" during the same period of time, and the outcome was published as "Shipbuilding skills development center concept study report" in March 2004. Suggestions made referring to the Innoshima Technical Center as a model case in the report are that small and medium size shipbuilding businesses, etc. shall together establish "Regional training centers" which provide group training in various locations, and improve "shipbuilding skills development centers" as a support body of the operation of such training centers. In response to such suggestions in the report, the Cooperative Association of Japan Shipbuilders (CAJS) had established "Shipbuilding Skills Development Centers" subsidized by MLIT and the Nippon Foundation in April 2004, resulting in the creation of specific measures for each region.

In response to the discussion on industrial advancement including major industries such as shipbuilding and towels as well as promotion of new industries, starting around 2003 in the city of Imabari, a comprehensive survey of the shipbuilding industry was conducted. The results of the survey showed the strong growing needs of immediate skills transfer to younger employees in the shipbuilding industry, and problems of the age structure among employees which are characterized by aging employees as well as lack of experienced employees. Based on the report, Imabari City decided to take initiatives to support the creation of mechanisms of human resource development, in addition to the reclamation plan of harbor and port, with shipbuilding promotion measures in a vision.

In the process, the Shikoku Department of Transportation of MLIT had proposed the establishment of the Centers when Imabari City approached them with ideas including financial matters.

<u>Conflict between two major companies in the early period</u>

Two major companies had great impact on the Study Group for establishment of the Centers, the details of which are described later. Requests from one of the major companies (hereinafter referred to as "Company I"), which was located in Imabari City since before the municipality merger, were greatly accepted for shipbuilding promotion plans including reclamation of harbor and port, etc. and announced by Imabari City in January 2003, because the other company (hereinafter referred to as "Company K") was located outside of Imabari before the merger as of January 2004. These two major companies were on opposing sides initially in the process of the establishment of the Centers which had begun in January 2004, so that their relationship was hurting the movement towards the establishment of the Centers.

Process Leading Up to The Study Group launch

<u>Collaboration between Imabari City and MLIT and the role played by the Shikoku Department of Transportation to establish the Study Group</u>

In the process of the supportive initiatives for human resources development in the shipbuilding industry taken by MLIT and the city of Imabari, the Shikoku Department of

Transportation of MLIT had proposed the establishment of the Centers when the city approached them with ideas including financial matters.

As the background of a proposition by the Shikoku Department of Transportation to Imabari City to establish the Centers, the Chief of the Shipbuilding Division of the Shikoku Department of Transportation was in charge of launching the Innoshima Technical Center at the time that he was the Chief of the Shipbuilding Division of the Onomichi Branch, and he proposed to Imabari City the establishment of similar centers, and offered support to do so. Imabari City endorsed the idea of the establishment of the Centers proposed by the Shikoku Department of Transportation, and made a decision to form the Study Group participated in by both parties to discuss the establishment. The first study session was held with participation of the city of Imabari, the Shikoku Department of Transportation and shipbuilding-related businesses in Imabari City after the merger on January 15, 2004.

According to interviews of employees of the city of Imabari, upon holding the first study session, technical vocational training schools as well as public employment security offices in addition to 20 plus businesses including two major companies which are the most shipbuilding-related businesses in the region, could be called to the session. This is because the Shikoku Department of Transportation, which has jurisdiction over the shipbuilding industry, visited each entity directly to invite them to the session.

After the Study Group Sessions, and What They Discussed

On January 15, 2004, the Study Group, for the purpose of collaboration in the establishment of the Centers, adopted a decision making process for obtaining approval of all participants in the "Study sessions" after the discussion of each issue by the "Working Group," which consisted of the representatives of large businesses including two major companies, after the three study sessions by all participants. "Sectional Meetings," attended by the representatives of the companies in charge of different specific types of training, reviewed such training and were held as needed since August in the same year. An assembly meeting on March 14, 2005, and the opening ceremony on April 12 were held after many meetings of the Study Group. The following are the chronological activities of the Study Group since its formation:

<u>The beginning of the meetings of the Study Group (January to February in 2004): Overcoming of conflict between two major companies, and subjects of discussion</u>

The first study session, held (January 15, 2004) and convened by the Shikoku Department of Transportation, and held three times by February 2004, was attended by 20 major companies in the region. The purposes of the establishment of the Centers, descriptions of the operations of the Innoshima Technology Center, which is a precedent, interview schedules of the companies, types of subsidies and eligibilities, and public certification requirements as a vocational training center were discussed at the first, the second and the third study sessions, but did not delve into details of the establishment of the Centers such as training details.

As mentioned earlier, during this period, Company K, one of the major companies, used to suspect that the city was advancing the plan for the establishment of the Centers for the other company (Company I). They had a mistrust of the city over the shipbuilding promotion plan, accompanied by their competitive situation. Besides, Company K was not actively supporting the establishment of the Centers in collaboration because they had already established an in-house education system for their employees. However, they eventually became actively involved in the discussion because of the approach and advice by the chief of the Shipbuilding Division who was in charge of the Shikoku Department of Transportation, consideration by Company K's person in charge of the power of the request made by the Shikoku Department of Transportation which has jurisdictional authority, and recognition of the benefits of joining in collaboration for the establishment of the Centers explained as below.

The speculation of the two major companies as well as other companies of the establishment of the Centers

The following are the differences in rationale between the two major companies even after overcoming of the above conflicts toward the establishment of the Centers. Company K was not having a hard time training their employees, because they had already established an in-house education system for their employees in addition to their high efficiency of production. However, they had come to recognize that the burden of their training system would be reduced (the big cost for training materials and for welding training in particular) by acquiring a subsidy if the Centers are established by participating in the study sessions. They were asked to provide training expertise for the Centers because they already had their own education system. There was no risk of skill drain to the outside by doing so, because the training to be provided at the Centers was mainly focused on beginners. On the other hand, the ratio of regular employees of Company I was low with no in-house education system. They were cooperating with the establishment of the Centers, and built a training center at their own expense (with the help of some subsidies). One of the driving forces of Company I was the request of the Shikoku Department of Transportation as well as of the city of Imabari.

Other speculation than about the two major companies was that it was difficult for other companies to establish their own human resource development systems at their own expense, because the size of their businesses were small, and they had a small number of new employees. Under such circumstances, they had an expectation of the benefits of human resource development from the establishment of the Centers with the financial support by the city, prefecture and Japanese government, and with the initiatives and burden by the two major companies. They were aware that the success of this initiative was dependent on how these two major companies which have resources, including education know-how, were actively involved in the plan.

Study Group: Members of the study session, working group and sectional meeting, and the basis for selection of the members

A working group was formed with two major companies (Company K, Company I) and the next three largest companies. This is because, after the three study sessions attended by all participants, they thought if there are too many participants in the working group in which various ideas are discussed and decision-making is carried out, it would not be efficient for discussing scheduling of the meetings and summarizing opinions. There were meetings held by the two major companies in June and July 2004 as described below. The major issues were discussed by the members of the working group. The Chief of the Shipbuilding Division of the Shikoku Department of Transportation was initially leading the meetings, and the members of the Study Group from Company I succeeded this lead role later. Member companies sent their representatives, who were mainly persons in charge of general affairs of the companies, to discuss and generate ideas after conducting surveys and interviews of participating companies as necessary. They reported in the study sessions to obtain approval. Companies which were members of the Study Group took up the process in which the representatives, who were persons in charge of general affairs, first explained the decisions made at the Study Group meetings to their top managers, and then the resolutions were implemented as ordered by their respective presidents.

Discussion process at the Study Group meetings

The discussions at the Study Group meetings after reaching an agreement between the two major companies on the establishment of the Centers, were carried out to examine various matters first in order to conduct training, and then about the acquisition of support from organizations outside, preparation of training programs and development of the systems of the Centers. Two major companies and Imabari City played the role of secretariat, which has practical functions in operating the Centers. The discussions proceeded under the agreement that all member companies play some roles as much as possible, and large companies including Company I would take the lead at the end.

Examinations of various matters for conducting training

Discussions, by the working group that consisted of the five companies, were held after the three study sessions in January and February 2004, as described earlier. A study session was held to report and approve the outcomes by the working group meetings held several times between February and May 2004. Curriculum, training period and duration, trainees and capacity, training location and facilities, burden by the companies such as dispatching instructors, etc., membership fee and tuition fee were discussed.

At the point at which these specific matters had been decided to be discussed, the discussions, by the two major companies that were indispensable to the establishment and operation of the Centers and upon which would be imposed the greatest burden, were carried out from early-June to July in the same year with negotiations by the city of Imabari. The main purposes of the discussion by the two companies were to confirm the intentions of these two companies and the adjustment mainly for the matters discussed by the working group described earlier. More specifically, these were the training period, providing training facilities and equipment, the contents of the curriculum, confirmation of the instructor candidates which were outstanding issues for the working group and the Study Group. They reached an agreement on how to proceed in the subsequent meetings by the Study Group. The two companies also would provide most of the instructors and training facilities. The outcomes of discussion, including the agreements such as that curriculum would be made based on the materials of Company K with the help of the Innoshima Technology Center, were reported in the study session as well as working group meeting held at the end of June and the end of July, and it was approved.

In August, sectional meeting groups were established for each subject in order to discuss more details of the training curriculum. Five companies of the working group were in charge as representatives of the groups (one of the five companies took charge of two groups) with several companies as members of each group to discuss matters. Representatives and members of the sectional meeting groups were determined on a voluntary basis as well as at the request by the Study Group. Sectional meetings were often held starting in August as needed, to discuss the contents of the texts and curriculum. They made progress reports at the meetings of the working group, and were approved by the study session group. The texts and the curriculum for the Centers in Imabari had been completed after the case study of Innoshima which had established training centers in collaboration with local governments and businesses, and had been conducting training, for its operational know-how, curriculum with reference to the materials of Company K, which had established an in-house human resources development system.

Acquisition of support from organizations outside, preparation of training programs and development of the systems of the Centers

Since September 2004, the activities focused on the realization of the Centers. Imabari City first made status reports on the establishment of the Centers to the Nippon Foundation, MLIT and the Cooperative Association of Japan Shipbuilders to request support at the end of September or later. Representatives of the Cooperative Association of Japan Shipbuilders visited Imabari City in late October to offer their support such as financial support as well as provision of training equipment, etc.

In October, a review of arc welding skills training was conducted by the working groups with the support of the Ehime Center for Policy Research, which is a subordinate agency of Ehime Prefecture. In December, an 11 day trial project was conducted, and examination of the challenges and the report of the results were made at the working group meeting in January 2005.

The operating structure of the Centers (Role, terms, directors and the budget, etc. of each organization such as the management meeting organization), final decision of membership and tuition, final decision of the curriculum, responsibilities of each company sending instructors and re-recruitment to fill shortages, date of assembly meeting of the establishment of the Centers, etc. were discussed by the working group in late January, 2005. These matters were approved at the study session in February. The assembly meeting of the establishment of the Shipbuilding Technical Center of Imabari was held on March 14, 2005 after some adjustment of terms, etc. The Deputy Director of the Shikoku Department of Transportation was also involved in the adjustment of assembly meeting procedure, guests and greetings, etc.

Figure 2: Agenda Discussed at The Study Group Meetings

Agenda of the Study Group meetings	
First half of the Study Group meetings	Purposes of the establishment of the centers - Operational conditions of Innoshima Technical Center - Subsidy types, eligibilities, public certification requirements of the centers - Elimination of the conflict between two major companies, recognition of benefits from the establishment of the centers and the confirmation of collaboration for the establishment of the centers - recognition of benefits from the establishment of the centers by companies other than the two major companies - Training curriculum - Training timeline and the period - Training facilities, locations and burden of companies such as sending instructors, etc. - Membership fees and tuition
Second half of the Study Group meetings	- Obtaining support outside organizations (the Cooperative Association of Japan Shipbuilders, etc.) - Arrangement of challenges to conduct training through trial projects - Operating structure of the centers (Role, terms, directors and the budget, etc. of each organization such as the management meeting organization. The Study Group decided by discussing in all meetings that the secretariat shall be managed by the two major companies and Imabari City) - Conclusions of agenda discussed in the mid period of the Study Group meetings (final decision of membership and tuition, final decision of the curriculum, responsibilities of each company sending instructors and re-recruitment to fill shortage) - Date of the assembly meeting of the establishment of the centers

Source: Drawn up by authors

Other matters to discuss: Responsibilities of the secretariat

Two major companies have been taking the responsibilities of the secretariat which has practical functions to operate the Centers, every two years in turns, while Imabari City has been taking care of daily practices such as arrangements and clerical work, etc. According to interviews, this reflected the intention of the Shikoku Department of Transportation that the two major companies should be in charge of such matters, because it would be difficult for other companies to play such roles in terms of their limited human resources. It is expected that Imabari City will continue to support the program, because they want to maintain their relationship with the shipbuilding industry which is the key industry in the region.

ANALYSIS AND INTERPRETATION

The major points which were discussed and agreed upon between the parties concerned, and the process of relationship building between people leading up to inter-organizational collaboration by the interaction, were clarified through the case study. In this case, Imabari City took the lead in raising the issue to solve the human resource development problems, which was essential to the development of the shipbuilding industry, which is the key industry of Imabari. In addition, the city also had approached the Shikoku Department of Transportation which is a subordinate agency of MLIT which was beginning to establish a support system to disseminate the precedents of the Innoshima Technology Center across the country. These two parties reached an agreement to provide support for the establishment of similar training centers in the city of Imabari, and held the Study Group meetings by convening shipbuilding-related businesses in the region. They have obtained cooperation of the two major companies in the region which were considered to play a central role in the establishment and operation of the Centers. After that, the agenda necessary for the establishment and operation of the Centers by inter-organizational collaboration were discussed at the Study Group meetings, and approved. Collaboration was established through the process of obtaining support from outside organizations. The research task of this study was to examine the functions of the place to encourage the process described above, and the role played by intervention. The following became apparent:

First of all, the Study Group was established by the Shikoku Department of Transportation and Imabari City in January 2004 in this case as a place for the process of establishing inter-organizational collaboration for the establishment of the Centers in RQ1. This Study Group was established to encourage interaction between people belonging to different organizations, fill the structural holes between the organizations which were initially working separately, and to encourage new activity which would be a training program. It had the following functions: Legitimacy of the Study Group was maintained so as to represent the region by inviting shipbuilding-related companies in Imabari for the establishment of the Centers, at the time of launching the Study Group, as pointed out by Gray (1989). It became apparent that the influence of the Shikoku Department of Transportation, which took the initiative to convene members of the Study Group as a caller of the meetings, had a great impact. Then later, matters for the establishment of collaboration were discussed at the beginning of the meetings of the Study Group, after sharing the values and the scope of collaboration by introducing the precedents of Innoshima and the purpose of establishing the center. Upon discussing various matters, and depending on the progress of establishing collaboration, proper forms of the place were created, such as the place for two major companies, the place for the five powerful companies (working group), the place to discuss the details of the curriculum (sectional meetings) and the place to share and approve matters by all participants (study sessions), and then the members were selected, in the Study Group which was a big place.

On the other hand, it became clear that the intervention in RQ2 was playing a role to encourage the process of establishing inter-organizational collaboration while building relationships between people in different organizations with promotions by Imabari City and the Shikoku Department of Transportation of interaction between the parties concerned, before and after the formation of the place called the Study Group. In this case, Imabari City had approached the Shikoku Department of Transportation as the first intervention to proceed with collaboration for the establishment of the Centers. Development after that, was carried out by the Shikoku Department of Transportation by supporting Imabari City using its strong influence as a jurisdictional authority over the shipbuilding industry, and both the city and the Shikoku Department of Transportation encouraged interaction between parties concerned including shipbuilding-related businesses in the region, and performed interventions to build such relationships in the process of establishing collaboration. First, the Shikoku Department of Transportation, which is the jurisdictional authority, had succeeded in convening local shipbuilding-related businesses by directly appealing to them for the Study Group meetings. In addition, the Shikoku Department of Transportation interceded between the two major companies which were in a conflict relationship, and lead them to reach an agreement on the initiatives to establish collaboration for the establishment of the Centers. The largest hurdle of this case for collaboration was overcome, and was able to promote the subsequent process. Two major companies and Imabari City came upon an agreement to take responsibility for secretariat functions of the Centers, because the Shikoku Department of Transportation, as a supervisory government agency, expressed its opinions about the issue. On the other hand, Imabari City took the lead to build a foundation to promote relationship building and interactions in the Study Group such as sharing opinions among members and confirming incentives including the conducting of questionnaires, after explaining the purposes and the benefits of collaboration at the beginning of the Study Group meetings. Imabari City played an important role in order to build relationships with outside organizations, and to obtain support from them during the second half of the Study Group activities. From a broad and long-term point of view of the development of local key industries through the development of human resources in this case, this is the case where government entities, including the city of Imabari, played a role of citizen entrepreneurs as pointed out by Henton et al. (1997) who promote collaboration such as that of corporations and governments.

Lastly, the primary intention of this study was to clarify functions of place and the role of intervention in the process of leading to collaboration as shown in the conceptual model in this study. It should be noted that there was an indication that the situation which concerned parties were facing upon such as the awareness of human resource development in the industry and the region, support by local governments and the Japanese government, precedents as a reference, and existing networks, could impact the process of establishing collaboration.

Figure 3: Process, Intervention and Place

The situations which concerned parties were facing upon discussion of collaboration	- January 2004	- Networks between employees in charge of general affairs of the shipbuilding business in Imabari - Support by MLIT (including the Shikoku Department of Transportation), the Nippon Foundation, and the Cooperative Association of Japan Shipbuilders for human resources development - Support by Imabari City for human resources development in the shipbuilding business - Awareness of the needs for human resource development in the shipbuilding industry of Imabari - Previous experience of Innoshima Technical Center				- Competition between two major companies in the shipbuilding industry of Imabari
		(Promotional Factors)				(Obstacle)
		Discussion details			Intervention	Place
		Participants	Interaction	Consensus matters		
Process leading up to the Study Group launch		Imabari City, Shikoku Department of Transportation	Consultation between Imabari City and the Shikoku Department of Transportation	Establishment of the centers in Imabari City	From Imabari City to the Shikoku Department of Transportation	—
		Shipbuilding-related businesses in Imabari, Shikoku Department of Transportation	Visits by the Shikoku Department of Transportation	Participation in the Study Group	From the Shikoku Department of Transportation to the shipbuilding-related businesses	—
After the Study Group launch	Jan-05	All members of the Study Group from shipbuilding-related businesses, the Shikoku Department of Transportation and Imabari City	Explanations and discussions at the study sessions	Purposes of the establishment of the centers, etc.	—	The Study Group (study sessions)
	Jun-05	Two major companies, the Shikoku Department of Transportation and Imabari City	Discussion between two companies	Active involvement for the benefits and realization of the establishment of the centers	From the Shikoku Department of Transportation to the two major companies	The Study Group (two major companies)
	February to October 2005	Five companies, the Shikoku Department of Transportation and Imabari City	Discussion between five companies	Various matters and training details for conducting training	—	The Study Group (working group)
		Members of all sectional meetings	Discussion by members of all sectional meetings		—	The Study Group (all sectional meetings)
		All members of the Study Group from shipbuilding-related businesses	Approval after the explanations and discussions at the study sessions		—	The Study Group (study sessions)
	Oct-05	The Cooperative Association of Japan Shipbuilders, the Nippon Foundation, MLIT and Imabari City	Status reports of the establishment of the centers to the Nippon Foundation by Imabari City	Support for the centers by the Cooperative Association of Japan Shipbuilders	From Imabari City to the Cooperative Association of Japan Shipbuilders, etc.	—
	November 2005 to March 2006	Five companies, the Shikoku Department of Transportation and Imabari City	Discussion between five companies	Establishment of the system of the centers and the training details, the date of the assembly meeting	—	The Study Group (working group)
		All members of the Study Group from shipbuilding-related businesses	Approval after the explanations and discussions at the study sessions		—	The Study Group (study sessions)
	N/A	Two major companies, Imabari City and the Shikoku Department of Transportation	Discussion between two major companies and Imabari City requested by the Shikoku Department of Transportation	Responsibilities of the secretariat	From the Shikoku Department of Transportation to the two major companies and to Imabari City	The Study Group (four parties to the left)
Establishment of cooperation	Apr-06	Establishment of the Shipbuilding Research Center of Imabari				

Source: Drawn up by authors

CONCLUSIONS

The functions of the place to encourage the process of establishing inter-organizational collaboration, and the role played by intervention were made clear, and adequacy of the conceptual model presented was verified through this study.

First of all, interaction between people who belong to different organizations was encouraged at the place of the Study Group, issues were shared and discussed and concluded, and the process of establishing collaboration was encouraged. The importance of the existence of powerful main constituents such as jurisdictional authorities of industries for establishment of place or convening of members, smooth processes of discussion and agreement by exercising ingenuity on the structure of place and members was verified. Secondly, interventions play a major role in the construction of relationships between key entities until the establishment of collaboration. Intervening parties are not necessarily always the same in the process of establishing collaboration, and take initiatives in terms of the interests of the regions, rather than private profit. These matters were verified.

The significance of this study is to clarify functions of place and role of intervention through examining the process of establishing inter-organizational collaboration and confirm the validity of the conceptual model. In addition to the framework shown in the model, there was an indication that it is necessary to consider the impacts of the situations which concerned parties were facing in the beginning of the establishment process. In the future, it is recognized that proceeding with studies of multiple cases is necessary in order to overcome the limitations that are present by the fact that this study is based on a single case.

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GROUPWARE DESIGN, IMPLEMENTATION, AND USE: A CASE STUDY

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ABSTRACT

Groupware capabilities include e-mail, electronic conferencing, discussion forums, and document handling as well as additional facilities that enable database customization and perhaps help coordinate other groupware and desktop products. Groupware enables individuals to interact, communicate, coordinate, and negotiate to meet company challenges. An extensive body of research on groupware discusses the effects of the software on the organizations that it serves. In most cases, people and organizations have to adapt the ways of accomplishing tasks to fit the groupware. The current case-based study of the Colruyt Company, on the other hand, discusses a groupware specifically designed to fit company, cultural and organizational conditions. Hence, unlike many situations where implementation requires the organization to adjust to the groupware, in this case the groupware was specifically designed to fit corporate conditions. This paper discusses how Colruyt successfully created an organizational culture that enabled its workforce to accept groupware yet still experienced significant difficulties as a result of the implementation of this groupware—difficulties that were only resolved when the company rethought its approach to the use of its customized groupware. This paper should be of interest to managers who contemplate acquiring and implementing groupware.

Keywords: *Groupware Design, Groupware Implementation, Groupware Use.*

INTRODUCTION

Groupware capabilities include e-mail, electronic conferencing, discussion forums, and document handling, as well as additional facilities that enable database customization and perhaps help coordinate other groupware and desktop products. Groupware is a collaborative tool that requires group members to want to share their work, collaborate, and cooperate. Employees, however, may resist sharing their knowledge because of a culture that stresses personal rewards and a perception that their position depends on their personal expertise (Wasko and Faraj, 2005). Unequal distribution of the effort required to share information is yet one more impediment to using groupware. That is to say, individuals who benefit least from sharing information face the task of making it available to other organizational members who benefit most (Rogers, 1994). Therefore, obtaining business benefit from groupware can be elusive (Aldenberg et al., 1999; Lou et al., 2006; Orlikowski, 1996; Orlikowski and Yates, 2006).

As far back as the 1990s, researchers have tried to determine the reasons for success and failure of information systems in general and groupware in particular (Halloran et al., 2002;

Orlikowski, 1996; Tan and Kondoz, 2008). Halloran et al., (2002) reported the non-uptake of Lotus Notes in a classroom setting. Students in this case used regular e-mail instead of the available Lotus Notes to report on the progress of group assignments. Failure in this case arose from a misunderstanding by tutors and students concerning the value of Lotus Notes. Tan and Kondoz (2008) argued that collaborative systems are often implemented without consulting potential users or without assistance being offered for living with the system. A case study by Orlikowski (1996) exemplifies additional reasons for failure. Alpha, the case company, at the behest of its CIO, implemented Lotus Notes with the purpose of leveraging the firm's expertise. The CIO actively promoted Lotus Notes by giving many presentations describing the software's features. Yet, in spite of these efforts, many employees remained ignorant about why Lotus Notes was installed on their computers at all. Furthermore, a lack of instructions on how to use Lotus Notes proved to be a major obstacle to the use of all the software's features. Users were expected to learn the software on their own personal time, which they refused to do. Even though the firm was initially ill prepared to adopt Lotus Notes, it eventually changed organizational processes that in turn resulted in the company's reaping the benefits from Lotus Notes (Orlikowski, 1996).

In these and other cases, the adoption of groupware has required employees to change the ways of performing—and even understanding—their jobs. When employees refuse to make those changes, adoption of the groupware can be problematic. In another case study involving Lotus Notes, Aldenberg et al. (1999) noted that groupware requires employees to accept more responsibility because they have access to more information. That is to say, because team members have broad access to more information, they have the responsibility to initiate contacts for further needed information, resulting in empowered employees who are then expected to do more for themselves. Furthermore, using Lotus Notes to organize meetings resulted in information capture in the form of meeting minutes and decisions that could be accessed by all relevant staff. This information formed the basis for analysis and review of decisions long after the particular issues discussed were acted on.

An analysis of Colruyt, a large Belgian retailer that designed, implemented and used groupware, provides a counter-example to the typical story of groupware adoption and use. Since its founding in 1965 and before designing and implementing its groupware, the company developed an organizational culture that emphasized devolution of power, decentralization of decision making, and acceptance of responsibility by staff at all levels. One of the most important aspects of the company's organizational culture stressed interpersonal communication, which research shows is essential to enabling collaborative work processes. Given these conditions, it was a natural step for the company to consider using software to support individuals in their daily work assignments. During the early 1980s, the company designed, developed, installed, and commenced using a groupware with limited features known by the name Interactive System for Information Dissemination (ISID). During ongoing development of the company's culture and information technology, ISID was enriched by the new millennium to a full-featured groupware system that proved essential to the company's daily operation and future expansion.

Unlike the organizational impacts where groupware effects took place within the organization alone, Colruyt's implementation of the software extended outside the firm's boundaries. In particular, the groupware's introduction was one of the reasons for a clash with the unions who in turn used a nation-wide TV broadcast and published a book to make their displeasure known to the buying public (Adele et al., 1984). These actions seriously damaged the firm financially and negatively impacted its brand recognition with clients. This case analysis demonstrates the company's ability to overcome the difficulties just mentioned by using its groupware to improve the relationships with the unions and the buying public.

This paper discusses the Colruyt Company and shows how the company successfully created an organizational culture that rendered its workforce able to accept groupware yet experienced significant difficulties as a result of the adoption and use of the groupware. These difficulties impacted relationships between the company and its employees, clients, and unions in essential ways that ultimately led to a serious set of negative consequences. Finally, actions taken by the firm to overcome the groupware's implementation difficulties are discussed.

PRIOR RESEARCH

Groupware, which features e-mail, calendaring, document management, and task management, has been the focus of attention during the most recent twenty-year period (Aldenberg et al., 1999, Hogarth, 2007; Orlikowski, 1996; Orlikowski and Yates, 2006; Palos, 2012 ; Rogers, 1994). The research focuses on a variety of issues, the most important being the need of organizations for, and difficulties of, obtaining value from groupware. Palos (2012) stated that organizations operate in a "data-centered" economy. Therefore, using groupware to turn data into knowledge is essential to an organization's success and survival.

Groupware's essential purpose is supporting teams drawn from all organizational levels that are engaged in problem solving (Hogarth, 2002, 2007; Grudin, 1994). That is to say, groupware makes possible a change from hierarchical to networked organizational structures (Mark and Poltrock, 2003; Yoo, 1998). Therefore, groupware makes organizations more efficient because, with fewer organizational levels involved, decision-making and problem solving require fewer team members.

Implementing groupware does not automatically lead to its adoption by organizational members. Orlikowski and Hofman (1997) explain that in contrast to ordinary software, implementing groupware is open-ended and context-specific. There are reasons that team members do not wish to work together in a meaningful manner. Denton (2006) and Richardson and Denton (2007) mentioned additional difficulties in getting groups to work together, which is required if groupware is to be successful. Mistrust is one reason why teams may not want to use groupware. For example, a question that comes to mind is, "Will every team member make the same contribution or will I have to do most of the work in the interest of someone else?" Additional reasons not to cooperate are conflicting goals or a reward system that rewards individual work instead of group performance. The authors suggest that providing members with timely feedback is a way to get groups to work together.

Groupware implementation should attend to the need of groups to be successful. Grudin (1994) highlights several problem areas related to successful groupware implementation. First, groupware necessitates work from employees who may not directly benefit. Calendaring is one function that requires extra work from every employee without explicit payoff. The direct beneficiaries of calendaring are managers who call for meetings. Second, a lack of top management support may cause groupware to not attract a sufficient number of participants. Third, groupware can result in undesirable social behavior. One employee creating a dossier on a colleague would exemplify such behavior. Fourth, groupware requires more careful attention to implementation than other information systems. It has been shown, for example, that "intention to use" usually is a good indication of future application of a software package. This, however, is not so with groupware because it generally requires different ways of working. For example, Grudin (1994) notes that decision-making may be subtle with participants holding hidden agendas. Because these factors must remain unknown to others, they run counter to efficient use of the groupware.

Yoo (1998) also noticed that companies are changing from hierarchical to networked organizations. He argued that the only way to support flat organizations is by groupware. However, the software's success relies on its acceptance by the intended users, something that is far from certain. Yoo conducted a field study based on the technological acceptance model and tested the following hypotheses: 1) People's computer use can be predicted reasonably well based on their intentions measured after a short introductory course, 2) perceived usefulness is a major determinant of people's intentions to use computers, and 3) perceived ease of use is a significant secondary determinant of people's computer use. However, Yoo found that groupware differs in this respect from more traditional computer usage in that intentions to use measured immediately after a short course does not predict use at a later date. In summary, his findings call for an extensive training program before users will embrace groupware.

The review of the research shows that in many cases the organization and the way of achieving results have to change in response to implementing groupware. In the case of the Colruyt Company, the situation is the reverse. That is to say, implementing groupware was the natural outcome of the organization, its corporate culture, and the way of working.

RESEARCH METHODS

The purpose of the research is to gain an understanding of groupware's construction and use by the Colruyt Company, Belgium's third largest retailer. During a twenty-year period starting in 1993, thirty-four semi-structured interviews were conducted with twenty-four individuals. Seven individuals were interviewed either two or three times. The interviewees included top-level and middle-level managers, operational personnel, union officials and stewards (Table 1). The interviews, on average 1½ hours in length, were conducted in Flemish, tape-recorded and transcribed for later analysis (Wengraf, 2001).

During the interviews, extensive notes were taken of the interviewee's disposition, his/her office environment, and our impressions with respect to the interview. Conducting preliminary analysis immediately after completing each interview proved to be very helpful during later analysis (Patton, 2001). Then, at a later time, the interviews were transcribed to text in their entirety. Each set of interviews served as a basis for structuring new questions, requesting access to additional personnel and attending additional meetings (Table 1). As an additional effort to ensure accuracy, that is to say, descriptive validity, several transcribed interviews were returned to informants for inspection and, when necessary, their correction.

Table 1. Interview Schedule

Interviewee	1993	2000	2001	2003	2006	2010	2012
Director Distribution				X			
Director Marketing	X		X	X			
Former Chief Executive Officer	X			X			
Former Chief Information Officer	X	X					
Former Director Distribution	X			X			
Former Director Marketing	X	X					
Manager Logistics					X		
Manager Marketing				X			
Manager Outsourcing					X		
Manager System Design			X	X	X		
Manager Systems Application					X		
Manager Technical Services			X		X		
Moderator – Human Relations					X		
Current Executive Officer				X			
Current Information Officer				X	X		
Store Clerk	X						
Store Manager	X						
Systems Developer-1					X		
Systems Developer-2					X		
Systems Developer-3							X
Official Socialist Union Headquarters				X			
Official Socialist Union Headquarters						X	
Official Christian Union Headquarters						X	
Union Steward-1			X				
Union Steward-2			X				
Union Steward-3						X	
Union Steward-4						X	

In addition to the interviews some ten meetings were attended which were one to three hours in length. Most meetings had five to fifteen attendees, making tape recording awkward. Therefore, the data gathered was in the form of copious notes taken during the meetings. Moreover, one or more attendees were interviewed afterwards to obtain a better understanding about topics, issues or events that had come up during meetings (Denzin and Lincoln, 1994).

Over four hundred written company records augmented the interview data. These records include the 1975, 1980, 1984, and 1991 to 2012 Annual Reports, minutes of meetings, and company documents published in book form (Penneman, 1985). Furthermore, the Socialist union also published its views in book form, further enriching the interview data (Adele et al., 1984).

Data analysis started while historical documents were gathered and the first set of interviews had been conducted. While studying interview transcripts, annual reports and other internal company documents, we strove to comprehend how actors perceived changes in their environment. Understanding of the subjects' interpretations was based on and validated against the historical background of the broader social, economic, and political conditions in Belgium. This data analysis formed the basis for the second interview round and company record collection. Six sets of interviews were conducted in this manner. Interpreting and understanding human action is essential to the research, and therefore an interpretive research method suited our purpose best. Because of the iterative nature of interpretive research, several hermeneutic circles were completed before arriving at a satisfactory understanding of the data (Klein and Myers, 1999: Remenyi et al., 2000).

THE COLRUYT COMPANY

The company was founded in 1965 when Jo Colruyt became the company's CEO. The Belgian grocery distribution industry had changed because of the rising popularity of supermarkets during the 1950s. These developments led the company to open a "discount store" that reduced costs by making the cash-and-carry concept available to the public. The discount store concept proved a most successful strategy.

The first discount stores were housed in rehabbed buildings. The environment was stark and lacked the ambiance regularly found in other stores. Food items were stored on metal shelves, electrical wiring and other fixtures were left exposed, lighting levels were lower compared to other supermarkets, background music was lacking, and customers had to pack their purchases. Today, the company's stores are newly built, yet the ambiance has been left unchanged. Savings arising from the unadorned store interiors are passed on to the customer.

Today the company operates some 300 stores in Belgium and 44 stores in France and has annual turnover of US $7.8 billion (Table 2). The company's success is noteworthy considering Belgium's business conditions: wide-ranging governmental regulations, domination by large well-established food retailers, paper-thin profit margins, stringent ecological laws, and the presence of three combative unions.

Table 2. Annual Sales (Billions €)/Income (Millions €)/Personnel

Year	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Revenue	2.9	3.1	3.8	4.5	4.7	5.0	5.7	6.3	6.8	7.2	7.8
Income	164	203	313	306	320	372	401	430	469	472	485
Employees	11,400	12,400	15,000	16,100	16,500	17,300	18,000	20,000	21,600	24,100	25,200

Mr Colruyt, the company's CEO until his premature death in 1994, resolved that informatization was crucial to ensuring business success:

> *"We organized our first discount store around a revolutionary concept: the immediate integration of the computer [into the entire food distribution chain]. Today, this definitive choice of using informatization in food distribution appears to have been an excellent decision. [Because] of informatization we are more efficient than our competitors. We are convinced that we have a seven-year jump on the competition." (Jo Colruyt, 1983, pp. 11-21)*

The company's informatization in 1965 meant store customers placed food items along with accompanying IBM punch cards in their shopping cart. Store clerks at the checkout register deposited the punch cards in a card reader attached to an IBM tabulator that produced a billing statement for the customer's approval. Later in the 1960s, the IBM tabulator was replaced by an in-store minicomputer. Using these point-of-sales data allowed for automated reordering of supplies from food producers and restocking of stores. In 1987, when the company replaced punch card readers with scanners, the switch was uncomplicated because, unlike its competitors, the Colruyt Company could leave existing back office information systems unchanged.

The company's philosophy with respect to its price guarantee is summarized as follows: "When we promise the lowest price, we are ethically bound to deliver on this promise." A computer software application package keeps track of the company's pricing levels and that of its competitors on a product-by-product basis. A team of Colruyt employees check prices in stores throughout Belgium on a daily basis. These prices, some 44,000 each day, are entered into the company's central computer for further action. If a competitor sells any food item at a price lower than that charged by the company, the price in Colruyt stores is adjusted downward (2012 company Annual Report). Since its inception in 1965 the company has been remarkably successful in beating competing food retailers on price while maintaining profitability. A recent price comparison study by an independent agency found that Colruyt was less expensive than any of their Belgium-based competitors (www.testaankoop.be, October 2012)

Even though the company engages twenty employees to daily check competitor prices, oversights do occur which may then be noticed by a shopper when he/she visits a competitor's store. Therefore, each company store provides the customer access to a "Red Phone" to report a competitor is charging a lower price for some item. The price for the item in question is adjusted downward immediately. A red label is attached to the item to alert other shoppers that the reduction was made to beat a competitor's price.

Jef Colruyt, who became CEO after his father's untimely death in 1994, continues to focus on price levels. In effect, during times of economic difficulties, low prices are especially important because they encourage customer loyalty. Reichfield and Deane (2004) reported that Colruyt enlarged its customer base thanks to its single-minded attention to price and quality.

In response to the proliferation of ecological legislation, the company in 1990 initiated its "Green Line" charter that focuses on reducing waste in water, air, and soil usage, limiting miles driven by company trucks, reducing noise pollution, and efficiently using space (2011/2012 company Annual Report). An action by a Colruyt employee exemplifies the ecological concern. He noticed that a certain box contained carton dividers to separate wine bottles. His suggestion was that the carton dividers could safely be removed without any deleterious effects to the wine bottles. The measure led to a considerable reduction in waste material. Moreover, a green sticker identifies store items, which are considered environmentally friendly. In addition, shoppers receive information as to why a store item warrants the "Green Line" sticker.

The company invests heavily in advanced technologies. These include innovations for data recording, data mining, automated warehouse systems, automated truck routing systems, logistical systems, and Internet-based bidding and contracting systems that are accessible to pre-approved companies.

COMPANY CULTURE

Jo Colruyt's founding of the company accords with participative ideals that informed corporate culture and norms since the company's origination in 1965. He stated:

> *"We try to develop the company … work methods and jobs … avoid alienation ... it enters because of counterproductive conditions under which we are forced to work and by counterproductive organizational forms that subject [people] to oppressing power conditions. [Alienation is] caused also by the absurd manner by which organizations reduce workers to mere robots rather than considering their human characteristics, energy, and emotions." (Jo Colruyt, April 1984, pp. 53-56)*

The company seeks to reduce power asymmetry inherent in hierarchical structures by using temporary work teams where membership is self-selected and anyone with an interest and a need to know can join. Much effort is expended toward rational decision-making that occurs after extensive discussion in work groups.

Since the company's inception, Jo Colruyt and upper management strove toward rational discourse, reducing power differences between company management and employees, and fostering personal initiative toward action at all corporate levels. Striving toward rationality does not preclude attention to consideration of the emotional. Stated Jo Colruyt:

> *"Rationality by itself does not work, the more computers [one] introduces the more one has to pay attention to [human] communication and human relations. [In absence of all this] people will come to behave like computers and that leads to a society that would have no place any longer for humans." (Jo Colruyt, 1993)*

Decision-making and rational discourse require communicative ability resulting in investment in employee education and on-the-job training that is unique in Belgium's retailing industry. During 2006, for example, the company allocated US $300 million (3.3% of its annual wage costs) to train 16,000 employees in, among other topics, corporate and interpersonal communication in the Flemish and French languages, group dynamics, intercultural differences, and information technology (2006 company Annual Report).

A concern for emancipation of and participation in decision-making by employees throughout the company characterizes corporate culture since the company's founding. During the late 1960s behaviorism dominated organizational development thinking. The company's upper managerial team participated in sensitivity training in the expectation that it would make for better interpersonal understanding and communication and improved decision-making. Top management recognized that realizing the benefits of such training required participation of employees at all levels of the company. Stated the former CIO:

> *"Groups composed of individuals drawn from all managerial levels – e.g., Jo Colruyt and an inventory clerk – participated in sensitivity training. It resulted in a complete restructuring of corporate culture and relations between management and workers. We started to discuss the issues that evolved into collaborative decision-making. Then came the realization that what got discussed during meetings needed to be permanently recorded - you instantly grasp the need for communication." (Former CIO interview, 2000)*

According to the former CIO, employees at any managerial level may be impacted by decisions taken during meetings. Therefore, decisions needed to be permanently retained and made available to those affected. These considerations, which took place during the late 1970s, were the rationale for developing and implementing a rudimentary computer-based system that stored and distributed documents. The system became known as the interactive system for information dissemination (ISID) and was the start of a long series of developments that by the mid-1980s had evolved into a rudimentary groupware package.

ISID's capabilities during the mid-1980s were quite limited. The system's essential abilities were retention of and access to documents, notes, and letters. ISID was entirely mainframe-based and used the VSAM database application software for document storage. Because ISID is crucial to organizational norms, culture, day-to-day operation, and business success, it was consistently improved by adding new functions. During the first decade of the new millennium, ISID was extended to include many more functions.

A major addition was e-mail capability that has two features. In the interest of efficiency, e-mail runs side-by-side with ISID so that users can read e-mail unencumbered by having to scan documents. One kind of e-mail that is not urgent is marked as such and delivered to the recipient once every three hours. The second kind of e-mail is marked as time sensitive and is delivered to the recipient immediately. E-mail that is not urgent can be read at the recipient's leisure, whereas urgent e-mails have to be read on receipt.

The current version of ISID's capabilities is discussed in turn. First, group reports are written by a working group chair, entered into ISID and sent by e-mail to meeting participants. Second, any individual can dictate a message using a tape recorder that is then converted into an ISID memo by the typist pool and entered into ISID. Third, any store clerk with a suggestion for improvement has access to a "Green Phone" to contact the CEO's secretary, who will turn the phone message into a typed document stored in ISID and sent to the appropriate person for further action. Any recipient receiving a "Green Phone" message is obliged to answer the store clerk within three weeks. Several thousand "Green Phone" ISID documents are created annually. Fourth, incoming and outgoing documents are stored in ISID. Fifth, the company has an extensive body of microfiche documents that are presently being converted to ISID documents. Finally, ISID has a calendaring function.

THE CRISIS WITH THE UNION

Since its start as a food discount store in the mid 1960s the firm's personnel count grew from a few hundred at origin to approximately 1,000 in 1975 and 2,400 employees in 1980. Hence, compared to other retailing organizations that employed many thousands of employees, the Colruyt Company was too small to be a focus of unionization efforts. During the '60s and '70s, the firm was considered a startup that, unlike more established retailers, pioneered the use of mainframe and mini computers to support inventory and sales activities. During this early period, the company was fighting to survive and accepting a job at the firm was taking a significant risk. Only individuals believing in the company's eventual success were willing to accept this risk. Such employees strongly identified with the firm and were not particularly interested in joining unions. Moreover, because of the fight to survive, company management was mostly internally focused and did little to build lines of communication with the unions or society at large. However, over the years the company became more established and continued to grow; by 1983, the workforce had reached some 4,000 workers, a size that drew the attention of the labor unions. .

In Colruyt there existed an atmosphere of trust because of great openness concerning the release of information that creates and maintains trust (Former CIO interview, 2000; Former CFO interview, 2010). Starting from the early 1970s employee relationships with the company had changed in accordance with Jo Colruyt's managerial philosophy and company growth. Company change and worker identification also arose from management and employees attending identical seminars:

> *"Identification with the company as long as it (company) is willing to change. The company has to change its orientation … when many individuals attend seminars. That company cannot maintain the same philosophy … it becomes a different organization." (Jo Colruyt, Former CEO, interview, 1993)*

The unions felt the organization's participative character meant workers were constantly pressed to find ways of working that increased efficiency. *Dossier Colruyt* (Adele et al.) even accused the company of Tayloristic tendencies. In short, there was little love lost between the company and the unions:

> *"[The company] has to maintain tight control over informing the workers. Of course the unions have a right to exist, but they should not get exclusivity to inform workers [of topics discussed during meetings]. If that happens [we will] be lost. This happened in the steel industry – the CEO and union delegates felt superior to the workingman. This led to the workingman being informed by the union only. Of course that is catastrophic. Therefore, I instructed the [HR] director not to forget that he negotiates on behalf of Colruyt employees. The union negotiators should not be able to absorb our [HR] director in their little clique. The current [HR] director does an excellent job and communicates directly with our workers concerning negotiations with the unions." (Jo Colruyt, Former CEO, interview, 1993)*

Figure 1 illustrates communicative relationships among the company, employees, clients, and unions before ISID's installation. There are in total six lines of communication: 1) Colruyt versus employees, clients, and unions, 2) unions versus Colruyt, employees, and clients, 3) employees versus clients. First, Colruyt and employees communicate verbally and in written format. Second, Colruyt and clients share a limited written communication channel in the form of in-store fliers. All lines of communication, except Colruyt to clients, union to employees and clients that are written only, are verbal or written.

Figure 1. Communicative Relationships Before ISID

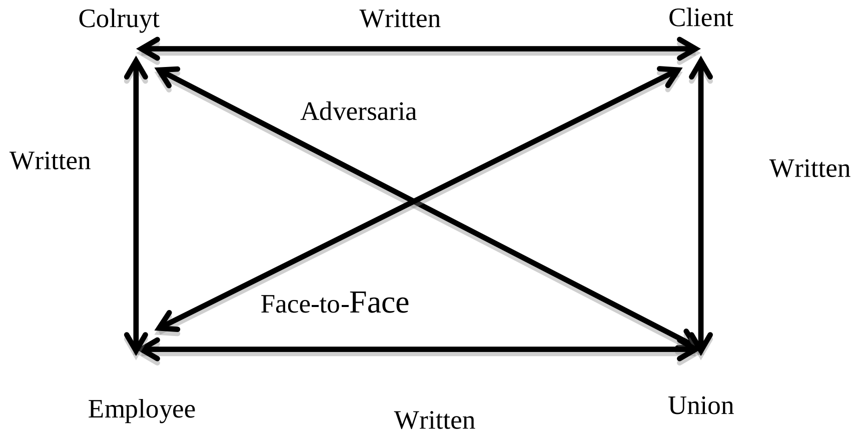
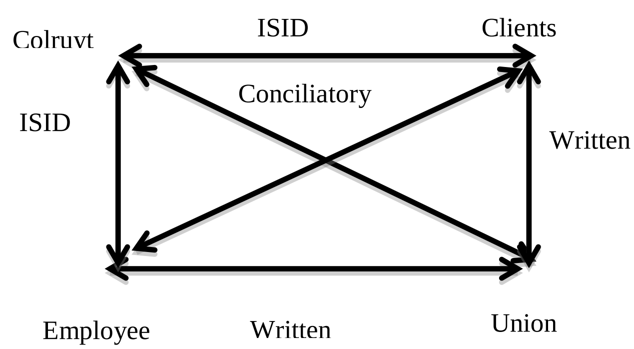


Figure 2 reflects the communicative relationships between company, employees, clients, and unions in an ISID environment. First, Colruyt and employees share verbal and ISID-supported electronic written communication channels. Second, Colruyt and clients share extensive written communication in the form of in-store and Internet announcements. Third, a limited written communication channel between clients and unions existed in the form of, for example, newspaper reports. Fourth, the unions and employees share a limited written communication channel taking the form of documents sent by regular mail. Fifth, employees and clients participated in face-to-face communication. Finally, between Colruyt and unions there are two-way face-to-face exchanges, and written and a company-to-unions one-way ISID-supported communication.

Figure 2. Communicative Relationships with ISID



It is important to notice that the company and the union are necessarily in a dissimilar situation when communicating with employees. Assume, for example, a meeting between the company and the union during which important contracts are discussed. Furthermore, both the company and the union want to inform the employees about the meeting's outcome. Because of the large number of employees the most efficient way for the company to inform them is in written format using ISID. The union is in a similar situation in that its impressions of the meeting's outcome are also in a written format. The only difference between the two modes of communication is that, unlike management that uses ISID supported- e-mail, the union has to use the public mail system. Thus, management is always first in providing the employees with its version of the meeting with the union.

The efficiency and effectiveness of using ISID to inform workers helped build trust among workers and management because it was seen as assisting the development of that relationship. The unions, on the other hand, did not perceive ISID in a positive light:

> *"The unions could no longer … be the gatekeepers of information which came from the workers and went to top management and vice versa. We in the firm thought the unions should stay out of it … ISID provided support for communication and enabled a [direct] relation between management and workers." (Former CIO, interview, 2000)*

A different union concern involves the evaluation of store clerks by their manager that occurs on a three weeks basis. Both manager and clerk determine the meeting's agenda. The discussion, among other topics, concerns the clerk's activities and difficulties of the previous three weeks and the manner in which the difficulties were resolved. Furthermore, the clerk's activities for the next three-week period are planned and discussed. The union charged that in effect the company establishes a dossier on each employee that is then accessible by searching ISID. The suggestion made is that the dossier is open to misuse and can easily serve to sack someone for reasons unrelated to job performance.

In 1984 the Socialist, Liberal, and Christian Unions published *Dossier Colruyt* (Adele et al., 1894) that listed a series of complaints concerning the firm's working conditions and treatment of employees. The book's publication led to a national television program that seriously damaged the company's name and resulted in a large decline in clients and sales revenue. Among the issues bothering the unions were hiring procedures that used psychological testing procedures, job rotation practices, employee training, working schedules, and the firm's in-house developed information system for information dissemination (ISID). *Dossier Colruyt* claimed that the hiring procedures invaded a job candidate's privacy, and job rotation procedures prevented workers from forming personal relationships with fellow workers and [*sic*] some times were a way to discharge someone. The document's authors considered employee training a form of indoctrination. Another claim was that the company's process of establishing working schedules was inflexible and lacked real worker input (Adele et al., 1984).

The publication described in detail, according to the union, concerns with the company in general and ISID in particular. *Dossier Colruyt* (Adele et al.) stated:

> *"The computer has other applications. A memo [sent to an employee] does not get thrown in the waste paper basket or disappears [sic] in some messy, disorganized file cabinet. No, that memo stays in computer memory and gets microfiched. That way it is easy to establish a dossier on someone."*

As mentioned, the union participated in a TV program where the concerns were aired nationwide. Both the show and the book's publication were serious blows to the company because its name was besmirched in the eyes of the buying public; that result led to a significant drop in sales revenues and good will.

We emphasize that *Dossier Colruyt* reflected the period during which the Berlin wall still stood and certainly in the Belgian unions Communist influences remained significant (Colruyt, Former Financial Officer, 1992). Commenting on the *Dossier*, Jo Colruyt, the former chief executive officer, reported that the document's author was a Marxist who also led the union. Referring to Marxism, Colruyt stated:

> *"Marxism becomes successful by force and terror. The Colruyt Company is successful and therefore I (as CEO) must behave like some Stalin." (Trends.be, January 14, 1992)*

Each company employee received a copy of *Dossier Colruyt*. Fewer than five employees agreed somewhat with the union but the vast majority of workers reacted angrily to the union's charges concerning the company, working conditions, future career prospects, decision-making abilities, and interpersonal relations. Approximately two hundred of such worker responses were collected by the company and published in book form with the title, *There are No Gentlemen Here, Sir*. (Penneman, 1985)

The above description makes clear that the relations between the company and the unions as discussed in *Dossier Colruyt* (1984) and *There are No Gentlemen Here, Sir* (Penneman, 1985) were strongly confrontational. After the publication of *Dossier Colruyt* and union charges made during a nation-wide television broadcast company, management took the initiative. It was recognized that the sole management attention during the previous twenty-year period was on achieving market share, while relations with unions and the public had been neglected. Furthermore, significant numbers of senior management, including the then chief executive officer, were of retirement age and started to leave the company. This resulted in a new management team, the members of which started with a blank slate and improved relationships with the unions and the buying public.

A study of the union's book reveals that several union representatives illegally drew some of its content from ISID. This was also the opinion of company upper management:

> *"They [unions] used information from ISID that they had acquired with the help of a radical union steward [who was a company employee and thus had ISID access] to start a campaign of misinformation. They [the union] shifted commas and periods, left out various words and sentences in such a way that [ISID] documents took on a different meaning." (Former CIO, interview, 2000)*

The reactions among the workers were mixed with some requesting that the perpetrators be sacked and others arguing for strict control of access to information. However, the former CIO recalls, Jo Colruyt was against repressive measures. He was also not in favor of controlling access to ISID either. Instead he said, "We should educate workers to use information responsibly instead of making information inaccessible." After a public debate a clause was included in each employment contract:

> *"The employer provides each employee with an extensive system for communication that is based on the daily exchange of confidential or not so confidential memoranda. Any release of information external to the*

company is forbidden and amounts to breaking the work contract." (Jo Colruyt, Former CEO, interview, 1993)

Nevertheless, the event made obvious that completely open employee access to ISID created too high a risk for the company that could not be justified. As a result, access to highly confidential information in ISID was restricted. Currently:

"Seventy per cent of ISID documents are not confidential and 30 per cent are confidential. Anyone in the company has access to non-confidential ISID documents whether he was listed a recipient or not. Twenty per cent are confidential ISID documents [that] can only be read in their entirety by recipients, and non-recipients can only read the keywords [and with special permission the whole document]. The remaining 10 per cent are accessible to recipients only." (Former Manager of Marketing, interview, 2003)

However, top management realized that restricting access to ISID would not improve its relationships with the unions or the buying public. Jo Colruyt commented:

"We have marketed the idea of being less expensive. We avoided speaking to the press and the public. We decided not to waste time on such efforts. However, we have conceded that Colruyt has become so large and so well known that we cannot maintain the above attitude. The outside world forces us to informatize in its direction. Absent such action people with much fantasy will make up untrue stories about Colruyt." (Jo Colruyt, Former CEO, interview, 1993)

Implementing these intentions resulted in an extensive overhaul of organizational philosophy, its relations with the unions, and extensive interaction with the buying public. The Internet and ISID were keys to successfully achieving the goals of better relations with the buying public and the unions.

Figure 2 illustrates the six necessary steps for conflict resolution without unduly compromising ISID features. First, the company added some mild restrictions on ISID's use by limiting access to 15% of the stored documents. Next, the firm added a statement to employee contracts that laid down sanctions on unauthorized ISID use. Finally, the company used ISID to establish continuous communication with the buying public. The content of this communication varies but it includes the company's actions concerning green energy creation by windmills and store-mounted solar panels.

During the most recent twenty-five year period the company has taken meaningful and significant steps to improve relations with the public and unions. In a country where the population is committed to sustainable development, the company succeeds in being almost 100% energy neutral by creating electrical energy through windmills on its property and solar panels on some four hundred stores.

An interesting example of combining concerns for workers and the ecological environment is the firm's bicycle program:

"The 'mobility policy' means the company bought a bike for each employee who wanted one. The company erected a covered building next to the local train station. The purpose of the policy was to enable workers to use the train to come to the railroad station and then use a bike to travel to the workplace. This policy is deeply appreciated by the workers." (Union Representative, interview, 2010)

The bicycle program leads to reduction in air pollution that would result if workers were to use their cars to report for work.

The company instituted a series of annual working meetings with union representatives. That is to say, the company and the union formed an advisory council that includes representatives of company and union management. Company members of the advisory council meet regularly to inform union representatives of business and financial conditions, planned business initiatives, and information concerning labor conditions such as working schedules, wages and employment. Moreover, management seeks advice on important business decisions from union members of the advisory council. Union members are informed in writing whenever management decides a course of action that deviates from the advice. Most importantly, unlike in the past, the company management no longer considers the union an adversary.

As a result of the actions just described there has been a great improvement of the relations between the company and the unions. Stated a union representative:

> *"The company refrains today from the in-your-face confrontation and plays the role of the 'conciliator." (Union Representative, interview, 2010)*

Moreover, interviews with company managers confirm a greatly improved relationship between the company and unions. One union official stated his wish to continue in good relations with the company:

> *"… A book was written and this led to a situation that we don't want anymore. We are very concerned about the press … the press has been used extensively [by Colruyt] to improve public relations. We are the largest union and represent the large majority of Colruyt employees. The last thing we want to do is have [bad relations with the company]." (Union Official, interview, 2010)*

In addition to the two issues just mentioned, relations between store clerks and clients are as they have always been, that is to say, face-to-face. Communication between the union and employees occurs via an Internet site. Communication between the union and clients is by written mode only and seldom takes place. In the interest of the company, the four communication streams shown in Figure 1 were changed to those in Figure 2.

DISCUSSION

Business is in an age of flux and ambiguity, where "the quickening pace and deep consequences of globalization for innovation and wealth creation are not fully understood" (Tapscott & Williams, 2006, p. 28). In fact, we are past the tipping point: "Mass collaborations are changing how goods and services are invented, produced, marketed, and distributed" (p. 10). The consequences are not yet fully understood due to rapid, never pausing changes in the ways that businesses use technology. Tapscott and Williams argue that one force that is disrupting the status quo in business is peer production communities "where the basic rules of operation are about as different from a corporate command and control hierarchy as the latter was from the feudal craft shop of the preindustrial economy" (p. 25). Groupware is an example of technology that allows collaborative communities. The authors predict that emerging digital tools like groupware will continue to rapidly expand global net collaboration and create business solutions.

Rogers (1994) contends that achieving collaboration among individuals requires modifying working practices and customizing groupware so as to agree with corporate norms. Rogers further states that this process of co-evolution is complex, likely to run into many obstacles, and may even overwhelm an organization. Our analysis of ISID's construction and implementation demonstrates that the Colruyt Company's needs were in effect the driving force behind ISID. To illustrate, during an ISID planning meeting attended by one of the three authors, an IT design manager defined the responsibilities of his design group as follows:

> *"I am responsible for the ISID [design] group's planning such that the [Colruyt] organization obtains in a timely manner [collaborative and communicative] services that are optimal in terms of performance, quality, and cost. In [close] collaboration with [ISID] users I have a responsibility for constructing a vision for ISID that optimizes its potential while keeping in mind technological limitations." (IT Design Manager, interview, May 2006)*

According to Grudin (2006) top-level managers were always crucial to selecting and obtaining software packages but they hardly ever operated or interacted with the software. Grudin (2006) further remarked that managers were frequently technologically ill-prepared to use computer software applications. Finally, Grudin (2006) claimed that top-level managers would insist that software should always support their information needs. Our analysis demonstrates that individuals at all managerial levels as well as operational personnel at the Colruyt Company are active and daily groupware users who also engage in asking the IT department to extend ISID's features when work processes require it.

To illustrate, during a planning meeting attended by one of the authors, users brought to the attention of the design group some concerns about ISID's email service. Users stated that the great number of emails overwhelmed them without actually knowing which were urgent, needing immediate responses, and which could be read at a later time. Users further stated that not knowing which emails were urgent obliged them to read all incoming emails frequently. That, in turn, interfered with discharging work assignments. To resolve these problems users suggested adding a command to the email service that separate urgent emails from non-urgent emails. Thus, a user could choose between sending his/her email either as urgent or non-urgent. A further stipulation was that urgent emails were to be sent immediately and non-urgent ones on a three-hour basis. The users' request was installed during regular ISID updates.

Palen and Grudin (2002) questioned whether groupware can be successful if its use is discretionary. These authors argued that collaboration technology adoption is compromised by having to be attractive to all corporate members without receiving long-term top-down support. They further claimed that in the case of groupware widespread availability is a necessary but not sufficient condition for successful adoption. The Colruyt Company's groupware ISID was designed in response to and in support of existing and developing corporate practices. Moreover, even though a mandate for ISID's use is lacking, no Colruyt Company employee can successfully participate in his or her day-to-day employment without using this groupware. Thus, the Colruyt Company avoided the problems cited by Palen and Grudin (2002) by implementing a groupware that responded effectively to widespread processing needs.

CONCLUSION

Many case studies analyze and discuss reasons why groupware is often not used to its full potential. After a close reading of the literature on groupware, we detected few recommendations that would result in the successful implementation of groupware. This paper illustrates the far-reaching consequences resulting from implementation of a groupware package. These consequences affected relationships that went far beyond the company and included relationships between the company and its employees, clients, and unions in essential ways that ultimately led to a serious set of negative consequences. These consequences were resolved only with the company's willingness to totally rethink its approach to the use of its groupware and the business.

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