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# Global Journal of Business Research

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# THE EFFECT OF CEO POWER ON TAX AVOIDANCE: EVIDENCE FROM TAIWAN

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## ABSTRACT

*This paper explores the relationship between CEO power and firms' tax avoidance. The study examines listed and OTC companies from Taiwan. Data from 2010 to 2016 on sampled firms were taken from the database of Taiwan Economic Journal. Research findings indicate that the higher the comprehensive power of CEOs, the more tax avoidance is mitigated in general. This finding is consistent with the stewardship theory that CEOs care about business reputation and corporate social responsibility. The paper divides CEO power into four categories. For CEOs with high structural rights, there is no taxation avoidance significance. CEOs with high ownership power exhibit taxation behavior consistent with the convergence-of-interest hypothesis. They reduce tax avoidance while seeking their own interests. Based on their professional experience, CEOs with strong expert power are vigilant about reputational risks; hence, they avoid tax avoidance and have a conservative approach to investments. CEOs with high prestige power can learn from their networks about seasoned practices in tax avoidance who are proactive in tax avoidance.*

**JEL:** K34, M12, M41

**KEYWORDS:** Tax Avoidance, CEO Power, Book-tax Differences

## INTRODUCTION

**T**ax levies are mandatory in nature. Taxes are a part of a firm's operating costs and engaging in tax avoidance can reduce firms' tax bearing. On one hand, tax payments do not come with a corresponding benefit; therefore, tax planning is deemed an action to enhance firm value. The firm's shareholders also hold this belief (Wilson, 2009; Graham and Tucker, 2006). Tax revenues are a mandatory fiscal measure for a government to share with its people the fruit of economic activities and pay for most public goods. Aggressive tax avoidance by corporates, usually via the postponement of payable taxes, may lead to late tax payments or fines imposed by tax authorities. In brief, tax fairness is scrutinized by stakeholders in society. Tax avoidance sits on the borderline between legitimate tax planning and illegal tax evasion, and the cutoff point is a topic of heated debate. Lietz (2013) defined the continuum of complete lawfulness at one end to obvious illegality at the other end as tax avoidance, tax aggressiveness, tax sheltering, and tax evasion in a study of taxation strategies. This provides a conceptual framework for tax planning. However, Blouin (2014) argued that this definition seems unable to provide a watershed for legal tax planning and aggressive tax avoidance. Similarly, the research here is not able to pinpoint the level of lawfulness in corporate actions to lower tax burdens by referring to the proxy variable for tax avoidance, representing a limitation of this research. While this paper uses the term "tax avoidance" to indicate corporate actions aiming to reduce taxes, it does not necessarily imply any inappropriate behavior.

Tax levies do not come with corresponding rewards, and tax policies strive for redistribution of incomes. Therefore, the design of income tax laws by the government is based on financial income for the calculation of tax payments. In other words, companies should pay their dues according to their economic profits to

contribute to the government's tax revenues. However, there is often a normative difference between financial income and taxable income given numerous restrictions, exemptions and different accounting principles meant to serve the government's fiscal policies and purposes. Therefore, companies are motivated to manage earnings and often adjust their own economic behaviors and patterns on the basis of freedom of choices in the context of private laws. They seek tax incentives, exemptions, or timing differences by arranging certain transactions, in order to minimize tax burdens. To reduce post-tax profits as much as possible, management may maximize pre-tax accounting profits on one hand and minimize taxable income on the other. The ultimate goal is to lower taxes payable, but not affect book earnings (McGill and Outslay, 2004; Mills, 1998).

Book-tax differences may be a result of differences between accounting principles and tax laws for normal transactions, or an outcome of specific transactions arranged for tax avoidance. Plesko (2002) indicated that book-tax differences among listed companies in the U.S. have been rising since the 1990s. Many companies report high profits in their financial statements, but pay little in taxes. Manzon and Plesko (2002) suggested that the greater the profitability, the higher the incentives for corporate tax avoidance, and hence, the bigger the book-tax differences. For this reason, most research papers use book-tax differences as the proxy variable for tax avoidance. However, some explain the motivations for tax avoidance from the perspectives of agency theory, which implies that tax avoidance is a means of pursuing personal gains for managers. If tax avoidance and asset embezzlement are complementary, some managers orchestrate specific transactions in the name of tax avoidance, with the true intention of asset embezzlement for personal gains at the expense of shareholders' rights (Desai, Dyck, and Zingales, 2007).

This paper seeks to capture the behavior of tax avoidance by examining book-tax differences (BTD) which represent aggressive tax avoidance by positive book-tax differences. By decomposing the total book-tax differences into permanent and temporary, this paper analyzes the construction of permanent book-tax differences. The purpose is to examine the economic effects of real transactions in the context of the restrictions on income tax incentives or the right to waive taxes according to the government's considerations for fiscal, social, and economic policies. Such restrictions and rights in tax laws and regulations cause permanent tax-book differences between accounting income and taxable income, and such differences, once in place, cannot be automatically reconciled. Examples include expenses exceeding the limit set by tax laws or tax-exempt income from securities transactions. In contrast, temporary differences are caused by revenues and expenses recognized for different years by accounting principles and tax laws. However, both accounting principles and tax laws will acknowledge revenues and expenses over time. Therefore, temporary book-tax differences are reversible. In sum, the contributing factors of permanent and temporary book-tax differences, and the resulting differences in tax burdens, are issues worthy of academic attention.

Literature on tax avoidance is associated with corporate governance factors. Remunerations, incentivized management, and ownership structure all boast a certain level of explanatory power (Shackelford and Shevlin, 2001; Hanlon and Heitzman, 2010). However, the influence of chief executive officer (CEO) power is overlooked. As the key executive, the CEO's attitude toward tax avoidance has a direct impact on the company's tax behavior. Dyreng, Hanlon, and Maydew (2010) argued that individual executives play a pivotal role in determining the level of tax avoidance by a company. This is evidenced by specific tax avoidance behavior exhibited by the company shortly after the individual executives in question take on their positions. The behavior stops after these executives have left the company. Although CEOs are often not tax experts, they establish guidelines in tax planning at the highest level of management (Huseynov and Klamm, 2012). Companies usually rely on overall objectives determined by tax or planning departments or external tax consultants for tax avoidance. However, regarding the arrangement of specific transactions or the establishment of operations in low tax-rate jurisdictions as part of the tax strategies, CEOs must be directly involved to facilitate extensive coordination across functions. At this juncture, correlation is expected between the degree of tax avoidance and the strength of CEO power.

Many studies treat tax avoidance by management as an element of agency theory. As the agent for owners, CEOs experience Type 1 agency problems due to the separation of ownership and management. The salaries and compensations of senior executives are a key mechanism to process internal agency problems with higher remuneration implying high power of agents. Past studies on the influence of CEO power on tax avoidance behavior often used CEO salaries as a measurement of CEO power (Laguir and Staglianò, 2014). However, this approach may not be sufficient to explore the nature of CEO power in depth. If CEOs become significant shareholders by holding large ownership stakes or via cross shareholdings, or ultimately have control of the companies, this becomes a Type 2 agency problem and will have a different impact on tax avoidance. In addition, CEOs' attitude toward investments, level of industry specialization, and network of contacts in the sector all affect the implementation of tax avoidance strategies. Therefore, this paper refers to the definition of CEO power by Finkelstein (1992) by dividing it into four types, i.e. structural power, ownership power, expert power, and prestige power, in the examination of whether the strength of CEO power affects corporate tax avoidance.

Theoretic backgrounds regarding CEO involvement in tax avoidance strategies, including the stewardship theory, support opposite opinions from agency theory. The stewardship theory contends that managers seek to maximize the interests of principals. Managers' interests are aligned with the organization's interests, and managers will not sacrifice the organization's interests to pursue personal gains. The stakeholder theory presents yet another argument. It holds that tax avoidance reduces the government's tax revenue and triggers adverse effects due to tax unfairness, and this hurts the company or management reputation. This paper validates the influence of CEO power on tax avoidance activities from the perspectives of agency theory, stewardship theory, and stakeholder theory. The empirical results show significant and negative correlation between CEO's comprehensive power and tax avoidance when the variables in relation to tax avoidance are controlled. This finding is consistent with the stewardship theory regarding CEOs' tax behaviors, meaning CEOs mitigate tax avoidance due to concern over reputational risks.

This paper also explores the influence of CEO's structural power, ownership power, expert power, and prestige power. There is positive and significant correlation between CEO structural power and permanent book-tax differences, which suggests that CEOs with high structural power tend toward creating permanent book-tax differences for tax avoidance. However, the correlation between structural power and total book-tax differences are not statistically significant. This is possibly because CEOs tasked with corporate oversight are concerned with negative signals associated with high book-tax differences. Thus, they are less aggressive in tax avoidance. There is significant and inverse correlation between CEO ownership power and tax avoidance, which illustrates how tax risks and considerations affect corporate reputations in the context of stewardship theory. In this scenario, book-tax differences are reduced to mitigate tax avoidance.

There is also exists significant and inverse correlation between CEO expert power and tax avoidance. This suggests that possession of professional knowledge, higher status in the firm, and rich work experience gives CEOs the capability to discern and assess reputational risks resulting from tax avoidance. Given their conservative strategy in investment, they reduce tax avoidance. However, the correlation between CEO prestige power and tax avoidance is significant and positive, which suggests that the strengthening of the CEO's social networks benefits tax avoidance activities. Measured by permanent and temporary book-tax differences, total book-tax differences are significantly correlated with ownership power, expert power, prestige power, and comprehensive power.

Correlations with permanent book-tax differences are also significant and in the same direction, which means that CEOs with high ownership power and expert power control tax avoidance by lowering permanent book-tax differences. However, CEOs with high prestige power tend to engage in aggressive tax avoidance by stepping up permanent book-tax differences. Correlations with temporary book-tax differences are insignificant with structural power, expert power, and prestige power (and comprehensive CEO power). This is possibly because tax benefits, as created by temporary book-tax differences, are only

temporary, and thus, undermine the effects on reputation. It also implies that temporary book-tax differences are not the tax avoidance strategy adopted by CEOs. However, there is significant and positive correlation between CEO ownership power and temporary book-tax differences, which runs contrary to the message conveyed by the total book-tax differences, and is possibly due to earnings management by CEOs with high ownership power.

In sum, this paper aims to enrich the extant research on tax avoidance by filling this gap. First, this study examined the relationship between CEO power and tax avoidance. Prior studies only examined the relationship between CEO power (measured by CEO remunerations) and tax avoidance (Desai and Dharmapala, 2006). This paper extends these works and delves into the dimensionality of CEO power to explore its relations with tax avoidance. This has not previously been studied. Meanwhile, with the strengthening of tax authority and legal enforcement, as well as the emphasis on corporate social responsibility, tax avoidance has inherent reputational risks. This paper finds that higher CEO power, results in more protection of firm reputation, which is consistent with the stewardship theory. The research findings show that CEOs with high power in Taiwan strive for sustainability of companies and honor their social responsibilities via corporate governance. The rest of the paper proceeds as follows. In the next section we review related literature and develop our hypothesis. Section 3 describes our sample and research design. Section 4 presents our main results and corroborating evidence, and Section 5 reports additional analyses. Lastly, we discuss conclusions and caveats.

## LITERATURE REVIEW AND RESEARCH HYPOTHESES

### Tax Avoidance, Tax Risk, and Book-Tax Difference

Although tax avoidance creates tax benefits and boosts company profits, taxation costs remain a valid concern. Tax avoidance is only possible when there is taxable net benefit for the firm and its shareholders (Rego and Wilson, 2012). Tax avoidance requires opportunity costs, transaction costs, implicit taxes, and uncertainty costs. Frequently seen transaction costs include the costs of hiring tax consultants or establishing a dedicated team. Implicit costs are additional tax collections and fines imposed by tax authorities. Uncertainty costs are headline risks frequently accompanied by exposed tax avoidance. Hence, reputation is a key element that influences tax avoidance strategies. Jacob, Rohlfing-Bastianb, and Sandner (2014) suggested that tax avoidance strategy is a function of moral risks, tax planning costs, and increased profits. If the potential for profit gains is low, tax avoidance strategy will be determined by moral risk issues. In contrast, if the potential for tax benefits is high, the tax avoidance strategy will be driven by tax planning costs, such as reputational and political costs.

Taxations are based on private law behavior, and taxable incomes are recorded according to accounting principles. However, firms enjoy discretion over the constructs of transactions in the context of private laws and the selection of accounting methods. This allows them to engineer book-tax differences to enhance financial income without a matching increase in taxable income. Therefore, the literature relates book-tax differences with tax avoidance behavior (Mills, 1998; Desai 2003; Plesko, 2004; McGill and Outslay, 2004). Book-tax differences can be divided into permanent and temporary. Management has discretion over the valuation of assets, provision for liabilities, and the selection of accounting methods. These discretionary accruals lead to temporary book-tax differences because the timing of revenue and expense recognition is different between financial accounting regulations and tax codes. Some studies posit that temporary book-tax differences are reflective of earnings management (Phillips, Pincus, and Rego, 2003; Hanlon and Shevlin, 2005; Frank, Lynch and Rego, 2009).

Most literature on earnings management refers to discretionary accruals as a proxy variable. However, tax codes typically impose the timing of recognition in relation to discretionary accruals manipulated with the selection of accounting methods and estimates. In other words, discretionary accruals are the main

contributor of temporary book-tax differences. Tax laws usually restrict the timing of recognition for discretionary items in accounting as tax avoidance. If companies resort to temporary book-tax differences for tax avoidance, discretionary accruals will be the outcome of tax avoidance. Therefore, it is difficult to differentiate whether the existence of temporary book-tax differences is resultant from earnings management or tax avoidance. That said, if a company inflates earnings for earnings management, it will avoid the impact of increased tax expenses on cash flows. Preference is given to the accounting principles, estimates, or discretions that do not enhance the tax burden or reduce expenses without tax benefits (e.g. smaller unrealized losses). This would be killing two birds with one stone. At this juncture, book-tax differences will increase, thus, this paper infers that the increase of temporary book-tax differences serves the dual purposes of earnings management and tax avoidance. However, as temporary book-tax differences are reconciled over time, its effectiveness in tax avoidance may be limited.

Past studies referred to permanent book-tax differences to capture tax planning by companies, where the ideal tax strategy is to manufacture permanent book-tax differences. Empirical evidence suggests that companies with aggressive transactions for tax avoidance report higher permanent differences (Wilson, 2009; Frank et al., 2009; Comrix, Graham, and Moore, 2011; Weisbach, 2002). Some suggest that the greater the book-tax differences, the more likely the tax authorities will suspect tax avoidance. Therefore, inspections are more frequent on companies reporting significant book-tax differences, in order to identify understated taxable amounts (Badertscher, Phillips, Pincus and Rego, 2009; Huang, 2010). Meanwhile, there is positive correlation between book-tax differences and higher taxable income detected by tax authorities. Thus, book-tax differences can serve as a proxy variable for taxation risks (Lennox, Lisowsky, and Pittman, 2013).

#### CEO Power and Tax Avoidance

Given the separation of ownership and management, a CEO serves as the agent and runs operations at the company level, meaning they are highly influential in a tax avoidance strategy (Dyreg et al., 2010). Chen and Chu (2005) analyzed tax avoidance based on the shareholders–managers model. Their results indicated that tax planning strategies are planned by principals, while agents are forced to cooperate because they are paid by the principals. The literature typically refers to CEO remunerations as a measurement of CEO power in the examination of relationships between CEO power and tax avoidance (Laguir and Stagliano, 2014). While CEO salary can indicate the level of CEO power, this paper argues that it cannot fully reflect how CEOs behave in terms of tax avoidance. This is because CEO remunerations are also subject to the influence of the economic dependence theory. Therefore, this paper refers to Finkelstein (1992), and divides CEO power into four types, i.e. structural power, ownership power, prestige power, and expert power.

CEOs resort to managerial control for tax avoidance. Thus, the analysis of control benefits should explore whether the CEO is focused on collective interest or self-interest as a result of such control. Agency theory presumes that management does not assume the ultimate operational risks due to the separation of ownership and management, and thus, decision making and risk taking. Therefore, management may not prioritize the maximization of shareholders' profits. Rather, they may seek to maximize personal gains, sometimes at the expense of shareholders' or other stakeholders' interests. Desai and Dharmapala (2006) indicated that tax avoidance is about rent extraction by managers who seek to benefit from control, particularly in poorly managed companies. CEOs use complex transactions or structures to camouflage their intentions from the principals. Under these circumstances, book-tax differences can detect adverse and abnormal profits. When tax transfers and tax avoidance are complementary, shareholders will not benefit from tax avoidance. However, some studies argue that if other shareholders perceive tax aggressive behavior as a way to mask rent extraction, a price discount will be imposed on the firm's shares (Chen, Chen, Cheng, and Shevlin, 2010). In brief, the exposure of tax avoidance is a warning signal to managers who care about reputation and performances.

In contrast with the check-and-balance mechanism, as described by the agency theory, the stewardship theory no longer assumes managers are individualist, opportunistic, or selfish agents. Given the diversity and conflicting objectives of shareholders, the behavior of stewards is deemed to be organization-oriented, and in pursuit of the best interest for the group (Davis, 1997). According to the stewardship theory, the assessment of net tax benefits should be whether the CEO considers tax avoidance at all. While tax avoidance reduces tax expenses and benefits all investors, the associated non-tax costs are critical. The rapid development of corporate social responsibility over recent years dictates that public scrutiny alone can alter the cost and benefit profile of tax avoidance. It bumps up the non-tax costs due to tarnished reputations as caused by the punitive measures imposed on companies (Dyreg, Hoopes, and Wilde, 2016). Society turns against the companies that do not pay their share of taxes, and the reputational damage in extreme cases may terminate the businesses (Lanis and Richardson, 2011).

According to Gallemore, Maydew, and Thornock (2014), almost no evidence suggests tax avoidance comes with reputational costs at the company level. However, Slemrod (2004) posited that share prices drop when tax avoidance behavior is disclosed. Graham, Hanlon, Shevlin, and Shroff (2014) interviewed corporate executives and found that more than 69% of them consider potential risks to firm reputation a key determinant of whether tax strategies should be implemented. In fact, this is rated as the second most important factor. Austin and Wilson (2017) contended that companies with valuable brands will mitigate tax avoidance behavior. Their research suggested an inverse correlation between firm reputation and tax avoidance. The more control CEOs have, the more leeway they have with policymaking. Agency theory holds that CEOs orchestrate aggressive tax avoidance to entrench their power and pursue control and personal gain, to cover up their rent extractions, or to create financial performances, and hence, high returns. In the framework of collective shared interests of control, the stewardship theory argues that tax avoidance risks may jeopardize firm reputation and the image of corporate social responsibility, thus, CEOs may consider cutting back on tax avoidance. This paper expects that, the greater the CEO power, the stronger their influence on tax avoidance. However, no presumptions on direction are assumed. The hypothesis is, as follows:

*H1: The level of CEO power is relevant to tax avoidance (as measured by book-tax differences).*

Structural power, ownership power, expert power, and prestige power are four powers formed by the specific experiences and current statuses of CEOs. This paper expects that these powers have different influence on attitude towards tax avoidance. This paper refers to Grabke-Rundell and Gomez-Mejia (2002) by delving into the economic behaviors and interactions between companies and CEOs from the perspectives of agency theory and resources-based theory. The purpose is to explore the effects on tax avoidance behaviors. Structural power and ownership power indicate CEOs' ability to effectively handle environmental uncertainties inside companies. The influence of other shareholders or board members on tax avoidance strategies is a case in point. Expert power and prestige power underpin the CEOs' capability to effectively cope with environmental uncertainties outside the companies. These uncertainties include the influence of customers, suppliers, competitors, and governments on tax avoidance strategies.

### Implications of Power in the Context of the Agency Theory

Structural power is the authority to formulate operational rules and procedural regulations for an organization through its hierarchy by giving legitimate rights to holders of different positions. Finkelstein (1992) suggested that structural powers owned by CEOs consist of various elements, such as the hierarchical positions implied by titles, number of titles, and current remunerations. The higher up in the hierarchy, the greater the number of job roles, and the bigger the power endowed. High salaries also speak of CEOs' management power.



The corporate governance framework defines the hierarchy based on ownership and management rights. Ownership right holders select directors and chairpersons for operational decision-making and oversight. Boards are the mechanism for monitoring managers. Chairpersons lead the boards and CEOs lead the management teams. CEO duality refers CEOs acting as board chairpersons. While, in theory, this can effectively resolve internal uncertainties, CEOs also acting as board chairpersons or directors compromise the oversight functions served by the boards. Under such circumstances, boards are likely to lose objectivity and monitoring capabilities.

Minnick and Noga (2010) argued that boards should be responsible for the allocation of company resources, supervision of firm performances, and creation of shareholders' wealth. Boards play an essential role in the selection of taxation management and strategies. Landolf (2006) indicated that the effective functioning of boards imposes appropriate oversight over tax planning by companies. In terms of how CEO duality affects tax avoidance, Steijver, and Niskanen (2011) posited that the avoidance of CEO duality is not effective in the mitigation of CEOs' tax aggression. Some studies argue for a complementary relation between fraud and tax avoidance (Desai and Dharmapala, 2006; Frank et al, 2009; Lanis and Richardson, 2012). Farber (2005) found a significantly higher percentage of fraudulent companies have CEOs also serving as chairpersons. According to Core, Holthausen, and Larcker (1999), CEO duality and high stakes held by managers lead to a strong desire by management to hold on to their wealth, power, and status, which naturally results in self-interest behavior and power entrenchment (Jensen and Ruback, 1983). Hence, it can be inferred that CEO duality triggers tax avoidance behavior.

Traditionally, managerial power steps up along the corporate ladder. The greater the managerial power, the higher the remuneration. Therefore, it can be expected that there is positive correlation between CEO power and remuneration levels. According to the empirical research by Liu and Lin (2000), there is significant and positive correlation between the four types of CEO power and CEO remunerations. Agency theory holds that owners provide contracted remunerations to CEO for risk compensations and performance rewards. Hence, remunerations offer both insurance effects and incentive effects. Graham, et al.(2014) interviewed senior managers and listed companies and indicated that incentive measures in accounting encourage tax avoidance. An increase in earnings per share is a key performance metric, and thus, motivation for tax avoidance strategies. However, Desai and Dharmapala (2006) argued otherwise, suggesting a complementary relationship between rent transfers and tax avoidance in poorly managed companies. Owners enhance their incentives and remunerations to managers to mitigate tax avoidance behavior. In the case of CEO duality (or concurrently a board director) and high remunerations, managers have a strong desire to hold on to existing power and status. This can lead to self-interest behavior such as power entrenchment and incentive remunerations. When this is combined with undermining of the board's supervisory functions, it will adversely affect risk control over tax matters. In these circumstances, CEOs are prone to avoid taxes via book-tax differences. Therefore, this paper develops the following hypothesis regarding the influence of CEOs' structural power on tax avoidance:

*H2a: There is a positive correlation between CEOs' structural power and firms' tax avoidance.*

Given the separation of ownership and management, CEOs as the agent have managerial power, which is subject to the control and influence of principals. However, CEOs may also be the owners, and this will boost their status in the principal-agent relationship. In some cases, CEOs are the ultimate owners and controllers. Zald (1969) argued the most important source of managerial power is ownership. High ownership stakes held by management will enhance the influence on key decisions via voting rights.

The effects of CEO's ownership on corporate governance can be explored in the context of the agency theory. There are two hypotheses regarding high stakes owned by managers that will result in two corporate governance effects, the entrenchment theory and convergence-of-interest hypothesis (Jensen and Ruback, 1983; Jensen and Meckling, 1976). For shareholders, these hypotheses explain two effects. According to

the entrenchment theory, high ownership alleviates management from being monitored by the board. This high ownership allows for sufficient voting rights to maximize their own wealth by making investment decisions favorable to their own interests (Grabke-Rundell and Gomez-Mejia, 2002). In contrast, the convergence-of-interest hypothesis considers the alignment of management's interests and shareholders' interests. If management has higher stakes in the company management will have to assume a higher percentage of company losses. In these circumstances, CEOs are more likely to maximize firm values and protect shareholders' interests, thereby mitigating the agency problems due to the separation of ownership and management (Jensen and Meckling, 1976; Teshima and Shuto, 2008).

Shen and Cannella (2002) argued for a positive correlation between CEO ownership and CEO loyalty. The greater the CEO ownership, the more likely he/she will be to prioritize the interests of the company. Therefore, the higher the CEO ownership, the better the CEO credibility. Meanwhile, significant external shareholders play an important role in corporate activities, as they provide good oversight (McConnell and Servaes, 1995), and serve as a check-and-balance for the pursuit of personal goals by controlling shareholders. Supervision over management is essentially a public good (Shleifer and Vishny, 1986). While the board monitors management on the behalf of shareholders, significant external shareholders also serve the same function. Therefore, management often calls for support from external shareholders to shake off controlling shareholders. Among the sampled companies in this paper, 62% are family-owned businesses in Taiwan. External major shareholders ensure good corporate governance because their interests are at stake.

Tax avoidance is only undertaken when there are net taxable profits (Rego and Wilson, 2012). Among all tax avoidance costs, reputation loss as a cost of uncertainty, usually cannot be quantified, and is a judgement call by those in charge. Badertscher, Katz, and Rego (2013) argued that firms with greater concentrations of ownership and control, and thus more risk averse managers, avoid less income tax than firms with less concentrated ownership and control. Steijver and Niskanen (2011) indicated that family businesses where CEOs have high ownership are less willing to pursue tax avoidance. CEOs with low or no ownership will be tax aggressive. The presence of external directors on the board can lessen this direct influence. In line with the convergence-of-interest hypothesis, this paper expects that, in the presence of significant shareholders, CEOs with high stakes or with ultimate control will not engage in rent transfers via tax avoidance to protect the interests of all shareholders. As CEOs with high stakes care about their own reputation and the company reputation, they are risk averse in terms of tax risk management and less likely to be involved in tax avoidance. In sum, this paper develops the following hypothesis regarding the influence of CEOs' ownership power on tax avoidance:

*H2b: There is a negative correlation between CEOs' ownership power and firms' tax avoidance.*

### Power Implications in the Context of the Resources-Based Theory

Seasoned CEOs have the resources and capabilities to respond to unforeseen situations in a timely manner and avoid the possibility of crises. According to resources-based theory, companies tend to rely on the judgement and decisions of CEOs with greater expert power and prestige power (Granovetter, 1985). Managers equipped with professional knowledge may exert significant influence on specific decisions and strategic options (Yetton and Bottger, 1982). Effective tax strategies require consideration of economic environments and operational strategies of different business units. From the perspective of the function of CEO's expert power, specialization of CEOs is enhanced due to their understanding of industry and their orchestration of private-law arrangements as tax strategies. This effect creates tax exemptions and deferrals without putting any business units at a strategic disadvantage. However, some studies argue otherwise. Aliani (2014) examined U.S. companies from 1996-2009 to explore whether CEO characteristics affect tax planning. The results did not suggest significant correlations between tax planning and experience, seniority, or age. However, educational levels and professional backgrounds exhibit significant influence on corporate tax strategies. Dyreng et al. (2010) indicated that CEOs with more experience or financial

expertise due to education do not promote aggressive tax strategies, as they are not tax managers or experts. Tax avoidance should be one of the strategies and investment plans run by CEOs.

While CEOs have work experience and professional knowledge to enable tax avoidance, these may not be the key factors to implement tax avoidance. Rather, expert power helps CEOs understand the risks of tax avoidance. CEOs are faced with risks and moral issues regarding the adoption of aggressive tax strategies. Studies have indicated that CEOs' decision-making ability increases with their tenure (Bebchuk and Fried, 2003). However, their investment strategies become increasingly conservative over time (Musteen, Barker, and Baeten, 2006). Tax revenues provide government funding for public goods, and paying taxes is a corporate social responsibility. Research indicates that companies can improve stakeholder relations by boosting the business reputation with social activities. These activities help the firm gain trust from investors, enhance the efficiency of resources utilization, and improve innovation capabilities, thereby boosting firm value (Porter and van der Linde, 1995). Compliance with tax codes is one of the conservative investment strategies of CEOs. According to the stewardship theory, CEOs with strong expert power are capable of discerning reputational risks associated with the uncertainty of tax avoidance strategies. When this is combined with conservative investment strategies, CEOs will steer away from tax avoidance. In sum, this paper develops the following hypothesis regarding the influence of CEOs' expert power on tax avoidance:

*H2c: There is a negative correlation between CEOs' expert power and firms' tax avoidance.*

Prestige power refers to the personal reputation of a CEO in the stakeholder system, such as serving on other company boards and non-profit organizations. It is hardly surprising that CEOs reputation affects how the stakeholders and others in the system view the companies. In the context of the centrality of external networks, a prestigious CEO may bring more connections to an organization and its stakeholders. Thus, the organization will have better political and commercial connections due to the CEO's reputation. In terms of imitation effects, CEOs sitting on other company boards or association committees establish a close-knit network in the corporate world. This network builds non-official channels for the delivery of private information and encourages similar behaviors from other companies. Empirical evidence indicates that social networks improve the acquisition of external information and knowledge (Maurer and Ebers, 2006), as well as the integration and interpretation of knowledge (McDonald and Westphal, 2003). The argument of tax avoidance strategies can be extended from the perspective of external networks. CEOs' prestige power will make it easier to explore tax strategies by consulting external organizations in the industry's network.

Furthermore, the arrangement of transactions for tax avoidance will be much easier if prestigious CEOs can attract external organizations to collaborate, as based on the centrality of external networks derived from prestige power. Hence, this paper expects positive correlation between prestige power and tax avoidance. According to Tian, Li, Si, and Zhang (2017), sophisticated experience in tax avoidance circulated among directors in a corporate network can reduce the tax avoidance costs of target companies and ease the concern of managers regarding adverse outcomes. Thus, tax avoidance becomes popular within corporate networks. However, Brown (2011) found that firms that share a common board member are more likely to adopt similar tax strategies. This loss of uniqueness may make it impossible to expose the significance of shared tax avoidance behavior. CEOs with strong prestige power can leverage the support of external networks for the transaction arrangements of tax avoidance. CEOs who consider the implications of tax avoidance on reputation, and common tax strategies in the corporate network may be able to reduce the adverse effects or potential allegations. Meanwhile, shared tax avoidance strategies are a better approach to test the attitude of tax authorities. Therefore, we argue that usability of tax avoidance strategies circulated in the external network and the mitigation of effects on reputation are sufficient to prompt CEOs with prestige power to pursue tax avoidance. In sum, this paper develops the following hypothesis regarding the influence of CEOs' prestige power on tax avoidance:

H2d: There is a positive correlation between CEOs' prestige power and firms' tax avoidance.

## DATA AND METHODOLOGY

### Data Sourcing and Sample Selection

Companies listed on the Taiwan Stock Exchange and the Taipei Exchange from 2010 to 2016 were taken as the main research objects. Cross-section data and multiple regression were used as the research method, and annual and industrial effects were controlled. As securities brokerages, financial institutions, insurance companies, and investment firms are of different nature, they were excluded from the sample. This paper refers to book-tax differences (BTD) as the dependent variable. The initial number of data entries was 11,435. After the deletion of 2,463 entries with incomplete variable data and 1,979 entries with pre-tax losses, because it has no tax avoidance implications (Landry, Deslandes, and Fortin, 2013; Lin, 2017), the effective size of the sample is 6,993 observations. The empirical data is sourced from the basic database, corporate governance database, and financial database run by Taiwan Economic Journal.

Table 1: Sample Selection Process

Sampled observations of companies listed on the Taiwan Stock Exchange and the Taipei Exchange, excluding the firms in financial, insurance, and securities industries from 2010 to 2016	11,435
Less: Observations with incomplete data	(2,463)
Observations with pre-tax financial income is negative	(1,979)
Number of valid observations	6,993

*This table describes the sample selection process.*

### Regression Model and Variable Definition

This paper aims to explore the correlation between CEO power and firms' tax avoidance by using total book-tax differences (ABTD) as the dependent variable to measure the degree of firms' tax avoidance. In addition, total book-tax differences (ABTD) are divided into permanent book-tax differences (PBTB) and temporary book-tax differences (TBTB) as two variables. The independent variable is CEO's comprehensive power (POWER), which is comprised of structural power, ownership power, expert power, and prestige power. There are 12 variables in total. Principal component analysis was applied to derive a composite indicator of CEO power, to examine its influence on tax avoidance. Model (1) is constructed to validate H1:

$$\begin{aligned}
 BTD_{it} = & \beta_0 + \beta_1 POWER_{it} + \beta_2 INDB_{it} + \beta_3 COMM_{it} + \beta_4 ROA_{it} + \beta_5 GRA_{it} + \beta_6 SIZE_{it} + \\
 & \beta_7 DEBT_{it} + \beta_8 PPE_{it} + \beta_9 RD_{it} + \beta_{10} UNCON_{it} + \beta_{11} BIG4_{it} + \beta_{12} TENURE_{it} + \\
 & \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{it}
 \end{aligned} \tag{1}$$

CEO power is categorized into structural power (STRP), ownership power (OWNP), expert power (EXPP), and prestige power (RPEP). Three variables are then combined with these four powers via principal component analysis, in order to construct Model(2) to validate H2a~H2d:

$$\begin{aligned}
 BTD_{it} = & \beta_0 + \beta_1 STRP_{it} + \beta_2 OWNP_{it} + \beta_3 EXPP_{it} + \beta_4 RPEP_{it} + \beta_5 INDB_{it} + \beta_6 COMM_{it} + \\
 & \beta_7 ROA_{it} + \beta_8 GRA_{it} + \beta_9 SIZE_{it} + \beta_{10} DEBT_{it} + \beta_{11} PPE_{it} + \beta_{12} RD_{it} + \beta_{13} UNCON_{it} + \\
 & \beta_{14} BIG4_{it} + \beta_{15} TENURE_{it} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{it}
 \end{aligned} \tag{2}$$

Where: BTD includes ABTD, PBTD and TBTD

### Measurement of Dependent Variables

Firm tax avoidance, which is the dependent variable in the empirical tests of this paper, is measured by book-tax differences (BTD). Book-tax differences are caused by differences between financial accounting and tax law. Book-tax differences are estimated by deducting pre-tax financial income from taxable income. Given the same pre-tax earnings, the greater the book-tax differences (BTD), the lower the tax burden, implying more aggressive tax avoidance. Below we discuss each measure in turn. For ease of reading we present detailed definitions of these variables in Table 2. As previously indicated, book-tax differences and tax avoidance are positively correlated. Mills (1998) noted that companies with higher book-tax differences are more likely to be audited by tax authorities and experience greater audit adjustments, which suggests that book-tax differences are related to tax avoidance. Wilson (2009) examined paired samples and indicated that companies accused of tax avoidance report higher book-tax differences than those who are not.

Total book-tax differences (ABTD) are defined as (pre-tax financial income less taxable income) divided by total assets at the beginning of the period. As it was not possible to obtain the actual tax data, this paper refers to Hanlon and Shevlin (2002), Manzon and Plesko (2002), Frank et al. (2009), Comprix et al. (2011), and Mills (1998) for the estimates of taxable income by dividing tax expenses during the period with the highest statutory rate of corporate income taxes. Total book-tax differences are divided into permanent and temporary. Temporary book-tax differences are calculated with deferred tax expenses divided by business income tax rates. Permanent book-tax differences are the total book-tax differences less temporary book-tax differences.

### Measurement of Independent Variables

The independent variables include CEO structural power (STRP), CEO ownership power (OWNP), CEO expert power (EXPP), and CEO prestige power (RPEP). Three CEO characteristics for each power are respectively established as variables and are integrated into single indicators for each power by principal components analysis. The twelve variables are also integrated into a single indicator for CEO's comprehensive power by principal components analysis. Structural power is a formal position in an organization and its hierarchy. This paper refers to Finkelstein (1992) and Wu, Quan and Xu (2011) regarding whether CEO duality, remunerations, and CEOs serving as internal directors can be used to measure CEO structural power. Finkelstein (1992) posited that structural power is relevant to the allocation of internal positions. The higher the structural power held by management, the less reliant they are on other senior executives. Therefore, this paper tallies the number of titles as chairpersons and internal directors served by CEOs. Although not a precise meter for their status in the organizations, the level of CEO remuneration is an indicator of the importance and structural power of CEOs.

The definition of ownership power (OWNP), as based on Finkelstein (1992), Krista and Maureen (2012), measures the CEO shareholding, whether CEOs are the members of ultimate controllers, and the shareholding of the largest external shareholders. The level of CEO power is an equation of the relation between agents and principals. An increase in stakes owned by CEOs undermines the influence of the boards and the uncertainties associated with overly strong boards. In brief, ownership structures affect management power (Finkelstein 1992; Van Essen, Otten, and Carberry, 2015). Moreover, stewardship theory contends that significant external shareholders support good corporate governance and backup CEO power. This paper presumes that the strength of CEO power is an equation of CEO ownership, CEO as the ultimate controllers and stakes held by the largest external shareholders.

Table 2: Variable Measurement

<b>Dependent Variable: Measures of Tax Avoidance (BTD)</b>	
ABTD	= Total book-tax differences Pre-tax financial income less taxable income, deflated with total assets at the beginning of the period; taxable income estimated with tax expenses during the current period divided by the highest rate of corporate business tax
TBTD	= Temporary book-tax differences Deferred tax expenses divided by the highest rate of business income taxes, then deflated with total assets at the beginning of the period
PBTD	= Permanent book-tax differences ABTD less TBTD
<b>Key Explanatory Variables</b>	
POWER	= Comprehensive index for CEO power Derived with principal component analysis on a total of 12 variables by using the four types of CEO power
STRP	= Structural power, derived with principal component analysis by referring to the following three variables: (1) CEO duality: a dummy variable, with 1 indicating CEO also serving as the board chairperson and 0 if not (2) CEO remunerations: average remunerations paid to General Manager and Vice Presidents (3) Internal board director: a dummy variable, with 1 indicating CEO also serving as a board director and 0 if no
OWNP	= Ownership power, derived with principal component analysis by referring to the following three variables: (1) Holdings: percentage of shares held by CEO (2) CEO Internalization: a dummy variable, with 1 indicating ultimate controller as the CEO and 0 if not (3) Holdings by the largest external shareholder: a dummy variable, with 1 the holdings by the largest shareholder higher than the industry median, and 0 if not
EXPP	= Expert power, derived with principal component analysis by referring to the following three variables: (1) CEO tenure: the length of time served by CEO (2) Number of administrative posts: the number of positions ever held by CEO (3) Functional backgrounds: the number of functions ever served by CEO in different fields
RPEP	= Prestige power, derived with principal component analysis by referring to the following three variables: (1) Education: a dummy variable, with 1 indicating CEO having a master's degree or above, and 0 if not (2) Number of posts in other organizations served by CEO: Number of company directors CEO is sitting on number of CEOs serving as directors of other companies (3) Non-profit organizations: Number of non-profit organization directors CEO is sitting on
<b>Control Variables</b>	
COMM	The setting the audit committee; indicator variable equal to 1 if the audit committee is established; 0 otherwise.
INDB	Ratio of independent director; the seats of independent directors divided by seats of all the directors.
SIZE	Company size; natural logarithm of book value of the total assets at the beginning of period.
DEBT	Debt ratio; total liabilities at the end of period scaled by total assets at the end of period.
PPE	Capital asset concentration; property, plant and equipment at the end of period scaled by total assets at the beginning of period.
ROA	Return on assets; measured as the ratio of income before interest expense to the average of total assets for the year.
GRA	Growth of asset; total assets at the end of period less total assets at the beginning of period divided by total assets at the beginning of period.
R&D	Research and development expenditure; research and development expenses scaled by total assets at the beginning of period.
EQINC	Income related to the equity method; investments income and loss recognized under equity method scaled by total assets at the beginning of period.
BIG4	Audit firms size; indicator variable equal to 1 if audited by a Big 4 firm; 0 otherwise. The big 4 means Deloitte & Touche, Ernst & Young, KPMG, and Price Waterhouse Coopers.
TENURE	Auditor tenure; years of firms audited by audit firms (calculated from 1983).

*This table shows variable definitions. The subscripts  $i$  and  $t$  denote firms and year respectively.*

Expert power (EXPP) is defined on the basis of Finkelstein (1992) and measured by three elements, i.e. the breadth of CEO's professional knowledge in different functions, the number of positions held in the company, and the number of different functions ever served by the CEO. Tushman and Romanelli (1983) argued that CEOs with strong expertise are more capable of coping with challenges due to changes in the operating environment. The functional experiences accumulated on the job allow CEOs to become experts in specific domains. The more fields and sectors CEOs are exposed to, and the more positions they have held, the greater their connections in association with corporate missions and business environments. The broader the backgrounds and perspectives, the more capable the CEOs are to handle multiple stakeholders in the environment in relation to corporate mission.

The definition of prestige power is also in reference to Finkelstein (1992), and measured with the number of board directors and association chairperson positions served by the CEO, the total number of nonprofit boards CEOs sit on, and their educational backgrounds. The boards of non-profit organizations are usually a forum of influential characters in promotion of information sharing and capable of building reputations among stakeholders. D'Aveni (1990) suggested that prestige power may come from educational backgrounds. The prestige power commanded by CEOs affect the abundance of internal resources, as well as the recognition and support of external organizations.

### Control Variable

In addition to our main variable of interest, we control for other factors that prior research suggests are associated with tax avoidance. The model first controls for the firm's corporate governance (INDB, COMM). Prior research suggests that outside directors are significantly negatively correlated to firms' tax avoidance. The more independent directors are the better the corporate governance will be, which can restrict management's tax avoidance (Lanis and Richardson, 2011; Lin, 2017). Moreover, Richardson, Taylor, and Lanis (2013) pointed out that when the audit committee has higher independence, firms will be less likely to conduct tax avoidance. The second model controls for firm performance (ROA), because highly profitable firms will pay relatively higher income tax. To reduce taxes, they have increasing incentive to engage in tax avoidance (Chen et al., 2010; Frank et al., 2009). Manzon and Plesko (2002) found that companies with better profitability are more likely to engage in tax avoidance. The model also controls for the firm's growth opportunities (GRA) and firm size (SIZE), Phillips et al. (2003) thought that growing enterprises may have more opportunities for tax avoidance, thus we include GRA. In terms of the relationship between company size and tax avoidance, there are different inferences under different hypotheses.

Because they may also affect tax avoidance, firms' capital structure or leverage (DEBT) and asset mix (PPE, R&D and EQINC) are incorporated. In modern capital structure theory, when liabilities are used to replace stocks, the associated interest expense can produce a tax shield effect. Therefore, firms having more borrowing will have more interest expenses and will have no need to actively engage in other types of tax avoidance (Chen et al., 2010). But some literature expresses different opinions (Gupta and Newberry, 1997). According to the empirical analysis of Mills (1998), capital asset concentration is significantly positively correlated to tax avoidance. Taiwan's tax incentive measures (Act for Upgrading Industries) stipulates that equipment investment can result in a tax deduction, thus we include PPE. In terms of expenditure (profit and loss factor), research and development expenses often result in tax reduction to reduce the effective tax rate (Dyreg, Hanlon, and Maydew, 2008). The income and loss on investments recognized according to the equity method is usually deemed as the unrealized gains and losses in tax laws. As such, it is a major factor in book-tax difference. In the research of Chen et al. (2010), Frank et al. (2009), Huang (2010), R&D and EQINC are included as control variables. The characteristics of the audit firm are also considered. We control for whether the external auditor is a Big 4 audit firm (BIG4) and years of firms audited by audit firms (TENURE). Auditor's tenure is used as the control variable to consider the economic

dependence and closeness of relationship between auditors and audit clients. Moreover, auditors having the longer tenure may acquiesce in audit clients' expectation.

## RESULTS AND DISCUSSION

### Descriptive Statistics and Correlation Coefficient Analysis

Table 3 presents the descriptive statistics of individual variables. To minimize the influence of outliers, all the continuous variables are adjusted with the winsorized method for values of 0.2% and 99.8%. Table 3 shows the mean value of the total book-tax differences (ABTD) at 0.0018 for the sampled companies in 2010-2016, and suggests tax avoidance given financial income higher than taxable income. However, the median value of -0.0020 indicates that less than half of the observations report financial income higher than taxable income. The mean value of permanent book-tax differences (PBTD) at approximately -0.0025 implies that they are formed as a result of restrictions on expenses imposed by tax codes. The mean and median values of temporary book-tax differences (TBTD) were 0.0045 and 0.0005, respectively, and provide evidence of the tendency of tax avoidance given the extent of financial income being higher than taxable income. The mean and median values of comprehensive CEO power (POWER) were 0.0325 and -0.0118, respectively, and the maximum and minimum values were 2.4079 and -2.4112, respectively. This paints an even picture of power distribution. The symbol COMM denotes a dummy variable at the mean value of 0.1576. As the setup of an audit committee is not yet mandatory in Taiwan, the percentage of listed companies with audit committees is not high. The symbol BIG4 also denotes a dummy variable, and its mean value of 0.8703 indicates most of the companies listed on the Taiwan Stock Exchange and Taipei Exchange are audited by the Big Four.

Table 3: Descriptive Statistics of Individual Variables

Variables	Minimum	Median	Maximum	Mean	Standard Deviation
ABTD	-0.2617	-0.0020	0.6060	0.0018	0.0649
PBTD	-0.2730	-0.0054	0.8567	-0.0025	0.0627
TBTD	-0.2866	0.0005	0.4385	0.0045	0.0432
POWER	-2.4112	-0.0118	2.4079	0.0325	0.9891
STRP	-1.8588	-0.1625	1.1452	0.0183	0.9832
OWNP	-1.0224	-0.3616	3.5272	0.0165	0.9679
EXPP	-1.7358	-0.0641	3.2452	-0.0254	0.9422
PREP	-0.6482	-0.1272	5.4925	-0.0154	0.8354
INDB	0.0000	0.2857	0.6000	0.2336	0.1709
COMM	0.0000	0.0000	1.0000	0.1576	0.3644
ROA	-0.0106	0.0580	0.3877	0.0713	0.0563
GRA	-0.4457	0.0529	2.6788	0.1012	0.2483
SIZE	5.2655	6.5628	8.8889	6.6600	0.6166
DEBT	0.0372	0.3921	0.9364	0.3951	0.1670
PPE	0.0001	0.2504	1.1507	0.2756	0.1913
RD	0.0000	0.0089	0.1758	0.0148	0.0191
UNCON	-0.0257	0.0000	0.1566	0.0015	0.0100
BIG4	0.0000	1.0000	1.0000	0.8703	0.3360
TENURE	1.0000	13.0000	34.0000	13.6555	7.5344

*This table shows the descriptive statistics, including minimum, median, maximum, mean, and standard deviation. Variables are defined in Table 2. All continuous variables are winsorized (reset) at the 0.2st and 99.8th percentiles.*



Correlation Coefficient Test Analysis

Table 4 summarizes the correlation coefficients between variables. The triangle in the upper right corner indicates the Pearson correlations, while the triangle sign in the lower left corner shows the Spearman's correlations. According to the Pearson correlation coefficients, POWER is significantly and negatively correlated with ABTD and PBTD, and this is in line with the expectation of this paper and supportive of H1.

Regarding the four types of CEO power, none of the correlations between structural power (STRP) and the three book-tax differences are significant. Thus, univariate test results cannot support H2a for now. Ownership power (OWNP) and expert power (EXPP) are significantly and negatively correlated with ABTD and PBTD. These results suggest that the stronger the ownership power and expert power, the smaller the book-tax differences and the weaker the tax avoidance. This supports H2b and H2c. None of the correlations between prestige power (PREP) and the three book-tax differences are significant, thus, univariate test results cannot support H2d, which is possibly due to a lack of control over other relevant variables. As shown with the Spearman coefficients, STRP is significantly and negatively correlated with ABTD and PBTD, which is in contrary to the expected direction, thus, H2a is not supported. EXPP is significantly and negative correlated with ABTD and TBTD. This supports H2c. PREP is significantly and positively correlated with ABTD, thus, H2d is supported. In the part of the Spearman correlation coefficient tests, in addition to the above-mentioned description, the correlation direction of independent variables with dependent variable is similar to that of Pearson correlation coefficient. The Pearson and Spearman correlation coefficient is merely the univariate analysis, so this research controlled for other correlated variables to conduct the multiple regression analysis below.

Table 4: Correlation Analysis

Variables	ABTD	PBTD	TBTD	POWER	STRP	OWNP	EXPP	PREP	IND	COMM
ABTD	1.000	0.738***	0.432***	-0.032***	-0.010	-0.065***	-0.026**	0.006	-0.087***	-0.063***
PBTD	0.716***	1.000	-0.262***	-0.040***	-0.012	-0.076***	-0.019*	0.003	-0.094***	-0.073***
TBTD	0.398***	-0.209***	1.000	0.013	0.008	0.015*	-0.014	0.005	-0.002	0.008
POWER	-0.040***	-0.053***	0.008	1.000	0.735***	0.768***	-0.673***	0.210***	-0.085***	-0.118***
STRP	-0.023**	-0.040***	0.002	0.710***	1.000	0.488***	-0.223***	0.175***	0.009	-0.045***
OWNP	-0.075***	-0.087***	0.001	0.768***	0.527***	1.000	-0.256***	0.094***	0.040***	-0.099***
EXPP	-0.026**	-0.013	-0.016*	-0.659***	-0.214***	-0.274***	1.000	-0.036***	0.199***	0.117***
PREP	0.018*	0.014	-0.007	0.109***	0.112***	0.066***	0.018*	1.000	0.026**	0.055***
IND	-0.102***	-0.099***	-0.020**	-0.057***	0.037***	0.070***	0.178***	0.071***	1.000	0.375***
COMM	-0.069***	-0.068***	-0.006	-0.121***	-0.054***	-0.118***	0.108***	0.062***	0.404***	1.000
ROA	0.212***	0.165***	0.073***	-0.007	-0.097***	0.034***	0.044***	0.008	0.154***	0.075***
GRA	0.106***	0.036***	0.084***	-0.016*	-0.002	0.008	0.049***	0.031***	0.081***	0.009
SIZE	-0.062***	-0.054***	-0.011	-0.039***	-0.224***	-0.208***	-0.139***	0.044***	-0.205***	0.110***
DEBT	-0.100***	-0.108***	-0.013	-0.022*	-0.036***	-0.071***	-0.038***	-0.024**	-0.076***	-0.016*
PPE	-0.034***	-0.040***	0.032***	-0.019*	-0.068***	0.018**	-0.013	-0.071***	-0.012	0.009
RD	0.062***	0.054***	0.011	0.039***	0.224***	0.208***	0.139***	-0.044***	0.205***	-0.110***
UNCON	0.083***	0.067***	0.053***	0.001	-0.069***	-0.059***	-0.068***	0.010	-0.103***	0.007
BIG4	-0.064***	-0.051***	-0.010	-0.107***	-0.074***	-0.062***	0.124***	0.048***	0.148***	0.103***
TENURE	0.012	0.021**	0.008	0.083***	-0.076***	-0.036***	-0.169***	-0.007	-0.289***	-0.111***

Table 4: Correlation Analysis (continued)

Variables	ROA	GRA	SIZE	DEBT	PPE	RD	UNCON	BIG4	TENURE
ABTD	0.317***	0.254***	-0.063***	-0.080***	-0.012	0.189***	0.139***	-0.049***	-0.009
PBTD	0.310***	0.256***	-0.068***	-0.074***	-0.018*	0.211***	0.105***	-0.053***	-0.008
TBTD	0.054***	0.039***	-0.008	-0.017	0.013	0.005	0.069***	-0.003	-0.003
POWER	-0.002	-0.031***	-0.050***	-0.012	-0.039***	-0.011	-0.004	-0.105***	0.081***
STRP	0.002	0.008	-0.083***	-0.023*	-0.083***	0.058***	-0.024**	-0.029***	-0.002
OWNP	0.045***	-0.003	-0.192***	-0.058***	0.016*	0.102***	-0.062***	-0.067***	-0.040***
EXPP	0.033***	0.051***	-0.117***	-0.048***	0.013	0.135***	-0.053***	0.127***	-0.175***
PREP	-0.011	0.011	0.081***	0.009	-0.074***	-0.046***	0.096***	-0.006	0.026**
IND	0.135***	0.070***	-0.151***	-0.063***	0.003	0.139***	-0.073***	0.159***	-0.288***
COMM	0.063***	0.015*	0.144***	-0.013	0.020*	-0.059***	-0.024**	0.103***	-0.098***
ROA	1.000	0.279***	-0.128***	-0.259***	-0.002	0.118***	0.093***	0.061***	-0.134***
GRA	0.335***	1.000	-0.158***	0.119***	0.147***	0.306***	0.018*	-0.007	-0.154***
SIZE	-0.112***	-0.092***	1.000	0.357***	0.036**	-0.711***	0.124***	0.077***	0.382***
DEBT	-0.242***	0.181***	0.358***	1.000	0.015	-0.243***	-0.028***	-0.011	0.097***
PPE	-0.001	0.101***	0.042***	-0.001	1.000	-0.051***	-0.052***	0.034***	0.002
RD	0.112***	0.092***	-1.000***	-0.358***	-0.042***	1.000	-0.074***	-0.078***	-0.313***
UNCON	0.033***	-0.010	0.160***	0.036***	0.016*	-0.160***	1.000	0.029***	0.092***
BIG4	0.068***	0.015	0.059***	-0.008	0.032***	-0.059***	-0.015	1.000	-0.048***
TENURE	-0.135***	-0.144***	0.366***	0.094***	0.009	-0.366***	0.130***	-0.034***	1.000

This table shows Pearson and Spearman correlation analyses. Various variables are defined in Table 2. Pearson correlation coefficients are in the upper right, Spearman correlation coefficients are in the left bottom, and the numbers are regression coefficients. \*\*\*, \*\* and \* Indicate statistical significant at the 1%, 5% and 10%, respectively.

## REGRESSION ANALYSIS RESULT

### Correlation Between CEO's Comprehensive Power and Firms' Tax Avoidance

This paper explores the correlation between CEO's comprehensive power and corporate tax avoidance. As no direction was expected, two-tail tests were conducted, and Table 5 shows the regression results concerning H1. According to the empirical results, POWER is negatively correlated to ABTD and PBTD. The stronger the CEO's comprehensive power, the lower the total book-tax differences (ABTD) and permanent book-tax differences (PBTD), and the weaker the tax avoidance. This is in agreement with the stewardship theory, meaning that powerful CEOs mitigate tax avoidance mainly by cutting down permanent book-tax differences after considering the benefits of tax avoiding activities, as well as the risks to firm and personal reputations. Meanwhile, there is positive but insignificant correlation between POWER and TBTD, which is probably because temporary book-tax differences only bring deferral effects, and not absolute tax exemptions or reductions. However, these differences may be reversed by tax authorities over the contentious issues, thus, they are not adopted as a tax avoidance strategy due to lower risks and corresponding benefits.

### Correlation Between CEO's Four Power and Firms' Tax Avoidance

H2 examines the relationship between tax avoidance and the four types of CEO power, structural power, ownership power, expert power, and prestige power. Table 5 shows the results. This paper expected that the four types of CEO powers are either positively or negative correlated with tax avoidance so single-tail tests were performed. The regression results suggest that CEO structural power is positively correlated with ABTD and PBTB, but negatively correlated with TBTD. However, only the correlation with PBTB is statistically significant. Based on the finding that ABTD is not significant, the empirical results only support hypothesis H2a on PBTB. However, CEOs with high structural power are engaged in tax avoidance with permanent book-tax differences. This follows the previous finding that a large book-tax difference leads to lower quality of earnings in financial statements, the large book-tax difference is indeed a bad signal to investors, and this is also reflected in the valuations (Hanlon 2005; Blaylock, Shevlin, Wilson, 2012). High structural power is an outcome of CEO duality and exercising oversight, and is at the expense of the check-and-balance functions served by the boards. CEOs may be concerned with overly large book-tax differences resulting from tax avoidance of a negative signal, and hence, will avoid significant total book-tax differences.

The tests of ownership power (OWNP) suggest a significant and negative correlation with ABTD and PBTB, which is in line with expectations. However, it is significantly and positively correlated with TBTD, which is contrary to expectations. That said, the results still support H2b. As described by stewardship theory (and convergence-of-interest hypothesis), CEOs with high ownership power are still risk-averse managers given their concern over the damage to their own interests as a result of tax avoidance and tarnished corporate reputation. Therefore, they discourage tax avoidance behavior by reducing permanent book-tax differences. On the other hand, OWNP is significantly and positively correlated with TBTD, which is probably because temporary book-tax differences are also used to explain earnings management. According to Morck, Shleifer, and Vishny (1988), when management holds sufficient stakes for effective control, they have incentive for direct wealth effects and will maximize non-firm value by exhausting the resources of the principals to pursue personal gains.

Non-value maximization may include earnings management. Fan and Wong (2002) believed that an increase in the ownership of controlling shareholders will lead to control over management policies, including earnings reporting and financial disclosure. Enhanced control due to higher stakes may result in earnings manipulations for personal gains. Therefore, CEOs with strong ownership power and control benefits are motivated for earnings management and might attempt to reduce the recognition of unrealized losses or step up incomes without tax burdens, thereby enlarging book-tax differences. As the previous paragraph on CEO's comprehensive power (POWER) suggests, temporary book-tax differences are reversed over time and CEOs are less concerned about the associated taxation costs. By simultaneously considering earnings management and tax avoidance strategies, CEOs with high ownership cannot be interpreted simply with the convergence-of-interest hypothesis or the entrenchment hypothesis. In general, ownership power is significantly and inversely correlated with total book-tax differences, which suggests an undermined level of tax avoidance. CEOs' ownership power has negative correlation with the total book-tax difference, indicating diminishing tax avoidance.

The tests on expert power (EXPP) show that EXPP is significantly and negatively correlated with ABTD and PBTB, but positively, albeit insignificantly, correlated with TBTD. The results still support H2c, meaning that CEOs with strong expert power are better equipped to discriminate tax avoidance risks based on professional knowledge and work experience. They are more aware of the reputational risks and uncertainties resulted from tax avoidance. When this is combined with the conservative investment strategy during long CEO tenures, it further strengthens CEOs' expert rights and cuts back on tax avoidance by significantly narrowing the permanent book-tax differences. In contrast, temporary book-tax differences have weak influence on reputations, and hence, report no changes. The tests on prestige power (PREP)

show that PREP is positive correlated with ABTD, PBTD, and TBTD. The correlations with ABTD and PBTD are statistically significant, but not with TBTD. The empirical evidence supports H2d, meaning that CEOs with high prestige power can reduce the non-tax costs of the target companies by referring to the sophisticated experience of tax avoidance, as circulated among directors of the network of companies. This enhances the diversity of tax strategies and attracts external organizations to collaborate with transactions for tax purposes. Concern over reputations are mitigated by using common tax avoidance strategies or detecting the attitude of tax authorities from the information shared in the network, which is conducted via permanent book-tax differences. In contrast, the impact of temporary book-tax differences on net tax benefits is not high, and hence, is not changed.

### Control Variables

Corporate governance variables INDB and COMM are both significantly and negatively correlated with ABTD and PBTD. In other words, a high percentage of independent directors and the presence of audit committees lead to better corporate governance and less likely tax avoidance. In addition, the IND and TBTD correlations are negative, while COMM and TBTD are positive, but all are insignificant. This implies the influence of corporate governance on temporary book-tax differences is relatively weak. In terms of company characteristics, firm size (SIZE) is significantly and positively correlated with ABTD and PBTD, while correlation with TBTD is negative, but insignificant. Put differently, the larger the firm size, the more likely tax avoidance strategies are implemented, and permanent book-tax differences are formed. There is no correlation with temporary book-tax differences. The findings regarding total book-tax differences suggest aggressive tax avoidance. While DEBT is positively correlated with ABTD and PBTD, and inversely correlated with TBTD, all are insignificant, indicating a low correlation between debt ratios and corporate tax avoidance. PPE is significantly and positively correlated with PBTD, as expected. However, the negative correlation with TBTD is not significant, which is possibly because of the tax incentives enjoyed by companies with high capex investments. Such companies, however, do not seem to use techniques that affect temporary book-tax differences. In general, the correlation between PPE and ABTD is insignificant. Both ROA and GRA are significantly and positively correlated with ABTD, PBTD and TBTD, which is in line with the expectations.

The research findings on ROA suggest that, the better the profitability, the more likely we are to observe aggressive tax avoidance and lower tax expenses, which is consistent with Mills, Newberry, and Trautman (2002), Frank et al. (2009), and Chen et al. (2010). The results of GRA show that growth companies have more tax avoidance opportunities and motivations. RD is significantly and positively correlated with both ABTD and PBTD, as expected, which indicates that tax incentives for R&D expenses reduce tax burdens. The negative correlation between R&D and TBTD is not significant, which is mainly due to the limited effects on temporary book-tax differences. UNCON is significantly and positively correlated with all three types of book-tax differences, as expected. This implies the greater the investment profits and losses under the equity method, the bigger the book-tax differences and the higher the level of tax avoidance. Regarding the auditors' characteristics as a control variable, BIG4 is significantly and inversely correlated with both ABTD and PBTD, which is in line with expectations, and means the companies audited by the Big Four report a lower degree of tax avoidance, which is consistent with the reputation hypothesis. TENURE is significantly and positively correlated with ABTD and PBTD, and negatively correlated with TBTD, but not significantly. The longer the auditors' tenures, the more likely their independence is compromised, which gives leeway to audit clients in terms of tax avoidance.

To avoid the problems associated with collinearity, this paper uses Variance Inflation Factor (VIF) testing. According to variable regression, the VIF values are all between 1 and 2.2, which is smaller than 10. The explanatory variables used by the empirical model in this paper can make reason estimates and are not subject to the effect of high collinearity.

Table 5: CEO Power and Tax Avoidance

Variables	Model 1			Model 2			
	Expected direction	ABTD	PBTD	TBTD	ABTD	PBTD	TBTD
INT		-0.1012 *** (-8.363)	-0.1213 *** (-10.323)	0.0141 ** (1.549)	-0.0934 *** (-7.683)	-0.1128 *** (-9.566)	0.0135 * (1.476)
POWER	?	-0.0016 ** (-2.220)	-0.0022 *** (-3.176)	0.0008 (1.484)			
STRP	+				0.0009 (1.120)	0.0012 * (1.471)	-0.0001 (-0.101)
OWNP	-				-0.0050 *** (-5.888)	-0.0059 *** (-7.153)	0.0009 * (1.371)
EXPP	-				-0.0028 *** (-3.494)	-0.0024 *** (-3.144)	-0.0004 (-0.748)
PREP	+				0.0013 * (1.535)	0.0012 * (1.423)	0.0001 (0.218)
INDB	-	-0.0360 *** (-7.356)	-0.0373 *** (-7.849)	-0.0018 (-0.485)	-0.0328 *** (-6.673)	-0.0338 *** (-7.096)	-0.0020 (-0.544)
COMM	-	-0.0070 *** (-3.285)	-0.0081 *** (-3.932)	0.0015 (0.966)	-0.0073 *** (-3.432)	-0.0085 *** (-4.127)	0.0016 (1.012)
ROA	+	0.3230 *** (23.963)	0.3111 *** (23.785)	0.0291 *** (2.878)	0.3269 *** (24.263)	0.3155 *** (24.153)	0.0286 *** (2.824)
GRA	+	0.0307 *** (9.667)	0.0292 *** (9.490)	0.0041 ** (1.712)	0.0298 *** (9.408)	0.0283 *** (9.198)	0.0042 ** (1.742)
SIZE	?	0.0102 *** (5.691)	0.0118 *** (6.828)	-0.0011 (-0.807)	0.0087 *** (4.861)	0.0103 *** (5.903)	-0.0010 (-0.722)
DEBT	?	-0.0042 (-0.839)	-0.0058 (-1.194)	0.0021 (0.557)	-0.0036 (-0.729)	-0.0052 (-1.072)	0.0020 (0.542)
PPE	+	0.0031 (0.765)	0.0064 * (1.594)	-0.0018 (-0.567)	0.0050 (1.211)	0.0084 ** (2.091)	-0.0019 (-0.602)
RD	+	0.7935 *** (14.877)	0.8786 *** (16.974)	-0.0132 (-0.331)	0.8022 *** (15.061)	0.8860 *** (17.156)	-0.0123 (-0.307)
UNCON	+	0.7539 *** (10.446)	0.5341 *** (7.626)	0.2742 *** (5.066)	0.7225 *** (10.006)	0.5006 *** (7.149)	0.2759 *** (5.082)
BIG4	-	-0.0046 ** (-2.165)	-0.0040 ** (-1.980)	-0.0010 (-0.614)	-0.0041 ** (-1.946)	-0.0036 ** (-1.783)	-0.0009 (-0.579)
TENURE	+	0.0003 *** (2.843)	0.0004 *** (4.194)	-0.0001 (-1.180)	0.0003 *** (2.534)	0.0004 *** (3.872)	-0.0001 (-1.170)
YEAR		YES	YES	YES	YES	YES	YES
INDUSTRY		YES	YES	YES	YES	YES	YES
.R <sup>2</sup> (%)		0.255	0.249	0.057	0.259	0.254	0.057
. Adj.R <sup>2</sup> (%)		0.250	0.244	0.050	0.253	0.249	0.050
F Value		50.483 ***	48.996 ***	8.883 ***	48.466 ***	47.309 ***	8.3803 ***

This table shows the regression estimates of the model 1:  $BTD_{it} = \beta_0 + \beta_1POWER_{it} + \beta_2INDB_{it} + \beta_3COMM_{it} + \beta_4ROA_{it} + \beta_5GRA_{it} + \beta_6SIZE_{it} + \beta_7DEBT_{it} + \beta_8PPE_{it} + \beta_9RD_{it} + \beta_{10}UNCON_{it} + \beta_{11}BIG4_{it} + \beta_{12}TENURE_{it} + Year\ Dummies + Industry\ Dummies + \epsilon_{it}$ , and model 2:  $BTD_{it} = \beta_0 + \beta_1STRP_{it} + \beta_2OWNP_{it} + \beta_3EXPP_{it} + \beta_4PREP_{it} + \beta_5INDB_{it} + \beta_6COMM_{it} + \beta_7ROA_{it} + \beta_8GRA_{it} + \beta_9SIZE_{it} + \beta_{10}DEBT_{it} + \beta_{11}PPE_{it} + \beta_{12}RD_{it} + \beta_{13}UNCON_{it} + \beta_{14}BIG4_{it} + \beta_{15}TENURE_{it} + Year\ Dummies + Industry\ Dummies + \epsilon_{it}$  for all samples. All data are taken from Taiwan Economic Journal from 2010 to 2016. The first figure in each cell is the regression coefficient. The second figure in each cell is the t-statistic. \*\*\*, \*\* and \* indicate significance at the 1, 5 and 10 percent levels respectively.

**Sensitivity Analysis**

**Whether Firms Are Governed (Ultimately Controlled) by Professional Managers**

The literature typically presumes that the decision regarding tax avoidance rests on the unitary decision makers (i.e. the owner and the decision-maker being the same person). However, the analysis of Chen and Chu (2005) regarding tax evasion in the shareholders-managers model assumes that risk-averse managers

in charge of production will file company profits with tax authorities. The work inputs from these managers has positive impact on corporate profits, and only when managers' risk-aversion is not constant will their production decisions be influenced by the shareholders' policy on tax avoidance. In such circumstances, it is the shareholders that orchestrate tax avoidance and evasion, meaning managers collaborate in a passive manner because they are paid by shareholders. Of course, managers know more about production and financials than shareholders. Thus, managers are the most influential group in company decisions. Whether tax avoidance outcomes vary under the effects of CEO power is an issue worthy of sensitivity analysis. Governance by professional managers can be defined as one type of ultimate control. This paper uses the definition of the Taiwan Economic Journal regarding conglomerate control. Ultimate control is divided into four types, i.e. single-family dominance, collective governance, managerial control, and public ownership. A dummy variable is established in this paper for managerial control, which implies that managers take charge of key decisions in the absence of major shareholders, or significant shareholders are not involved in operations or corporate decisions. This paper refers to managerial governance as a moderating variable when revisiting the influence of CEO power on tax avoidance, and the results are compared with the main empirical findings. In contrast with the findings, as derived by Eq. (1) and Eq. (2), the models are constructed with Eq. (3) and Eq. (4), as follows:

$$\begin{aligned}
 \text{BTD}_{it} = & \beta_0 + \beta_1 \text{MA}_{it} + \beta_2 \text{POWER}_{it} + \beta_3 \text{POWER} * \text{MA}_{it} + \beta_4 \text{INDB}_{it} + \beta_5 \text{COMM}_{it} + \\
 & \beta_6 \text{ROA}_{it} + \beta_7 \text{GRA}_{it} + \beta_8 \text{SIZE}_{it} + \beta_9 \text{DEBT}_{it} + \beta_{10} \text{PPE}_{it} + \beta_{11} \text{RD}_{it} + \beta_{12} \text{UNCON}_{it} + \\
 & \beta_{13} \text{BIG4}_{it} + \beta_{14} \text{TENURE}_{it} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{it} \quad (3)
 \end{aligned}$$

$$\begin{aligned}
 \text{BTD}_{it} = & \beta_0 + \beta_1 \text{MA}_{it} + \beta_2 \text{STRP}_{it} + \beta_3 \text{STRP}_{it} * \text{MA}_{it} + \beta_4 \text{OWNP}_{it} + \beta_5 \text{OWNP}_{it} * \text{MA}_{it} + \\
 & \beta_6 \text{EXPP}_{it} + \beta_7 \text{EXPP}_{it} * \text{MA}_{it} + \beta_8 \text{RPEP}_{it} + \beta_9 \text{RPEP}_{it} * \text{MA}_{it} + \beta_{10} \text{INDB}_{it} + \\
 & \beta_{11} \text{COMM}_{it} + \beta_{12} \text{ROA}_{it} + \beta_{13} \text{GRA}_{it} + \beta_{14} \text{SIZE}_{it} + \beta_{15} \text{DEBT}_{it} + \beta_{16} \text{PPE}_{it} + \\
 & \beta_{17} \text{RD}_{it} + \beta_{18} \text{UNCON}_{it} + \beta_{19} \text{BIG4}_{it} + \beta_{20} \text{TENURE}_{it} + \text{Year Dummies} + \\
 & \text{Industry Dummies} + \varepsilon_{it} \quad (4)
 \end{aligned}$$

The symbol MA<sub>it</sub> is denotes the dummy variable, with 1 indicating managerial control and 0 if not. The definitions of other variables are the same as Model (1) and Model (2). The empirical findings are presented in Table 6. CEO's comprehensive power and the four types of CEO powers are not enhanced in companies controlled by managers. Empirical analysis indicates that the influence of CEO power on tax avoidance is the same as companies controlled by managers and companies not controlled by managers. In the companies not controlled by managers, CEOs' decision power is subject to the influence of other controllers. However, such influence is not pronounced on tax avoidance decisions in the presence of strong CEOs' power, thus, it can be inferred that CEOs with strong power exert the same influence in companies regardless of control type.

Table 6: CEO Power and Tax Avoidance (Distinguishing Whether the Company Is Governed by Professional Managers)

Variables	Expected direction	Model 1			Model 2		
		ABTD	PBTD	TBTD	ABTD	PBTD	TBTD
INT		-0.1015 *** (-8.386)	-0.1216 *** (-10.350)	0.0144 * (1.548)	-0.0937 *** (-7.690)	-0.1126 *** (-9.534)	0.0129 * (1.412)
MA	+	0.0033 ** (1.891)	0.0032 ** (1.888)	0.0004 (0.319)	0.0033 ** (1.808)	0.0034 ** (1.945)	0.0001 (0.085)
POWER	?	-0.0015 ** (-1.929)	-0.0020 *** (-2.613)	0.0007 (1.221)			
POWER* MA	?	0.0001 (0.083)	-0.0005 (-0.277)	0.0003 (0.240)			
STRP	+				0.0006 (0.653)	0.0013 * (1.405)	-0.0005 (-0.676)
STRP* MA	+				0.0008 (0.412)	-0.0010 (-0.536)	0.0018 (1.213)
OWNP	-				-0.0048 *** (-5.087)	-0.0058 *** (-6.381)	0.0010 * (1.458)
OWNP* MA	-				-0.0005 (-0.258)	-0.0002 (0.097)	-0.0008 (-0.493)
EXPP	-				-0.0028 *** (-3.098)	-0.0024 *** (-2.678)	-0.0007 (-0.964)
EXPP* MA	-				-0.0003 (0.150)	-0.0006 (-0.356)	0.0008 (0.569)
PREP	+				0.0017 ** (1.796)	0.0015 * (1.639)	0.0002 (0.279)
PREP*MA	+				-0.0015 (-0.768)	-0.0014 (-0.736)	-0.0000 (-0.015)
INDB	-	-0.0367 *** (-7.469)	-0.0379 *** (-7.951)	-0.0019 (-0.513)	-0.0334 *** (-6.785)	-0.0345 *** (-7.211)	-0.0020 (-0.547)
COMM	-	-0.0072 *** (-3.360)	-0.0084 *** (-4.029)	0.0015 (0.963)	-0.0075 *** (-3.507)	-0.0088 *** (-4.225)	0.0016 (1.020)
SIZE	?	0.0101 *** (5.677)	0.0118 *** (6.813)	-0.0011 (-0.809)	0.0087 *** (4.831)	0.0102 *** (5.840)	-0.0009 (-0.678)
DEBT	?	-0.0043 (-0.870)	-0.0059 (-1.214)	0.0020 (0.544)	-0.0035 (-0.749)	-0.0053 (-1.099)	0.0021 (0.560)
PPE	+	0.0038 (0.920)	0.0070 ** (1.738)	-0.0017 (-0.533)	0.0056 * (1.356)	0.0089 ** (2.224)	-0.0018 (-0.565)
ROA	+	0.3233 *** (23.981)	0.3115 *** (23.812)	0.0291 *** (2.8875)	0.3269 *** (24.219)	0.3153 *** (24.086)	0.0291 *** (2.869)
GRA	+	0.0304 *** (9.570)	0.0290 *** (9.396)	0.0040 ** (1.694)	0.0296 *** (9.321)	0.0281 *** (9.115)	0.0041 ** (1.714)
RD	+	0.7979 *** (14.946)	0.8829 *** (17.043)	-0.0127 (-0.317)	0.8078 *** (15.118)	0.8891 *** (17.161)	-0.0088 (-0.220)
UNCON	+	0.7570 *** (10.488)	0.5368 *** (7.664)	0.2747 *** (5.073)	0.7262 *** (10.028)	0.5022 *** (7.151)	0.2776 *** (5.097)
BIG4	-	-0.0048 ** (-2.284)	-0.0043 ** (-2.096)	-0.0010 (-0.636)	-0.0043 ** (-2.038)	-0.0038 ** (-1.876)	-0.0009 (-0.590)
TENURE	+	0.0003 *** (2.816)	0.0004 *** (4.183)	-0.0001 (-1.193)	0.0003 *** (2.522)	0.0004 *** (3.880)	-0.0001 (-1.195)
YEAR		YES	YES	YES	YES	YES	YES
INDUSTRY		YES	YES	YES	YES	YES	YES
R <sup>2</sup> (%)		0.255	0.249	0.057	0.259	0.254	0.057
Adj.R <sup>2</sup> (%)		0.250	0.244	0.050	0.253	0.248	0.050
F Value		48.506 ***	47.084 ***	8.521 ***	44.140 ***	43.090 ***	7.647 ***

This table shows the regression estimates of the model 1:  $BTD_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 POWER_{it} + \beta_3 POWER \cdot MA_{it} + \beta_4 INDB_{it} + \beta_5 COMM_{it} + \beta_6 ROA_{it} + \beta_7 GRA_{it} + \beta_8 SIZE_{it} + \beta_9 DEBT_{it} + \beta_{10} PPE_{it} + \beta_{11} RD_{it} + \beta_{12} UNCON_{it} + \beta_{13} BIG4_{it} + \beta_{14} TENURE_{it} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{it}$ , and model 2:  $BTD_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 STRP_{it} + \beta_3 STRP_{it} \cdot MA_{it} + \beta_4 OWP_{it} + \beta_5 OWP_{it} \cdot MA_{it} + \beta_6 EXPP_{it} + \beta_7 EXPP_{it} \cdot MA_{it} + \beta_8 RPEP_{it} + \beta_9 RPEP_{it} \cdot MA_{it} + \beta_{10} INDB_{it} + \beta_{11} COMM_{it} + \beta_{12} ROA_{it} + \beta_{13} GRA_{it} + \beta_{14} SIZE_{it} + \beta_{15} DEBT_{it} + \beta_{16} PPE_{it} + \beta_{17} RD_{it} + \beta_{18} UNCON_{it} + \beta_{19} BIG4_{it} + \beta_{20} TENURE_{it} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{it}$  for all samples. All data are taken from Taiwan Economic Journal from 2010 to 2016. The first figure in each cell is the regression coefficient. The second figure in each cell is the t-statistic. \*\*\*, \*\* and \* indicate significance at the 1, 5 and 10 percent levels respectively.

## CONCLUSION

CEOs act as the principal’s agents and executives for corporate management. Taxes are an obligation of companies as a result of their operating activities; hence, taxes are a part of operating costs. Tasked with the highest management responsibilities and social expectations, CEOs are compensated with

remunerations and personal interests. CEOs play a pivotal role in the determination of firms' tax avoidance intensity. However, the level of CEO influence on the level of tax avoidance will vary given the different strengths of CEO power. This paper sets out to explore the relation between CEO power and tax avoidance by sampling companies listed on the TWSE and TPEX in 2010~2016. Book-tax differences are used as a proxy and dependent variable. Total book-tax differences are categorized into permanent and temporary for detailed analysis. CEO power is set up as the independent variable, and divided into structural power, ownership power, expert power, and prestige power.

Research findings suggest a significant and adverse correlation between CEO's comprehensive power and total book-tax differences. The stronger the CEO power, the less the tax avoidance and the lower the taxation risks, which is primarily via a reduction of permanent book-tax differences. Temporary book-tax differences are not adopted in a major manner. In terms of the four types of CEO power, i.e. structural power, ownership power, expert power, and prestige power, there is significant and positive correlation between structural power and permanent book-tax differences, which is indicative of tax avoidance. To avoid special attention from investors, CEOs with high structural power try to maintain a total book-tax difference that is not overly obvious. The higher the ownership power, the lower the total book-tax differences and permanent book-tax differences. As stewardship theory (and convergence-of-interest hypothesis) posits, CEOs with high ownership seek to protect the interest of all shareholders. After consideration of the impact of taxation risks on company reputations, they mitigate tax avoidance by reducing the book-tax differences. It is worth noting that there is significant and positive correlation between ownership power and temporary book-tax differences, which is inconsistent with expectations, and is probably because CEOs with high ownership pursue earnings management with discretionary accruals.

The empirical evidence suggests that CEOs with high expert power scale back on tax avoidance. The greater the breadth of professional knowledge, internal status, and seasoned experience in key functions, the better equipped CEOs are in discerning reputational risks due to tax avoidance. Therefore, they adopt a conservative tax strategy to protect reputations and honor corporate social responsibilities. Prestige power is significantly and positively correlated with tax avoidance, which indicates the strengthening of social network connections, as built on prestige, helps to facilitate tax avoidance. The mitigation of tax avoidance by CEOs with high expert power and the engagement of tax avoidance by CEOs with high prestige power are both materialized in permanent book-tax differences. Statistics on temporary book-tax differences are insignificant, indicating no adoption. Book-tax differences are calculated as pre-tax financial income less taxable income. As taxable incomes are confidential and non-public information, this paper calculates taxable income according to the relevant information in financial statements. This is a research limitation. Meanwhile, book-tax differences change as a result of late and requested tax payments following excessive tax avoidance. Under these circumstances, observed values of proxy variables are indicative of low levels of tax avoidance. This is a research limitation of using book-tax differences as a proxy variable. It is hoped that future studies can rectify this problem.

What are the key components of the influence of CEO power on corporate tax avoidance? This is an issue yet to be dealt with in research of the relation between management and tax avoidance. As mentioned by Desai and Dharmapala (2009), corporate tax avoidance is influenced by corporate governance mechanisms, audits, and enforcement by tax authorities. As the top management of corporate governance chains, CEOs are highly influential in tax avoidance. Audits and law enforcement of tax authorities have a direct impact on the reputations and risks associated with corporate tax avoidance. Given the rising concern over global sustainable development, CEOs strive to ensure the reputation of firms and play their part in corporate social responsibilities. The research findings of this paper help clarify how CEO power strengths affect tax avoidance behaviors, which can assist firm owners to better understand management's attitude toward tax avoidance. In the meantime, tax authorities can better understand the relation between CEO power and



corporate tax avoidance. CEO characteristics can serve as a reference for selecting tax files for inspection and enhancing auditing effectiveness.

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# THE IMPACT OF CONSUMER NEED FOR UNIQUENESS ON COUNTRY OF ORIGIN EFFECTS

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## ABSTRACT

*This study, through a two by two between-subjects experimental design, attempts to clarify the possible impacts of consumer need for uniqueness on country of origin effects. Product typicality and consumer need for uniqueness were adopted as the two factors of the experiment. The recruitment of 416 participants confirmed that although typical products of a country are evaluated more positively than the less typical ones, in general, consumers with a high need for uniqueness are keener to purchase atypical products of a country than consumers with a low need for uniqueness. Thus, international marketers can promote their products by stressing the unique features of products that are not typical of their country of origin.*

**JEL:** M310

**KEYWORDS:** COO, Country of Origin, Product Typicality, Country Typicality, Consumer Need for Uniqueness, Purchase Intention, Product Evaluation

## INTRODUCTION

A country of origin (COO) image is defined as the subjective perception of a consumer about products of a country and provides important observations, such as belief, ideas, and impressions, before making a buying decision. COO research began about five decades ago and has grown rapidly to become one of the most important fields in international marketing and the theory of business. Most studies believe that the COO cue can influence consumers' preferences and behavioral intentions (Kock et al., 2019). However, despite being abundant, the observed effects are subject to contextual variations that remain unexplained. As research evidence shows, the variation of COO effects across product categories is one such instance (Balabanis and Diamantopoulos, 2004; Han and Terpstra, 1988; Kaynak and Cavusgil, 1983; Roth and Romeo, 1992). Some product categories are strongly associated with specific countries, for example, German cars and French perfume (Kotler and Gertner, 2002). However, not all products from a country can benefit equally from its strong COO image. For example, Germany is well-regarded for the quality of its engineering and technological products, but this strong COO image may not have the same effect on other products, such as German fashion. The limited available research that we found, tried to explain variation by matching different products to different aspects of COO image that consumers perceived as important (Roth and Romeo, 1992). Accordingly, the highest COO effects were expected when aspects of the COO image which were perceived strong, were also perceived to be important for consumers of that product category. Another approach was to examine how the COO effects varied by broad categorizations of products (i.e., classified into shopping, convenience, consumer-packaged, and luxury products) and different levels of COO economic development (Manrai et al., 1998). According to that approach, the highest COO was expected when the COO was a developed one and the product was a luxury, or a shopping or packaged good. For developing COOs, the highest COO effects were expected in consumer-packaged and convenience goods. However, there are some cases which are related to traditional products like Persian rugs, or Chinese porcelain, or technological products from newly industrialized countries (for example, Samsung TV sets from South Korea), that do not always fit the predictions of the previous studies.

This paper focuses on the variation observed in products coming from the same COO. Why are certain products of a country evaluated higher than others? Building on previous research, the paper tries to explain variation by focusing on an important product attribute (product typicality), and a consumer characteristic (the need for uniqueness). Typicality can provide more theoretically grounded explanations of product-specific variations of COO effects (Tseng, 2014; Tseng and Balabanis, 2011). Country typicality (CT) reflects how representative a product is of a country. The consumer need for uniqueness (CNFU) is a characteristic that we expected to impact the variation of COO effects caused by typicality. Need for uniqueness, together with product typicality, can better explain product-based variation of COO effects. Based on the above, this paper describes an experimental design to determine the roles of typicality and CNFU in consumer evaluations and purchase intentions for different products of a country. The remainder of the paper is organized as follows: in the next section, literature about typicality and consumer need for uniqueness are presented; in the following section, the paper discusses the methodology used in the study and how the data were collected; then, statistical analyses and hypotheses examinations are presented in the results section; finally, the paper presents some conclusions and suggestions for marketing scholars and managers.

## LITERATURE REVIEW

Typicality is defined as the degree to which an item is perceived to represent a category (Hamzaoui-Essoussi et al., 2011; Loken and Ward, 1990). A product is considered more typical than others when its properties are perceived to be more central, or are more similar, to the prototype of the product category. This distance from a prototypical member of a category explains the graded structure of typicality (Lingle et al., 1984). Similar grading applies to the product typicality (Hsu et al., 2014). In this study, product typicality is defined as the degree to which a product category is considered representative of a COO. It is evident that not all products are equally associated with or representative of their COOs. Some products are more representative of the country than others. Electronics are considered a representative or typical product of Japan. However, the same does not apply for shoes, which are perceived a less typical product of Japan. Typical products are closely identified with their COO and encapsulate some of the competitiveness and skills that the country has developed over time (Spielmann, 2016). From the perspective of a consumer coming from another country, these products are better known and evoke the COO. Due to their higher visibility and familiarity to the outside world, a mere exposure effect is in operation; these products will enjoy more positive evaluations than other less typical products. Previous studies have established the existence of a similar positive relationship between typicality and attitudes or selection decisions towards a product (Loken and Ward, 1987; Nedungadi and Hutchinson, 1985). The same is expected to apply to the context of COO effects.

*H1: The typical products of a country will receive more positive general evaluations than the less typical products of the same country.*

Ceteris paribus, based on reasoned action theory premises we expect a similarly increased influence of the COO to be present in purchase intentions when country typicality is high. Several meta-analytical studies (Peterson and Jolibert, 1995; Verlegh and Steenkamp, 1999) have empirically confirmed this relationship of COO to intention. Moreover, Tseng (2014) and Reinholtz et al. (2015) pointed out that typical products of a country can attract higher purchase intention among consumers. To confirm and verify this argument, the current study would like to propose that:

*H2: Purchase intentions will be higher for the typical products of a country than the less typical ones.*

The influence of typicality on product evaluations does not remain the same across the board. It appears that some important consumer characteristics may influence this effect. The uniqueness theory of Snyder and Fromkin (1979) asserts that people have a basic need to feel moderately dissimilar to other people.



According to the theory, the need to see oneself as being different from other persons is aroused and competes with other motives in situations that threaten the self-perception of uniqueness (i.e., situations in which individuals see themselves as highly similar to others in their social environments). Individuals will then attempt to reclaim their self-esteem and reduce negative effect, through self-distinguishing behaviors (Tian and Mckenzie, 2001). Material expressions of one's differentness from others are particularly valued because they satisfy the need for uniqueness without risking severe social penalties (Snyder, 1992). When need for uniqueness is dominative, consumers tend to purchase products that allow them to distinguish themselves from other people (Bozkurt and Gligor, 2019; Chan et al., 2012).

Human beings may execute their desire to be unique in various ways, for example, through possession displays (Belk, 1988), style of interpersonal interaction (Maslach et al., 1985), domains of knowledge where they establish expertise (Holt, 1995), or conspiracy beliefs endorsement (Lantian et al., 2017). Moreover, many studies such as Snyder and Fromkin (1977) and Geng et al. (2019) have found that different individuals can show different degrees of uniqueness motivation. Therefore, it follows that consumers are likely to vary in their tendency to satisfy uniqueness motivation, through consumer behaviors and possessions. The high need for uniqueness leads to consumer tendency to avoid rehashing common arguments, and instead use novel, less conventional rationale. This results in innovative and less conventional choices (Sadik-Rozsnyai and Bertrandias, 2019; Simonson and Nowlis, 2000). Therefore, such consumer need for uniqueness (CNFU) should reflect individual differences in consumer counter-conformity motivation – differentiating the self via consumer goods and visual display of these goods – and the volitional or willful pursuit of differentness relative to other people, as an end goal (Nail, 1986; Tian and Mckenzie, 2001). In other words, consumer counter-conformity motivation is conceptually defined as an individual's pursuit of differentness relative to other individuals that is achieved through the acquisition, utilization, and disposition of consumer goods to develop and enhance one's personal and social identity. Therefore, CNFU is operationally defined as an individual's tendencies to engage in consumer counter-conformity behaviors by making creative counter-conformity choices, unpopular counter-conformity choices, and choices that reflect avoidance of similarity to others (Tian and Mckenzie, 2001).

Logically, consumers who have a high need for uniqueness would avoid purchasing popularized commodities, and favor unique products in a mass-market (Sun et al., 2017). Such a trait might moderate the effects of typicality across products so that consumers with the trait tend to avoid possessing typical products of a country and prefer to try some atypical products of that country. Therefore, this study proposes the following hypotheses:

*H3: The purchase intentions for typical products from a COO will be lower in consumers with high CNFU than consumers with low CNFU.*

*H4: The purchase intentions for atypical products from a COO will be higher in consumers with high CNFU than consumers with low CNFU.*

## DATA AND METHODOLOGY

We used a two by two between-subjects factorial design in the experiment. Country typicality (typical product of a country vs. atypical product of a country), and consumer need for uniqueness (consumers with high CNFUs vs. consumers with low CNFUs) were the two factors of interest. We selected Japan as the country of origin in this study since Taiwanese students are quite familiar with Japanese products. To avoid possible bias due to different product types, this experiment controlled the variable; hedonic products were selected for one set, and utilitarian products for the other. Responses to hedonic and utilitarian products were analyzed separately to check for different response patterns between the two types. We followed the recommendations of some experts to select 'console games' and 'earrings' as typical and atypical hedonic products of Japan, for the respective groups of Taiwanese student consumers. Similarly, 'refrigerators' and

'kitchen knives' were selected as typical and atypical utilitarian products. We launched a pilot test to check the selection of typical and atypical products of Japan. A separate pool of undergraduate students attended the pilot. They rated their perception of hedonicity and typicality on the two selected products of Japan. The results showed that the students regarded Japanese console games as typically hedonic products, and Japanese earrings as atypical ones. Also, they considered Japanese refrigerators typical utilitarian products, and Japanese kitchen knives atypical.

Subjects were 416 undergraduate students at a college in Taiwan. Those subjects were required to rate their need for uniqueness on the CNFU scale (Tian and Mckenzie, 2001) during the first week of May in 2016. Seven-point Likert scales were applied to the measure. According to the scores, we classified subjects into two groups, high-CNFU, and low-CNFU, based on a median split (4.36 in this case). Thus, we had 208 subjects in each group. The 208 subjects in each group were randomly assigned to the conditions of typical or atypical products, in a balanced way. This measure also assured the manipulation of CNFU in the experiment. The mean CNFU value (mean = 5.13) for the high CNFU group was significantly higher than the mean CNFU value (mean = 3.01) for the low CNFU group ( $p < 0.01$ ).

During the third week of May in 2016, all subjects had to evaluate the level of country typicality of the product assigned to them (Japanese console games and refrigerators, or Japanese earrings and kitchen knives). They rated the product on the seven-point Likert scale ranging from 1 = "strongly disagree" to 7 = "strongly agree" with three descriptions ("extremely good example", "very typical", and "very representative"), respectively (Loken and Ward, 1990). The results of this test assured the manipulation of country typicality. The mean typicality values for the high typicality groups were 5.83 (Japanese console games) and 5.70 (Japanese refrigerators), which were significantly higher than the means of 2.68 (Japanese earrings) and 3.55 (Japanese kitchen knives) for the low typicality groups respectively ( $p < 0.01$ ).

In the formal experiment during the second week of June in 2016, all subjects were asked to indicate purchase intention and product evaluation of the products which had been assigned to them previously (i.e., Japanese console games and refrigerators for the high typicality groups, and Japanese earrings and kitchen knives for the low typicality groups). Purchase intention was gauged by the following questions: "Do you intend to buy...?", "How likely is it that you would buy...?", and "Do you like the idea of owning the...?" Participants were told to identify the level of their purchase intention, based on the COO of the products and supposing that they had the need and ability to buy the products. Participants also rated their level of purchase intention on scales modified from Nebenzahl, Jaffe, and Usunier's questionnaire (2003) that measured evaluation of a country's product. Seven-point Likert scales were applied to all items. We separated the three tests by several weeks, to minimize demand effects. In each test, participants were briefed about different research purposes. Also, in the first two tests, they had to rate their responses with extra measures irrelevant to this study. In a short interview with participants after the formal experiment, most subjects did not associate the three tests with each other, as a single study.

## RESULTS AND DISCUSSION

Table 1 presents the means of purchase intention and product evaluations for each condition in the experiment. Analyses of variance (ANOVAs) with between-subjects factors of country typicality (CT) (typical vs. atypical) and CNFU (high vs. low CNFU) were performed. Table 2 shows the results of ANOVAs for utilitarian and hedonic products on the two dependent variables. The significant main effect of country typicality on purchase intention provides empirical support for H2 ( $F(1,412) = 290.35, p < 0.01$  for utilitarian products;  $F(1,412) = 316.20, p < 0.01$  for hedonic products). Purchase intentions for Japanese console games (mean = 5.53) are more positive than for Japanese earrings (mean = 3.92). Similarly, purchase intentions for Japanese refrigerators (mean = 5.68) are more positive than for Japanese kitchen knives (mean = 3.91). This indicates that although products are from the same country, consumers show a preference for typical products of that country.

Table 1: Means of Purchase Intention and Product Evaluations for Each Condition

	Purchase Intention						Product Evaluations					
	Typical		Atypical		Total		Typical		Atypical		Total	
	C	R	E	K	Hedonic	Utilitarian	C	R	E	K	Hedonic	Utilitarian
<b>High CNFU</b>	5.35	5.48	4.03	4.16	4.69	4.82	5.49	5.46	3.79	3.98	4.64	4.72
<b>Low CNFU</b>	5.71	5.88	3.82	3.63	4.76	4.76	5.38	5.38	3.71	3.65	4.54	4.51
<b>Total</b>	5.53	5.68	3.92	3.91	4.73	4.79	5.43	5.42	3.75	3.82	4.59	4.62

This table shows means of purchase intention and product evaluations for each condition in the experiments. The meanings of the abbreviations in the table are as follows: C: Console Games, R: Refrigerators, E: Earrings, K: Kitchen Knives, CNFU: Consumer Need for Uniqueness. The “Total” line in the last row shows the means for respective products regardless of the level of CNFU. The “Total” columns in “Purchase Intention” and “Product Evaluations” represent the means for hedonic and utilitarian products regardless of the level of typicality.

Table 2: The Summary of ANOVAs for Utilitarian and Hedonic Products

Utilitarian Products										
Source	df	Purchase Intention			Source	df	Product Evaluations			
		MS	F	p			MS	F	p	
CT	1	330.83	290.35	0.00***	CT	1	266.73	262.80	0.00***	
CNFU	1	0.40	0.35	0.56	CNFU	1	4.49	4.43	0.04**	
CT X CNFU	1	22.62	19.85	0.00***	CT X CNFU	1	1.67	1.64	0.20	
Error	412	1.14			Error	412	1.02			

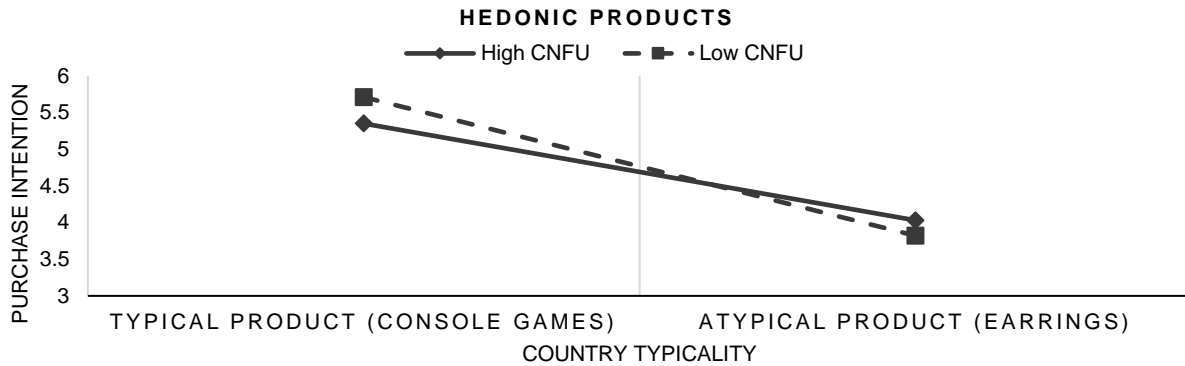
Hedonic Products										
Source	df	Purchase Intention			Source	df	Product Evaluations			
		MS	F	p			MS	F	p	
CT	1	268.70	316.20	0.00***	CT	1	293.91	355.29	0.00***	
CNFU	1	0.54	0.64	0.43	CNFU	1	1.02	1.24	0.27	
CT X CNFU	1	8.37	9.85	0.00***	CT X CNFU	1	0.01	0.02	0.90	
Error	412	0.85			Error	412	0.83			

This table summarizes the results of ANOVAs on purchase intention and product evaluations, separately. Analyses for utilitarian products include subjects’ purchase intention and product evaluations, with regard to refrigerators and kitchen knives. Analyses for hedonic products include subjects’ purchase intention and product evaluations, with regard to console games and earrings. The meanings of the abbreviations in the tables are as follows: CT: Country Typicality, CNFU: Consumer Need for Uniqueness, MS: Mean Square, F: the value of the F-test. The table also reports p-values (Probability), and df (Degrees of Freedom) for each source in the ANOVA tests. \*\*\*, \*\* and \* indicate significance at the 1, 5, and 10 percent levels, respectively.

The main effects of CNFU on purchase intention are insignificant for both hedonic and utilitarian products. However, the interaction effects between country typicality, and need for uniqueness, on purchase intention are statistically significant:  $F(1,412) = 9.85, p < 0.01$  for hedonic products in Figure 1;  $F(1,412) = 19.85, p < 0.01$  for utilitarian products in Figure 2. For atypical products, subjects with a high need for uniqueness present a higher purchase intention than subjects with a low need for uniqueness: The t-test value for hedonic products in Figure 1 was  $t(206) = -1.41, p = 0.159$ ; for utilitarian products in Figure 2 was  $t(206) = -2.93, p < 0.01$ . Although the difference for hedonic products is insignificant, consumers with a high CNFU tend to show higher purchase intentions than those with a low CNFU, providing some empirical support for H4. For typical products, however, the difference of purchase intentions between high and low in CNFU subjects is significant in a reversed direction:  $t(206) = 3.51, p < 0.01$  for hedonic products in Figure 1;  $t(206) = 3.81, p < 0.01$  for utilitarian products in Figure 2. The results further confirm the argument for H3. This research argues that products with different levels of typicality are evaluated differently, even when the products come from the same country. According to Table 1, the more typical products receive more favorable evaluations than the less typical ones, in general. The significant main effects of product typicality ( $F(1, 412) = 262.80, p < 0.01$  for utilitarian products;  $F(1, 412) = 355.29, p < 0.01$  for hedonic products) on product evaluations showed that Japanese console games (mean = 5.43) and refrigerators (mean = 5.42) are more favorably evaluated than Japanese earrings (mean = 3.75) and kitchen knives (mean = 3.82), respectively. This supports the argument for H1. Moreover, different from purchase

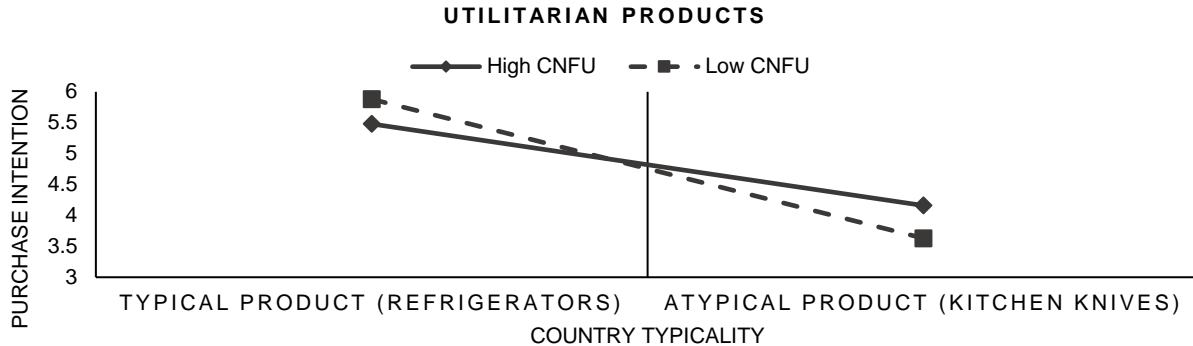
intention, the results indicate that there is no significant interaction between CNFU and typicality. Consumers with high CNFU show slightly more positive evaluations than those with lower CNFU, no matter whether products are typical or atypical.

Figure 1: The Interaction between CNFU and Country Typicality on Purchase Intention for Hedonic Products



This figure shows the interaction between CNFU (Consumer Need for Uniqueness) and Country Typicality, on Purchase Intention for hedonic products, including Japanese console games(typical) and Japanese earrings(atypical). The differences between high and low CNFU are significant for the typical product only.

Figure 2: The Interaction between CNFU and Country Typicality on Purchase Intention for Utilitarian Products



This figure presents the interaction between CNFU (Consumer Need for Uniqueness) and Country Typicality, on purchase intention for utilitarian products, including Japanese refrigerators(typical) and Japanese kitchen knives(atypical). The differences between high and low CNFU are significant for both typical and atypical products.

### CONCLUDING COMMENTS

The current study attempted to investigate the impacts of personality (i.e., need for uniqueness) on the effects of COO image. We tested our theory using a two by two between-subjects factorial experiment with 416 undergraduate students in Taiwan. As expected, participants showed higher evaluation and purchase intentions regarding typical products than atypical products of a specific country in the experiment. The results are consistent with previous studies of typicality showing that individuals tend to favor typical examples more strongly (Barsalou, 1983; Barsalou, 1985; Loken and Ward, 1987; Nedungadi and Hutchinson, 1985). Our experiment extends the argument to the context of COO image. As we proposed, typical products of a COO received more favorable evaluations and purchase intention than atypical products of the same COO. Only typical products of a country can enjoy the benefits of strong COO images.

The results replicate and confirm the recent efforts (e.g., Tseng, 2014; Tseng and Balabanis, 2011) to apply this categorical and product-specific viewpoint (i.e., typicality) to the field of COO research. Practitioners are, thus, encouraged to promote COO in international marketing if the COO products are perceived as typical ones. In addition to the positive effects of typicality that we found in this study, we showed that consumer need for uniqueness (CNFU) also plays a role in moderating the effects of typicality on purchase intention in the context of COO image. This finding complements the research of Asshidin et al. (2016) in clarifying the impact of CNFU on consumer behaviors toward international products. Specifically, for typical foreign products, consumers with high CNFU show less purchase intention than those with low CNFU. For atypical foreign products, however, the situation is reversed. Since typical products of a country are usually those common and popular in the market, the results reveal some consumers' tendencies to engage in consumer counter-conformity behaviors despite their favorable evaluation toward typical products. This provides an opportunity for marketers to promote a country's uncommon products (especially utilitarian ones). Those marketers can focus on the market segment of consumers with high CNFU and try to make those consumers feel 'unique' or 'special' when possessing the products. This study uses student samples in the experiment to reduce possible interference of other uncontrolled factors, which may limit the generalizability of the results. We would like to suggest that future researchers use other samples, and include more control variables, to increase the generalizability of the results. Moreover, we would encourage the examination of the impacts of other personality types on COO effects, which could be very helpful for practitioners to segment the market when using COO strategies.

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# HYBRID WARFARE AND PUBLIC DIPLOMACY: COLD WAR PROPAGANDA BLOWBACK LEGACIES FOR BULGARIA AND BEYOND

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## ABSTRACT

*This analysis demonstrates that the instruments and personnel inherited from containment have been adapted to the post-Cold War environment to expand state influence. Their tactics include reliance on local clients in third states that major powers patronize to engage in indirect, often obscured competition for control within the broader nuclear setting. This paper outlines the reverberations of US-Soviet clandestine competitive interference within the internal politics of third parties, including disinformation campaigns. This competitive interference contributed to the contemporary vulnerability of nationalist public opinion constituencies to conspiratorial stereotyping, embracing so-called fake news. This examination of the nature of propaganda illustrates the implications of the lack of transparency in the external sources supporting, advocating and utilizing public diplomacy initiatives. A study found the Balkans to be most vulnerable to the propagation of fake news which include claims of conspiratorial networks to undermine Balkan national sovereignty. This paper highlights how US' public diplomacy capacity to combat fake news is significantly affected by this Cold War legacy. The digital information revolution exacerbates these vulnerabilities. The US and the USSR legacy of intense Cold War propaganda disinformation combat should be addressed transparently today lest US public diplomacy initiatives inadvertently reinforce the circulation of fake news.*

**JEL:** D74, F54, I23, I26, I28, N4

**KEYWORDS:** Bulgaria, Cold War, Disinformation, Hybrid Warfare, Public Diplomacy

## INTRODUCTION

Disinformation propaganda operations have a very long history. The postwar nuclear setting together with mass public nationalism and political participation has accentuated the importance of shaping public opinion. It requires avoiding the plausibility of charges of treasonous collaboration with external actors (Hemment, 2017, 569). Axiomatically, state authorities are prone to portray international challengers as seeking and utilizing domestic collaborators as their internal, covert/hidden clients. Transparency in sponsorship of information campaigns is generally expected. Manipulation of public opinion to promote a hidden agenda is condemned. Political attacks on competitors often thus assert that the other side's ultimate motivation and sponsorship is concealed because of the political efficacy of such attacks if perceived as plausible. Allegations that the opponent is unpatriotic, even treasonous, can be more effective to the extent to which these accusations tie the opponent to an obscured, external actor (DeDominicis, 2019b).

Like much in the modern era of international relations, the 1945 use of nuclear weapons marked an important watershed in accelerating earlier trends. Precursors to US covert Cold War international propaganda and psychological operations emerged in the early part of the century. E.g. Hill notes that the US administration tasked George Creel and his Committee on Public Information (CPI) to mobilize US public opinion to support US intervention against Germany in the First World War. It utilized modern

advertising techniques. The CPI continued its work, producing a 1918 pamphlet, *The German-Bolshevik Conspiracy*, “that continues to circulate today,” claiming that Lenin and Trotsky were paid German state agents. George Kennan in 1956 demonstrated that it is a forgery (2018, 304).

Nuclear weapons making great power conflict far too costly to be fought directly increased the focus on covert and indirect means of influence generation within target polities, including the homeland. The longevity of the Cold War created incentives for both the Soviet and American leaderships to promote domestically the willingness of public opinion to bear the costs of Cold War competition. The boundaries between international and domestic propaganda campaigns blurred along with the erosion of traditional geographical sphere of influence boundaries (Morley, 2017, 79). American disinformation propaganda campaigns included the accusation that the Soviet Union sponsored international terrorism, targeting both foreign and domestic audiences. A high-profile case of this supposed sponsorship was the papal assassination attempt in 1981 (“Pope Clears Bulgaria,” 2002). The alleged Bulgarian sponsorship, with Moscow’s blessing, was disinformation that the Reagan administration propagated, utilizing the public persuasive credibility of the CIA (Goodman, 2017).

During the Cold War, US national research centers under contract to the US Defense Department’s Advanced Research Projects Agency developed what became the Internet starting in 1969 (Abbate, 2001, 150). Social media emerged on this digital technology foundation. Recent events illustrate how social media platforms have facilitated disinformation campaigns. Topical literature (Korta, 2018) highlights, for example, the greatly increased capacity social media has provided for so-called information laundering (see Figure 1 below).

Social media provides an immense potential for unregulated inputs by nearly infinite overt and covert sources, with an almost unlimited diversity of viewpoints and vast variations in extent of “credibility” (Richtel, 2020, para. 18). The social media sphere expedites the insertion into innumerable simultaneous interchanges of what heretofore the so-called mainstream media authorities had viewed as fringe, militant and taboo assertions. Routing these placements onto some of the limitless number of Internet-based platforms inevitably leads them to being liked/disliked, forwarded, tweeted, bottled, copied and critiqued. The nature of Internet-based social media increases their media exposure. These fringe statements, including what some have tagged hate speech, thereby become part of electronic conversations, with their original sources in unknown or taboo authors and media outlets often obscured. Information laundering, like money laundering, aims to conceal the original source of the hate speech in order to legitimate it. I.e. it aims separate the assertion from the negative reputation that its original source has in mainstream media discourse. Readers/consumers of the assertion are therefore less likely to dismiss the assertion than they would be if its originator was publicly identified.

Propaganda by a government agency, a terrorist organization or for-profit company, or non-profit organization, aims to “reinforce or modify the attitudes, behavior, or both of an audience” (Korta, 2018, 40, quoting Jowett and O’Donnell, 2014, 4). The audience member’s pre-existing perceptions determine if the perceiver views the propaganda message as “self-evident” or “controversial” (Korta, 2018, 40, quoting Jowett and O’Donnell, 2014, 19). Undermining the public credibility and reputations of competitors is the aim of disinformation campaigns. The perception of the intentionality of this type of information is another point of interest:

*“According to the study “Influence of fake news on public opinion”, carried out by Estudio de Comunicación y Servimedia (2018), 88% of respondents, including journalists, politicians, scholars and entrepreneurs, believe that fake news are spread “to damage the image and reputation of individuals and organisations”, and according to 75.8%, the motivation would be a benefit for a person or a group. In relation to the impact of fake news, the study also points out that the greatest damage is reputational, both for organisations (85.5%) and individuals (66.2%)” [sic] (Rodríguez-Fernández, 2019, 1716).*

Rodríguez-Fernández highlights that the Spanish audience for fake news understands that fake news aims to undermine the credibility of political adversaries. Amongst all categories of information, “fake news stories are 70% more likely to be retweeted and spread further, faster and deeper and more widely than true stories in all categories of information” (Rodríguez-Fernández, 2019, 1715, citing Vosoughi, Roy and y Aral, 2018).

Exploitation of the US intelligence community’s public credibility for information laundering is a reflection of the increasing salience of national influence expansion driving postwar American foreign policy (DeDominicis, 2019a). This manifestation takes a form in the “politicization” of the national intelligence gathering, analysis and interpretation processes and in counterintelligence operations (Haberman, Barnes and Baker, 2019, para. 38). The precedents for recent manipulation of raw intelligence reports to serve the pursuit of expansionist foreign policy goals arose in the Cold War as explained below in the post-1945 international context. This behavioral pattern became particularly evident in the latter stages of the Cold War with the inauguration of the Reagan administration. The motivations for this pattern intensified as the ever more evident internal weakness of the Soviet Union became a topic of scholarly and media discussion in the late 1970s (Hyland, 1979, 56, “A Fortress State,” 1980).

The Soviet Union as an increasingly dangerous imperialist actor compensating for its internal dysfunction was a premise that emerged after the US Vietnam defeat. This national humiliation was followed by the rise of Soviet-allied regimes in the Horn of Africa as well as in Nicaragua, Grenada, Mozambique, Angola and Afghanistan. Threats arose to US clients in El Salvador, Iran and Israel. A supplementary premise that emerged concurrently was the need to fortify American public perception of a primary Soviet threat, e.g. through refashioning by right-wing figures in 1976 of the Committee on the Present Danger (CPD) (Rosenberg, 2015, Jurdem, 2017). The CPD was revived in 2004 to mobilize American public opinion against a perceived militant Islamist threat and again currently against a perceived “existential” Chinese Communist threat to the US (Swanson, 2019, para.1).

This analysis begins by outlining some of the findings in cognitive psychology that help determine the appeal and persuasiveness of propaganda. It incorporates those findings into the neoclassical realist international relations literature to place disinformation within the context of nation state behavior. It then highlights the political circumstances surrounding the rise of neoconservatism and its advocates’ claim to rally and lead the US to victory in the Cold War. It underscores the implications of the end of the Cold War for American influence expansion employing these covert and propagandistic instruments perceived as instrumental in successfully containing the USSR. The postwar prevailing view in Washington was that the USSR was, in effect, a Russian version of Nazi Germany, i.e. the Cold Warrior worldview (Cottam, 1977, 118). The supposed US defeat of this dire global threat is an implicit justificatory assumption for the continued employment of covert as well as indirect forms of US influence expansion. These indirect forms include public diplomacy policies that have utilized these Cold Warrior personnel and their resource access. These policies aim, among other goals, to institutionalize the expansion of US influence. The American University in Bulgaria (AUBG), a US Agency for International Development (USAID) public diplomacy project which first admitted students in 1991, is presented as a case study to illustrate this policy pattern behavior.

The continuing circulation and Internet recycling of Cold War-era disinformation fortifies contemporary conspiratorial worldviews among the public. Condemnation of opposing media viewpoints as so-called fake news emerges in part because of the lack of sufficient transparency regarding the pedigree of current policy activities and roles. These earlier Cold War containment-era disinformation campaigns still challenge nationalist sensibilities. Association with them should be avoided in public diplomacy initiatives such as AUBG as explained in the section below, “A Path Forward.” The conclusion notes the necessity of highlighting transparently the causes for historical and current policy as a prescription to undermine propensities towards conspiratorial stereotyping.

## LITERATURE REVIEW

Korta (2018) draws from Pratkanis and Aronson (2001) in analyzing the persuasiveness of propaganda. Propaganda aims to influence the audience in a desired direction through obscuring the motivations of the source of the information/disinformation. Obscuring the actual source is the most blatant form of obscuring motivations. Source credibility is a means for propaganda influence, i.e. a trusted or admired source ideally should deliver the message. Positive affect is also important. Highlighting the danger of the resurgence of old threats and dangers, i.e. pre-persuasion, increases vulnerable amenability to messages (2018, 39). Delivering a message resonating with romanticized national achievements in the view of the audience increases its persuasiveness. Perceived national humiliation generates negative emotions.

This paper applies the political psychological conceptualization of nationalism by Cottam and Cottam (2001). It is the overarching framework for this analysis of US and Russia's post-Cold War legacies of Cold War disinformation and hybrid warfare campaigns. Nationalism associates with stereotyping and affect, and unsanctioned external intervention in the internal politics of a nation state is prone to propagate stereotype image and public opinion affective responses (Cottam and Cottam, 2001, 99-105). Covert interventions, by their nature intentionally masked or obscured, contribute to local conspiratorial perceptions of the nature of external challenge. These propaganda campaigns target the politics of each other and of third actors as well as one's own, home polity. This Cold War legacy emphasizes critical shared elements in post-Cold War grand strategy of the US and Russia.

Korta (2018) surveys the social psychology literature to outline the belief perseverance/confirmation bias, the backfire effect and the availability heuristic. Confirmation bias is the tendency of the perceiver to emphasize information that confirms the perceiver's preconceived biases while tending to discount information that does not conform. Confirmation bias supporting belief perseverance overlaps with the backfire effect, i.e. the tendency of the perceiver to view incongruent information presented as a hostile ego attack. The perceiver defensively responds by reaffirming the perceiver's preconceived biases. The availability heuristic is the perceiver's tendency to judge the frequency, likelihood and significance of incidents on the basis of the ease to which these incidents come to mind (51-53). Confirmation bias, backfire effect and availability heuristic all came into play as challenges to the Cold War enemy stereotype of the USSR and its associated Manichean worldview became apparent in the 1970s (Cottam, 1977). A response was the neoconservative movement, one manifestation being the Committee on the Present Danger which reaffirmed the Cold Warrior worldview, influencing media reports to reaffirm this outlook (Swanson, 2019).

After 25 years of early Cold War portrayal of the Soviet bloc as an evil empire, much of the American public would be susceptible to propaganda which reaffirmed these portrayals. The commitment of significant components of the American public to the Manichean worldview would generate a backfire effect. Their hostility would be directed towards New Left critiques of the Vietnam debacle and the Manichean Cold War worldview more broadly. "Reagan's decisive victory [in the 1980 US presidential election] marks the final political defeat of the movements of the 1960s and important step toward the reconstitution of hegemonic world order" (McQuade, 2014, 46).

An overlap with the so-called availability heuristic is evident here insofar as the backfire effect intensified in the midst of partisan political struggle over perceived challenges to US national security. This battle became significantly more internally divisive in the midst of the Vietnam catastrophe. The overwhelming postwar consensus among establishment authority figures regarding the nature of the international challenges to the US that centered on the Soviet Union fragmented (Hook, 2020, 93). Elite leadership factions emerged that challenged and questioned the Manichean worldview focus on Moscow as an intensely imperialist global threat to the US. As analyzed below, figures such as Eugene McCarthy, George

McGovern and Jimmy Carter gave expression to these alternative worldviews. They themselves disagreed on what political conflicts were driving change in world politics. The elite factions that continued to focus on the Soviet Union as the primary instigator of threats to US national security coalesced around various groups including the Committee on the Present Danger.

The American national humiliation in the failure of US power to prevail in Vietnam contributed to the emotive energy compelling the backfire effect. The availability heuristic of the familiar Manichean worldview of the struggle between the so-called free world versus Communism ultimately directed from Moscow provided a focus for the backlash. US President Ronald Reagan exploited the “evil empire” stereotype of the Soviet Union (Reagan, 1983, ~2:25, ~4:19). Scapegoating an alleged “empire of evil” was familiar after 25 years of Cold War propaganda. It would place the blame for terrorism and the papal assassination attempt on the Soviet Union (via Bulgaria) to rally American nationalist public opinion.

Eisenfeld (2016) references Marrin (2013) who concludes that “the concept of politicization of intelligence analysis is for the most part analytically useless.” One’s viewpoint as consumer or producer of intelligence determines whether or not one person’s alleged politicization of intelligence is another person’s standard operating procedure in analysis (2016, 81-82). A rephrasing of this tendency emphasizes the pre-existing cognitive-perceptual frameworks used in analyzing intelligence data. Those observers who were convinced, for a variety of reasons, that the USSR was a belligerent, aggressive global threat and viewed it through an enemy stereotype would resist changing their views. Some did change their views over the course of the Cold War, e.g. Senator J. William Fulbright (Bennett, 1999, 612). Those establishment figures who revived the CPD were not among them. The reasons for this divergence are beyond the scope of this paper. The top-down nature of politicization characterizes the early Reagan administration’s approach to the intelligence community and its products (Eisenfeld 2016, 83-84). Reagan as patron of the CPD and its members committed themselves to the Cold Warrior stereotype of the USSR. Reagan’s Director of Central Intelligence (DCI), William J. Casey, blatantly politicized the intelligence product to oblige in propagating the allegation of Soviet sponsorship of global terrorism. This alleged Soviet sponsorship included the papal assassination attempt (Goodman, 2017).

The political incentives for politicization of intelligence focus on foreign policy decision makers seeking validation of their preconceived assumptions and policy prescriptions towards target states. Pinkus highlights a recent, notorious case involving the G.W. Bush administration’s use and modification of US intelligence estimates. They incorrectly claimed Saddam Hussein’s Iraq continued to develop weapons of mass destruction to justify the US-led 2003 invasion. Referencing support from the US intelligence community adds persuasiveness in the partisan struggle to shape public opinion, domestically and abroad, i.e. public diplomacy (2014).

This analysis incorporates neo-classical realism’s orientation towards a historical sociological path dependency approach to foreign policy analysis (Zodian, 2015, 189). Neoclassical realism accentuates states’ preemptive efforts to manipulate and influence their political “environment” (Sears, 2017, 23). These policies affect the policy making dynamics within polities to shape domestic political trends at home as well as abroad. Covert interventions, by their nature intentionally masked and obscured, contribute to local conspiratorial perceptions of the capabilities and motivations of threatening external actors. These policy instrument legacies of the Cold War are critical shared elements in post-Cold War international strategy of the US and Russia. This paper underlines the influence of Cold War-era actors as political vested interests that shape today’s foreign policy. These domestic vested interests include Cold War-instituted national security institutions. They are important internal considerations affecting the foreign policy making dynamics in their particular political systems. Their impact affects the patterns of foreign policy behavior of an initiator state regarding its efforts to produce influence in a target state’s policy making processes in the nuclear setting. The legacy of US-Soviet Cold War competitive, covert interference in the internal

politics today increases amenability to conspiratorial worldviews (Hänni, 2020). It thus contributes to nationalist populism and so-called fake news proliferation.

US President Jimmy Carter initially emphasized human rights promotion as the strategic goal of US foreign policy to supersede the postwar focus on Soviet containment (da Vinha, 2016a, 2016b). The neoconservative activists constituting the Committee on the Present Danger challenged this affirmation of this new foreign policy strategy. “The CPD used its influence in the press to shape public perception of his foreign policy as weak, vacillating, and incapable of addressing the danger posed by Soviet expansionism” (Rosenberg, 2015, 721). “Team B” analyses by the CPD also challenged CIA (i.e. Team A) National Intelligence Estimates of Soviet military capabilities and intentions that supported the arms control détente strategy of the Nixon-Ford-Kissinger era (Haar, 2017, 45). Team B engendered the “window of vulnerability” claim that superior Soviet nuclear military capabilities made the US vulnerable to a Soviet first strike by eliminating US nuclear retaliatory capability (Prados, 1993, 23, 29).

Rosenberg notes that twenty-seven CPD members joined the Reagan administration in 1980 under a new president who shared their worldview (2015, 72). In sum, the rise of the neoconservatives reflected intensifying American perception of immediate Soviet imperial aggressiveness. This intensifying perception of challenge emerged concurrently with increasing American perception of longer-term Soviet regime vulnerability. The Reagan administration sought to mobilize the national will and determination to exploit the US ever-increasing power capability base advantage to defeat the USSR by expanding American benign “hegemony” (George, 2005, 183).

The Reagan administration leadership would utilize the intelligence services as part of this American national remobilization (Herman, 1996). If the respective analyses of these intelligence agencies were not supportive of the portrayal of a resurgent Soviet threat, then minimally their use as authoritative sources of information would be exploited. DCI Casey utilized the authority of the CIA while politicizing the agency’s intelligence analysis process. CIA analysis under Casey propagated CIA disinformation to mobilize public opinion to support the Reagan administration’s resurgent containment strategy, claiming a global terror network sponsored by Moscow (Hänni, 2016, 968). The CIA disseminated disinformation that the USSR instigated terrorism in Western Europe that was then referenced in Western investigative journalism, e.g. Claire Sterling’s *The Terror Network* (1981) (Zulaika, 2003, 196, referencing Herman and O’Sullivan, 1990, 171). I.e. the intelligence agencies would help legitimate in American political discourse what the Reagan administration leadership strove to portray to justify Reagan administration policy.

The strategic goal would be ultimate victory. As Casey stated, “[w]hen we win one [containment battle], the whole house of cards will come tumbling down. It will set off a chain reaction throughout the [Soviet] empire” (Busch, 1997, 459, referencing the Casey quote in Schweizer, 1994, 250). The postwar Soviet Union, perceived as motivated to achieve what Nazi Germany had not, i.e. world domination, yielded its empire and disintegrated (Cox, 2011, 629-30). The remarkably sudden and peaceful end of the Cold War and dissolution of the USSR appeared to vindicate this long-term, so-called Cold War struggle of the vast US national security establishment (Platon, 2015).

After the Cold War, this US national security enterprise was adapted and strengthened to address the latest task: the so-called war on terror by the G.W. Bush administration (Patman, 2009). Figures within the George W. Bush administration refashioned this earlier “Team B” tactical maneuver. Again, the aim was to supersede government intelligence agencies that once more were reaching initial conclusions that US decision makers did not want to accept. US intelligence agencies focused on the lack of evidence for Baathist Iraqi weapons of mass destruction programs and militant jihadist Islamist connections. An ad hoc intelligence analysis group sought to generate its own analysis to justify an invasion to bring regime change to Iraq. According to George, “their primary vehicle for such evidence was the Pentagon’s Office of Special Plans (OSP) a little-known organization set up after 9/11 by [Paul] Wolfowitz and [Donald] Rumsfeld to

provide alternative intelligence on Iraq from that of the CIA and the Pentagon's own Defence Intelligence Agency (DIA). It was, in short, Team B all over again, and like it is less than illustrious predecessor it was staffed by hand-picked hawks" [*sic*] (2005, 42). G.W. Bush administration foreign policy decision makers did more than "cherry pick" intelligence to fit their preconceived notions. "The record strongly suggests elements of exaggeration and outright manipulation of intelligence" especially by those individual decision makers who favored the 2003 US-led invasion of Iraq (Henderson, 2018, 72).

Later, post-Soviet Moscow covert intelligence units interfered in the 2016 US presidential election via a social media disinformation campaign to influence US public voter opinion. In the view of some, the consequences confirmed the necessity of leadership in shaping US public opinion by the US national security community to confront the renewed Russian and other hybrid warfare threats (McGeehan, 2018, 56-57).

Post 1991, the overarching prevailing view in Washington became that the US occupies a position of world leadership under its comparatively benign post-Cold War hegemony (Brooks, 2012, 36-37). Today, so-called rogue states are threats to the international stability and consequently to this American-led world order (Kim and Hundt, 2011). The 2002 "axis of evil" label applied by US President G.W. Bush stereotypically categorizes these lesser power rogue states, e.g. Afghanistan, Iraq, Iran and North Korea ("Text," 2002, para. 52). The watershed for the US commitment to intervene militarily despite the opposition of other permanent UN Security Council members to remove US-perceived rogue regimes was the earlier 1999 Kosovo crisis (Lobel, 2000). NATO's Operation Allied Force commenced on March 24, 1999. The escalating 78-day NATO air bombardment intensified Serb-Kosovo Albanian chaotic ethnic conflict dynamics. Gentry notes the latter included Kosovo Liberation Army enticement of NATO intervention on its behalf by "provoking the Serbs into atrocities" (2006, 211). This intervention was the denouement of the Clinton administration's long-festering hostility towards historically pro-Russian Belgrade.

The imminent, explicit threat and commencement of bombardment led to the province-wide communal population expulsion, elements both pre-planned and not, that NATO claimed it was trying to stop (Fisk, 1999, sentence 51). German security services allegedly distorted vague Bulgarian intelligence reports from Yugoslavia that "could not be verified" (Sofia News Agency, 2012, para. 10). Berlin referenced a forwarded Bulgarian report of an alleged Belgrade plan, codenamed Operation Horseshoe, to justify the US-led NATO air campaign (Select Committee on Foreign Affairs, 2000, para. 93-98). E.g. the Bulgarian report allegedly referenced Operation "Podkova" (Horseshoe), while the Serb (transliterated) word for horseshoe is "podkovitsa" (поtkовица). "Podkova" [potkova?] is the Croatian word for horseshoe (Goetz and Walker, 2000, para. 9). Podkova is the Bulgarian (transliterated) word for horseshoe (подкова).

According to one retired German brigadier general, the actual Bulgarian report "concluded that the goal of the Serbian military was to destroy the Kosovo Liberation Army, and not to expel the entire Albanian population" (Goetz and Walker, 2000, para. 9). Responding to criticism, German Foreign Minister Joschka Fischer on April 8, 1999 stated that Belgrade on February 26, 1999 began implementing this supposed pre-planned Operation Horseshoe. Belgrade's aim was allegedly so-called ethnic cleansing: to expel all ethnic Albanians from Kosovo (Radio Free Europe, 1999, para.10-13). Former long-time Canadian diplomat James Bisset noted that "[i]t is interesting that although the Operation Horseshoe scandal has been discussed in the German parliament, there has been little or no media coverage of it in the North American media" (2001, 41, fn1).

The NATO air campaign began after Belgrade rejected February 23, 1999 formal NATO demands for NATO freedom of movement throughout all Yugoslav territory in the draft Rambouillet Accords (Schwarz, 1999, 1, "Rambouillet Accords," 1999, 86). After Belgrade's capitulation and withdrawal of its forces from Kosovo, NATO and UN forces limited their occupation to Kosovo. In October 2000, a popular uprising

forced Yugoslav President Slobodan Milosevic from office. In June 2001 he was transferred to the International Tribunal for the Former Yugoslavia for trial. His arrest and transfer by the new Belgrade government followed an indictment by the International Criminal Tribunal for the former Yugoslavia in May 1999 during the NATO air campaign. Milosevic died in 2006 before the trial's conclusion. In 2007, the International Court of Justice ruled that Belgrade did not orchestrate ethnic cleansing in Bosnia and Herzegovina against non-Serbs; nor did it intervene to stop war crimes by Bosnian Serb actors (Simons, 2007). Examples of US scholarship continue to reference the alleged Operation Horseshoe as justifying NATO intervention to stop Belgrade's violations of international humanitarian law, including genocide (Daalder and O'Hanlon, 2001, Steinke, 2015).

## DATA AND METHODOLOGY

This analysis has employed a review of the public record including triangulation utilizing findings and evidence afforded in scholarly peer-reviewed publications. This study utilizes *New York Times* investigative reporting in part because peer-reviewed research suggests that it is the most authoritative American news channel through agenda setting for other media news conduits (Denham, 2014, 18-19). The author had been an officer of the American University in Bulgaria Faculty Assembly during most of his 1994-2009 employment at AUBG (DeDominicis, 2013). He had conversations about these matters with other senior AUBG administrators and senior faculty representatives to the AUBG Board of Trustees.

## RESULTS AND DISCUSSION

The rise of mass public nationalism increased local resistance and the costs of overt external intervention (DeDominicis, 2019b). National self-determination emerged as a component among the postwar international human rights regimes (Cassese, 2005, 16, 39, 63, 75, 84, 207). Covert and indirect intervention abroad became increasingly politically desirable by governments. Competitive Cold War aid and assistance included financial and military support to respective local clients, often exacerbating conflicts within polarized communities around the world. Great power competition became progressively indirect; the nuclear setting made avoiding the outbreak of direct great power conflict a top priority. Preventing loss of escalatory control over local conflict dynamics became a primary high level strategic foreign policy objective. Washington and Moscow reacted positively to solicitations from readily identified political contestants in third states in severe conflict with local antagonists. They appealed for Soviet or US assistance and aid to win in their local contest, and inevitably, their adversaries sought support from the other Cold War bloc rival (Cottam, 1967).

Supporting local actors as political clients to dominate polities became a focus of great power competition for global influence and control. This overt or covert external intervention, if and when perceived by particular local actors in effect as an intolerable infringement on national sovereignty, likely would generate political resistance. The external interference rationale was characteristically the depiction of an urgent menace from the hostile external opponent in a particular local facet of the worldwide Cold War contest. The consequent aggravation of the identified threat from the local adversary would justify the interference by their own external patrons from the viewpoint of each local contestant.

“The covert aspect of information and propaganda dissemination ... has been of exceptional importance during the Soviet-American cold war” [*sic*] (Cottam and Gallucci, 1978, 32). Disinformation as part of what is today labelled “hybrid warfare” encouraged this mobilization against the perceived local, treasonous threat conspiring with its Cold War great power patron (Isikoff and Corn, 2018, 44). The local contestant and its external patron would portray as national in origin their own resistance-focused disinformation against the portrayed threat of the other to local sovereignty. The foreign encouragement and assistance for one contestant or another would typically be obfuscated, if not concealed (Voss, 2016, 40). The degree to which such opposition was believed to be essentially domestic was constrained. Concealing completely and



indefinitely external involvement in covert operations involving numerous individuals is improbable. Making it plausibly deniable via obfuscation facilitates diverting and disorganizing the resistance to make subduing it more feasible. The uncertainty of the initiator and forms of the external intervention including the extent of local collaboration with it would in turn intensify mutual suspicion and fear of the local other, i.e. polarization.

Covert intervention obfuscates the delineation between external and internal sources of initiated foreign imperial influence. Attitudes of suspicion and paranoia emerge from generations of obscured imperial control, creating fertile conditions for conspiratorial worldviews. I.e. an external “hidden hand” supposedly threatens control of the polity through secretly collaborating local elites (Cottam and Cottam, 2001, 112-13). Post-colonial polities are particularly prone to such perceptual stereotypical tendencies (Gray, 2010). Bulgaria has been portrayed as a post-colonial polity (DeDominicis, 2015).

Hybrid warfare is not new. Aside from the exploitation of new digital and social media and communication technologies, both Cold War Washington and Moscow engaged in this covert policy pattern (Renz, 2016, Ransom, 1977). The American leadership inclined towards veiling its covert, long-term, continuous struggle with the USSR while intervening globally (Carson and Yarhi-Milo, 2017). Aside from foreign publics, targets polities also included domestic public opinion (Wilford, 2017). Intelligence agencies contributing to the mobilization of the American public to recognize the intensely aggressive challenge was a component of Cold Warrior containment strategy (Cone 2005, 2007). Sufficient segments of the American public had to be persuaded to accept the sacrifices necessary to counter the Soviet global imperialist threat. These material resources were diverted from consumption to create the diverse array of bureaucratic power instruments necessary to engage in its global containment, i.e. guns over butter.

In accordance with the totalitarian enemy stereotype of the USSR, the Cold Warrior worldview emphasized that, unlike the US, the imperialist USSR leadership was not constrained by public opinion (Cottam and Cottam, 2001, 96-98, 106-08). The US leadership must guide public perceptions, at home and abroad, in this long-term, life and death global struggle largely happening very much covertly and indirectly. Its social and career network allies in shaping public viewpoints included academics, journalists, and civil society actors (DeDominicis, 2014). Civil society groups by definition are supposedly autonomous from state control. Government actors have access to vastly greater, diverse resources, including information as well as material incentives available to entice and coopt many of these civil society actors. They may collaborate, cooperate and coordinate with US government authorities to varying degrees. With the supposed US victory, these Cold Warrior elites and their containment strategy power instruments gained vindication as part of the post-Cold War prevailing US worldview (DeDominicis, 2014). The post-Cold War globalization of this diverse array of containment-era regimes and organizations is to be advanced. These state agencies will continue to foster cooperative for-profit and non-profit civil society actors through subcontracting domestically and internationally to support US-led globalization.

### US Public Diplomacy

Disinformation operations differ from public diplomacy campaigns insofar as the former obscure their external patronage. The latter declare this backing while overtly promoting the ally image of the patron within the broader target polity, thereby indirectly influencing target government policy. Obscuring the covert external support behind disinformation tactics aims to avoid negative interpretation of the motives of local beneficiaries of these campaigns. The purpose is to avoid target perceiver dismissal of the misinformation as foreign partisan propaganda (Roose, 2018). US Cold War foreign policy makers recognized the imperative of maintaining the appearance, if not necessarily the reality, of a separation between covert US intelligence service activities and public diplomacy programs. This separation was necessary to achieve the objective of such public diplomacy programs, i.e. overtly to encourage positive local public opinion attitudes towards the United States. Covert activities, i.e. US government intelligence,

counterintelligence and influence operations undertaken without official local national consent would risk appearing to violate the national sovereignty of the target. US foreign policy makers recognized this imperative in the establishment of an iconic public diplomacy initiative, the Peace Corps.

Peace Corps staff policy since its 1961 establishment has forbidden hiring as prospective employees or volunteers those previously employed in the US CIA. Peace Corps Director Jack Vaughn, its second director and the first Republican appointed to the position by President Lyndon Baines Johnson, a Democrat, reiterated this policy in 1968 (1968, 1). Due to DCI William J. Casey's indignation against "unfair stigmatization" of individuals owing to their prior CIA service, the Peace Corps director agreed to lower the public profile of this prohibition (Brown, 2018, para. 1). Current Peace Corps policy on its website restates this restriction:

*"Peace Corps Manual Section 611 sets our policy for individuals with either a personal or familial association to an intelligence agency or intelligence-related work. In order to carry out its mission, the Peace Corps must maintain complete separation from the intelligence activities of the United States government, both in reality and appearance [emphasis added]. The only automatic disqualification is any previous employment with the Central Intelligence Agency (CIA). Individuals with previous employment history at the CIA, including contractors and interns, are indefinitely disqualified from Peace Corps Volunteer service"* (Lenihan 2015, para. 3).

Various US government decision makers perceive the necessity of maintaining this apparent separation from public diplomacy as less politically acute for programs other than the Peace Corps. The supposed victory of the US in containing and removing the global Soviet totalitarian imperialist threat legitimizes these Cold War containment instruments, including their intelligence community. In sum, the latter's policies and personnel helped save the postwar world, and they and their extensive networks and resources should play a leading role in creating the post-Cold War world. The public role of former CIA figures in managing the American University in Bulgaria (AUBG) initiative illustrates the decline in the perceived intensity of this separation imperative.

#### Cold War Hybrid Warfare and Contemporary US Public Diplomacy: The American University in Bulgaria

AUBG protested to the editor of the *Economist*, responding to a January 5, 2002 article that AUBG "has sometimes been known in the Balkans as "the CIA university"" ("Europe," 2002). The protest letter stated that the *Economist* report "might provide misleading information about the university" ("AUBG 'Not CIA'," 2002). A founding American faculty member of the AUBG business administration curriculum told this writer in the mid-1990s that he had been in the CIA early in his career. He was engaged temporarily at AUBG through the US Fulbright scholar exchange program. He also noted that his British spouse, an AUBG faculty member in the humanities and social sciences, had earlier in her career been in the British intelligence services. This business administration faculty member also claimed that the Bulgarian intelligence services had an informant placed within AUBG. At this time, one English language and literature faculty member, an evangelical Christian, had been quietly proselytizing and baptizing receptive AUBG students. He received an ominous voice mail message in English on AUBG's new digital telephone system warning him to stop. Bulgaria is overwhelmingly an Orthodox country that, like Russia, displays strong national skepticism towards other faiths perceived as foreign. E.g. the Bulgarian 1991 constitution, article 13 sec. 3 declares, "Eastern Orthodox Christianity is a traditional religion in the Republic of Bulgaria" ("Constitution," 1991). This faculty member immediately left Bulgaria.

Hans J. Morgenthau, one of the founders of the theory of classical realism in international relations, identified Bulgaria as demonstrably within the Russian sphere of influence. Bulgaria is part of the "Russian security belt" (2005, 192). Great power competition for influence in the nuclear setting has emphasized working indirectly through polity constituency access pressure points to influence target government

foreign policy behavior. These postwar patterns have contributed to the fluidity and diffuseness of what heretofore had been geographic boundary determinations of the limits of respective great power spheres of influence.

Prof. Colleen Graffy, the Assistant Deputy Assistant Secretary of State for Public Diplomacy for Europe and Eurasia at the U.S. State Department, visited AUBG in October 2007 (FlashNews, 2007). During a group lunch with this writer and a group of his students, Prof. Graffy expressed disappointment upon learning that this writer was showing a 2004 BBC video series, *The Power of Nightmares*, in his classes to portray the rise of the neoconservatives (“Adam Curtis Documentary,” n.d.). (The author was on the AUBG faculty in the political science and European studies department during 1994-2009.) Interviewees included former CIA analyst Melvin A. Goodman, who noted that the new DCI William Casey under Reagan was committed to propagating the specious theory that the Soviet Union instigated leftist terrorist cells in Western Europe (Ibid., ~54:40). According to Goodman, this theme was in fact US-sourced propaganda, i.e. disinformation, covertly propagated by the CIA. Goodman claimed in the interview that he and other CIA analysts introduced Casey to those CIA operational personnel who oversaw the disinformation campaign. Casey, nevertheless, was committed to adopting this disinformation as in fact an actual CIA intelligence finding.

Goodman in this video did not comment on the case of the 1981 assassination attempt against the pope (see below). Other individuals interviewed included prominent neoconservatives, e.g. Michael Ledeen, a Reagan administration official (“Adam Curtis Documentary,” n.d., start~52:24). Ledeen played a prominent role in publicly claiming Bulgarian involvement in the papal assassination attempt (Lobe, 2003). Ledeen had been an analyst for the SISMI, the Italian military intelligence agency. It would later be the source of a falsified document indicating that Saddam Hussein’s Iraq was attempting to buy yellowcake uranium in Niger. This forged evidence would be used to justify the US-led 2003 invasion of Iraq (Unger, 2006). The propagation of these false allegations of Communist Bulgarian support for the papal assassination attempt antagonize contemporary Bulgarian national self-identity sensitivities. “Bulgarians still feel stigmatized by the Agca case,” (i.e. Mehmet Ali Agca the attempted assassin from Turkey allegedly utilized by the Bulgarian Communist secret police) (Pavlov, 1998, 31).

Bulgarian mass public national identity self-expression became comparatively well-entrenched in this society under Communism. The evidence lies in that fact that the post-1989 main democratic opposition, the Union of Democratic Forces (UDF) was hesitant to appeal to Bulgarian nationalism for electoral support. The UDF was the main party protagonist of the Bulgarian Socialist (formerly Communist) Party until 2001. The UDF viewed nationalism “as a vestige of communism and a façade for the BSP to preserve the centralized state and economic structures of the former regime” hence “UDF liberals developed an aversion to Bulgarian nationalism” [*sic*] (Anagnostu, 2005, 101).

The Bulgarian and other Balkan Communist authorities relatively effectively mobilized support in their comparatively more rural, traditional societies to legitimate their rule by leading national modernization (Tarifa, 1997, 454). A consequence is that contemporary conservative nationalist populism in Bulgaria has a securer foundation built on Communist-era public policy legitimation mechanisms and tropes (Gigova, 2016, 170-71). It leads to the analytical dilemma noted by others studying Bulgarian nationalism. I.e. an ideologically programmatic, influential right-wing nationalist party in Bulgaria is today absent. This deficiency is in part because Communism historically had been more firmly legitimated via appeals to Bulgarian nationalist sentiments (Meznik, 2016, 31, Bechev, Sakalis and Kurzydowski, 2014, para. 7). The post-Communist, Bulgarian Socialist Party remains the largest, cohesive, most formidable political opposition party today in Bulgaria.

Various US government agencies may foster non-profit contractors for public diplomacy outsourcing. E.g. the US encourages and contracts with various non-governmental organizations through USAID and other

federal agencies to provide humanitarian relief, civil society and institution building aid (USAID, n.d., Villarino, 2011). US and Bulgarian government officials initiated AUBG as a non-profit institution of higher education incorporated in the US state of Maine and in Bulgaria, starting teaching operations in 1991. It is incorporated as a 501(c)(3) non-profit organization according to the US federal code (Guidestar, n.d.). During this writer's employment at AUBG, journalism and mass communications was the second most popular major areas of study among the ~ 1000 students there (~50% Bulgarian, the others from ~40 Balkan and other countries). The first was business administration. AUBG was highly selective in its student admissions. It did not have a faculty tenure system during the author's employment there. The US government via USAID and other agencies have provided much of its funding particularly in its early years before student tuition and room & board fees became significant. AUBG also relies on donors and Bulgarian government support.

In Bulgaria, post-Communist political actors were initial purveyors of anti-George Soros tropes, significantly due to Soros' long-term efforts to weaken the economic legacy of state socialism. Anti-Soros sentiment has been associated with Soros' efforts to liberalize Bulgaria, undermining nostalgic perceived national achievements under Communism (Ghodsee, 2008, 31). Anti-Soros stereotyping in Bulgaria today tends to emphasize his advocacy of cosmopolitan human rights, including gender minority and Roma ethnic minority rights protection (Chastand, 2019). George Soros had a personal representative on the AUBG Board of Trustees while the author was on the faculty there as did USAID. Soros himself spoke as the commencement speaker at one point during this author's employment. During the start-up phase at AUBG, Soros purchased all of the textbooks for the students (DeDominicis, 2013). The US government's position towards AUBG was publicly one of cooperation. E.g. the US ambassador regularly sat on the receiving stage during the annual spring graduation ceremony. The US ambassador as well hosted welcoming dinners for the twice annual AUBG Board of Trustees meetings in Bulgaria (the third annual meeting in January-February was typically in Washington, DC). The US embassy in Sofia exerted pressure successfully to remove one AUBG president due to dissatisfaction with the incumbent president's performance during this writer's employment there.

The late Ralph P. Davidson, chairman of the AUBG Board of Trustees (2000-5) while the author was on the faculty, was a retired chairman of *Time* magazine. Early in his career Davidson had been a CIA official (Langer, 2014). During Davidson's chairmanship, Robert C. McFarlane also joined the AUBG Board of Directors in 2000. McFarlane soon resigned after the AUBG student media published an expose about his involvement in the Iran-Contra affair:

*"He [Davidson] added that McFarlane was one of the people in Reagan's administration who were very instrumental in bringing about the end of the Cold War. "If it weren't for people like McFarlane, you [Dobrinova] might be sending your copy for approval to Moscow," he said. McFarlane said he considers service for AUBG a good use of his time since most of his life has been trying to spread democracy and "universities are particularly effective at teaching those concepts" (Dobrinova, 2001, para. 10-11).*

William Casey was also a senior figure in the Iran-Contra scandal (Walsh, 1998, Walsh, 1993). As noted in Langer (2014), Davidson had been chairman of the board of the Kennedy Center before becoming chairman of the AUBG Board of Trustees: "'Mastergate,' a stinging satire of the Iran-contra scandal, was rejected for a possible July run at the Kennedy Center because of its political content, according to the producer who plans to open the play on Broadway. Neither Kennedy Center chairman Ralph Davidson nor the center's general manager of theaters Drew Murphy was available for comment" [*sic*] (Masters, 1989, para. 1).

According to former CIA analyst Melvin A. Goodman, the evidence of Bulgarian or Soviet orchestration of an assassination plot against Pope John Paul II was "a classic example of the political corruption of intelligence":

*“The next campaign was initiated by [CIA Director William J.] Casey, who remained dissatisfied with the inability to link the Soviet Union with the 1981 shooting of the Pope. The intelligence record clearly exonerated both the Soviet Union and Bulgaria, and, as late as the winter of 1983-1983 [sic], even [CIA Deputy Director Robert M.] Gates’ briefings to Congress emphasized the non-involvement of Moscow and Sofia. Just as Vice President Cheney pushed to prove a non-existent link between Saddam Hussein’s secular regime and al Qaeda in 2002-2003, Casey would not stop linking Moscow to the plot to assassinate the pope. He was getting a great deal of pressure from right-wingers on Capitol Hill ... to produce evidence of Moscow’s role. [Claire] Sterling was needling CIA officers in Rome about their unwillingness to point an accusing finger at Moscow. At one cocktail party, where Sterling was elaborating her perspective on CIA complicity, a CIA operative dismissed her views as conspiracy theory, which -- according to one witness - - “pissed her off. She climbed all over the guy.””*

*“The 1985 assessment “Agca's Attempt to Kill the Pope: The Case for Soviet Involvement,” became a classic example of the political corruption of intelligence. Two Agency post-mortems took the assessment and it co-authors (Kay Oliver, Beth Seeger, and Mary Desjeans) to task for their flawed work. Their careers did not suffer as a result, however. All three continued to be promoted in the CIA’s bureaucracy, with Desjeans becoming chief for intelligence on the former Soviet Union and even an assistant to the deputy director for intelligence, and Oliver became the chief of the Agency’s historical staff. All three also received generous cash awards for their efforts in support of Casey and Gates” (Goodman, 2017, 123).*

Sterling authored an article promoting the Moscow-Sofia orchestration of the papal assassination attempt that the *Reader’s Digest* published, “The Plot to Murder the Pope” (Sterling, 1982). The CIA initially rejected this thesis (“CIA Reaction to Claire Sterling’s *Reader’s Digest* Article,” 1982). Despite the CIA’s initial dismissal of this proposition, the CIA later supported it. Sterling subsequently published a monograph promoting this argument, *The Time of the Assassins* (1983).

Goodman later continues,

*“[Robert] Gates was a master at cherry-picking intelligence to serve Casey’s views. Long before I had the opportunity to testify before the Senate Intelligence Committee, I collected evidence on the false assessment that linked Moscow to the Papal assassination plot in 1981. Casey and Gates had cherry-picked a clandestine report from a third-hand source, a Bulgarian, whose previous information lacked credibility. The Operations Directorate was not even planning to issue the report or circulate it in any fashion, but Casey--unlike other CIA directors--saw clandestine reporting in its raw form before it was circulated to the intelligence community. The Bulgarian was a member of the GRU--his country’s military intelligence--and not connected to the KGB. If the Soviets had been involved in the Papal Plot, then it would have been a KGB operation, not GRU. As a result, a third-hand source, and an unreliable one, got to be the sole driving force behind one of the most dishonest intelligence assessments ever designed to manipulate a President of the United States” [sic] (2017, 295).*

One of the AUBG Board of Trustees members (2005-2010) was John Dimi Panitza. Panitza, a Bulgarian expatriate, had been head of the *Reader’s Digest* editorial office in Paris. He allegedly helped disseminate disinformation that the Bulgarian Communist secret police had orchestrated the plot to attempt to assassinate the Pope in 1981, utilizing as the attempted assassin a Turkish national, Mehmet Ali Agca:

*“The European editor of Reader's Digest, John Dimi Panitza, is a transplanted Bulgarian aristocrat who has been described on the BBC as a CIA agent. According to The Condensed World of the Reader's Digest [Schreiner, 1977], “Each foreign editor has some research staff and the Paris office under Staff Senior Editor John D. Panitza rivals that in Washington.” Panitza invented the Bulgarian Connection in the KGB Plot to Kill the Pope and assigned the job to Claire Sterling and Paul Henze. Henze was CIA Station Chief in Turkey while Sterling is a career disinformation agent for the CIA and Mossad. In the Reader's Digest*

*introduction to the first installment of Edward Jay Epstein's Legend [1978], Panitza is credited with helping uncover the KGB plot behind the Kennedy assassination” [sic] [Landis, 1988, 41-42, available on the Internet since 2016].*

The *Washington Post* 2011 obituary for Paul Henze notes, “... in 2006, an Italian commission reexamined the [papal] assassination attempt and concluded that it had indeed been masterminded by Soviet military intelligence. Russian and Bulgarian officials condemned the finding” (Brown, 2011, para. 14). Henze’s estate donated his personal papers to the Hoover Institution Archives at Stanford University. The on-line catalogue listing for Henze’s papers includes correspondence with Panitza:

[...]

**“Correspondence, travel documentation, and writings, 1947-2010”**

**“Scope and Contents note”**

*“Includes correspondence, travel documentation, research materials, and writings, as well as notes and transcripts from diaries.”*

[...]

*“Box/Folder 217 : 3 John D. Panitza, 1971-1982”*

[...] (“Inventory of the Paul B. Henze papers,” n.d.)

Henze, apprising Panitza on his investigation of the Agca case, writes, “[t]here is a very good chance – if we pursue this situation with energy and perseverance, that we can bring the whole [Soviet] effort against Western society by support of terrorists and subversive elements much closer to definitive exposure” (Henze, 1981a, para. 6).

Goodman (1997) soon after the Cold War wrote that Casey:

*“had read the late Claire Sterling’s The Terror Network and—like [US Secretary of State Alexander] Haig ... was convinced that a Soviet conspiracy was behind global terrorism.... But specialists at the CIA dismissed the Sterling book, knowing that much of it was based on the CIA’s own “black propaganda” – anticommunist allegations planted in the European press.... Haig had support from State Department counselor Robert MacFarlane and director of policy planning Paul Wolfowitz ...” [sic] (134-35).*

According to Korta (2018), the key feature of propaganda is the intent to achieve an organizational objective through shaping the perceptions and behavior of a target audience. Propaganda involves a planned information campaign. In this sense, all so-called news may contain elements of propaganda, according to particular perspectives. For-profit media companies aim to encourage greater viewership in an intensely competitive business. Non-profit news sources also aim to achieve an objective, depending significantly on their sources of funding. E.g. US public television and radio aim to promote a more informed American citizenry. Korta notes that propaganda is of the white, gray or black variety. White propaganda is open about its purveyor and the purveyor’s intent, e.g. a government public health agency’s public awareness campaign to promote measles vaccinations. Black propaganda conceals its organizational source while spreading falsehoods. These falsehoods may include intentional efforts to discredit a source of information that is hindering the public opinion goals of the black propagandist. Gray propaganda involves so-called media spin on particular current events by an organizational entity by responding to news media reports with constructed public narratives. Gray is not black because black propaganda consists of knowingly spreading lies and hence its source aims completely to avoid identification as the source (2018, 43-43, citing Jowett and O’Donnell, 2014).

Henze shared the disdain of the Committee on the Present Danger for US President Jimmy Carter’s downgrading of containment of the USSR as the primary US strategic goal. Referencing the election of Socialist candidate Francois Mitterrand as president of France, Henze writes to Panitza, “I wonder whether

the man has a very clear concept of what he wants to do – he could end up being a sort of Jimmy Carter which, with the Communists always lurking on the sidelines, will be much more dangerous than Jimmy Carter’s warmed-over McGovernism was here. Will be interested in your assessments as events unfold” [sic] (Henze, 1981b, para. 4). Haar writes that the Democratic Party’s 1972 presidential nomination of Senator George McGovern instigated the CPD’s resurrection. It aimed to counter the growing domestic opposition to US support of right-wing dictatorial regimes after the Vietnam entanglement. Prominent neoconservative figure Jeanne Kirkpatrick linked US President Jimmy Carter’s downgrading of containment by cutting aid to right-wing authoritarian human rights abusers to McGovern. Carter was “a brand of McGovernism without McGovern” [2017, 45, citing Winik (1988-89, 138)].

Panitza appears to have been sympathetic to the worldview of the CPD. A bete noire of the neoconservatives was Henry Kissinger and his détente strategy (“Adam Curtis Documentary,” n.d., start~23:02). They saw his policy as compromising with and thereby appeasing Soviet imperialist expansion. In a letter to Henze, Panitza concludes by praising US President Gerald Ford’s 1975 cabinet reshuffle firing Defense Secretary James R. Schlesinger and replacing him with Donald Rumsfeld because it reduced the formal authority of Henry Kissinger: “Personally, I think that the changes in Washington were salutary for the main loser is undoubtedly Henry the K. – and he deserves it. In order to survive, he’ll now have to adopt much of Schlesinger’s ideas and play ball with Rumsfeld who is no choirboy, don’t you think?” (Panitza, 1975, 2). Rumsfeld in 1976 emphasized the comparatively superior will and determination of the Soviet Union relative to the US in the Cold War struggle as manifested in the arms race: “year after year after year they have been demonstrating that they have steadiness of purpose” (“Adam Curtis Documentary,” n.d., start~26:21). The Cold War evil empire stereotype would later be evoked as a case of this availability heuristic to mobilize the public to explain the assassination attempt on the pope as part of global Communist terrorism.

The propagation of the alleged Bulgarian-Soviet instigation of the papal assassination attempt evidently was part of the disinformation warfare in which Washington and Moscow engaged in the pre-Internet era. *Reader’s Digest*, at its height in the 1980s second only to *TV Guide* in US subscription numbers, had built an editorial reputation basically for propagating the enemy image (Cottam and Cottam, 2001, 96-98, 106-08) of the Soviet bloc:

*“These types of stories earned the Digest a reputation as a leading voice in anti-communism. As it gained prominence, Reader’s Digest drew criticism. Despite the publication’s determination to celebrate individual freedoms, it was accused of being nothing more than state propaganda. There were claims of CIA funding and editorial control, especially in its foreign editions in Latin America”* [sic] (Sharp, 2013, para. 8-9).

The owner of *Reader’s Digest* filed for bankruptcy in 2009 and again in 2013 (“Reader’s Digest,” 2013).

To commemorate Panitza’s service and charitable donations to AUBG which began with AUBG’s establishment, the AUBG library was named after him in 2009 (“Panitza Library,” n.d.). Panitza died in 2011 (“Dimi Panitza,” 2011). In May 2019, the Bulgarian authorities named a street after Panitza in the Bulgarian capital, Sofia and this writer was invited to attend the ceremony. The public email invitation text:

*“UPDATED TIME: Dr. Steven F. Sullivan, President of the American University in Bulgaria, requests the honor of your presence at the Dimi Panitza Street Dedication, 9:30 a.m., Thursday, May 16, 18 Tsar Osvoboditel Str. The event is made possible through the kind support of Sofia Municipality. Mayor of Sofia Yordanka Fandakova and Panitza’s friend Professor Minko Balkanski, along with representatives of the American University in Bulgaria, the Bulgarian School of Politics, the Institute for Studies of the Recent Past, and other institutions that have changed the country thanks to Panitza’s leadership, will honor the late philanthropist, visionary and ardent supporter for the development of democracy and education in*

*Bulgaria. A reception will follow at the Residence Exclusive Club, the house where Panitza was born and raised. RSVP.*” [sic] (AUBG President, 2019).

The impact of this Cold War disinformation operation includes ongoing references to a supposed Bulgarian support of the 1981 papal assassination attempt in authoritative news media reports. They imply that alleged Communist Bulgarian encouragement is still an unsettled question, while referencing more recent events. E.g. in 2019, Italian authorities opened Vatican tombs in the search for the remains of Emanuela Orlandi, the daughter of a Vatican employee kidnapped in 1983. “Like other well-scrutinized cold cases around the world, Emanuela’s disappearance has inspired many conspiracy theories. She has been linked to the C.I.A., to Bulgarian agents, to a Roman crime gang and to an American archbishop involved in a major Italian banking scandal” [sic] (Povoledo, 2019b, para. 5, Povoledo, 2019a). Attempted papal assassin Mehmet Ali Agca claimed in erratic testimony in the early 1980s that Orlandi had been abducted by Bulgarian secret agents as part of the covert efforts to cover up Bulgaria’s engagement in the attempt. Warsaw Pact covert intelligence agencies generated their own disinformation in this case. According to the *Toronto Star*,

“[A]fter the fall of the Soviet Union, [Ferdinando] Imposimato [one for the Italian magistrates investigating the Papal assassination attempt] travelled to Berlin on behalf of the Orlandi family to interview Gunter Bohnsack, a former member of East Germany’s Stasi intelligence agency. He claims Bohnsack told him the letters from the Turkish Anti-Christian Liberation Front [a faked terrorist group demanding the exchange of Agca for Orlandi] were written by the Stasi. The goal was to divert attention away from Soviet spy agencies and place it on Islamist fanatics” (Contenta, 2014, para. 57).

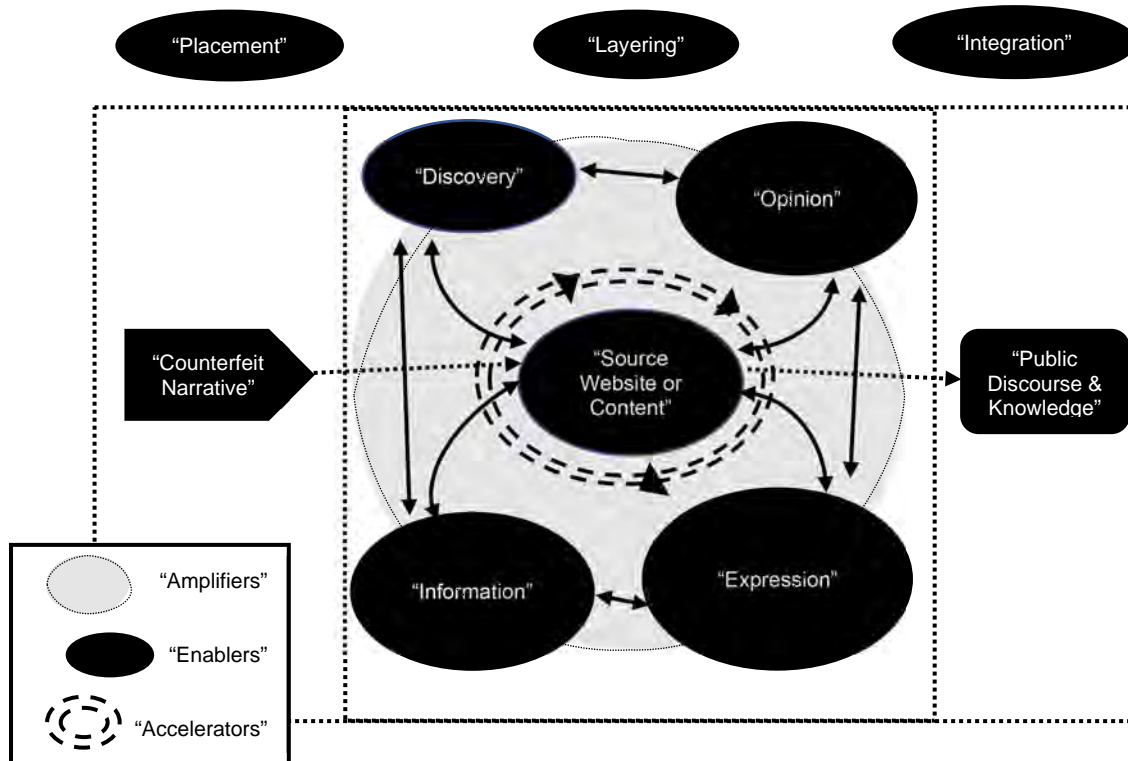
A popular 2010 monograph describes an elaborate east European Communist covert operations network as responsible for the papal assassination attempt and disinformation surrounding it. It incorporates the Orlandi abduction (Weigel, 2010, 525, fn93).

## A PATH FORWARD

Korta formulates a digital information revolution-focused elaboration on the pre-existing model of propaganda dissemination: “Information Laundering 2.0” (2018, 80). Korta identifies three phases. The placement phase prepares and inserts the information/disinformation into the media communication arena. The next, layering phase launders the information/disinformation through its autonomous transmission across a variety of connections and domains. The greater the so-called virality, the greater the potential audience is prone to accept its potential veracity as its originator and its motives are obscured. Accelerators to increase impact include advertising promotion, botting and other computational propaganda, and social media echo chambers. Amplifiers, i.e. actors enhancing the campaign for ideological or financial gain, will also engage. The information/disinformation becomes part of the public narrative and knowledge due to successful laundering (80). Below (Figure 1) is Korta’s schematic representation of her “Information Laundering 2.0” model:



Figure 1. Korta’s “Information Laundering 2.0 Model”



*This figure shows how the Internet facilitates the laundering of disinformation through the virtually infinite number of access points for placement of any piece of propaganda (Korta, 2018, 81). Persuasion includes citation of real or alleged sources of varying degrees of public credibility. Persuasion appeals to romantic national identity stereotypes of self vis-à-vis other increase authority. These national self-identity stereotypes include momentous historic events, e.g. the alleged Western Cold War victory over Soviet Communism and critical events within it, e.g. the Polish pope and his attempted assassination. Government black propaganda disinformation that is decades old survives as tropes referenced in today's Internet-based media environment. Higher learning institutions should avoid becoming inadvertent propagators of these tropes.*

Innumerable so-called sources of information on the Internet in the post-Cold War era exist. They generate exponentially greater opportunities to turn what originally was black propaganda into ongoing topics of public discussion regarding their plausibility. In the case of the papal assassination attempt, disinformation propagated nearly 40 years ago continues to be referenced in 2019 *New York Times* reporting in the Orlandi case. Continuing references to this misinformation reflect the appeal of stereotypes of self and other, historically through to the present. The appeal of these conspiracy theories may be sought in the emotional appeals of stereotypes, i.e. perceptual oversimplifications which are at the foundation of conspiracy theories. Stereotyping associates with emotion/affect and emotion/affect associate with nationalism; nationalism associates with stereotyping and affect (Cottam and Cottam, 2001, 3-4). The role of entertainment more or less masquerading as national and international news reporting may be a focus of future research. These romantic nationalist narratives of self and other have accelerator, enabler and amplifier installments in the form of so-called news updates happening continuously via the Internet.

The emotional gratification stemming from belief perseverance/confirmation bias and the backfire effect stem from forms of framing in relation to the national self-identity of the news media consumer. With an infinite number of so-called news sources now available, the news media consumer can select those sources that conform with that consumer's affective biases and perceptual predispositions. The imperative of these so-called news sources to appeal to these affective biases is almost irresistible in the intensely competitive, for-profit media industry.

The policy prescription against information laundering is not a simple one as Korta (2018) highlights. Tools from the pre-Internet era in the legal sphere already exist, but they require adaptation and implementation in the digital environment. E.g. trademark and copyright law may be adapted to criminalize identify theft in the form of fake tweets and posts (Korta, 2018, 102). Just as a user must truly identify him or herself to access the financial system to prevent money laundering, so user identity verification requirements should be implemented to prevent information laundering (Ibid., 104). Institutions of higher learning may play an important role in serving as digital as well as brick-and-mortar sites for combatting gray and black propaganda/fake news. Institutions of higher learning should avoid association with actors that have propagated such disinformation in the past. They otherwise risk inadvertently slipping into the role of de facto enablers, amplifiers and accelerators of this disinformation.

Bulgaria is vulnerable to fake news because it is a society with a weak state as manifested in high levels of corruption (Pavlovsk-Hilaiel, 2015). It will be particularly vulnerable to information laundering. US agencies as inoculators against information laundering risk undermining their public credibility. AUBG is a Bulgarian flagship university supported by the US government. It pays homage to a Bulgarian expatriate who evidently facilitated CIA disinformation propagation about Communist Bulgaria during the Cold War. AUBG confronts this dilemma today because of the imperative its senior administration has continually faced to raise funds for the university. AUBG as a non-profit institution formally independent from the US government confronts the necessity of fund raising from governmental, charitable and other sources. During this writer's employment at AUBG, US government representatives continuously reiterated the goal of AUBG becoming financially self-sustaining. I.e. AUBG should cease being reliant on periodic US government budget allocations to cover its operating expenses.

The AUBG senior administration, and especially the president, faced the continual imperative to find financial donors. One recent study notes that the pressure to engage in successful fundraising is a major factor disinclining female academic institutional chief academic officers from seeking promotion to a university presidency (Rodrigues, 2018, 562, fn. 191). This writer attended one meeting with the AUBG president with senior faculty representatives in which she stated that AUBG would not accept financial donations without exercising due diligence. Specifically, a Bulgarian entity with a problematic reputation had apparently offered a donation to AUBG. AUBG would not accept donations from particular Bulgarian entities if the sources of those funds were not transparently clear and legitimate. Corruption and motive opacity are a major challenge to the Bulgarian state and civil society. "[T]he NGO sector in Bulgaria is currently perceived as politicized and many NGOs are politically operated" (Pavlovsk-Hilaiel, 2015, 213). "[...] NGOs are at best driven by a political agenda or at worst serve the interests of a particular political actor" (Ibid., 2014). AUBG, and all US public diplomacy initiatives, should follow the long-established policy of the US Peace Corps and avoid the public association with past CIA activities in its fundraising and support efforts. They risk serving inadvertently as a disinformation enablers, amplifiers and accelerators today because of the credible public authority reputations of academic institutions.

## CONCLUSION

One of the tactical aims of AUBG as part of post-Cold War US international strategy is to influence trends within the post-Communist polities of Bulgaria and elsewhere regarding elite alteration. These aims serve to expand US post-Cold War hegemony. These public diplomacy policies include utilization of Cold War-era resources and capacities adapted to post-1989 circumstances. Communist Bulgaria had the most cooperative relationship with Moscow within the Warsaw Pact (Banov, 2018). Economic destitution and corruption characterized post-Communist Bulgaria, and it is the poorest member of the EU (Hope and Dimitrov, 2019). Encouraged by socialization and cooptation via AUBG, the upcoming cohort of potential future leaders seeking social mobility would establish cognitive, emotional, social, cultural, political and business networks. These associations would be rooted within Euro-Atlantic polities. The project illustrates again the indirect, broader polity-focused competition between the US and its competitors to influence

trends within the politics of third parties. It illustrates the essential relevance of soft power in the current era of mass politics and nuclear weaponry. Competition includes a focus on shaping short, medium and long-term trends in public attitudes concentrating on potential future elite members.

International strategic competitive interference targets not only political leaders and governments. It focuses on the broader polity, including constituency leaders and activists and risks increasing polarization between constituencies in the polity. Constituency influence targets are both abroad and at home. These containment-type intelligence bureaucratic instruments continue to engage in covert intervention in the post-Cold War era. E.g. South Korea's Cyberwarfare Command, created in 2010 to counter North Korean cyberattacks, waged a clandestine "online smear campaign" against domestic targets it perceived as allied with Pyongyang (Choe, 2013, para.7). Its intent was to help the right-wing presidential candidate Park Geun-hye, the daughter of South Korea's military junta leader Park Chung-hee (1961-79), in the 2012 South Korean presidential election. President Park Geun-hye was subsequently impeached and removed from office and is in prison for corruption.

With the global rise of populism, establishment elite control in the targeted polity becomes more challenging. Conservative populist constituencies transfer their allegiance and obedience to political entrepreneurs seeking access to resources. External covert intervention to encourage this instability has precedents in the doctrine of total warfare which predominated by the mid-twentieth century, i.e. all national citizenry constituencies subsidize the war effort (McGeehan, 2018, 52). They are potential targets, despite being civilians. The post-1945 nuclear setting incentivizes avoiding direct confrontation through covert, unofficial, informal and indirect targeting of civilian constituencies to reduce the potential for uncontrolled escalation (Carson, 2016).

Awareness of a policy target's inevitable tendency to impute or infer an initiator actor's motives is advisable in planning an initiator actor's political strategy towards a target actor. E.g. comprehensibility regarding financial sponsorship of political campaigns, allowing for consequent imputation of political motivation, has always been part of contemporary US government regulation (Bauer, 2018). Predictability is necessary to reduce insecurity, fear and polarization and consequent conspiratorial worldviews propagating within society. Clarity regarding the identities and roles of key actors' sponsorship of policies and patronage of clients facilitates inferring motivations and capabilities. It permits the citizenry to predict with more confidence the consequences of their own political participation activities. The absence of transparency regarding contextual causation regarding influence activities in a target polity contributes to uncertainty and trepidation. It promotes the consequent stereotyping of globalization as a source of imperial threat. It enhances support for populist nationalist figures in the US and Europe and elsewhere. Current political debates illustrate the effort to upgrade current legal tools to fight information laundering. These adaptations will be arduous and never ending and beyond the scope of this paper as a limitation of it in terms of the substantive meaning of transparency.

George Soros' Open Society Institute of Sofia, Bulgaria published a study showing that "Balkan countries to be among the most vulnerable to the spread of fake news, described as 'rumors, hoaxes, outright lies, and disinformation from foreign governments or hostile entities'" (Nicholls, 2018, para. 3). The US consequently reopened Radio Free Europe bureaus in Bulgaria, Romania and Hungary in 2019 (Novak, 2019). This Open Society Bulgaria study noted that "[...] education seems to be the best all-round solution to fake news and the post-truth phenomenon with less drawbacks and more possibilities to tailor it to different situations" (Lessenski, 2018, 12). I.e. the aims of civic education should include a focus on analytical training in analyzing the historical contextual legacy factors motivating a current campaign position, public policy or foreign policy. This legacy is as a critical component of transparency. Transparency regarding the historical political context that contributed to current US public diplomacy initiatives strengthens them.

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## BIOGRAPHY

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# EVIDENCE ON SCOTTISH TRADE UNION MEMBERS' JOB DISSATISFACTION

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## ABSTRACT

*This paper includes insights on trade union members' expectations of trade union membership and its influence on their experiences of job dissatisfaction. Trade union members have been shown to report higher levels of job dissatisfaction than non-union members across five decades of research, and in multi-country analyses, although the factors that influence trade union members' perceptions remain unclear. Given that previous studies are mostly quantitative, the present study uses a qualitative approach of interviews with 20 trade union member employees at a manufacturer in Scotland, and adds insights to debates on employee participation. The results suggest that trade union members may join unions mainly for protection from managers and express dissatisfaction when their trade unions do not protect them in accordance to their expectations. Furthermore, this study suggests that trade union member employees may prefer stronger forms of trade unionism that enable long-term job security. The site used in this study, a factory, will close in 2020, and many companies are exiting the UK as a result of Brexit. As such, the data in this work may be some of the last, if not the last, data collected from trade union member employees at a major manufacturer in Scotland.*

**JEL:** J5, J50

**KEYWORDS:** Collective Bargaining, Labor-Management, Union Data, Union Membership

## INTRODUCTION

In this paper, the phenomenon of job dissatisfaction is explored with trade union member employees in an attempt to better understand a topic that has puzzled researchers of industrial relations for more than five decades. Despite the positive effects that trade unions have on various aspects of employment, unionized employees consistently report higher levels of dissatisfaction with their jobs than non-unionized employees in studies that have analysed large national, as well as multi-country, datasets. Previous works have not, however, been able to reach an agreement on why trade union members express dissatisfaction with their jobs and most of those used quantitative methods. Yet, understanding the phenomenon in greater depth remains important, because job satisfaction impacts on employee well-being and organizational performance. Furthermore, insights on the effectiveness of employee representation are central to informing debates on employee participation within the field of industrial relations. Given that prior quantitative studies have failed to provide a salient explanation for the phenomenon, the present research opted to use a qualitative approach to explore the topic of trade union membership and job dissatisfaction, so that new insights could be revealed and added to what is known about the topic in the industrial relations literature. This paper is organized into four main sections and begins with a literature review to describe the problem of trade union membership and job dissatisfaction. Afterward, a section includes the approach used to gather insights into the phenomenon, followed by a section that imparts the empirical results. The last main section in this paper is devoted to concluding comments, or a discussion of the key insights gained from having conducted this research.

## LITERATURE REVIEW

Job satisfaction and its antecedents have been the subject of much empirical research during the last twenty years (Clark, 1996; Sousa-Poza and Sousa-Poza, 2000; Green and Tsitsianis, 2005; Timming, 2010). The value of findings gained by research of job satisfaction have made it the most popular topic to research in management studies, as shown in Spector (1997, p.1): ‘In fact, it is the most frequently studied variable in organizational behavior’. There are still many questions about the factors that contribute to job dissatisfaction, however (ibid), such as the link between trade union membership and job dissatisfaction. Although previous works indicate that trade union members report lower levels of job satisfaction than non-union employees (Freeman, 1978; Borjas, 1979; Berger et al, 1983; Schwochau, 1987; Hersch and Stone, 1990; Miller, 1990; Clark, 1996; Bender and Sloane, 1998; Heywood et al, 2002; Bryson et al, 2004; Guest and Conway, 2004; Green and Heywood, 2015; Haile, 2015; Laroche 2016; Laroche, 2017), there is no agreed explanation for why this is the case. At least part of this is due to previous research of trade union membership and job satisfaction not being able to address ‘differences across individuals, jobs, and workplaces’ (Bryson et al, 2004; 441), and the failure of these quantitative works to control for sorting, workplace, and individual heterogeneity (Powdthavee, 2011). The present work uses a qualitative approach to address one potential source of trade union members’ job dissatisfaction, their expectations of union membership, so that more can be understood about the phenomenon in the field of industrial relations.

The breadth of job satisfaction as a research area is underscored by this definition from Robbins and Judge (2017, p. 80), who leave feeling, evaluation, and job characteristics open to interpretation: ‘Our definition of job satisfaction—a positive feeling about a job resulting from an evaluation of its characteristics—is broad’. There are obvious difficulties in trying to capture such a broadly conceived topic in its wholeness. Yet, job satisfaction is important to understand, given its links to individual-level as well as organizational-level outcomes. For individual employees, job (dis)satisfaction can impact on their home life, finances, work, and health (Easterlin, 2006), as well as their mental health (van den Berg and Grout, 1992; Kopp et al, 2008); and risk of cardiovascular disease that leads to death (Kivimaki et al, 2002). With regard to organizational-level outcomes, job satisfaction has been positively linked to organizational productivity (Whitman et al, 2010; Bockermann and Ilmakunnas, 2012), organizational citizenship behavior (Foote and Tang, 2008; Whitman et al, 2010), and trust in managers (Timming, 2012). Some of the implications of employee job dissatisfaction to organizational outcomes have included high employee turnover (Freeman and Medoff, 1984; Clark, 2005) and links to negative employee work behaviors (Freeman, 1976; Bolin and Heatherly, 2001; Lau et al, 2003; Roelen et al, 2008).

Job satisfaction is especially important to researchers of industrial relations as it is central to the field’s main debate, which Johnstone and Ackers (2015) suggest is participation. Employee relations scholars have argued which of the three main types of participation - employee involvement (E.I.), workers’ control, or representative participation - ‘works best’ (ibid: 3). According to Greene (2015: 73), ‘Much of the debate around employee voice within the industrial relations field concerns the level of influence over decision-making that is offered by the particular voice mechanism’. Additionally, Handel and Levine (2004: 2) suggest a ‘broad consensus emerged’ during the 1990s that participation in organizational decision-making may enable employees to experience higher levels of job satisfaction. There is no agreement, however, on how workers’ participation can be improved (Ackers, 2010). The results of the present study will therefore help in shaping debates in the field of industrial relations, as it captured the perceptions of trade union members with regard to their expectations of trade union membership and its influence on job dissatisfaction.

How trade union members decide if their unions have met their expectations is by evaluating pragmatic aspects of their jobs, such as pay and benefits (Hammer and Avgar, 2005). There is, moreover, reason to believe that trade unions should fulfil those expectations, as trade unions are known to have a ‘responsibility’ to improve their members’ terms and conditions of employment (Salamon 1998: 77). One



would also expect trade union members' to report more satisfaction with their jobs because research has shown that workers do tend to join trade unions for the 'union wage mark up' it affords them (Guest and Conway, 2004: 107), and there is ample research to suggest that the effects of trade unions on pay has been largely positive (Freeman and Medoff, 1984; Jarrell and Stanley, 1990; Booth, 1995; Arabsheibani and Marin, 2001; Blanchflower and Bryson, 2004; Hirsch, 2004; Pencavel, 2009; Delery et al, 2000; West and Mykerezzi, 2011; Long, 2013; Rios-Avila and Hirsch, 2014; Torm, 2014; Bryson and White, 2016). Furthermore, income is positively associated with job satisfaction in studies that included large, multi-country datasets and non-unionized as well as unionized workers (Sousa-Poza and Sousa-Poza, 2000; Warr, 2008; Timming, 2010). Given the largely positive effects of pay on job satisfaction, it should seem unlikely that it would be a source of dissatisfaction for trade union member employees.

Trade unions are also known to positively influence aspects of employment contracts in areas such as employer-provided health and family benefits (Buchmueller et al, 2002; Budd and Mumford, 2004) and job security (Mitchell, 1983; Long, 2013; Goerke and Pannenberg, 2011), both of which are linked to job satisfaction in multi-country studies (Sousa-Poza and Sousa-Poza; Clark, 2005). Employer-provided training has been linked to higher levels of job satisfaction (Jones and Sloane, 2009) as well, and trade unions have been shown to increase access to training for their members (Arulampalam and Booth, 1998; Green et al, 1999; Boheim and Booth, 2004). Even more, trade unions are known to have positive effects on job control and decision making (Freeman, 1976; Freeman and Medoff, 1984; Belonger, 1989; Gall, 2010; Lyness et al, 2012). Like pay, then, it should seem counterintuitive that terms and conditions of employment would be a salient factor in trade union members' reports of job dissatisfaction, especially since the phenomenon has been shown across five decades of research.

The present work therefore sought out alternative explanations to explore, so as to add insights towards explaining trade union members' reports of job dissatisfaction. One such explanation is used in this paper, loosely referred to here as *expectations*, and its origins are based on previous works in the field of industrial relations. The concept of expectations is tentative and its dimensions were substantiated during the course of research. It should be noted that this work is part of a larger study that formed the basis of a dissertation for which the author was awarded a PhD. Within that larger work, four alternative and loosely constructed explanations for trade union members' job dissatisfaction were explored in total. To maintain the integrity of the insights gained as a result of that project, however, each of those four explanations are treated separately.

The idea of expectations begins with the understanding that the purpose (Sverke and Goslinga, 2003) and function (van den Berg and Groot, 1992; Stinglhamber et al, 2013) of trade unions are to protect their members and to represent their members' interests (Simms and Charlwood, 2010). Trade unions are known to address an 'employment relationship' that is inherently unequal, wherein the 'employee is subjugated and consents to' managerial control (Colling and Terry, 2010:8). By means of collective power, trade unions are known to enable their members to voice concerns to managements without fear of reprisal (Freeman and Medoff, 1984), and to provide representative or indirect participation to their members. They are known to protect their members' rights, represent their members' interests to management (Stinglhamber et al, 2013), and to protect their members from 'managerial abuse' (Kaufman, 2004: 377). As political institutions, trade unions pressure governments and affect the distribution of resources (Turner, 1986). Hammer and Avgar (2005: 241) have described these kinds of positive effects of trade union membership as 'social benefits'. They also suggest that trade union member employees report job dissatisfaction that is due to trade unions having raised their members' expectations 'beyond what is realistic' (ibid: 243). Another work suggests the possibility that perhaps trade union member employees expect more from their jobs than non-union members (Bryson et al, 2004). The aim of the present research is to understand more about trade union members' expectations of union membership, and to gain insights into how it could be related to their job dissatisfaction, if at all.

A few clarifications are in order, as they highlight major changes in trade union membership and trade union ideology. First, many interviewees in this project used the words ‘working class’ to describe themselves to the interviewer, absent the interviewer’s use of the words working class to guide them towards that response. This suggests that interviewees in this project might have shared in an identity, perhaps a strong one, and so it is important to mention that trade unions were known as a voice mechanism used by working class people (Freeman and Medoff, 1984). In the U.K., trade unions historically aligned their beliefs with those of the Labour Party to garner strength from their mainly working-class membership (Hyman, 1995). That idea has evolved, as Kelly (1998) suggests that trade union members no longer share in strong, collective, working-class identities. Even more, trade unions have changed their focus towards recruiting and advocating for an increasingly diverse workforce (Simms, et al, 2010). It could have been, then, that interviewees in the present work shared beliefs about an older form of trade unionism that may no longer have the same relevance as it did in the past.

It is also widely known that trade union membership has declined in the U.K. (Kelly, 1998; Monastrirotis, 2007; Parker and Foley, 2010). This decline is due, at least in part, to economic recession-related and political changes (Edwards, 1995; Hyman, 1995; Nolan and Walsh, 1995), and a ‘decline within the manufacturing sector where membership was strong’ (Simms et al, 2013: 20). The extent to which jobs were lost as a result of that decline, as well as the impact of that decline on powerful unions, is described in detail by Colling and Terry (2010: 12):

‘Over 25 years between 1981 and 2006, employment in the primary (e.g. mining and agriculture) and secondary industries (e.g. manufacturing and construction) more or less halved to 4.7 million jobs (Self and Zealey 2007: 46). The implosion of British manufacturing employment has been especially dramatic, falling by 58% between 1978 and 2008 to just 2.9 million employees (Hughes 2009: 53). Within this period, or during the ‘harsher climate of the 1980s’, unemployment rose, manufacturers with powerful trade unions closed, and the product and labour market in the U.K. changed so that trade union representatives had less power in their negotiations with their respective managements (Edwards and Terry, 1988: 232). Trade unions have had to contend with a general restructuring of employment across the U.K., pervasive job insecurity, and the ability of some employers to resist trade unions (Waddington and Whiston, 1997). Overwhelmingly, the long-term shift has been inexorably towards service sector employment’.

Yet, Hill and Hult (2017: 5) suggest that ‘the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered’. It is therefore important to consider that there is a general climate of job insecurity, rather than job insecurity that is tied to the manufacturing industry or trade union member employees, in the UK.

The data for the present work was collected in Scotland during an 7-month period in the Spring of 2015 at a site in a pro-Referendum city. It is important to mention that the Scottish Referendum vote occurred on September 18, 2014, or four months prior to the start of data collection. Secondly, the Brexit vote occurred on June 23, 2016, or a year after data collection ended for the present study. When the field work was conducted for this work in 2015, there was nothing to indicate that the case study organization, ‘XYZ’, would close its doors. Indeed, there were 800 employees at XYZ in 2015 and in 2018, when XYZ publicly announced its intentions to close its factory in 2020, it had 850 employees. Although little is known about the impending closure of XYZ, it is an event that must be mentioned in the present work. Indeed, many services and manufacturing organizations are exiting the UK as a result of Brexit although, it must be emphasized, this work does not suggest a link between the closure of XYZ and Brexit. Whatever the case may be, the present work still adds valuable insights on the interplay between institutional structures and organizational outcomes, or an association that has not received sufficient attention in employee relations research (Marsden, 2013 as referenced in Barry and Wilkinson, 2016). Furthermore, given that external changes surrounded XYZ that were impossible to avoid, the present work supports the findings of Dobbins

and Dundon (2017), who showed that trade union and management partnerships may not be able to survive difficult external market conditions.

## DATA AND METHODOLOGY

Yin (2014) suggests that case studies are useful to researchers of real-life situations in which contexts (i.e., organization) and phenomena (i.e., trade union members' job dissatisfaction) must be studied together. The context here is a manufacturer (XYZ) in Scotland, and with the exception of its management staff, all of the employees were members of one trade union. Given the high concentration of trade union member employees and the historically unionized environment of manufacturing, the case study organization used in this research seemed especially suited to collecting strong insights into the research phenomenon. XYZ was in the automotive-related sector and it competed against lower-cost manufacturers whose factories were located in countries outside the UK. It was the last remaining major manufacturer of any kind in its region, one of its city's last remaining major employers, and its role in the local economy was critical. The site was a part of the city's industrial heritage and considered a landmark in a city that had a large working-class population and a history of militant trade unionism. During the 1980s and 1990s, most of the factories in the city closed and at least one of those closures occurred after a lengthy and well-publicized labor dispute. The city had lost many of its manufacturing jobs and XYZ had almost closed in the ten years prior to 2015. However, the trade union and management at XYZ had worked together to keep the site open, and interviewees at XYZ indicated that they had agreed to wage concessions and lower pay to enable that. Many interviewees in this project indicated that the parent company had closed one of its factories in Western Europe instead.

Prior to gaining access to XYZ, the researcher tried to find a site to use in this study by contacting trade union representatives at Unite, Prospect, UNISON, the Scottish Trades Union Congress, and Nautilus. Previous attempts were unsuccessful, however, and in at least one instance, a trade union representative told the researcher that management at the trade union representative's organization refused to allow the researcher on-site because the research topic was 'too risky'. In another instance, the researcher was granted access to a paper-products factory in the Northeast of Scotland with the help of a shop steward from the site. However, the management of that manufacturer announced it was going to close the factory a week before the researcher was to start conducting interviews there. After many failed attempts to gain access to organizations, an employee of the University of St. Andrews introduced the researcher to a human resources manager at XYZ in an e-mail, and the human resources manager allowed the researcher access to the site. The human resources manager then introduced the researcher to the site's senior-most shop steward by e-mail. Shortly thereafter, the researcher met with the shop steward and human resources manager to discuss the study and to address any concerns. The shop steward became the point of contact for, and was the first interviewee at, XYZ.

To develop insights towards understanding the associations between expectations of trade union membership and job dissatisfaction, a qualitative approach was used so that a fresh perspective could be added to the mostly quantitative body of research on trade union members' job dissatisfaction. The use of a qualitative approach is an important aspect of this work, as qualitative methods enrich and deepen analyses (Ackers et al, 2006; Brown et al, 2007; Timming, 2011). Qualitative research, described as an 'art' as well as a 'science', consists of analyses in which researchers build 'stories' from data using their own interpretations, so that multiple interpretations of the same data are a certainty (Corbin and Strauss, 2008: 47). Qualitative methods are also flexible and modifiable (Creswell, 2013: 47), and so granted this researcher the space to engage in self-reflection whilst interacting with the data (Mason, 2002). An interview format was used, given that qualitative techniques allow researchers to capture real-life contexts (Miles et al, 2014) in environments where 'meaning, interpretation, and representation are deeply intertwined in one another' (Denzin, 1998: 322). Twenty trade union member employees were interviewed using semi-structured and open-ended questions that allowed data to emerge, but were focused enough so

that the interviewer was able to guide interviewees back to the subject of their expectations and job (dis)satisfaction as needed. The number of workers interviewed met the threshold described in Creswell (2013), who recommends that data be collected from at least twenty to thirty interviewees. A key criterion was that interviewees had to be trade union member employees, as only they would have the necessary ‘first-hand experience’ of the phenomenon (Charmaz, 2014: 56).

Table 1 below includes a description of the interviewees; the total number of employees and the number of trade union member employees that were present at XYZ at the time data was collected; the method and duration of interviews; and the timeframe in which data was collected for the present research.

Table 1: Description of Interview Methodology

Interviewee	Age, Job Title, Gender, Tenure (where available)	Trade Union
M1	58, Senior Shop Steward and Production, Male, 35 years.	XYZ
M2	Over 40, Deputy Shop Steward and Production, Male, 26 years.	XYZ
M3	Over 60, Maintenance, Male, 40 years.	XYZ
M4	30, Female, Engineering, 13 years.	XYZ
M5	58, Male, Production, 31 years.	XYZ
M6	27, Female, Production, 3 and a half years.	XYZ
M7	27, Female, Production, 4 years.	XYZ
M8	55, Male, Production, 27 years.	XYZ
M9	44, Male, Production, 21 years.	XYZ
M10	Over 60, Male, Production, 41 years.	XYZ
M11	‘over fifty’, Male, Engineer, 44 years.	XYZ
M12	61, Male, Production, 40 years.	XYZ
M13	37, Male, Production, 11 years.	XYZ
M14	47, Female, Production, 3 months.	XYZ
M15	48, Male, Production, 14 years.	XYZ
M16	56, Male, Production, 30 years.	XYZ
M17	55, Male, Production, 15 years.	XYZ
M18	44, Female, Production, 11 years.	XYZ
M19	Over 35, Male, Services, 14 years.	XYZ
M20	55, Male, Forklift driver, 37 years.	XYZ
Total number of employees at XYZ: 800		
Approximate total number of trade union member employees at XYZ: 790		
Total number of interviewees: 20		
Each interview duration: 1 hour		
Method used to collect data: semi-structured interviews		
Data collection timeframe: January to July of 2015		

*Where the interviewee did not provide their age, an approximation was made based on responses in their interview.*

Each interview lasted for a minimum of one hour and each interview was transcribed by the author before conducting the next interview, so that topics were developed in iterations. Where more insight was needed to enrich the emergent themes, the researcher asked for more details. Although the interview questions in the present research were open-ended and largely unscripted, there were three questions asked of each interviewee in the overall research project. These three questions included: (i) Why did you join the trade union?; (ii) What does equal treatment mean to you?; and (iii) Would you describe this workplace as fair or unfair?. These three questions were linked to fundamental ideas within the field of industrial relations and trade unionism, and answers to these questions added insights to understanding the phenomenon of trade union membership and job dissatisfaction.

## RESULTS

Two main topics emerged from the responses of trade union members in the 2015 fieldwork and these were: (i) the trade union's failure to protect its members and (ii) the trade union's loss of power. The researcher asked each interviewee why they had joined the trade union at XYZ and protection, whether the term was used directly or broadly conceived, emerged consistently in interviews. By and large, most trade union member interviewees indicated to the interviewer that they had joined the trade union for protection against management at XYZ specifically, although this included both ideological elements as well as observations and personal experiences. Protection from management also consistently emerged as the most common topic in the responses of interviewees, who were asked how their expectations of the trade union had impacted on their feelings of job dissatisfaction, if at all. Furthermore, the idea that the trade union had lost the power to effectively represent its members' interests to management at XYZ underscored discontent related to protection. As interviews unfolded, responses suggested that interviewees experienced discontent that included the trade union's not having done more for the people in the city in which XYZ was located, as well as for its members. This helped to support the idea that interviewees likely shared beliefs in trade unionism as an ideology or vehicle for social justice.

Responses from interviewees added dimensions to the expectation of protection as they described incidents, specific managers, departments, actions, beliefs, and behaviors as evidence for why they believed that protection was necessary. Trade union members' responses indicated that for them, protection had many different elements: it could be passive, conceptual, and related to trade union ideology; or a response used to address the behaviors and actions of specific managers. Some trade union member interviewees described the protection afforded to them being in the trade union as a safeguard they could use against potential negative managerial actions. The idea that interviewees wanted their trade union to protect them from management included much of what was described previously in this paper as it relates to the function and purpose of trade unions, and trade union ideology. The data suggested that interviewees at XYZ were largely aware of what trade unions in general were commonly known to do for trade union members and expected their trade union to act accordingly. However, interviewees repeatedly described situations and experiences in which the trade union's response to the behaviour or actions of managers was expected, but was not forthcoming.

It was interesting that interviewees often indicated that, in addition to themselves, the trade union at XYZ should protect the people in their city from the management at XYZ. Responses from interviewees consistently suggested that they identified closely with their city and possessed a strong awareness that XYZ was its last remaining major employer. Indeed, the idea that XYZ was the last remaining major employer in the city emerged in every interview. For example, interviewees responses included, but were not limited to: 'Before, it used to be that the trade union fought for the people of (city named)'; 'I feel the union's quite weak in (city named) as for fighting management'; 'all the big manufacturers gone, the shipyards, it's all gone now'; and '(XYZ's) the only thing here' to describe the general decline in manufacturing in the city. Although the trade union at XYZ was not responsible for the closure of other factories in the area, interviewees seemed to share the belief that the trade union at XYZ could do something protect the city from losing more jobs. This seemed to highlight the power that trade unions once had in their city to affect wider social and economic change, which was perhaps lost alongside the closure of its manufacturers.

Next, protection included behavioral dimensions that affected some interviewees at XYZ who had experience of managers mistreating employees. Interviewees provided detailed descriptions of situations and incidents on the shop floor in which managers had displayed antagonistic, and in some instances intimidating, behaviors towards trade union member employees. What's more, a specific division consistently emerged as the main area in which managers displayed the worst of these types of behaviors, even though interviewees in this research worked in different departments. Thus, while interviewees

described mistreatment by management that they had experienced directly or by observation, it also became apparent that trade union member employees had been informed of the experiences of other trade union member employees at XYZ, regardless of where they were located at the site.

The responses of one interviewee, M10, highlights the complexity of responses that substantiated the effect of trade union protection. In his responses, M10 indicated to the interviewer that he had expected the trade union to foster 'fairness' at XYZ, and expressed disappointment because it had not protected its members from managerial retaliation on the shop floor. He alluded to 'the power they don't have now, where they used to', and indicated that he had experienced a time in which the trade union had been powerful and effective in meeting his expectations. He suggested that the trade union at XYZ needed to 'make it fairer' by correcting the way managers treated the trade union members on the shop floor. M10 described situations in which he had personally experienced mistreatment by management directly:

'I think it's, a lot of time it's unfair, the way people get treated. The way they get spoken to. That sort of thing. They sort of, they'll do things properly, but it's just the way they go about it, the way they treat people. The way they speak to them. That's just my experience through the years. It used to be really bad at one time. When I first started working here. Relations got better, as I believe a lot better, and I think the last ten years it's slipped back again. What with shop stewards and employees and the company. It's just a constant battle. A lot of people feel intimidated with some of these managers, like. Like a pair of wheels. You got one on your back, you've got half a dozen on your back. It's pretty intimidating for some young boy or lassie. So if you're arguing with them about it, and you're answering them back, that's when they take umbrage. And the terminology one of them used, 'that's you on the radar'. Terrible. Absolutely intimidating'.

M12 described adversarial relations between managers and trade union members on the shop floor that he had experienced and his responses seemed similar to situations described by other interviewees such as M10:

'I seen older managers, there's guys that are my age that are dealing with guys that are my son's age. No, sorry, I can't, I can't begin to describe it. It's just, you'd have to see it to believe it. And the way some of them speak to, like you wouldn't speak to your own son like that. Or your own daughter like that. I think their management skills are non-existent. The way they speak to people. They bully young, younger guys'.

Another interviewee, M13, suggested that some managers were 'very disliked' and explained that 'there's one or two that are very, very bad'. The idea that there were 'bad' managers corroborated with responses from a shop steward, M2. However, M2's responses indicated that while XYZ might have had some bad managers, the company as a whole was experiencing financial difficulties:

'Sometimes a manager is not fair, but that's not the company. They coulda laid us off, but they haven't. We've had pay raises when they coulda jumped on the bandwagon said you know, we can't afford to pay this year, you're not getting any of your three percent or two and a half or your four percent. They coulda said well we're not paying your healthcare scheme because we got no money'.

Interviewees seemed to share perceptions that the reason why the trade union had failed to protect its members from managers was because it had grown weak. Even more, interviewees seemed to attribute a large part of their perceptions of weakness to a common topic that emerged in responses. Specifically, that their trade union worked with the management at XYZ and agreed with its decisions as opposed to influencing management's decisions on behalf of its members. The following responses from M15 and M8 are used here as examples to help highlight this:

‘I just think that management make their decisions before anything, actually. Before the union even speak to them’. (M15)

‘Most of the employees think that the union are in cahoots with management, rather than in cahoots with the workforce. Cuz when the management team wants something to change...then it seems to be that the union push for that to happen...whether it’s good for us or bad for us...I feel the union’s quite weak...as for fighting management...So the trade union was destroyed, probably about twenty years ago, when we went on strike for better pay and conditions’. (M8)

Statements such as those from M8 also helped to show that interviewees’ discontent was likely embedded within a process in which the trade union had lost power over time. Similar kinds of statements and responses seemed to suggest that a process of decreasing power for the trade union at XYZ existed prior to 2015. While other manufacturers in the city had closed, however, XYZ had stayed open. Yet, as the following responses from M21 help to show, changes in the wider political landscape that had negatively impacted on trade unions in the UK dated back to Margaret Thatcher. These changes, M21’s responses suggest, could be linked to the trade union’s lack of influence on management decision-making at XYZ:

‘I would say up to the time of Thatcher, put her foot down with the unions, the unions were quite powerful then, when I first started. Now, I don’t think they’re near as powerful as what they were. Not in the nearest way, any way, shape of form. They tend to agree more with what management are saying’.

Another interviewee described the strike referred to in M8’s comments above as a situation in which an outsider (‘some union guy’) was ‘sent’ from London to Scotland to get trade union member employees back to work. Responses such as these seem to underscore the history of militant trade unionism and adversarial industrial relations that had once been prevalent in the city, or at least in its manufacturers:

‘Because we’d been told lies by some union guy from London. And then we found out maybe six month to seven month later, the actual fact was that the company had threatened to take them to court, and sue, sue the union, half a million pound a day or whatever it was. All the plant was shut. And so, so the union panicked. And they sent this guy in, to bullshit basically, to get us back to work’.

Interviewees described different reactions to the tension that seemed to exist between the trade union member employees and the managers at XYZ. On the one hand, statements such as those from M7 suggested that by avoiding confrontations with management at XYZ, she felt less dissatisfaction with her job: ‘I don’t really bother with...I just come in and do my job, I’ve never had a run-in with them, I’ve never had to deal with them, in terms of disciplinary or time off’. On the other hand, at least one interviewee described having had a physical altercation in an office with a manager from another of XYZ’s sites in Ireland, for which he gave no indication of having been disciplined. Responses from a third interviewee suggested that in one department, production-line trade union members had slowed down a production line in retaliation to a manager that they did not like.

Some of the insights from this research seemed counterintuitive, as interviewees expressed dissatisfaction with the trade union’s having kept the factory open, as the following comments from M19 show:

‘I think times have changed for the union. I think it’s a lot harder now for them to negotiate things. When they had a bit more power, but everything’s done to, sort a, save your job sort a thing. You know, the job situation being so tight and, what would you say, like. There isn’t many jobs in (city anonymized) that you can go to. And you always get this thing that they’ve kept us in the job sort a thing. And it’s like a record they sort a keep us in. We’ve been able to keep your job’. (M19)

However, when shown in the light of the insights revealed in this paper thus far, it seems that responses such as M19's included accurate perceptions that the trade union's part in keeping XYZ open was more of a temporary fix within a wider context of long-term job insecurity.

The last responses included in this section are from the senior shop steward, M1. He described competitive pressures in XYZ's industry that were having an impact on its operations. It seemed that while the trade union had perhaps lost the power to influence decisions made by management at XYZ, it was also the case that XYZ's parent company was losing power to its competitors in the form of market share. His statements are especially important to consider, given that the European Union identifies the main input in XYZ's industry as a critical resource that is mainly produced by, and imported to the EU from, Asian countries:

'In this difficult climate, have all these changes. The world's changing very rapidly. Europe, you know yourself from the USA, and Asia, is up and coming place now for manufacturing. So it's very difficult, I would have to say, but we are, we keep punching above our weight to keep XYZ in (city named). Not at any cost, we still demand that we have good wages and conditions. But we do accept we have to do some things that in the past we wouldn't have liked to do, but like everywhere else, we need to keep jobs'.

The main insights to emerge in this study suggest that trade union members may experience job dissatisfaction when their expectations of protection from trade union membership are not met. These insights are underscored by a process of decreased union power that is associated with a loss of influence over decisions made by management. The depth of dissatisfaction in the present study was perhaps evidenced by the idea that the trade union's having kept the factory open was not enough, in and of itself, to satisfy interviewees. Rather, insights from the present study suggest that dissatisfaction likely developed over time and was, at least in part, due to changes across the UK that included a decline in manufacturers, job losses, and the weakening of trade unions in general. Given that interviewees seemed to share frustrations over an uncertain future for their city that was, and could be, corroborated to real events, short-term job security might not have been enough to assuage their feelings of uncertainty about their future. This seems all the more likely, when shown in the light of what we now know about XYZ's impending closure in 2020.

## CONCLUDING COMMENTS

The main insights to emerge from the present study included topics that have strong associations with the ideology, purpose, and function of trade unions. However, while these insights contribute towards understanding links between trade union members perceptions, expectations, and job dissatisfaction, they could not capture the processes that led to XYZ's parent company's decision to close the factory. Therefore, a potential limitation of this research must be acknowledged, as there is no way of knowing from the field work conducted at XYZ in 2015 if its parent company was in the process of deciding the fate of the factory at that time. Yet, the responses of trade union member interviewees do seem to make up for that potential weakness in that they tell us much about how human beings experience processes of change, form negative perceptions, and integrate contextual factors into feelings of job dissatisfaction. Despite their factory having remained open, the perceptions of trade union member interviewees in this research captured conditions in their environment which indicated that all was still not well. Instead of sharing perceptions of satisfaction from what could have been perceived as job security, they generally leaned towards sharing a strong awareness that the increasing powerlessness of their trade union could lead to more job losses in their city.

The responses of interviewees also related experiences and perceptions of weak trade unionism that was unable to influence decisions made by management, and to protect trade union members from management. This paper offers insights from case study analysis to debates within the field of industrial relations on effective forms of participation, as weaker forms of trade unionism may not suffice in providing trade union



members with the protection they seek from management(s) in their respective organizations. Even more, this research helps to show that managers of organizations may not be safe themselves, as organizations must undoubtedly contend with uncertainties in their external environments that could be related to competition within industries or major events such as Brexit. Indeed, the parent company in this project reportedly closed one of its factories in Europe within the last decade whilst at present, companies are exiting the UK following its decision to Brexit. It is therefore important to acknowledge that power structures may be changing at the micro and macro levels, given that industry changes are, in fact, taking place. Much remains to be understood on how changes such as those just described will impact on trade union member employees, the trade union movement, and organizations in the UK. Researchers from across disciplines will likely find many topics to explore in the wake of Brexit, given the uncertainty surrounding the event and its impact on employees. The author of this work recommends that future work include the perspectives of managers to understand more about competitive pressures and changes in power structures that could filter down to trade union member employees.

Although a limitation of qualitative analyses is that it is subject to multiple interpretations, this is overcome by the value offered by the data in the present study. This data may be some of the last, if not the last, data collected directly from trade union member employees at a manufacturer in Scotland. Future research should endeavour to understand how displaced employees, trade union members and non-union members alike, experience changes in wider economic structures. Clearly, Brexit offers a prime opportunity for researchers to do so. This work also suggests that while there is no way to link its data to Brexit, a general climate of uncertainty most likely existed in the UK that was not created at a single point in time. Rather, it is more likely that trade union member interviewees in the present work had perceptions that changes were taking place around them before the Brexit vote occurred in June of 2016. The present research therefore offers insights into the development of those perceptions to scale, as responses from interviewees referenced events and situations at the micro and macro level that occurred at different points in time. Yet, given the phenomenon studied in this work, job satisfaction was not treated in its fullness, so that future researchers could endeavour to gather insights to scale as these relate to more positive aspects of the employment relationship, such as job satisfaction. Furthermore, job satisfaction cannot be studied without a context, and this work includes but one manufacturer in Scotland. There are clearly many organizations available for researchers to conduct explorations into the phenomenon which could aid in understanding participation and job satisfaction, at the very least.

It is also important to acknowledge that this research is biased towards reporting the insights gained in interviews that were related to trade union members' job dissatisfaction at a single case study organization. This paper does not include the many aspects of their jobs that they described as satisfying. Nor does it capture the smiles, laughter, humor, or vibrant personalities of the individuals who participated in this research. In fairness to those who contributed their valuable insights as well as time to the present study, the content of this paper should not be construed as a representation of the individuals who participated in the process of its creation.

Although the path forward remains unclear, the potential effects that Brexit could have on the future of trade union membership in the UK are worth consideration. As this paper has indicated, trade union membership and the manufacturing industry in which it was once strong were in states of decline before the Brexit vote. Given that powerful trade unionism was once associated with manufacturing organizations, it is no wonder that trade unions in the UK shifted their focus to recruiting non-traditional trade union members, or workers from more diverse backgrounds and non-manufacturing organizations. The potential for that shift to foster trade union member solidarity is questionable, however, given that diversity is at odds with the idea of a unified social identity. Trade unions in the UK, moreover, have not been able to halt the decline in the services industries that is largely the result of globalization. The Brexit vote has therefore added a new dimension to an already dire set of circumstances for trade unions in the UK, as even more manufacturing and services organizations are exiting. By and large, these companies are citing Brexit as

the reason for that exit, which suggests that many organizations perceive the UK as a high-risk environment. None of this bodes well for trade unionism in the UK, as it does not suggest that any single industry or sector will have an especially strong workforce from which to recruit new members. Furthermore, the loss of industries from the UK suggests that managements and trade unions may each become weak as changes in the economic environment threaten the stability of organizations.

It could very well be that UK trade unions will have to recruit new members internationally as a matter of necessity, rather than of strategy. While some trade unions have international membership, it remains to be seen how the potential loss of power in the UK impacts on that membership. For example, the loss of power by trade unions in the UK could potentially serve as a signal that trade unionism is weak at the global level, and countries that are less favorable to trade unionism may then act on the opportunity to halt trade union activity altogether. Regardless of how speculative any discussion of trade union survival in the UK post-Brexit may be, it is clear that trade unions will have many obstacles to overcome in the UK, so that the outlook of their survival seems bleak.

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## **BIOGRAPHY**

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# IMPROVING ORGANIZATION DYNAMIC CAPABILITIES USING ARTIFICIAL INTELLIGENCE

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## ABSTRACT

*Artificial Intelligence is diffusing through organizational environments, having become one of the pillars of the so-called the Fourth Industrial Revolution. This exploratory research investigates how the diffusion of Artificial Intelligence affects three Dynamic Capabilities of organizations: Sensing, Seizing and Reconfiguring. Using an interpretive approach and qualitative methods (13 semi-structure interviews with experts in the field of Artificial Intelligence), the paper suggests areas in which Artificial Intelligence is contributing to organizational Dynamic Capabilities. The findings show alignment with the academic and industry literature, pointing out implications for organizations, practitioners and researchers.*

**JEL:** M100

**KEYWORDS:** Artificial Intelligence, AI, Dynamic Capabilities, Sensing, Seizing, Reconfiguring

## INTRODUCTION

The diffusion of Artificial Intelligence (AI) for businesses is going fast. Experts consider that AI is today one of the pillars of the so-called Fourth Industrial Revolution (Schwab, 2017). The forecast is that by 2035, AI is going to improve labor productivity by 40%, doubling the economic growth of the most developed countries (Purdy and Daugherty, 2016). The expectations are that humanity will reach intellectual levels that would not be possible without AI (Accenture, 2018). The scope for AI applications is broad: from autonomous cars and drones, to assistant robots, personal assistants and intelligent machines such as IBM Watson and Google DeepMind. From the simple optimization of operations to the more sophisticated application in scientific discovery, AI is diffusing everywhere (McAfee and Brynjolfsson, 2017). Such a technological revolution has a significant impact on businesses. Academic research points out that most professionals and industries are expected to be affected by the diffusion of AI (McAfee and Brynjolfsson, 2017). AI is going to substitute labor in tasks that digital technology can do better than humans do (McAfee and Brynjolfsson, 2017). It is also going to be integrated into human activities, as part of workforce systems (Accenture, 2018). On the one hand, machine-learning techniques are going to allow AI to learn from humans and human behavior.

On the other hand, humans are going to discover new ways of working, through interactions with intelligent machines: there is a new language and a new way of thinking which is proper of AI solutions, and we need to learn to communicate with and understand these interfaces to get the best from technology (McAfee and Brynjolfsson, 2017, Tegmark, 2018). In this era of radical innovation, businesses need to rethink their practice to incorporate AI technologies, in such a way that they can preserve or enhance their competitive advantage in an environment in which technology and economic contexts change continuously (McAfee and Brynjolfsson, 2017, Schwab, 2017). For AI solutions to bring better results, organizations need to have the right resources in place, and to adapt these resources across time. Considering the nature of the stated problem – use of resources for sustaining competitive advantage –, this paper draws upon the theory of Dynamic Capabilities to investigate the impact of AI. This paper focuses particularly on how organizations

may prepare themselves to develop Dynamic Capabilities in an economic environment in which the adoption of AI solutions become more pervasive.

This paper is organized as follows. Firstly, it introduces a literature review on the topic of AI and some examples of its impact on organizations, using academic and industry papers. Secondly, it introduces the theoretical framework of Dynamic Capabilities. Thirdly, it presents the methodology used to collect and analyze data. Fourthly, it presents the key findings, linking them back to the literature and theory. The final sections bring conclusions, limitations and opportunities for future research, followed by a brief discussion on the path forward for academic and industry professionals considering the research conclusions.

## LITERATURE REVIEW

Digital technology innovation and diffusion across organizations and societies are driving the Fourth Industrial Revolution (Mendonça and Andrade, 2018a, Paschek, Luminosu and Draghici, 2017, Schwab, 2017). Technologies such as IoT (Internet of Things), Big Data Analytics and Cloud Computing are combined with Artificial Intelligence (AI), allowing organizations to speed up innovation (Khin and Ho, 2019, Mendonça and Andrade, 2018a, Mendonça and Andrade, 2018b). Digital technology is transforming organizations, from their operations to their business models, strategies and organizational structures (Hess et al., 2016). The impact of digital technologies in the transformation of organizations has increased in the last decades, with AI leading the current waves of changes (Fabre, 2018, Gerbert, Mohr and Spira, 2019).

Although there is a variety of AI technologies, we can define AI as digital systems which use reasoning to solve complex problems and achieve objectives in a way of mimicking patterns of human intelligence (Cisco, 2018, KPMG, 2019, Paschek, Luminosu and Draghici, 2017). Within the broad spectrum of AI, Machine Learning is defined as mathematical techniques which, when applied to big data and knowledge repositories, can generate insights and knowledge without programming specific functions for this activity (Accenture, 2018, Fabre, 2018, KPMG, 2019, Loucks, Davenport and Scatsky, 2018, Paschek, Luminosu and Draghici, 2017, Ustundag and Cevikcan, 2018). Natural Language Processing (NLP) (used in chat bots and virtual assistants), and computer vision (used in facial recognition and driverless cars) are examples of Machine Learning solutions (Fabre, 2018, Loucks, Davenport and Schatsky, 2018). Academics and industry professionals agree that AI is today able to execute complex tasks, which before were thought to be manageable exclusively by humans (Cisco, 2018, Mendonça and Andrade, 2018a, Mendonça and Andrade, 2018b, McAfee and Brynjolfsson, 2017, Schwab, 2017).

Despite not being yet as developed as other digital technologies such as IoT and Big Data Analytics, AI solutions are expected to have greater importance in the future (Mendonça and Andrade, 2018b). At the current stage, AI has enabled optimized operations, more agile process to adapt to market needs and changes, and new business models (Cisco, 2018, Loucks, Davenport and Schatsky, 2018, Rao and Verweij, 2017, Shook and Knickrehm, 2018). Industry research relates AI to business efficiency, productivity, agility, scalability, capacity of adapting to new environments, and competitiveness (Cisco, 2018). Some examples demonstrate the scope of AI applications. In manufacturing, AI maximizes the use of assets through earlier identification of underutilized or faulty machinery (Charalambous et al., 2019, Purdy and Daugherty, 2017). AI allows insights in large datasets of unstructured data, finding patterns that are difficult to be identified by humans alone (Gerbert, Mohr and Spira, 2019, Purdy and Daugherty, 2017, Shook and Knickrehm, 2018). AI enables better personalization of products and services through analyzing customer insights (Accenture, 2018, Cisco, 2018, Khin and Ho, 2019, Rao and Verweij, 2017, Wilson and Daugherty, 2018). Machine Learning can develop mathematical models that allow AI to explore solutions to problems and develop predictive analytics in an autonomous fashion (Cisco, 2018, Government Office of Science, 2016). AI may support decision-making processes, tailoring information for the right governance levels (Accenture, 2018, Rao and Verweij, 2017, Shook and Knickrehm, 2018, Wilson and Daugherty, 2018).

### Dynamic Capabilities

This research draws upon the theoretical framework of Dynamic Capabilities, which explores how organizations may develop high-performance routines to obtain competitive advantages (Teece and Pisano, 1994). Dynamic capabilities are defined as the firm's "ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano and Shuen, 1997: 516). Dynamic capabilities draw upon the resource-based view of the firm (Harreld, O'Reilly and Tushman, 2007), adding the capability to adapt the use of resources in order to obtain sustainable competitive advantage in face of environmental changes (Breznik, Lahovnik and Dimovski, 2019). Reaching dynamic capabilities requires organizations to change processes to get the best from resources (Teece and Pisano, 1994, Teece, Pisano and Shuen, 1997). Those organizations which have dynamic capabilities are able to *sense* relevant changes in the environment, *seize* opportunities (and avoid threats), and *reconfigure* the use of assets and resources (Breznik, Lahovnik and Dimovski, 2019, Day and Schoemaker, 2016, Harreld, O'Reilly and Tushman, 2007, Mendoca and Andrade, 2018a, Teece, 2007).

*Sensing Capability* is the ability an organization has to identify opportunities and threats which emerge from changes in the environment and uncertainty (Breznik, Lahovnik and Dimovski, 2019, Day and Schoemaker 2016, Mikalef and Pateli, 2016, Pavlou and El Sawy, 2011, Shafia et al., 2016). Taking into consideration the environmental change, Sensing Capability is related to gathering market intelligence, knowledge creation, and product development (Day and Schoemaker, 2016, Kindström, Kowalkowski and Sandberg, 2013, Mikalef and Pateli, 2016, Pavlou and El Sawy, 2011, Teece, 2007). *Seizing Capability* is the ability to mobilize resources in order to take advantages of opportunities (Birkinshaw, Zimmermann and Raisch, 2016, Mendonça and Andrade, 2018a). Meanwhile Sensing focuses on finding opportunities, Seizing aims exploiting them (Birkinshaw, Zimmermann and Raisch, 2016). Seizing implies making right decisions to deliver better products, services, processes and business models to achieve sustainable competitive advantage (Agwunobi and Osborne, 2016, Mendonça and Andrade, 2018a, Teece, 2007, Kindström, Kowalkowski and Sandberg, 2013, O'Reilly III and Tushman, 2008).

*Reconfiguring Capability* is the ability an organization has to recombine and transform its assets and organizational structure, to obtain sustainable competitive advantage (Agwunobi and Osborne, 2016, Birkinshaw, Zimmermann and Raisch, 2016, Teece, 2007). Focusing on technological and market trends, through the strategic lenses, Reconfiguring Capabilities allow companies to be better than competitors (Pavlou and El Sawy, 2011). Reconfiguring is also related to innovation in business models (Kindström, Kowalkowski and Sandberg, 2013), timely and rapid changes to operational capabilities (Mikalef and Pateli, 2016), and asset and process management (Shafia et al., 2016).

### **METHODOLOGY**

This research adopts an exploratory approach (Gray, 2016, Saunders, Lewis and Thornhill, 2009), taking into consideration the lack of literature on Artificial Intelligence (AI) and Dynamic Capabilities (with a few exceptions, e.g. Mendonça and Andrade, 2018a, and Mendonça and Andrade, 2018b). The paper follows an interpretive perspective (Mason, 2002), to understand the meaning AI experts attribute to the impact of this technology on organizational dynamic capabilities. Through semi-structured interviews (qualitative approach) (Flick, 2002, Mason, 2002), the paper aims to explore whether the theoretical perspective on Dynamic Capabilities resonates with AI professionals, and, if so, to explore key social constructs that bridge the discussions about the impact of AI in building competitive advantage through better use of resources. Therefore, the research aims to answer the following research question: How do AI technologies affect organizational Dynamic Capabilities of Sensing, Seizing and Reconfiguring?

Using a purposive and convenience sample strategy (Gray, 2016, Saunders, Lewis and Thornhill, 2009), respondents were chosen because of their relevant background knowledge of AI and the access the

researchers had to these professionals. The final sample is small (13 interviews, identified by codes from RA to RM in the presentation of findings), but representative for getting a first glance in the domain, and answering the research question. The sample includes academic scholars, AI thought leaders and experts, start-up entrepreneurs, and management professionals. Respondents are based in the United Kingdom, the United States and France, and were interviewed in 2019. Respondents were asked about the impact of AI in organizations from the perspective of building competitive advantages, considering the theoretical propositions that the technology would support sensing, seizing and reconfiguring capabilities. Respondents were mainly asked to discuss the impact of AI for information and knowledge management, monitoring of the environment, decision making and asset management. Interviews have been anonymized. Transcripts have been coded using NVivo software. The coding process has been informed by the theory on Dynamic Capabilities (Flick, 2002). Drawing from the theory, constructs have been proposed; then interviews were analyzed using the proposed code book. The constructs in the code book are as follow:

*Constructs related to Sensing Capabilities:* the ability to identify opportunities and threats by exploring environmental changes (e.g. Breznik, Lahovnik and Dimovski, 2019, Shafia et.al, 2016); and the ability to capture information that feeds into market intelligence and knowledge management (e. g. Day and Schoemaker, 2016, Mikalef and Pateli, 2016).

*Constructs related to Seizing Capabilities:* the ability to draw new insights from the information captured (e.g. Birkinshaw, Zimmermann and Raisch, 2016, Day and Schoemaker, 2016); and the ability to respond to insights with informed decision making (e.g. Agwunobi and Osborne, 2016, Heger and Boman, 2015, Kindström, Kowalkowski and Sandberg, 2013, Teece, 2007).

*Constructs related to Reconfiguring Capabilities:* the ability to reconfigure the asset base (e.g. Agwunobi and Osborne, 2016, Birkinshaw, Zimmermann and Raisch, 2016, Shafia et.al, 2016); and the ability to reconfigure operational capabilities (e.g. Mikalef and Pateli, 2016).

## FINDINGS AND ANALYSIS

### Sensing

From the perspective of identifying opportunities and threats, respondents reveal that Artificial Intelligence (AI) can contribute to Sensing Capabilities in organizations through better building insights from the data (RE, RD). When improving the deployment of resources, data quality is more important than data quantity (RJ). AI adds new capabilities to data collection processes; for instance, vision image recognition allows data collection in real-time in a scale and speed which cannot be done otherwise (RD). AI can help organizations to understand trends and use-cases, and to develop capabilities for predicting market changes; thus, businesses are better equipped to adjust their strategies to complex environmental changes (RA, RE, RF, RI). AI supports organization competitiveness through helping businesses to overcome the lack of human resources dedicated to Big Data Analytics (e.g. lack of data scientists) (RE, RD). AI helps companies to improve products and services observing behavior patterns (RC). Retail and travel companies, for instance, use AI to recommend products and services based on expected individual preferences (RK). BMW uses AI to inform insurance companies about the behavior of drivers (RL). UberEats' freelancer workers can contract cost-effective insurance proportional to the actual number of hours they work (instead of paying the full premium) (RD). In financial services, AI compares communication exchanges between trades in order to evaluate the risk of collusion (RB).

The literature confirms that AI is changing data gathering and allowing organizations to get new insights from unstructured data (Gerbert, Mohr and Spira, 2019, Purdy and Daugherty, 2017, Shook and Knickrehm, 2018). AI deployment for recognizing patterns and predicting future market behavior is discussed in the literature. AI use modelling to predict trends (Cisco, 2018, Government Office of Science, 2016), and

studies behavior patterns for aligning offerings with customers' expectations (Cisco, 2018, Khin and Ho, 2019). AI helps organizations to identify environmental changes and to find trends and opportunities from unsupervised exploration of data (Day and Schoemaker, 2016).

From the perspective of market intelligence and knowledge management, respondents recognize AI is changing how companies manage intangible assets. In a high-level application, AI contribution may generate knowledge from unstructured data, without need of specific functions being programmed into code, such as the case of IBM Watson and Google DeepMind (RH, RK). AI integrated with CRM (Customer Relationship Management) software helps sale teams to understand which leads are promising and when to chase leads (RI). In an operational level, AI improves the way people, processes and practices work towards producing knowledge (RL). For instance, AI solutions collect data about how employees work in order to make explicit the tacit knowledge embedded into processes, protecting the organization from losing its expertise when contributors leave the business (RM). The literature links AI to how organizations are capturing and using knowledge in their businesses (Loucks, Davenport and Schatsky, 2018, Cisco, 2018). In this direction, a key capability is the potential of machine learning technologies to look for optimizing solutions using learning mechanisms (instead of depending on specific programming) (Accenture, 2018, Fabre, 2018, KPMG, 2019, Paschek, Luminosu and Draghici, 2017, Loucks, Davenport and Scatsky, 2018, Ustundag and Cevikcan, 2018).

### Seizing

From the perspective of drawing insights from information, AI monitors historical data trends to evaluate which strategy is adequate for a context and time (RA, RK), and how markets are likely to evolve (RB). AI proposes hypotheses and relationship between variables, improving the accuracy of insights across time (RA, RF, RI). Companies (e.g. Netflix and Google) and industries (e.g. fashion) use AI to monitor markets trends (RE, RL). Based on data about individuals, AI can personalize the customer value proposition, more efficiently than mass marketing strategies (RL). The infamous case of Cambridge Analytica demonstrates how AI can be used to target personalized advertisements to individuals in accordance with their personality types (RH). This knowledge of markets in the level of individuals was not possible before (RK). The literature on AI agrees that the technology can create valuable insights from evaluating patterns (Paschek, Luminosu and Draghici, 2017, Loucks, Davenport and Scatsky, 2018, Fabre, 2018, KPMG, 2019, Ustundag and Cevikcan, 2018). These insights improve the capacity of an organization of seizing opportunities and avoiding threats. A good example of AI supporting new insights is the way organizations can personalize solutions to customers, gaining competitive advantage and markets (Rao and Verweij, 2017, Wilson and Daugherty, 2018, Accenture, 2018, Cisco, 2018, Khin and Ho, 2019).

From the perspective of having better decision making, AI can improve the quality, speed and efficiency of processes through gaining insights from information (RA, RL, RJ). AI solutions propose to use unbiased data to bring more accuracy for decision making (RE, RF). AI is used, for instance, for automating trades in stock market and decision-making in commodity markets (RF, RM), and for generating reports automatically (RC). However, respondents also think human intervention is required in decision making, as people may have understandings superior to AI solutions so far (RI, RG). The literature relates improved decision making to having seizing capabilities (Agwunobi and Osborne, 2016, Heger and Boman, 2015, O'Reilly III and Tushman, 2008, Mendonça and Andrade, 2018a, Teece, 2007, Kindström, Kowalkowski and Sandberg, 2013). The Government Office for Science (2016) relates deep learning techniques to the capacity of fostering better decision making based on finding relevant data patterns. The literature also does not advocate that AI is to exclude humans from the decision making; rather, AI is expected to support humans to make better decisions (Rao and Verweij, 2017, Wilson and Daugherty, 2018, Shook and Knickrehm, 2018, Accenture, 2018).

### Reconfiguring

Respondents associate AI with the optimization of asset usage (reconfiguration of assets) (RF). For instance, analyzing data generated by digital technologies such as RFID (radio-frequency identification), AI can both maximize asset utilization and minimize asset inventory and scope (RD, RG). AI may use predictive analytics for planning maintenance and investment in infrastructures, allowing organizations to reengineer their assets considering market changes (RH, RI). In the literature, Charalambous et al. (2019) and Purdy and Daugherty (2017) explore the same idea that AI plays a role when companies are optimizing the use of assets, from selecting the adequate configuration of assets (minimizing investments on assets), quickly detecting defects in assets, and helping the organization to maximize the use of its assets.

Respondents say AI influences how organizations remodel operations (RA, RM). Collecting data on behavior, AI may create automation rules for tasks, thus improving the effectiveness of processes, while personalized approaches become viable (RA, RM). AI has been added to workflows, increasing speed, accuracy and productivity in complex process (RB, RE, RG, RL). Process which are repetitive and clearly defined, such as working monitoring and work allocation, can be automated (RB, RL, RM), optimizing resource allocation and cost savings (RE). For instance, AI solutions support doctors improving the quality and speed of diagnosis (RD). AI can use insights on customer's emotions to create disruptive impact on marketing and customer relationship (RC, RH, RJ). In automating processes, organizations may reallocate human resources to tasks better handled by people (RM). The literature supports the idea that companies are using AI to optimize internal operations (Cisco, 2018, Khin and Ho, 2019, Loucks, Davenport and Schatsky, 2018). Academic and industry researches explain that automation is changing processes, substituting repetitive tasks, at the same time that human resources are transferred to more complex activities which cannot be done by automated solutions (McAfee and Brynjolfsson, 2017, Rao and Verweij, 2017, Purdy and Daugherty, 2017, Accenture, 2018).

### **CONCLUSIONS**

The goal of this exploratory research is to investigate how the diffusion of Artificial Intelligence (AI) affects the Dynamic Capabilities of organizations. Drawing upon the literature and theory, the paper establishes three Dynamic Capabilities to be investigated: Sensing, Seizing and Reconfiguring. Based on the propositions from the literature, this research has conducted 13 semi-structure interviews with AI experts, to verify whether their perception of the phenomenon was aligned with the theoretical propositions. This research concludes that there is a good match between the perspective of respondents, AI experts, and the academic and industry literature on the impact of AI in organizations' Dynamic Capabilities. The findings suggest that AI technologies affect Sensing Capabilities through building the ability to quickly identify opportunities and threats in face of environmental changes, allowing companies to better understand customers and develop predictive analytics. AI contributes to knowledge management capabilities, through capturing information which feeds into market intelligence and knowledge generation and distribution. These findings point out opportunities for organizations to embed AI in data collection and processing, to find new patterns. AI may be applied to capture and document human workflow, pointing out activities which can be automated, thus avoiding loss of knowledge when employees leave the business.

The findings suggest that AI technologies affect Seizing Capabilities through drawing new insights from information (understanding patterns) and moving towards a more efficient data-driven decision making. Organizations may use AI for better understanding their data on business operations and customers, and to support humans in their process of decision making through new insights. However, automated decision-making is yet in the horizon: the best approach is for AI to be integrated into processes lead by professionals. The findings suggest that AI technologies affect Reconfiguring Capabilities through supporting asset optimization in accordance with the changes in context, on the one hand preventing overuse of assets and on the other hand ensuring the right level of investments in infrastructure and maintenance. AI also is

applied to transform operational capabilities in order to gain more accuracy, efficiency and productivity. In this function, AI can support automation of repetitive activities, freeing human resources for more complex tasks. Considering these capabilities, organizations may use AI to oversee operations, for identifying automation opportunities, improving workflows, and complementing human capabilities. The main limitation of this research is the number of interviews. Although the interviews have provided enough data for the analysis, future research can benefit from adding more interviews and triangulate the findings through other methods. Future research may also present the perspective of scholars and industry professionals separately, in order to grasp whether there are differences between the perceptions of the two expert groups. Finally, future research may explore further implications for organizations' Dynamic Capabilities in a scenario of more pervasive diffusion of AI technologies.

### A Path Forward

These conclusions are promising from two perspectives. In a pragmatic level, this research points out how organizations can use Artificial Intelligence (AI) for enhancing their Dynamic Capabilities, thus getting better chances of developing sustainable competitive advantages. Organizations are urged to evaluate the impact of AI diffusion in their industries, to prepare their Dynamic Capabilities in accordance with the needs of the environment, as there is not one solution which fits all organizations. In a theoretical level, this research demonstrates the framework on Dynamic Capabilities provides a robust perspective to investigate the impact of AI on the way organizations use their resources to sustain competitive advantage. Academic research needs to prepare a robust theoretical framework to support organizations in the transformation driven by AI diffusion. The perspective of Dynamic Capabilities emerges as a promising framework.

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## **BIOGRAPHY**

Dr Magda Hercheui is a Principal Teaching Fellow in Project Management and Innovation at University College London, School of Management (corresponding author). Mr. Rishikesh Ranjith is an alumnus of UCL School of Management (MSc Management 2018-2019). This paper draws upon Mr. Ranjith's dissertation for the MSc Management, under the supervision of Dr Hercheui. The original work has been synthesized and further literature and analysis have been added to the presented research. Authors are in alphabetical order.

# EVIDENCE ON THE CURRENT STATE OF THE SHRIMP INDUSTRY IN ECUADOR

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## ABSTRACT

*This article presents evidence regarding the current state of the shrimp industry in the Republic of Ecuador. The paper conducts a survey that highlights existing problems the industry faces. The author proposes several solutions for the short and long-term correction and elimination of such problems. The Ecuadorian economy consists of three major sectors: (1) The Primary Sector includes agriculture, aquaculture, livestock, and mining; (2) The Secondary Sector consists of industrial production; and (3) The Tertiary Sector includes all types of services. The shrimp industry in Ecuador in the first primary sector.*

**JEL:** M16, M20

**KEYWORDS:** Ecuador, Shrimp Industry, Product Diversification, El Nino, Decree #1391, Ministerio de Acuacultura, Camara Nacional de Acuacultura, Nicovita Exports, CJP International, City of Guayaquil

## INTRODUCTION

The purpose of this article is to present the status of the shrimp industry in Ecuador. The Ecuadorian shrimp industry plays an important role in the national economy and constitutes a large percentage of the production of non-petroleum products destined for exportation around the world. The shrimp industry in Ecuador is divided into production and exportation. The industry employs 5% of the labor force, and produces 20% of non-petroleum exports (Banco Central del Ecuador, Información Estadística Mensual, 2017). The data included in this article adds additional information to the relatively limited availability of academic literature on the shrimp industry in Ecuador. It also provides information on the current status of the shrimp industry.

The Ecuadorian economy has three major sectors: (1) The Primary Sector includes agriculture, aquaculture, livestock, and mining; (2) the Secondary Sector consists of industrial production; and (3) the Tertiary Sector which includes all types of services (Quintana, Mendoza & Quezada, 2014). The economy of Ecuador is based on the United States currency (Higgins de Ginnata, 2007) and highly depends on revenues received from petroleum production, the exportation of non-industrial products including shrimp, and from revenues generated in the public sector (Theodore, 2010). The economy of Ecuador is not competitive and operates under diseconomies of scale due to under-utilization of the factors of production (Acosta, 2012). The European Union is the largest export market of non-petroleum products while most imports to Ecuador come from the United States (Vasquez & Saltos, 2008).

Ecuador has adopted the strategy of product diversification for its economic and social development (Larrea, 2017). Several legislative enactments have led to structural changes in government and non-governmental institutions as well as agencies for the purpose of supporting the desired diversification (Theodore, 2011). Constitutional amendments specify the government may participate in all strategic sectors of the economy including the sectors of imports and exports. There are government controls on foreign investments in telecommunications and in air and sea transportation (Vallejo, 2010). Economic

development in Ecuador is highly influenced by global cyclical fluctuations. It is, therefore, highly important that the strength of internal economic controls be increased through development in all sectors of the economy, and there be less government control of private enterprises (Theodore, 2010).

The literature commensurate to the topic of this article is based on academic articles, academic books, publications of government and private institutions and agencies in Ecuador. In addition, I conducted personal interviews with managers of private business organizations and top officials and consultants of government agencies in Guayaquil, Ecuador, in October 2017.

There is a 25% shortage of 25 shrimp supply globally due to substantial reduction in the production of shrimp in South-East Asia caused by diseases that affect crustaceans. For this reason, Ecuador has been making every effort to increase its production and exportation of shrimp. Ecuador produces the highest quality shrimp globally. Existing problems in the shrimp industry and efforts to correct them and further develop the industry have been exposed, analyzed, and evaluated. This article provides information pertinent to the current status of the shrimp industry in Ecuador. In the section that follows, the author provides a review of the relevant literature. The data and Methodology section discusses both primary and secondary data. Results and Discussion that indicate the research findings and provide a discussion. Next, the author provides some comments about how the industry might move forward in a positive way. The paper closes with some concluding Comments.

## **LITERATURE REVIEW**

### The Role of the Shrimp Industry in Ecuador

The shrimp industry is a part of aquaculture that mainly includes crustaceans (shrimp), mollusks, and fish. Currently, there is a high global demand for Ecuadorian shrimp due to the disease, which has substantially reduced the production of South-Asian shrimp. In other parts of the world, such as Mexico, there have been large economic losses during the cultivation process of shrimp. These losses occur due to diseases, coupled with intensive intervention generated by culture practices which degrade the environment (Plascencia & Bermudez, 2012).

Expansion of the shrimp industry depends on scientific advances related to the understanding of reproductive endocrinology that allows the development of aquaculture programs based on biotechnology (Sancho-Blanco, Castro & Montoya, 2018). There is continuous demand upon the Ecuadorian shrimp industry to increase both its production and exportation. Currently, there is a 25% shortage of shrimp production globally (Camara Nacional de Acuicultura. Comercio Exterior Información, 2017). At present, 58% of the exports go to Asia, 24% to Europe, 16% to the United States, and 2% to Latin America. In 2017 the percentages of Ecuadorian shrimp for exportation were: Frozen shrimp 80.5%, frozen shrimp from cold water (harvested) 18.8%, and preserved shrimp in jars and cans 0.7% (Camara Nacional de Acuicultura. Estadísticas, 2018).

Asian shrimp producers have been making strong efforts to revive the disease afflicted shrimp industry. Efficiency estimates indicate substantial potential for improving the level of shrimp production using existing inputs and available technology (Devi & Prasad, 2007). In North America, Canada has increased its shrimp production to an appreciable degree. Canada's cold-water shrimp had an export value of \$345 million in 2013. It represents Canada's fourth-largest seafood export, behind lobster, Atlantic salmon, and snow crab (Beswick, 2017). Similar efforts have appeared in the United States. Efficiency estimates indicate substantial potential for improving the level of shrimp production using existing inputs and available technology in both the systems (Grimes & Yow, 2009).

The shrimp industry in Ecuador is divided into production and exportation. The industry employs 5% of the labor force, and represents 20% of non-petroleum exports (Banco Central del Ecuador, Información Estadística Mensual, 2017). The shrimp industry does not receive government financial assistance but is subject to necessary government controls. Production and exportation take place during the entire year (A. Arauz Paladine, General Manager and Consultant, Nicovita Exports, personal communication, October 20, 2017). The shrimp industry has 175,000 hectares dedicated to the cultivation of shrimp and 277 shrimp boats (Banco Central del Ecuador, 2017). Both harvesting of shrimp by the shrimp fleet and cultivation of such crustaceans are included in the production phase of the industry. Harvesting shrimp in the coastal waters of Ecuador takes place between 98 to 120 days when the shrimp reaches the appropriate size. On the other hand, the cultivation of shrimp in farms takes place continuously throughout the year.

#### Current Problems in the Shrimp Industry in Ecuador

The geography of Ecuador affects the production of shrimp, especially when the climatic phenomenon of El Niño causes changes in water temperature with detrimental effects upon the availability of shrimp. The two main diseases that affected shrimp farming in Ecuador are the Taura Syndrome Virus and the White-Spot Virus. Prior to the arrival of the White-Spot Virus in 1999, the Taura Syndrome Virus was the biggest killer of shrimp. Shortly after stocking, it can kill from 40% to 90% of the post-larvae in a pond (Veuthey & Gerber, 2012). In Asia, consumed shrimp infected by disease has caused food poisoning. Asian governments have been making every effort to protect their citizens from having food poisoning caused by the consumption of infected shrimp. According to published information, HACCP systems are being put into practice in aquaculture at various levels (Okocha, Plukfemi & Adedeji, 2018).

Traditionally, Ecuadorian producers have been receiving delayed payments for the sale of their products. This delay impedes such producers from timely reinvesting in breeding, feeding, providing medical controls against disease, renovating/upgrading machinery, and implementing new technologies (B. Nunez, Undersecretary, Ministerio de Acuacultura, personal communication, October 19, 2017). In addition, there have been logistic problems in the channel of distribution whereby intermediaries have been causing unnecessary increases in the price of the product. The channel of distribution from production to exportation has been lacking in effectiveness, efficiency, and timely movement. Finally, there has been slow technical assistance and slow transfer of technology (Armijos-Suárez et al, 2015).

#### Areas of Ongoing Improvements

In 2008, the Ecuadorian Government enacted Decree No.1391 which regulates the shrimp industry in the area of physical environment. Producers are obligated to contribute financially by complying with the above-cited decree (Luna Osorio, 2010) to assist in maintenance of the physical environment affecting the physical condition of the ponds where the shrimp grow.

Since the government does not provide financial assistance, the private sector is providing financial incentives on an increasing basis (B. Nunez, Undersecretary, Ministerio de Acuacultura, personal communication, October 20, 2017). Producers are now increasingly receiving their compensation faster and are rapidly reinvesting in breeding, feeding, providing medical controls against diseases that affect the crustaceans, and replacing/innovating machinery (O. Crespo, Secretary, Ministerio de Acuacultura, personal communication, October 19, 2017).

There have also been improvements in research for the nutrition/food for the shrimp (La Exportación Empuja al Sector Camaronero, 2017). The new method of feeding the shrimp, through multiple rations of high-quality food, has decreased the cycle of production and increased the total volume produced (Molina and Espinosa, 2017). Fish intestines are now being used to provide food for the shrimp; there are national

business organizations that process and prepare such food (Y. Piedrahita Falquez, Executive Director, Camara Nacional de Acuacultura, personal communication, October 20, 2017).

There are increases in synergy and coordination in the channels of distribution. These activities begin with the production phase in order to meet the quality demands of the international market and attain reasonable prices by reducing costs through the elimination of intermediaries (A. Arauz Paladines, General Manager of Nicovita Exports, personal communication, October 18, 2017). The implementation of new technology is increasing, among other things, the coordination among the associations of producers, exporters, government agencies, and foreign importers (Munos Suarez; Duran Ganchoza & Gonzalez Illescas, 2017). It is evident that all parts of the distribution channel continue to make every effort to attain economies of scale and provide competitive prices to foreign importers (C. Jurado, President, CJP International Business, personal communication, October 19, 2017). In 2016, for every US \$100.00 invested in the shrimp industry of Ecuador, the gains were US \$28.90 (Banco Central del Ecuador, Información Estadística Mensual, 2017).

## DATA METHODOLOGY

For the purpose of this article, the author collected secondary materials published by Ecuadorian and foreign authors on the shrimp industry in Ecuador. Primary data were collected through a number of lengthy personal interviews that took place in the port City of Guayaquil, the headquarters of the Ecuadorian shrimp industry. Interviews were conducted between the author and government agency officials, private organization officials, and consultants affiliated directly with the shrimp industry in the country.

Specifically, the author interviewed O. Crespo, Secretary, Ministry of Aquaculture in which the shrimp industry belongs, October 19, 2017; Y. Piedrahita Falquez, Executive Director, National Chamber of Aquaculture, October 20, 2017; C. Jurado, Economist and Management Consultant, President of CJP International, October 19, 2017; B. Nunez, Undersecretary, Ministry of Aquaculture, October 19, 2017; and A. Arauz Paladines, General Manager of Nicovita Exports, the organization that exports Ecuadorian shrimp around the world, October 18, 2017. Results of the interviewees are described in subsequent sections. The personal interviews took place in the offices of the persons interviewed and were based on three general open-ended discussions: (1) What are the current problems in the shrimp industry in Ecuador, (2) what is being done to correct such problems, and (3) what are the prognostications of the future of the shrimp industry in the country? All the responses were parallel and well-aligned although they came from experts who hold different and divergent positions in the shrimp industry.

## RESULTS AND DISCUSSIONS

The primary findings indicate there have been several problems in the shrimp industry of Ecuador (such as the nutrition of the shrimp) which are now being corrected. Ecuador is making every effort to increase its production and exportation of shrimp, which is of the highest quality globally. Existing problems in the shrimp industry and efforts to correct them and further develop the industry have been exposed, analyzed, and evaluated.

There is continuous demand upon the Ecuadorian shrimp industry to drastically increase both its production and exportation. As noted earlier, there is a 25% shortage of shrimp production globally. The shrimp industry is a part of aquaculture that mainly includes crustaceans (shrimp), mollusks, and fish. Production and exportation take place during the entire year. The shrimp industry does not receive government financial assistance, but it is subject to necessary government controls. The industry is divided into production and exportation segments. The industry employs 5% of the labor force and includes 20% of the non-petroleum exports.

Diseases have affected Ecuadorian shrimp in the past, two of which were the Taura Syndrome Virus and the White-spot Virus. The geography of Ecuador affects the production of shrimp, especially when the climatic phenomenon of El Nino causes changes in the water temperature of the sea and the ponds where the shrimp are produced. These changes have detrimental effects on the health of the crustaceans. Another problem has been that, until recently, producers of shrimp did not receive immediate payments for the sale of their products. They had to wait for several weeks until they get paid. This delay impeded producers from immediately reinvesting, inbreeding, feeding, and providing medical care for the shrimp.

There have been logistic problems in the channel of distribution where intermediaries have been causing unnecessary increases in the price of the product. The entire process from production to exportation has lacked effectiveness, efficiency, and timely movement. Finally, there has been slow use of technical assistance and the implementation of technology.

All the persons interviewed by the author of this work believe that the government needs to control the industry, but the private sector has to provide more financial incentives in the entire channel of distribution. There is mechanization in the channel of distribution which is regularly upgraded and/or renovated. Research centered on the nutrition/food of shrimp has been increasing with good results. These research projects include issues such as using fish intestines for nutrition/food produced by national firms located close to the production ponds. In 2008, the Ecuadorian Government enacted Decree No.1391 which regulates the shrimp industry in the area of the physical environment. This regulation affects the physical condition of the ponds where the crustaceans are born and raised. A majority of shrimp producers are obligated to pay additional funds to comply with the above-cited decree.

The industry has been constantly developing during the last 10 years. It is evident that all parts of the channel of distribution continue to make every effort to attain economies of scale and provide competitive prices to foreign importers. Coordination is now taking place among the producer associations, exporters, government agencies, and foreign importers to reduce unnecessary costs within the channel of distribution and to reach synergy and coordination to meet the quality demands of the international market and attain reasonable prices by reducing costs through the elimination of intermediaries to attain economies of scale.

The primary data collected by the author resulted from a number of lengthy personal discussions with top officials of government offices and agencies, top officials of private organizations, and top officials of consulting organizations. Each of these individuals are directly related to the shrimp industry and are located in the Port City of Guayaquil on the Pacific Ocean where the headquarters of the Ecuadorian shrimp industry is located. B. Nunez, Undersecretary of the Ministry of Aquaculture, indicated that producers are now paid faster after the sale of their products and the producers immediately reinvest in the breeding, feeding, and medical care of the shrimp. Further, the private sector shrimp industry is contributing more in the entire channel of distribution while the government retains the right to control and monitor said industry.

O. Crespo, Secretary of the Ministry of Aquaculture, denoted that his organization is constantly advising producers to renovate and upgrade the mechanization element through the entire channel of distribution. Y. Piedrahita Falquez, Executive Director, National Aquaculture Chamber of Commerce, stated that research in the nutrition/food of the shrimp is increasing with good results. As noted earlier, fish intestines are being used to provide food for the shrimp and there are commercial organizations close to the shrimp ponds of production that process and prepare such food.

C. Jurado, President, CJP International Business, a consulting organization that specializes in micro and macro-economic areas of Ecuador, including the shrimp industry, presented positive development of the shrimp industry during the last 10 years, making positive projections for its future developmental process. A. Arauz Paladine, Commercial Manager of Nicovita Exports and consultant to the shrimp industry, stated the industry does not receive government financial assistance, but it is subject to necessary government

controls. The private sector is increasing its financial contributions for the sustenance and development of said industry and that production and exportation take place during the entire year.

## A PATH FORWARD

The shrimp industry in Ecuador needs to continue the synergy and coordination in the channel of distribution beginning with the production phase in order to meet the quality demands of the international market and attain reasonable prices. This can be done by reducing costs through the elimination of intermediaries. The Ecuadorian shrimp industry has been constantly developing during the last 10 years. It is evident that all the constituent parts of the channel of distribution make every effort to attain economies of scale and provide competitive prices to foreign importers. Unnecessary costs found in all parts of the channel of distribution are being eliminated. The author encourages additional coordination and synergy among the associations of the producers, exporters, government agencies, and foreign importers.

## CONCLUDING STATEMENTS

The purpose of this article was to present the status of the shrimp industry in Ecuador which plays a very important role in the Ecuadorian economy and constitutes a large percentage of the production of non-petroleum products destined for exportation around the world. The shrimp industry is divided into production and exportation. It employs 5% of the labor force and includes 20% of non-petroleum exports. The author collected secondary materials published by Ecuadorian and foreign authors about the shrimp industry in Ecuador. Primary data were collected through a number of lengthy personal interviews that took place in the port City of Guayaquil, the headquarters of the Ecuadorian shrimp industry. Interviews were conducted between the author and government agency officials, private organization officials, and consultants affiliated directly with the shrimp industry in the country.

The only limitation this article has is the limited number of peer-reviewed academic articles available on the same topic. The present author wishes to see additional academic work in general and specific areas of the shrimp industry. This research might address nutrition of the shrimp, maintenance of shrimp farms, and any other specific areas pivoting around the Ecuadorian shrimp industry. This academic work has provided enough new information to enhance the knowledge of the public on the shrimp industry in Ecuador and the supply of shrimp around the world. The data included in this academic article will add additional information to the relatively limited availability of commensurate and related academic literature on the shrimp industry in Ecuador and will also provide recent information on the topic.

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John Theodore holds a Ph.D. degree in Administration and Latin American Studies from the University of Kansas; a Ph.D. in Management from the Aristotelian University in Greece, European Union; and a D.B.A. in International Business from the University of South Africa. He has been teaching and consulting for five decades, domestically and internationally. He is a visiting professor in various foreign universities and has consulted, taught, and lectured in a number of Latin American universities, colleges, and private organizations for several decades. He started his research on the economy and the private business organizations in El Salvador and the rest of Central American and South American states in the 1970s and has revisited Central and South America systematically to continue such studies to the present decade. John Theodore is the president of JDT Management Consultants in Clearwater, Florida, specializing in management, organization, strategy, international business, human resources, organizational development, and educational administration. He is a certified management consultant (CMC) certified by the Institute of Management Consultants in Washington, D.C. He has published three books and a large number of peer-reviewed articles in the areas of the organization, management, and international business.

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