
JOURNAL OF BUSINESS ISSUES

2008, No. 1

ARTICLES

- ◆ **An Examination of the Evolution of Audit Committees of Medium-Sized Corporations in the Wake of Sarbanes-Oxley**
Richard S. Rand
 - ◆ **The Interactive Process Requirements of the American's With Disabilities Act: Implications for Personnel Managers**
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AN EXAMINATION OF THE EVOLUTION OF AUDIT COMMITTEES OF MEDIUM – SIZED CORPORATIONS IN THE WAKE OF SARBANES-OXLEY

Richard S. Rand, Tennessee Tech University

INTRODUCTION

Enron. WorldCom. Global Crossings. HealthSouth. In the aftermath of some of the most spectacular and high-profile audit failures in recent memory, many questioned the adequacy of the old rules for corporate governance. As the focus of the failure of financial statement information, the Audit Committee, as a mechanism within any corporate governance system, came under increased scrutiny.

As early as 1999, concerns were being raised about the rising rate of corporate restatements. In a January 1999 article in the *Journal of Accountancy*, James Bean wrote, “The tone of a company’s control environment is set at the top, by the board of directors in general and the *audit committee* in particular.” [Bean, 1999]

In 2000, prompted by recommendations made in the “Blue Ribbon Committee Report” [NYSE, 1999], the SEC issued new rules related to audit committee disclosures. The new rules required companies to include audit committee reports in their proxy statements. The audit committee had to disclose that it had “reviewed the audited financial statements with management, had discussed with the independent auditors the matters required to be discussed by SAS No. 61, and had received from the auditors disclosures regarding the auditors’ independence as required by SAS no. 1.” In addition, disclosure was required indicating whether an audit committee charter had been adopted. If so, a copy of that charter had to be attached to the proxy statement at least once every three years. [SEC, 2000]

The most important requirements may have been the disclosure of whether the audit committee members were “independent”, and which definition of independence was used; NASD, NYSE, or AMEX.

While these were important changes to the disclosure rules, they may have been too little, too late. In October 2001, Enron declared bankruptcy. This was followed very quickly by the bankruptcy of WorldCom in June of 2002. Not coincidentally, Sarbanes-Oxley was passed by Congress in July of 2002.

REQUIREMENTS OF SARBANES-OXLEY

Section 301 of Sarbanes-Oxley established several “rules” for audit committee membership and responsibility. Many of these rules reflect the rules issued by the SEC in 2000. However, Sarbanes-Oxley has the force of federal law behind it, giving Sarbanes-Oxley significantly more weight in the eyes of the public. In addition, the penalty aspects of the law now give the SEC a powerful new enforcement tool.

Sarbanes-Oxley established new requirements for Audit Committee membership.

1. Each Audit Committee member must be a member of the Board of Directors.
2. Each Audit Committee member must be “independent”. They may not receive, other than for service on the board, any consulting, advisory, or

other compensatory fee from the issuer. In addition, they may not be an affiliated person of the issuer, or any subsidiary thereof.

In addition, Sarbanes-Oxley also redefined some of the responsibilities of the Audit Committee.

1. The Audit Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any audit firm employed by the company.
2. The Audit Committee shall establish procedures for the "receipt, retention, and treatment of complaints" received by the issuer regarding accounting, internal controls, and auditing.
3. The Audit Committee shall have the authority to engage independent counsel or other advisors, as it deems necessary.
4. The Audit Committee shall disclose whether at least one of its members qualifies as an Audit Committee Financial Expert (as defined by the SEC).
5. The Audit Committee must pre-approve all audit and non-audit services provided by the independent auditor.

Sarbanes-Oxley also mandated certain required Proxy Statement disclosures:

1. Whether the issuer has a standing Audit Committee.
2. The names of each Audit Committee member.
3. The number of Audit Committee meetings each year.
4. The functions of the Audit Committee.

THE CURRENT RESEARCH

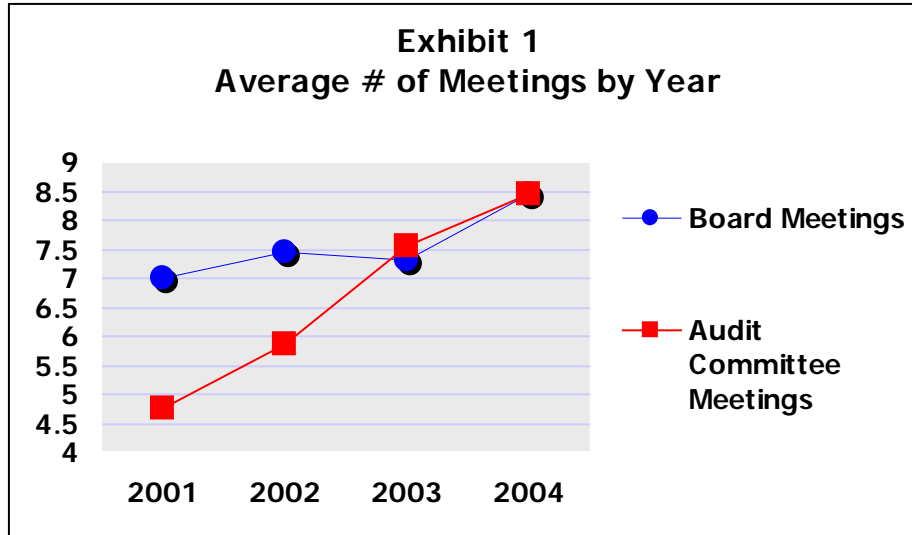
In the intervening years since the passage of Sarbanes-Oxley, it is important to know the extent to which audit committees are adhering to the new requirements. Is there general movement in the direction of the goals established by Sarbanes-Oxley? To what extent were Audit Committees already doing the things now required by Sarbanes-Oxley?

The author examined Proxy Statements issued from 2001 to 2004 for 13 medium-sized publicly traded companies. The preliminary results indicate that the changes in audit committees as a result of the passage of Sarbanes-Oxley are mixed. In some cases, there were dramatic changes in the ways that Audit Committees appear to operate. In other ways, it appears to be "business as usual".

Number of Audit Committee Meetings

In the 1999 *Journal of Accountancy* article, Bean presented a graphic indicating that most audit committees were meeting two to four times a year [Bean, 1999]. While some committees met as many as five times a year (approximately 10%), very few companies met more than five times a year.

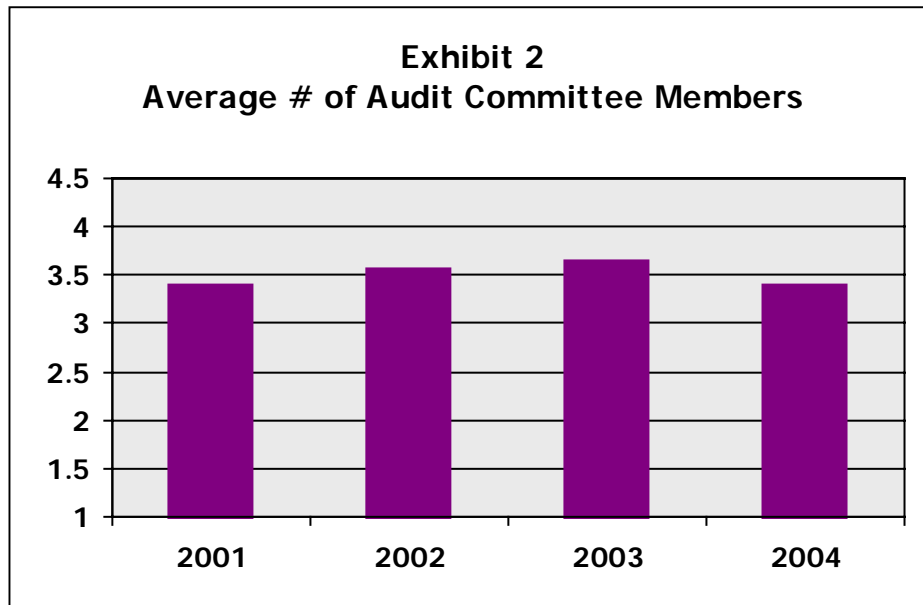
By 2001, audit committees had not heeded Bean's call for more Audit Committee meetings. The average number of audit committee meetings in 2001 was still just 4.769 as shown in Exhibit 1, while the Board of Directors was meeting 7.0 times during the same period. This brings up an interesting question. Since all the Audit Committee members were also on the Board of Directors, why did they not take the opportunity to meet as a committee each time the whole board met?



After the passage of Sarbanes-Oxley in 2002, the number of audit committee meetings per year began to increase. The Audit Committees met an average of 5.846 times in 2002, 7.538 times in 2003, and 8.462 times in 2004. By 2004, the Audit Committees were meeting as frequently as the Board of Directors.

Audit Committee Composition

Interestingly, while the responsibilities of Audit Committees increased dramatically under Sarbanes-Oxley, there is not a corresponding increase in the size of the committees as shown in Exhibit 2. From 2001 to 2004, the average number of Audit Committee members hovered between 3 and 3.5 members. This is in line with a 1999 recommendation of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees that publicly traded companies have a minimum of three audit committee members [NYSE, 1999]. In contrast, a Conference Board, Inc. survey conducted in 1988 reported that the median size of audit committees for manufacturing and nonfinancial service companies was four [Bacon, 1988].



The leadership and specific membership of the audit committees also did not appear to change much after the passage of Sarbanes-Oxley. Of the companies examined, 61% of the companies reported the same Audit Committee Chair in all four years examined. Over 85% of the companies examined maintained the same majority of members over the four years examined, and 23% did not change their audit committee membership at all. Of the 44 different Audit Committee members identified in 2001, 63.6% were still serving as Audit Committee members in 2004. Of the 12 individuals identified by their companies as Audit Committee Financial Experts in 2004, 83.3% were already on their respective Audit Committees in 2001, prior to the passage of Sarbanes Oxley.

Audit Committee Financial Experts

In 2004, 50% of the Audit Committee members were identified as Audit Committee Financial Experts. Of the 22 individuals identified by their companies as Audit Committee Financial Experts in 2004, 63.6% were already on their respective Audit Committees in 2001, prior to the passage of Sarbanes Oxley. Only 23% of the companies named every Audit Committee member as an Audit Committee Financial Expert.

More companies are identifying Audit Committee Financial Experts, and that number continues to grow. In 2003, 76.9% of the companies examined had identified an Audit Committee Financial Expert. In 2004, 92.3% identified a Financial Expert. In addition, of the companies who had identified an Audit Committee Financial Expert in 2004, 83.3% of those companies had designated an Audit Committee Financial Expert as the Audit Committee Chair.

Audit Committee Independence

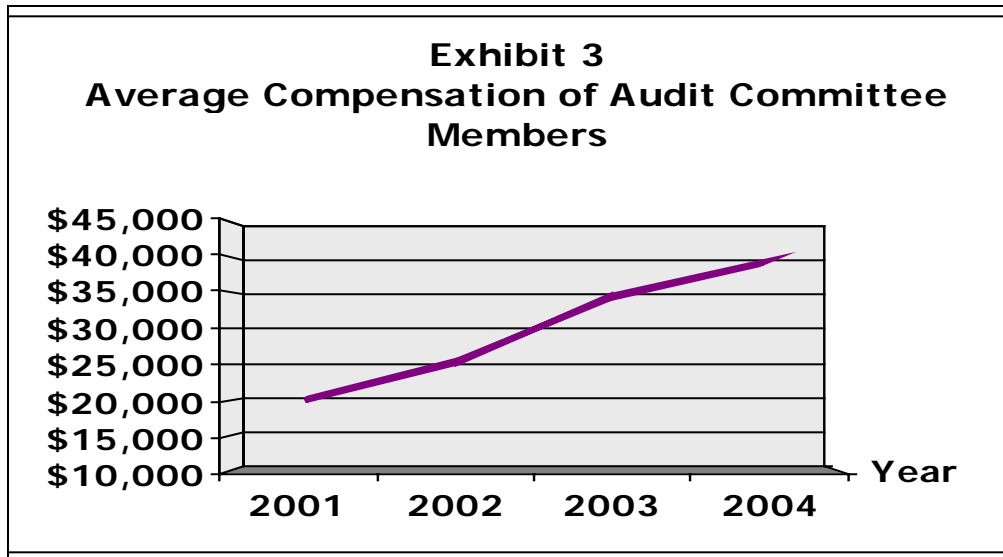
The independence of the Audit Committee members appears to be consistent with recommendations of The Blue Ribbon Committee [NYSE, 1999] and Sarbanes-Oxley. The Proxy Statements indicate that all Audit Committee members are independent as required by either the NYSE or NASDAQ. Further evidence suggests that in most cases, Audit Committee members are not major stockholders of their companies. Over 84.1% of the Audit Committee members hold less than 1% of the stock of the companies in 2004. In one case, an Audit Committee member was reported as holding 9.4% of company stock.

Audit Committee Compensation

Audit Committee compensation rose steadily between 2001 and 2004. There are three basic compensation components evident in the Proxy Statements. Audit Committee members can be paid a lump-sum retainer, a fee for each Board Meeting, and a fee for each Committee meeting. In most cases, the compensation model includes all three elements. In addition, Audit Committee Chairs are often paid an additional retainer fee. In 70% of the cases, Audit Committee members were awarded either common shares or stock options in addition to their monetary compensation.

The most common model was a combination of all three components. Overall, average annual monetary compensation for Audit Committee service rose from \$20,023.08 in 2001 to \$39,238.46 in 2004 as shown in Exhibit 3. This can be partially explained by the increase in the number of meetings per year during that period. In addition, the amount of the annual retainer fee and the per-meeting fee also generally increased. The average retainer in 2001 was \$15,150 (n=10). By 2004, the average retainer increased to \$21,000 (n=11). The average Audit Committee meeting fee also increased from \$894 per meeting (n=9) in 2001 to \$1,436.36

per meeting (n=11) in 2004.



CONCLUSION

While Sarbanes-Oxley was greeted with much fanfare and generally heralded as a tool that would restore faith in the integrity of the financial reporting process, there have been few noticeable changes in the structure of Audit Committees of publicly traded companies. Most Audit Committees still have the same number of members and maintain the same independence requirements as they did pre-Sarbanes-Oxley. In fact, most of the Audit Committee members today are the same people that served on their respective Audit Committees in 2001. Also, most of the Audit Committee Financial Experts identified in 2004 Proxy Statements were already serving as Audit Committee members in 2001.

The noticeable differences come in areas such as number of meetings per year and compensation for Audit Committee service. Presumably, Sarbanes-Oxley has increased the responsibilities of the Audit Committees and, as a result, more meetings are required. Whereas, in 2001, most Audit Committees apparently held their committee meetings when the Board Meetings were held, in 2004, many Audit Committees are holding meetings at times other than the Board Meetings. In addition, the additional responsibility and attendant increase in risk for Audit Committee members has apparently resulted in a dramatic increase in compensation.

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THE INTERACTIVE PROCESS REQUIREMENT OF THE AMERICAN'S WITH DISABILITIES ACT: IMPLICATIONS FOR PERSONNEL MANAGERS

Stephen J. Vodanovich, University of West Florida
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Abstract: Personnel and human resource managers are frequently confronted with the complexities and nuances of the Americans With Disabilities Act (ADA). This paper offers a specific review of the major aspects of the "interactive process" requirement of ADA. Based on court cases, the authors outline several measures that companies should consider implementing (and maintaining) to demonstrate "good faith" efforts to comply with the ADA. Relevant legal areas and the implications of court decisions are noted.

INTRODUCTION

The Americans With Disabilities Act (ADA) of 1990 is arguably one of the most complicated laws regarding employment. In general, the ADA protects those with a mental or physical impairment that significantly affects a major life activity. The Act includes many terms that lack clear, specific meanings. Language such as "disability," "qualified individual," "reasonable accommodation," "significantly limits," and "major life activity" have been the focus of numerous court decisions since the inception of the ADA.

One unique aspect of the Act is the requirement for both employees¹ and organizations to "flexibly interact" in order to decide on an effective reasonable accommodation (see Gutman, 2002). The EEOC has stated that after an employee has asked for an accommodation the "... employer must make a reasonable effort to determine the appropriate accommodation. The appropriate reasonable accommodation is best determined through a flexible, interactive process that involves both the employer and the employee with a disability" (29 C.F.R. Sec. 1630, App. at 1630.9). Consequently, the focus of this paper is to summarize the legal obligations related to the ADA's interactive process and to offer recommendations for personnel/human resource managers that will best enable them to comply with the law.

Known Disabilities

From a legal perspective, organizations are only obliged to accommodate disabilities of which they are aware. In this context, information regarding the presence of disabilities cannot be obtained through direct questions regarding the presence of a disability or via pre-offer medical examinations (see *Karraker v. Rent-A-Center*, 2005, where the MMPI was considered to be a medical exam). However, it is appropriate for companies to ask individuals if they are able to perform the essential functions of a job or demonstrate the manner in which they would perform vital job duties.

Sometimes the need for an accommodation is readily apparent (e.g., being confined to a wheelchair) (*Louisegeed v. Akzo Nobel*, 1999; *Wallin v. Minnesota Department of Corrections*, 1998) or can be gleaned from "problematic" behaviors exhibited by employees. It should be noted that the information gleaned from employee behaviors are typically not sufficient to qualify

¹ When appropriate, the term "employee" will be used throughout this paper to refer to the role of both applicants and employees.

as an accommodation request (*Hill v. Kansas City Department of Transportation*, 1999).

In general, employees have the responsibility to inform organizations about their disability, limitations, and need for accommodation. Failure to do so can relieve companies from their duty to pursue possible reasonable accommodations (e.g., *Burke v. Iowa Methodist Medical Center*, 2002; *Cravens v. Blue Cross & Blue Shield of Kansas City*, 2000). In *Burke* (2002), the plaintiff argued that the company should have known of her need for an accommodation despite the fact that she failed to request (or discuss) an accommodation for her disability. The 8th circuit ruled in favor of the company echoing past court decisions that organizations cannot act as mind readers regarding the desires of employees. To best enable organizations to determine potential accommodations, it is beneficial for accommodation requests by employees to be as specific as possible. In this regard, courts have found that general requests or simple diagnostic labels to be insufficient (*Mole v. Buckhorn*, 1999; *Taylor v. Principal Financial Group* (1996). However, in some situations (e.g., the company has access to possible disability-related medical information) relatively benign statements by employees can serve as notice to companies of the need for an accommodation (*Miller v. Illinois Department of Corrections*, 1997). In some situations, disabilities possessed by employees can limit their ability to convey an accommodation need. Here, it is vital for organizations to assist in the communication process and meet the employee "half-way" (see *Bultmeyer v. Fort Wayne Community Schools*, 1996). Overall, it is recommended that organizations attempt to gather (and document) information from employees in cases where the need for an accommodation is in doubt.

Interactive Process

As noted earlier, once management has received an accommodation request, organizations are legally compelled to engage in an interactive process with the employee (or employee representative) to identify potential accommodations that are reasonable in nature (*Ballard v. Rubin*, 2002; *Barnett v. U.S. Air*, 2000, *Taylor v. Phoenixville School District*, 1999). The duty to search for accommodations also exist with respect to individuals "regarded as" disabled (see *D'Angelo v. ConAgra Foods*, 2005; *Williams v. Philadelphia Housing Authority*, 2004). To assist in the determination of a reasonable accommodation, companies can exercise their prerogative to solicit information from employees to help determine appropriate accommodations. Although there is no particular manner in which this data should be collected, it is commonly obtained via requests by companies for employee medical records. It is important to note that if employees refuse to cooperate by not supplying medical records, they can be held liable for failing to engage in the interactive process (*Allen v. Pacific Bell*, 2003; *Jackson v. City of Chicago*, 2005; *Mathews v. Denver Post*, 2001).

Even when medical information has been provided by medical professionals, it is important for companies to involve employees in determining a reasonable accommodation. Not doing so can result in a legal decision that the company failed to flexibly interact (e.g., *Hendricks-Robinson v. Excel*, 1998). Moreover, organizations must be thorough in their review and use of medical information in order to make the proper accommodation decision (e.g., *Criado v. IBM*, 1998). It may even be necessary for companies to undertake their own search for possible accommodations despite having granted every request made by employees (*Feliberty v. Kemper*, 1996). Finally, personnel managers may need to alert employees on medical leave of job openings since not doing so may violate provisions of the ADA (e.g., *Gile v. United Airlines*, 2000).

Role of Organizations

The manner in which personnel managers react to an accommodation request can play a crucial role in determining whether or not organizations act in “good faith” during the interactive process. Simply responding to an appeal for an accommodation by issuing a letter or via email and not proposing alternatives has been found to be inadequate (e.g., *Humphrey v. Memorial Hospital*, 2001). In *Fjellestad v. Pizza Hut* (1999), the plaintiff, who was injured in a car accident, exhibited performance problems after returning to work. She asked for an accommodation in writing. The company placed her on a 60-day performance plan and terminated her after 45 days. By not presenting her an alternate accommodation (a reassignment) or even discussing other available options with her, the court concluded that the company failed to act in good faith. Drawing from the opinion in *Taylor v. Phoenixville School District* (1999), the court stated:

“The interactive process ... requires the employer to take some initiative ... The interactive process would have little meaning if it was interpreted to allow employers, in the face of a request for accommodation, simply to sit back passively, offer nothing, and then, in post-termination litigation, try to knock down every specific accommodation as too burdensome” (*Taylor*, 174, F. 3rd at 161).

It is important to note that the search for a useful accommodation is considered an ongoing obligation that may not be resolved by a single attempt (*McAlindin v. County of San Diego*, 2000; *Ralph v. Lucent Technologies*, 1998).

Role of Employees

The interactive process, by definition, also places responsibilities on employees. Besides being obliged to release relevant medical information, accommodations requested by employees need to be directly related to their disability (*Felix v. New York City Transit Authority*, 2003; *Wood v. Crown Redi-Mix*, 2003). Furthermore, employees should propose alternative accommodations (*Lawrence v. National Westminster Bank of New Jersey*, 1996) and not persist with a single accommodation request (*Whelan v. Teledyne Metal Working Products*, 2007) in order to be viewed as acting in good faith. Moreover, the timing of an accommodation request is also important. This point was keenly illustrated in *Hill v. Kansas City Area Transportation Authority* (1999), where the employee waited until after being fired before asking for an accommodation. The court ruled that this belated request was not unacceptable. In addition, if an accommodation is rejected by a company, employees are required to demonstrate that the accommodation would have allowed them to successfully perform the essential functions of the position (*Taylor v. Phoenixville School District*, 1999).

Implications

Organizations are simply required to pursue accommodation requests by employees and offer ones that are reasonable. They may consider which accommodation is preferred by employees, but do not have an obligation to honor such preferences (e.g., *Moore v. Accenture*, 2007). As the court in *Stewart v. Happy Herman’s Cheshire Bridge* (1997) clearly noted, “...a qualified individual with a disability is not entitled to the accommodation of her choice, but only to a reasonable accommodation” (*Stewart*, 117 F. 3rd at 1286). Accommodations that require less money, time, or effort can be chosen as long as they are equally effective (*Barnett v. U.S. Air*, 2000). In some instances, neither companies nor employees may have sufficient knowledge to propose viable reasonable accommodations. In these instances, the parties

should consider seeking assistance from outside experts or professional organizations in order to best provide accommodations.

There are no set criteria for deciding whether the employee or organization failed to put forth a good faith effort in the interactive process. Generally, courts will look at which party had access to either missing or incomplete information as to who affected the delay or collapse of the interactive process (Beck v. University of Wisconsin, 1996).

Recommendations

Below is a list of recommendations for organizations to follow in order to comply with the interactive process requirement of the ADA. Given the complexities of the law, this listing, while not exhaustive, presents the fundamental steps companies should pursue to demonstrate a "good faith" effort and ensure legal compliance.

Interactive Process Recommendations

- Identify and record the essential functions of jobs (e.g., a job analysis)
- Documentation of ADA-related communication between employees and company representatives (e.g., meetings, letters, emails)
- Creation of an open climate of communication that encourages dialog between employees and company representatives
- Development of a written accommodation request form
- Supervisor training (e.g., on ADA legal requirements, communication style, conflict resolution skills)
- Guarantee privacy of employee's disability and disability-related accommodation request(s)
- Individualized assessment of employee's disability limitations by the company
- Consideration of employee's preference(s) regarding accommodations
- Establishment of relationships with outside agencies to assist in identifying possible disability-related accommodation options
- Communication of accommodation decision in written form

Table 1. Legal Implications for Organizations From ADA Interactive Process Cases

| Basic Finding | Relevant Case(s) |
|---|--|
| Engaging in an interactive process is required under the ADA | <ul style="list-style-type: none"> • Ballard v. Rubin (2002) • Barnett v. U.S. Air (2000) • Taylor v. Phoenixville School District (1999) |
| Organizations are required to pursue accommodations for individuals regarded as disabled | <ul style="list-style-type: none"> • D'Angelo v. ConAgra Foods (2005) • Williams v. Philadelphia Housing Authority (2004) • Katz v. City Metal Co. (1996) |
| Employee did not request an accommodation. Consequently, the organization did not have to engage in the interactive process | <ul style="list-style-type: none"> • Burke v. Iowa Methodist Medical Center (2002) • Gaston v. Bellingrath Gardens & Home (1999) • Wallin v. Minnesota Department of Corrections (1998) |
| Employee's refusal to submit requested medical information alleviates a company's responsibility to continue the interactive process for the position in question | <ul style="list-style-type: none"> • Allen v. Pacific Bell (2003) • Mathews v. Denver Post (2001) • Weigel v. Target Stores (1997) • Templeton v. Neodata Services (1998) • Jackson v. City of Chicago (2005) |
| Employee's behavior can be considered as evidence that the company knew of the need for an accommodation | <ul style="list-style-type: none"> • Cannice v. Northwest Bank (1999) |
| A single statement can indicate the need for a company to participate in the interactive process | <ul style="list-style-type: none"> • Miller v. Illinois Department of Corrections (1997) |
| Accommodation request by employee must be specific to the job | <ul style="list-style-type: none"> • Mole v. Buckhorn Rubber Products (1999) • Taylor v. Principal Financial Group (1996) |
| Plaintiff's persisting with a particular unreasonable accommodation request is evidence of failure to engage in the interactive process | <ul style="list-style-type: none"> • Taylor v. Phoenixville School District (1999) • Lawrence v. National Westminster Bank of New Jersey (1996) • Whelan v. Teledyne Metal Working Products (2007) |
| Accommodation request must be made in a timely manner (e.g., before a negative personnel decision is made) | <ul style="list-style-type: none"> • Hill v. Kansas City Area Transportation Authority (1999) |
| Company is not required to offer an accommodation of the employee's choice | <ul style="list-style-type: none"> • Moore v. Accenture (2007) • Stewert v. Happy Herman's Cheshire Bridge (1997) |
| Company's rejection of an employee's accommodation request without offering subsequent options | <ul style="list-style-type: none"> • Humphrey v. Memorial Hospital (2001) • Barnett v. U.S. Air (2000) |

| | |
|--|--|
| has failed to flexibly interact | |
| Employee must be informed of the existence of job openings while on medical leave | <ul style="list-style-type: none"> • Gile v. United Airlines (2000) |
| Interactive process in an ongoing responsibility and is not satisfied by a single attempt | <ul style="list-style-type: none"> • McAlindin v. County of San Diego (2000) • Ralph v. Lucent Technologies (1998) |
| Sometimes the interactive process can consist of one question | <ul style="list-style-type: none"> • Bultemeyer v. Fort Wayne Community Schools (1996) |
| Outlined a 4-step process for plaintiffs to show lack of good faith effort by companies to engage in the interactive process | <ul style="list-style-type: none"> • Fjellestad v. Pizza Hut (1999) |
| Delaying, or impeding the interactive process is evidence of failing to act in good faith | <ul style="list-style-type: none"> • Beck v. University of Wisconsin (1996) |

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IMMIGRATION FRAUD: AN UNDERSTANDING AND CLARIFICATION OF THE PROBLEM AND PROPOSED SOLUTIONS

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Abstract: There has been much discussion about illegal immigration and what to do about it. The problem is being discussed by the public and politicians, by mass media, and governmental officials. We will first discuss the administrative authorities that oversee immigration fraud and their current strategies to fight illegal immigration, as well as to uncover fraudulent actions in the course of the legal immigration process. Then we will define and talk about the types of immigration fraud, including asylum, document, and benefit fraud. We will then discuss the Government Accountability Office's and Citizen and Immigration Services Ombudsman assessments of the current immigration system as well as proposed legislation to reduce illegal immigration and other types of immigration frauds. Finally, we will conclude with our assessment of the current situation and possible solutions for the future of illegal immigration and fraud.

IMMIGRATION INTRODUCTION AND OVERVIEW

It is estimated that each year the U.S. has 1.1 million immigrants and that 60% of our population growth each year is due to immigration (Federation for American Immigration Reform, 2008). The topic of immigration fraud has been the subject of much public debate recently with President Bush's signing of the Secure Fence Act and pushing comprehensive immigration reform. Many are intimidated by the volume of immigration, both legal and illegal, and are concerned about losing jobs and a decline in overall living conditions.

The main problem in dealing with immigration fraud is that there is a fine line between limiting the immigration presenting a fraud risk and allowing permanent legal status to priority workers and professionals with advanced degrees and valuable skills so that we do not cause a "reverse brain drain." Reverse brain drain occurs when talented value-added immigrants become frustrated with the slow immigration process and leave for their home or other countries, taking their valuable ideas and skills with them (Wadhwa, et al, 2007). There are only approximately 120,000 permanent resident visas granted per year to those in the three main employment visa categories. It is estimated that there are approximately one million qualified individuals waiting for legal permanent resident status, with wait times of at least four years for those from countries with the largest populations (Wadhwa, et al., 2007).

Some researchers show that the advanced economies rely heavily on immigrants in different spheres – about 40% of science and engineering PhDs working in US are foreign born, as well as one third of Americans winning a Nobel Prize in physics in the last seven years. About a third of all Silicon Valley companies were founded by Indian and Chinese immigrants, creating jobs, paying taxes and most importantly helping the U.S. keep its world-leading position in intellectual property development. Low-skilled immigrants are also needed in farming, services, children and elderly care, etc. (Keep the Borders Open, 2008).

At the same time immigrants who violate laws should be deterred and should not remain unpunished, especially when they gain entry through an abuse of the current legal path to immigration, creating negative public perception of immigration in general.

New legislation was adopted in 2006 authorizing the building of a fence along approximately 700 miles of the 2,000 mile border between the United States and Mexico, although when or if this fence will actually be built remains to be seen. Additionally, since George W. Bush became President, border security funding was increased to \$10.4 billion from \$4.6 billion just two years ago; the number of Border Patrol agents was increased by one third to 12,000; and thousands of beds are expected to be added to the detention facilities for illegal immigrants. Over six million immigrants have been caught and subsequently deported since the President took office. Interestingly enough, a research poll conducted by Opinion Research Corporation, “finds that 74 percent of the 1,013 Americans surveyed are in favor of more U.S. agents along the border while 45 percent said they want a 700-mile fence along the border,” (Koch, 2006, p.1).

Many are skeptical that the proposed fence around the border will actually deter illegal immigration. Even though official numbers released in November 2007 show a decline in illegal border crossings from over 1 million in 2006 to 858 thousand in 2007, skeptics say that this is more the result of the recent housing crisis and its effects rather than to building a fence. Other researchers also claim that a fence would keep out people unnecessarily while demand for their services exists. (Keep Out, 2008). Two main immigration initiatives of the current administration – the Comprehensive Immigration Reform bill and the Dream Act have failed to pass the legislation branch in 2007 (Sands Orchowski, 2007).

In order to fully appreciate the complexities of a national immigration policy or temporary worker plans, the levels and extent of immigration fraud should be examined. This paper will first discuss the administrative authorities that oversee immigration fraud, and their current strategies to fight illegal immigration. Then we will define and talk about the types of immigration fraud, including frauds committed using legal courses of action such as asylum fraud, document fraud, and benefit fraud. We will then discuss the assessment of the Government Accountability Office (GAO) concerning the current immigration system as well as proposed legislation to reduce illegal immigration. Finally, we will conclude with our assessment of the current situation and our outlook for the future of illegal immigration and fraud.

FEDERAL ADMINISTRATIVE OVERSIGHT

The Department of Homeland Security is the federal office that oversees immigration as a whole. The Immigrations and Customs Enforcement (ICE) Unit falls under the auspices of Homeland Security and “unites the functions, resources, and legal authorities of several previously fragmented border and security organizations into an integrated homeland security agency focused on investigations and enforcement,” (U.S. Immigration and Customs Enforcement, 2004, p.1). In March 2003, ICE became the largest investigative arm of the Department of Homeland Security with five main branches and more than 15,000 employees that work with law enforcement and intelligence entities throughout the world.

The Identity and Benefits Fraud (IBF) Unit is a component of ICE whose purpose it is to disrupt the fraudulent schemes of terrorist and criminal organizations and restore integrity to the immigration process. An anti-fraud initiative of the Identity and Benefits Fraud Unit, known as the National Fraud Strategy (NFS), seeks to “detect and shut down vulnerabilities in the immigration system that could be exploited by terrorist and criminal organizations,” (U.S. Immigration and Customs Enforcement, 2004, p. 2). It also focuses on determining better ways to prioritize cases and to identify targets. “The (IBF) task force brings together the expertise and authorities of several immigration and law enforcement agencies, along with prosecutors, to target immigration fraud by sharing information on fraud cases, developing new leads, and

identifying trends in immigration fraud,” (U.S. Immigration and Customs Enforcement, 2004, p. 2). Many other federal agencies participate including the U.S. Immigrations and Customs Enforcement Unit, Department of State, FBI, IRS, U.S. Postal Service, U.S. Attorney’s offices, Social Security Administration, and others. Finally, Operation Integrity is the newest initiative that will support a nationwide system of IBF Task Forces in addressing the vulnerabilities of the system which allow criminals and terrorists to exploit the system as a whole.

IMMIGRATION FRAUD CATEGORIES – ASYLUM FRAUD

There are three categories of immigration fraud: (1) asylum fraud, (2) document fraud (also known as identity fraud) and (3) benefit fraud. Asylum fraud refers to an individual’s request for protected refugee status in another country. In the United States, asylum candidates may fraudulently portray themselves as victims of a persecution, such as political or religious, or as a victim of a human right abuse, in order to gain entry and safe haven in this country. For example, in January 2007 an immigration attorney in Houston was indicted for filing more than 70 false asylum cases where her clients from China portrayed themselves as Christians fearing prosecution should they be forced to return to China (Pinkerton, 2008). Table 1 below, from the U.S. Department of Homeland Security, compares the number of asylum cases that were filed, approved, denied, and pending from 2005 to 2006. Also as shown below there was a 15 percent increase in the number of cases filed and a 91 percent increase in cases that were denied since 2005. The dramatic increase in asylum application denials from one year to another lends credence to the immigration fraud debate. Many of the cases being filed in the past year have possibly been fraudulent and therefore denied while only a four percent increase represents justifiable asylum cases. For example, according to Julie Myers, assistant Secretary of Immigration and Customs Enforcement, “Asylum fraud enabled Ramsey Yousef, the mastermind of the 1993 World Trade Center bombing, to enter this country.” (Morse, 2006, p. 2).

It has been noted that in June 2006, the most asylum applications were received from nationals from the People’s Republic of China, followed by nationals from Haiti, Colombia, and Mexico. The fact that lawyers counsel Chinese clients to commit immigration fraud by claiming asylum can be primarily explained by political conditions in China, and the severe backlog that exists for Chinese citizens seeking to obtain U.S. Green Cards (permanent residency) through employment. The lack or ineffective design of a legal path to visas and green cards plays its role in the volume of crimes committed. Additionally, according to the Department of Homeland Security, “approximately 61.3 percent of the pending case load involves aliens whose cases may be adjudicated under one of the provisions of the Nicaraguan Adjustment and Central American Relief Act of 1997 (NACARA) or the Haiti Refugee Immigration Fairness Act of 1998 (HRIFA) rather than through an asylum process,” (U.S. Customs and Immigration Services, 2006, p. 2). Excluding the cases that fall under the two acts mentioned above, the adjusted amount of pending asylum cases total approximately 26,700 applications, making the total backlog of pending cases over 68,000 cases.

IMMIGRATION FRAUD CATEGORIES – DOCUMENT FRAUD

Document, or identity, fraud “refers to the manufacture, counterfeiting, alteration, sale, or use of fraudulent documents as a vehicle for immigration fraud or other criminal activity,” (U.S. Immigration Customs Enforcement, 2004, p. 1). The fraudulent documents may be used for a variety of illegal activities including the trafficking of aliens, the obtaining of government benefits or employment opportunities. The Forensic Documents Laboratory, a part of ICE, is devoted to the forensic examination of documents and is the only federal crime lab to do so. The most

Table 1

| | Month | | | Fiscal Year | | | Total FY 2005 |
|-----------------------|---------------|----------------|------------|--------------------|--------------------|------------|------------------|
| | Jun- 2006 | Jun-2005 | % Chng | FY 2006 to Date | FY 2005 to Date | % Chng | |
| Cases Filed | 9,065 | 2,660 | 15 | 27,491 | 29,889 | 15 | 92,900 |
| Approved | 1,089 | 1,046 | 4 | 7,446 | 6,601 | 19 | 9,902 |
| Denied | 202 | 106 | 91 | 1,829 | 905 | 101 | 1279 |
| Otherwise | | | | | | | |
| Closed | 4,962 | 9,528 | 24 | 99,626 | 60,610 | -45 | 86,060 |
| Referred to IJ | 1,567 | 1,087 | -19 | 19,722 | 14,658 | -6 | 19,994 |
| Pending | 69,078 | 124,571 | -45 | 69,078 | 124,571 | -45 | 98,449 |

Source: U.S. Department of Homeland Security, 2006, Office of Immigration Statistics

notable case of document fraud is the seven September 11th hijackers who obtained legitimate Virginia documents by submitting fraudulent Virginia resident certificates. The legitimate documents then allowed the hijackers to clear airport security and board airplanes. According to the GAO, fraudulent documents account for a high percentage of immigration benefit fraud, is often perpetrated by white collar criminals, and can result in high profits. (GAO, 2006).

Creating fraudulent documents has become a sophisticated and profitable crime for many people. Computer software and high-resolution digital scanners have replaced typewriters and pieces of plastic. The Internet has also been important in the marketing of these falsified documents to potential immigrant customers. An individual can easily find and purchase documenting equipment on the Internet and then create the required documents in his or her own home. One such individual is Narendra Mandalapa who, when federal agents finally caught up with him, had already created visas for 500 Indian immigrants. In the process he earned more than five million dollars and owned two luxury cars.

Forensic Document Laboratory

The Forensic Document Laboratory, which is part of Immigration and Customs Enforcement, is the lead expert in this type of fraud, assisting on cases to detect counterfeit documents in the United States and around the world. Working in an interagency taskforce, the Immigrations and Customs Enforcement Unit has arrested more than forty fraudulent document vendors, executed more than eleven search warrants, and closed down seven document mills in one recent year. "Roughly, 10,000 counterfeit documents have been seized with an estimated street value of \$1 million," (Office of the Press Secretary, 2006, p.13). Julie Myers, assistant secretary for Immigration and Customs Enforcement, said at a press conference, "The high profits from this crime are tempting professionals such as attorneys, corporate executives, immigration consultants and notaries." (Morse, 2006, p. 1). Unfortunately, a side effect of the crack down on counterfeit documents is an increase in the black market of fraudulent documents. New Jersey has tightened procedures for obtaining driver's licenses and trained Motor Vehicle employees to identify false documents, but criminals have found a way to circumvent this barrier as well. They simply drive to Pennsylvania or Michigan or even ship their fingerprints and a photo to California. The consensus by federal agencies is that no one agency can be successful in tackling document fraud on their own. Even when agencies work as a team, the challenge is difficult.

IMMIGRATION FRAUD CATEGORIES – BENEFIT FRAUD

Benefit fraud may be the most commonly known type of immigration fraud, and it is

usually closely linked with document fraud. This type of fraud is most popular with criminals and terrorists because it gives lawful status to the individual. Benefit fraud is the misrepresentation of a material fact on an application or petition to gain an immigration benefit such as the ability to enter, work, or reside in the United States. Document fraud will often be used as a vehicle to commit benefit fraud. For example in February 2007 a lawyer was convicted of forging names of employers on applications for labor certifications (filed with the Department of Labor to certify that no American employees are available for positions) and for work authorization documents which were filed with United States Citizenship and Immigration Services (USCIS) to obtain an interim benefit while waiting for a decision on the Green Card. In most cases employers didn't even suspect that someone was applying to the Department of Labor and USCIS using the name of their business, and in one case the employer "signing" the document was actually dead (Sylvester, 2007).

Like the asylum statistical table above, Table 2 below compares the applications for immigration benefits for June 2006 and June 2005. As the chart depicts, there was a 16 percent increase in the number of applications received but an 18 percent decline in applications approved over the prior period. Fiscal year-to-date information showed that compared to 2005, overall applications decreased by six percent, approvals decreased by 12 percent and denials increased by 14 percent, which help substantiate the claims made by the Immigration and Customs Enforcement that tighter restrictions are being put in place.

| | Month | | | Fiscal Year | | | Total FY 2005 |
|-----------------|-----------|-----------|-----------|--------------------|--------------------|-----------|------------------|
| | Jun-2006 | Jun-2005 | % Chng | FY 2006 to Date | FY 2005 to Date | % Chng | |
| Initial | | | | | | | |
| Receipts | 568,155 | 488,249 | 16 | 4,073,870 | 4,323,448 | -6 | 5,610,558 |
| Approved | 505,833 | 620,223 | -18 | 3,810,253 | 4,318,489 | -12 | 5,896,206 |
| Denied | 70,062 | 65,086 | 8 | 609,811 | 534,555 | 14 | 777,435 |
| Pending | 2,904,300 | 3,692,893 | -21 | 2,904,300 | 3,692,893 | -21 | 3,185,115 |

Representative Jim Sensenbrenner, R-Wisconsin, chairman of the House Judiciary Committee issued a press release on March 10, 2006 which stated, "each year about 5,200 immigration benefit applicants are identified as potential national security risks, because their personal information matches information contained in the U.S. Customs and Border Protection's Interagency Border Inspection System, a database of immigration law violators and people of national security, interest," (Sensenbrenner, 2006, p. 1). According to Rep. Sensenbrenner and many others immigration benefit fraud has an element of organized crime and can involve other types of crimes including money laundering, tax evasion, and conspiracy. Some are frustrated with the actions of the Department of Homeland Security, including the House Representative John N. Hostettler, Chair of the Subcommittee on Immigration, Border Security and Claims Committee of the House Judiciary Committee. He echoes the fears of many in saying that while there have been over 13,000 immigration benefit fraud applications denied, not many of them have been criminally prosecuted and as a result, violators are continuing to profit on exploiting the lack of scrutiny.

Government Accountability Office – Overview and Statistics

The Government Accountability Office, which started in 1921, is known as the "congressional watchdog." The GAO is an independent, non-partisan agency that works for Congress, investigates how the federal government is doing its job, and makes sure the

government is accountable to the public. In 2002, the “GAO reported that immigration benefit fraud was pervasive and significant and the approach to controlling it was fragmented” (GAO, 2006). In an effort to address these problems the Government Accountability Office submitted a report dated March 10, 2006 entitled “Immigration Benefits: Additional Controls and a Sanctions Strategy Could Enhance DHS’s Ability to Control Benefit Fraud.” The purpose of this report was to determine the nature and extent of benefit fraud, the actions taken by the USCIS to improve the ability to detect fraud, and identify DHS sanctions for those who commit benefit fraud.

The United States Citizenship and Immigration Service (USCIS) is responsible for “processing millions of immigration benefit applications received each year for various types of immigration benefits, determining whether applications are eligible to receive immigration benefits, and detecting suspicious information and evidence to refer for fraud investigation and possible sanctioning by other components or agencies.” (Jones, 2006, p. 6). Approximately 6.3 million applications requesting 50 types of immigration benefits were received last year and only 3,000 adjudicators were available to review them. Three application categories typically account for 75 percent of all application denials: temporary work authorizations, applications for permanent residency, and applications for a spouse to immigrate (Citizenship and Immigration Services, 2007). There are no plans to increase the number of adjudicators to process the growing number of applications and backlogs now extend several years. Delays in processing applications provide more than enough reason for immigrants to resort to immigration fraud.

The USCIS adjudicators who handle immigration applications are not only responsible for ordinary processing activities but they are also responsible for determining whether fraudulent information is contained in that application. USCIS headquarters operations management agrees that there is a great deal of pressure on the adjudicators to not only process a high volume of applications in order to help reduce backlog, but to also research the applications thoroughly enough to determine their reliability. Management’s increased pressure on adjudicators “increases the risk of making incorrect decisions, including approval of potentially fraudulent applications.” (The New American, 2006, p. 8). The 2006 GAO report states that in some categories fraud is as high as 30 percent. This system needs to be overhauled so that processing and researching applications are handled separately, and more trained employees are needed to reduce the backlog so that applications can be processed in a timely manner.

Another area for improvement cited by the GAO report involves granting temporary work authorization cards within 90 days to those applicants waiting for their applications for permanent residency to be decided. Although the intention of this temporary work card is good, and allows the individual to work immediately, it offers opportunities for fraudulent use, such as using it to obtain a driver’s license or temporary social security card, both of which can be used to secure identity and other documentation papers. Some individuals purposely file fraudulent applications with the sole intention of receiving the temporary work authorization card and then use the card to exploit other opportunities in the United States. They can work months and even years while their cases are pending, knowing that they will get a denial in the end. Opportunities for the fraud perpetrators are created by the backlog in processing cases by USCIS. Statistics show that approximately 85 percent of those who apply for permanent residency also apply for temporary work authorization cards.

The Department of Homeland Security does not have a sanction policy for document fraud perpetrators even though the Immigration and Nationality Act does provide the authority to do so. The main deterrence to imposing sanctions stems from a 1998 federal appeals court ruling. The court found that the INS (Immigration and Naturalization Service) had provided

insufficient notice to aliens on immigration forms regarding their right to request a hearing concerning imposition of fines and other sanctions. The high cost of reprinting all forms was more than could be expected to be received in collection of fines, therefore the reprinting of forms became a low priority. In 2005 only 26% of immigration benefits fraud cases referred to ICE by USCIS were examined. Officials say that they prioritize cases and investigate only large-scale frauds, because such cases have a higher probability to be prosecuted by the US Attorney's Office. So the only punishment for most immigration frauds is imposed as an administrative penalty (Jones, 2006)

The GAO recommended six internal control practices for the Director of USCIS to adopt to strengthen the control environment. The Department of Homeland Security generally agreed with the recommendations and referred to some measures already in place that complimented the recommendations. The recommendations of the GAO are from their report "Additional Controls and a Sanctions Strategy Could Enhance DHS's Ability to Control Benefit Fraud," and include expanding the scope of the fraud assessment program, improving communications throughout and between all related agencies, and establishing outcomes based performance goals.

In its report, the Government Accountability Office concluded that fraud detection should be built into the adjudication process and a central part of the planning and ongoing processes of the USCIS immigration benefit system (Jones, 2006).

REDUCING ILLEGAL IMMIGRATION

The Law Library of Congress recently released a report that demonstrates that tough laws and sanctions can reduce illegal immigration by looking at the immigration policies of countries throughout the world. Japan and Switzerland are the most effective of the countries studied in reducing illegal immigration primarily because it makes violators subject to criminal charges. Additionally, these two countries maintain registers of aliens. House Judiciary Chairman Sensenbrenner argues that the House bill would bring our laws more in line with those of the rest of the world.

Egypt has the largest immigration problem due to its proximity with Sudan and has approximately five million refugees while Switzerland maintains they have a little over one percent of 7.5 million people (Sensenbrenner, 2006). Not only do Japan, Sweden, and Egypt have direct punishments for violators, they also punish employers guilty of employing aliens with jail time. However Mexico has the most severe punishments, including ten years of jail time for repeat illegal entry offenders. US policies are lax compared to these penalties. At present illegal entry into the United States is not even a crime although there is some movement to make it a misdemeanor charge.

AVOIDING "REVERSE BRAIN DRAIN"

It is not in our best national interest to deny immigration to those with highly sought skills and/or advanced education, and it is important to avoid making "Immigration Prevention Laws" so tough that they would stop legal immigration like the heavily criticized German immigration laws. For example if a foreigner graduates from a German University and wants to stay in the country, he or she has to find a job that would pay a minimum of \$85,500 Euro (about \$130,00 US), making immigration qualification difficult, if not impossible. As a result Germany now has a significant shortage of skilled workers in many economic sectors. A recent report issued by the German Ministry of Education and Research indicates that the situation is "dramatic" and even a

double-digit increase in the number of university graduates would not solve the problem (Sauga, 2007).

The problem with “reverse brain drain” in the US is being addressed in a recent study commissioned by the Kauffman Foundation and conducted by Harvard, Duke, and NYU. The report indicates that the number of skilled workers, including doctors, engineers, and programmers, waiting for their visas is significantly larger than the number established by laws, the imbalance creates significant backlogs and in turn makes foreign skilled immigrants return to their home countries. This also causes American employers, especially in high-tech industries, to choose foreign locations for their facilities. According to a recent study one in three foreign born employment applicants were either planning to go back to their home countries or were uncertain about staying in the US (Wadhwa, et al., 2007). Another interesting statistic shown by this study was that US international patent applications with contribution from foreign nationals increased from 7.6 percent in 1998 to 25.6 percent in 2006. (Wadhwa, et al., 2007). We cannot afford to lose the valuable contributions of these highly trained and skilled immigrants.

ATTEMPTED IMMIGRATION REFORM MEASURES

One of the proposals recently under debate in Washington is an electronic system to screen potential employees and to identify those who are not legally allowed to work. “A verification system will be essential to the success of any new immigration law, experts say, because nothing else will ensure that illegal immigrants are unemployable. Without it, they say, no amnesty program or border fence will prevent the formation of a new shadow job market that would draw millions of new undocumented workers” (Hendricks, 2006, p.1).

The current system in place is E-Verify, formerly known as “Basic Pilot”. It is a voluntary web-based system where employers enter a potential employee’s name, date of birth, citizenship status, Social Security number, and other information and the system will return to the employer the worker’s employment status. Unfortunately, this system is afflicted by delays and may not be accurate which results in potential employees unnecessarily being passed over for positions. The problems cited in the current system include inaccuracy, mismatches, inability to detect fraud, and the possibility that an employer’s signature on a memorandum of understanding would waive constitutional protection against warrantless searches of workplace records (Cadrain, 2008).

Those who advocate the new system admit that this may be the only way to ensure that legal employees are being hired. Although the 1986 Immigration Reform and Control Act made hiring illegal immigrants against the law, enforcement has been weak with only three employers being fined in 2004.

Civil liberties union advocates are concerned about privacy issues regarding the need to link the proposed database to that of the Social Security Administration. They are concerned about how the information will be used and by whom and whether “no work” lists will circulate similar to the “no fly” lists after September 11th

While the nation seems to be on its way to using national identity cards, a radical solution proposed by one company is to insert a chip under the skin of foreign workers. Applied Digital has been “lobbying Congress to back the use of a microchip it devised called VeriChip, which could be planted under the skin of foreign guest workers and scanned to check their identity and work eligibility,” (Hendricks, 2006, p.3).

AMNESTY APPROACH

In June 2006, Congress began considering a plan that would give a majority of the estimated twelve million illegal immigrants a chance to legally stay in the United States either as guest workers or residents, depending on how long they have lived or worked here. While Cecilia Muoz, a Washington-based civil rights advocate, believes a new law would remove the incentive to commit fraud, Mark Krikorian of the Center for Immigration Studies thinks the opposite. According to Mr. Krikorian, "any guest-worker or amnesty program would lead to fraud on a scale unheard of in American history" (Leiwnand, 2006, p. 2).

The amnesty approach was already tried by US legislators some 20 years ago. The Immigration Reform and Control Act (IRCA) of 1986 gave amnesty to 2.7 million illegal immigrants and proved that such onetime solutions not only do not resolve the issue, but encourage others to become illegal immigrants in hope of the new amnesty. In its letter to 100 Senators the US Chamber of Commerce stated that the main reason why IRCA did not work was lack of a mechanism that would allow workers to come to this country legally to be recruited to the jobs where US workers are not available (Haniffa, 2007). The proponents of the Comprehensive Immigration Reform Act argue that the reform proposed cannot be considered as an amnesty, it addresses different security issues as well as establishes a legalization program (U.S. Immigration, Border Security and Claims Subcommittee, 2006).

The Guest Worker Program was a proposed program to allow foreign workers to remain in the country as well as to allow entrance to those foreigners who have job offers in the United States. This is different from an amnesty program in that the temporary worker program does not allow all foreigners to remain in the country, just those who are employed. Those who become a part of the program must pay a one-time fee to register, abide by the rules, and return home after their job expires or they complete the renewal process. If any of these rules are broken, the foreign worker must leave the country and return home. However the program was amended by the Senate twice effectively reducing it to the scope not worthy of further consideration. (Shaffrey, 2007).

CONCLUSION AND RECOMMENDATIONS

Immigration reform remains difficult since this country grew strong because of our immigrants, and as such many recognize the hypocrisy in telling other immigrants they cannot enjoy the same benefits that we do simply because we now want to close our doors. It is conservatively estimated that there are at least twelve million undocumented aliens in the United States.

One of the first steps that could be instituted is to increase the number of permanent resident visas allowed for those in five preference categories. At present the U.S. Department of State provides for a yearly minimum of 140,000 employment-based immigration visas. Eighty-six percent of these visas, or about 121,000, are for persons with extraordinary ability or advanced degrees in the sciences, arts, education, business, or athletics, or skilled workers and those holding baccalaureate degrees. There are over 1 million currently waiting in line for legal permanent resident status (Wadhwa, et al., 2007). This would increase the number of talented and educated foreign born immigrants who are ready and able to contribute to the health and vitality of our nation, and would ease the problem of "reverse brain drain." In addition to the above, immediate family members should be excluded from the yearly cap but allowed into this country when they can prove that they are legitimate immediate family members. Extended family members would be excluded unless there was some compelling extenuating

circumstance.

Another recommendation is to increase the number of adjudicators working for USCIS to process and research immigration applications. At a time when immigration reform is cited by many politicians and citizen groups as being an important concern, increasing the number of adjudicators trained in immigration fraud would ease the tremendous backlog of applications as well as provide additional assurance that only those meeting the legitimate established criteria are entering this country.

While many Americans are not opposed to allowing those with advanced education and skills to enter this country, most of us are opposed to those who enter using fraudulent schemes and seek to take unfair advantage of our health and welfare benefits. There must be means established to prevent unlawful breaches of our borders and ways to deter entry through fraudulent schemes. It is well known that farm workers are needed to help farmers and work in industries where we cannot find enough Americans willing to work. There must be a way of issuing temporary worker permits allowing immigrants enter the country and work during a specific season or for a specific time period. Such permits would contain a photo and description of the immigrant, their foreign address, and an expiration date. Workers would be required to report to immigration officials at specific times similar to parolees. If they did not report when assigned, they would be subject to deportation.

It is quite possible that there will be some type of border fence built, although there is so much Congressional debate and dissension regarding this measure that it will probably be many years before any construction is completed. Therefore it is unknown at this time if a border fence will be built or if it will prove to be an effective deterrent to illegal immigration.

It is important that the Department of Homeland Security begin to implement sanctions and criminal penalties for those that do not abide by our laws regarding immigration. This country needs keep close track of temporary workers and start prosecuting illegal immigrants whenever possible, including the imposition of monetary fines and deportation. While initially it may be costly to do so, the savings in the long run will outweigh that initial cost. If foreigners are discouraged from entering the country illegally, they may be more apt to follow the appropriate path that will lead to a safer nation. Following the examples of Japan and Switzerland, illegal entry into the country should constitute a federal offense, not a misdemeanor as proposed.

The policies proposed by the White House, the addition of federal illegal entry laws as well as prosecution of those who break these laws should be the first steps in controlling illegal immigration and correcting the flaws in the current system. Following these steps may bring a reduction of fraudulent applications; the increased prosecution of those caught falsifying any immigration information, and a stronger more efficient nation.

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FACTORS ASSOCIATED WITH ACCOUNTING EDUCATORS' ATTENDANCE AT PROFESSIONAL MEETINGS

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Abstract: For many years accounting educators have found professional meetings (conferences) to be an effective method of communicating and exchanging important information. However, accounting educators are currently facing a dramatically changing environment. Structures that were useful in the past may become obsolete and fail to address current concerns. In order to determine whether professional meetings are fulfilling the needs of accounting educators, a survey was conducted asking accounting faculty to identify those activities that were beneficial and make suggestions on how to improve future professional meetings.

The survey instrument was sent to three groups of accounting educators. The first group (NAT) consisted of accounting educators who attended the national American Accounting Association (AAA) meeting the preceding year. The second group (REG) consisted of accounting educators who attended one or more regional AAA meetings in the same year. The third group (NON) included accounting educators who were not among the faculty listed as attendees at either the national or regional AAA meetings.

The results of the survey clearly indicate that the need to hold professional meetings still exists. The respondents primarily go to professional meetings to "determine what is happening in the profession." This desire to attend the meetings was, however, limited by the "availability of funds." In addition, the analysis suggests that although nearly all of the respondents from all groups were members of AAA and had earned a Ph.D. or DBA, there were some real differences among the groups. Specifically, NAT respondents were more likely (than REG or NON respondents) to be assistant professors teaching at institutions granting doctoral degrees in accounting and/or business. REG respondents (compared to NAT respondents) were ranked higher, had more teaching experience and were less likely to teach at doctoral institutions. There were also differences noted in the importance of factors influencing the decision to attend a professional meeting. NAT respondents indicated that "establishing a presence" was an important factor while REG respondents indicated greater concern about the "location" of the meeting.

INTRODUCTION

As a profession matures, individuals within that profession often develop structures to communicate important information. These structures take the form of journals, newsletters, or simple memorandums each designed to inform the recipient of changing developments. One of the more important structures created to disseminate information has been professional meetings, also known as conferences or workshops. Similar to other professions, accounting educators decided at an early date that professional meetings are an effective tool, to not only

circulate information, but also to give structure to a profession that is inherently fragmented. Slowly these professional meetings began to develop a common organizational structure such that the primary difference among meetings was location and name of hotel. This sameness that seemed to have crept into accounting educators' meetings was to be expected and may have, in fact, reflected at least some element of "professionalism." During the 1960's, 70's, 80's, when accounting educators were in great demand, few seemed to notice the monotony that seeped into each meeting.

Today, the old ways of doing things will not work. Each person, organization or event must justify its existence. Professional meetings are no exception to this increasingly competitive environment. In order to determine if current professional meetings are fulfilling the needs of accounting educators, a survey was conducted asking accounting educators to rate the factors that influence their decision to attend a professional meeting as well as their choice of sessions to attend at the meeting. Faculty was asked to identify those activities that were beneficial and to make suggestions on how to make future professional meetings successful.

RESEARCH DESIGN

In order to identify activities at professional meetings that accounting educators found beneficial, the researchers developed a survey instrument. This survey instrument was segmented into five parts. The first part focused on factors that may have influenced the respondent to attend a professional meeting. The second part continued this theme by trying to identify those factors that the respondent used to select a particular session. The first and second parts were organized using a Likert scale from 1 to 5; with 1 being "not influential" and 5 being "very influential." In addition to rating the factors in the first two parts, the questionnaire asked respondents to rank their top three factors. The third part allowed the respondent to indicate those factors that made for a successful meeting and to note what suggestions could be implemented to improve meetings in general. Part four of the survey instrument asked the respondent to indicate the frequency with which they attended the following types of meetings: national American Accounting Association (AAA), regional AAA, accounting firm sponsored, university sponsored, and "other (please specify)." The frequency was on a 4 point Likert scale with the following anchors: never, rarely, frequently and usually. Part four also asked faculty to rank the two most important types of meetings. The fifth part of the survey instrument solicited demographic information concerning the faculty member and his/her institution.

Lists of attendees (registrants) for the annual national AAA meeting and four of the regional AAA meetings were obtained from either the AAA national headquarters or from attending the meetings. The questionnaire was mailed to randomly selected accounting instructors from among three groups. The first group (NAT) consisted of 231 faculty members who attended the national American Accounting Association (AAA) meeting in the preceding year. The second group (REG) consisted of 187 faculty members who attended one or more regional AAA meetings during the same academic year. A faculty member in REG may or may not have attended the national meeting that year. The third group (NON) was made up of 269 faculty members listed in Hasselback's *Accounting Faculty Directory* who were not among the names listed as attendees at either the national AAA meeting or the regional meetings for that year. For the NON group, only faculty at the assistant or higher rank with Ph.D. or DBA degrees were included as it was noted that the vast majority of the attendees at the national and regional meetings have such credentials. The NON group, it was felt, may provide feedback as to why many accounting faculty either do not attend meetings or attend on an infrequent basis. Addresses for all three groups were obtained from the *Accounting Faculty Directory*. Although each group was sent identical questionnaires, the use of different return addresses for each of

the samples enabled the responses to be separated into the three groups.

RESULTS OF THE SURVEY

A total of 277 usable responses were received for an overall response rate of 40.3%. Given that there was a single request (i.e., no “reminders” or “second requests”) the overall response rate was considered very good; however, response rates varied among the groups. The NAT and REG groups response rates were similar at 47% and 45% respectively. The NON group’s response rate was only 31% suggesting that more faculty members in this group, relative to the other groups, lacked interest in AAA meetings. Demographic information regarding the respondents and their institutions for the three groups are shown in Table 1.

Demographically, the respondents from the three groups were similar on some dimensions but varied on others. Nearly all respondents for each of the three groups were members of AAA. Years of teaching experience ranged from a mean of 14.3 years for NAT to 16.7 years for NON. Eighty-five percent of NAT respondents were teaching at AACSB accredited institutions while the corresponding figures for REG and NON were 79% and 81% respectively. Although the mean rank for each of the three groups was slightly above the Associate professor level, there were obvious differences in the distribution of ranks for the groups. Assistant professors comprised 42% of the NAT group but only 24% and 19% respectively for REG and NON. The higher representation of assistants among the NAT group may account for the lower mean years of teaching experience for that group. With regard to highest degree earned, the NAT group tended to have more respondents with doctoral degrees (98%) than the REG group (86%). Although two NON group respondents indicated that their highest earned degree was a masters degree, it should be noted that the sample selection process for the NON group had sought to limit the selection to faculty with doctoral degrees. The NAT faculty was much more likely to be teaching at a doctoral granting institution (43%) than the REG (14%) and NON (23%) faculty. The vast majority (69%) of REG respondents taught at institutions that granted masters degrees.

As noted, the first part of the survey asked faculty to “rate each factor that may influence their decision to attend a professional meeting.” Nine factors were listed in the questionnaire and respondents were also allowed to write in one or more “other” factors that may influence their decision to attend a professional meeting. The overall means for the combined sample for all three groups are listed in descending order in Table 2. Only a total of 36 “other” factors were written in by the 277 respondents.

As can be seen in Table 2, six of the factors had mean ratings exceeding “somewhat-influential,” but none of the means approached “very influential.” The flow of current information to determine “what is happening” was the clear leader in ratings among all three groups and it is interesting to note that the means for the three groups on this factor were tightly clustered (from 4.08 to 4.14). One could make a persuasive argument that determining what is happening in the profession is always the primary reason for attending professional meeting. The respondents were aware of this when they selected “what is happening” as their most important reason for attending meetings. All professions have fully developed formal and informal information grapevines designed to exchange ideas. Professional meetings that encourage the interchange of ideas will continue to provide an important function.

When asked to “rank the top three reasons for attending,” the factor “determine what is happening in the profession” was the factor most frequently ranked number one by all three samples. Overall, it was the top (most influential) factor for 30% of the respondents and was

TABLE 1
DEMOGRAPHICS OF RESPONDENTS AND THEIR SCHOOLS

| | NATIONAL | REGIONAL | NON-ATTEND | COMBINED |
|--|----------|----------|------------|----------|
| # of responses | 109 | 84 | 84 | 277 |
| Response rate | 47% | 45% | 31% | 40% |
| Rank: Inst/Lect | 0% | 3% | 0% | 1% |
| Assistant | 42% | 24% | 19% | 29% |
| Associate | 24% | 38% | 36% | 32% |
| Full | 34% | 35% | 46% | 38% |
| % Ph.D./DBA | 96% | 86% | 98% | 94% |
| Member of AAA | 98% | 97% | 95% | 97% |
| Mean years teaching | 14.3 | 15.2 | 16.7 | 15.3 |
| School: AACSB Accredited | 85% | 79% | 81% | 82% |
| School's Highest Acct/Bus Degree: Bachelors | 11% | 17% | 11% | 13% |
| Masters | 46% | 69% | 66% | 59% |
| Ph.D./DBA | 43% | 14% | 23% | 28% |

listed among the top three factors by 64% of all respondents. Generate/exchange research ideas (47%) and social interaction (47%) were the only other factors ranked among the top three by more than 40% of all respondents.

Unfortunately, the second most influential factor for attending, or not attending, a professional meeting is the "availability of funds." As state and private institutions stretch their limited resources, travel unfortunately is often one of the first items to be cut. Coupled with budgetary reductions has been the decline in "soft money" given by the Big Four public accounting firms and industry, thereby, creating a Catch 22--- many faculty members would like to attend professional meetings, but lack the resources to attend. This unhealthy situation has to be addressed at the Dean or Academic Vice President level. Analyzing the results at the sample level reveals some differences with regard to the influence of funding. While the availability of funding had the second highest mean for the REG and NON samples, it was only fifth with the NAT respondents. This may indicate that faculty attending the national AAA meeting (who,

TABLE 2
FACTORS INFLUENCING DECISION TO ATTEND PROFESSIONAL MEETING

(1 =“not influential; 3=” somewhat influential”; 5=“very influential”)

| FACTOR | OVERALL | NATIONAL | REGIONAL | NON-ATTEND |
|---|-------------|-------------|-------------|-------------|
| | RANK & MEAN | RANK & MEAN | RANK & MEAN | RANK & MEAN |
| Determine what is happening in the profession | 1 (4.12) | 1 (4.08) | 1 (4.14) | 1 (4.13) |
| Availability of funds | 2 (3.71) | 5 (3.50) | 2 (3.94) | 2 (3.76) |
| Generate or exchange research ideas | 3 (3.58) | 2 (3.67) | 4 (3.52) | 4 (3.52) |
| Social interaction with friends | 4 (3.47) | 3 (3.60) | 5 (3.49) | 5 (3.27) |
| Location of meeting | 5 (3.41) | 6 (3.11) | 3 (3.61) | 3 (3.60) |
| Listen to certain speakers | 6 (3.34) | 4 (3.55) | 6 (3.22) | 6 (3.18) |
| Establish a presence | 7 (2.71) | 7 (2.94) | 7 (2.75) | 8 (2.38) |
| Obtain CPE hours | 8 (2.43) | 8 (2.23) | 8 (2.70) | 7 (2.41) |
| Use placement services | 9 (1.63) | 9 (1.69) | 9 (1.63) | 9 (1.55) |

relative to the other groups, tend to teach at schools with doctoral programs), are employed by more affluent institutions. Additionally, it was noted that while only 28% of NAT respondents ranked funding among their top three factors, 42% of NON and 37% of REG respondents included it among their top three.

As shown in Table 2, the third, fourth and sixth factors contain a similar theme, that of interchanging ideas with colleagues for both professional and social reasons. It should be noted that although “presenting a paper” was not specifically among the nine factors listed in Part 1 of the instrument, it can be argued that the factor “generate/exchange research ideas” encompasses presenting a paper. Additionally, presenting a paper was the most frequently specified “other” factor for respondents in all three groups. Differences emerge when one compares the groups on the frequency of ranking “generate/exchange research ideas” as being ranked among the top three factors. This factor was ranked among the top three by 52% of the NAT faculty and 50% of the REG faculty but only 39% of the NON faculty. This suggests that those who do not attend meetings tend to be less actively engaged in research.

One might expect well attended meetings to take place in desirable locations. "Location of meeting" had a mean influence of only 3.11 for the NAT group while the REG (3.61) and NON (3.59) considered it to be of greater influence in the decision of whether to attend a professional meeting. This difference was also reflected in the rankings, as 54% of the NON and 33% of the REG groups cited location among their top three factors, but only 19% of the NAT group cited it.

The factor "establish a presence" had a mean influence of only 2.71 for the combined sample. The means for the three groups ranged from 2.38 for NON to 2.94 for NAT. Interestingly, this factor was ranked among the top three by 31% of NAT faculty respondents however, only 17% of REG and 9% of NON respondents considered it among their top three factors. This may be attributed to the considerably higher concentration of assistant professors in the NAT group who are seeking to develop their reputations for promotion and tenure purposes. Additionally, the NAT group had the highest percentage of faculty teaching at doctoral institutions.

Attending meetings to "obtain CPE hours" appears to have little impact on attendance of any of the three groups. Less than 14% of the combined respondents included it among their top three factors. Less than 4% of the respondents ranked the use of placement services among their top three factors.

Part 2 of the of the survey asked faculty to "rate each factor that may influence your choice of sessions to attend." Seven factors were listed and respondents were also allowed to write in one or more "other" factors. Only two "other" factors were written in by the 277 respondents. The means for the combined sample are listed in descending order in Table 3.

As can be seen in Table 3, four of the seven factors had overall (combined 3 groups) mean influence ratings exceeding 3 ("somewhat influential). Respondents were also asked to "rank the top three reasons for attending" a session. The three groups were similar in that the same four factors were cited by more than 40% of the respondents as being among the top three. Those factors were: subject matter (96%), present/discuss a paper (69%), generate/exchange research ideas (48%) and speaker (47%).

For most respondents, the session topic had the greatest influence on attendance. Subject matter had the highest mean rating for all three groups, with mean ratings ranging from 4.7 to 4.8. Interestingly, the means indicate that subject matter, for many of the respondents, is a greater attendance motivator than presenting a paper. Of course, one might expect respondents to be more commonly an attendee than a presenter/discussant at any particular session. The respondents indicated they will enthusiastically attend sessions that have an interesting subject matter, the question then becomes what are interesting subjects. Identifying interesting subjects to discuss should be among the first steps taken by a professional meeting director (coordinator) to insure a reasonable number of attendees. Rather than utilizing a small cadre of individuals to identify the topics to be covered at the professional meetings, a national clearing house could be established to solicit ideas from prospective attendants. Possibly this clearinghouse could be coordinated by the AAA. All AAA members would be encouraged to submit ideas which could provide an effective starting point for identifying interesting subjects. Subject matter was ranked among the top three factors by 96% of all respondents with group results ranging from 93% NAT to 99% NON.

The factor with the second highest overall mean was "present/discuss a paper." This was the second highest for each group as the group means on this factor were NAT 4.15, REG 4.27 and NON 3.99. Although "subject matter" (96%) exceeded "present/discuss a paper" (69%)

TABLE 3
FACTORS INFLUENCING CHOICE OF SESSION TO ATTEND

(1 =“not influential”; 3=“ somewhat influential”; 5=“very influential”)

| FACTOR | OVERALL | NATIONAL | REGIONAL | NON-ATTEND |
|-------------------------------------|-------------|-------------|-------------|-------------|
| | RANK & MEAN | RANK & MEAN | RANK & MEAN | RANK & MEAN |
| Subject matter | 1 (4.74) | 1 (4.69) | 1 (4.80) | 1 (4.73) |
| Present/discuss a paper | 2 (4.14) | 2 (4.15) | 2 (4.26) | 2 (3.99) |
| Speaker | 3 (3.75) | 3 (3.99) | 3 (3.60) | 3 (3.60) |
| Generate or exchange research ideas | 4 (3.47) | 4 (3.52) | 4 (3.41) | 4 (3.45) |
| Time of meeting | 5 (2.73) | 5 (2.59) | 5 (2.77) | 5 (2.87) |
| Location | 6 (2.29) | 7 (2.11) | 6 (2.50) | 6 (2.32) |
| Establish a presence | 7 (2.20) | 6 (2.28) | 7 (2.15) | 7 (2.13) |

as being ranked among the top three factors, the most frequently cited first reason was “present/discuss a paper” which was cited by 47% of all respondents followed by “subject matter” with 40%. It was the most frequently cited number one factor for both the NAT and REG groups but second to subject matter for the NON group.

Factors 3 and 4 again emphasize the importance of the speaker and exchange of ideas. Among the suggestions provided by respondents on how to create a more effective method of exchanging ideas would be to eliminate the lecture form of presentation by establishing several tables manned by the presenters. This procedure is being incorporated into some meetings. Attendees could then roam from table to table depending on their own special interest. The boring aspect of a structured lecture presentation system would be eliminated, replaced by a more collegial atmosphere for the interchange of ideas.

The mean ratings for the last three factors in Table 3 suggest that more superficial reasons for attending a session will not, in themselves, draw a sufficient attendance to make the session a success. Time of meeting, location, and establish a presence had mean influence ratings less than 3 (“somewhat influential”) overall as well as for each of the three groups.

The third part of the survey instrument called for open ended responses to two questions. Some respondents identified multiple factors while others did not list any. Responses from these questions were categorized by the researchers. A total of 465 items/responses were received to the first question: "identify, the factors that make a successful professional meeting." The researchers were able to categorize 93% of the responses into ten factors with 8 to 143 responses. There were only five factors with 30 or more responses: topics presented (143), good speaker/presenter (81), location (68), facilities/logistical (35), and interactive structure (32).

Over half of the respondents in each of the three group stated that the most important factor for a successful meeting was the "topics presented." As one respondent stated; "Listening to research papers being presented that, for the most part, are not well thought out or written is a waste of time, money and trees." Furthermore, in order to make the sessions better many of the respondents stated ". . . sessions need to be less theoretical and provide practical information.

Closely associated with "topics presented," the meeting should have "good speakers and presenters," which was second most numerous response by the NAT and REG groups and third with the NON. While a goal of all speakers and presenters is to be interesting, several of the respondents suggested methods to create more interest. Also, some noted personal problems they have encountered with presenters. For many of the respondents, creating an atmosphere that increases discussion is paramount. One faculty member opined that meetings should move toward brainstorming, interactive discussion of research ideas/method. Another suggestion from a respondent was "I like the approach used by the AAA National where several researchers addressed different approaches to the same research question." There is, however, a major mistake that some presenters make that is sure to turn off the listener. As stated by one faculty member: "Presentation of topics [that stimulate] interaction by individuals who display a minimum of ego. I stopped attending the U.S.C. audit conference because of the massive ego involvement of the participants."

The next two factors noted by the respondents that would make for a successful meeting was "location" and "facilities/logistical." The comments concerning "location" focused on two points. First, the meeting was held in an interesting location or more specifically where there are outside events planned or attractions that one could easily attend. The second point that concerned "location" was accessibility. The ability to drive to the meeting was important for some of the respondents since it lowered cost and possibly reduced travel time. "Facilities/logistical" factor also produced some interesting results. As might be expected, several of the respondents stated that "nice accommodations" or "quality of food and drink" were important. However, it should be remembered that in Table 2" availability of funds" was also important in determining whether the respondent attended the professional meeting. Probably "availability of funds" is the more important of these two competing factors, provided that one gets a good room and good food.

The second open-ended question in the third part of the questionnaire was: "In addition to the factors noted above, what are the suggestions you have for improving professional meetings?" Only 135 responses were received on this question. It was more difficult to categorize the wide ranging suggestions. There were only five categories with 9 or more responses. Making the meetings more practical was cited by 16 respondents, of which half were in the NON group. Utilizing an interactive format providing feedback was cited by 15 respondents, notably by eight from the NON group. Ease of getting to the location was cited by 11 respondents, six from the REG group. Improving presentation skills and decreasing meeting costs were each cited by nine respondents.

The fourth part of the questionnaire asked faculty to indicate how often they attend the following types of meetings: national AAA, regional AAA, university sponsored, accounting firm sponsored, and “other (please specify).” The 277 respondents wrote in a total of 62 “other” meetings with AAA section meetings (11) and state society meetings (9) being the most often specified. Table 4 shows the mean frequency of attendance by type of meeting for each group (as well as overall).

TABLE 4
MEAN ATTENDANCE AT MEETINGS

(1=never; 2=rarely; 3=frequently, 4=usually)

| MEETING | NATIONAL | REGIONAL | NON-ATTEND | COMBINED |
|--------------------|----------|----------|------------|----------|
| National AAA | 3.61 | 3.00 | 2.55 | 3.10 |
| Regional AAA | 2.82 | 3.45 | 2.73 | 2.99 |
| Univ. Sponsor | 2.48 | 2.52 | 2.49 | 2.49 |
| Acct. Firm Sponsor | 2.35 | 2.36 | 2.28 | 2.33 |

The results shown in Table 4 provide support for the representativeness of the samples. The NAT group respondents attended the national AAA meeting more frequently than the REG group respondents and considerably more frequently than the NON group respondents. The NAT group’s mean of 3.61 was closer to “usually” than to “frequently.” As noted in Table 1, the NAT respondents are much more likely to be teaching at a doctoral institution (43%) than respondents from the REG (14%) or NON (23%) groups. The REG respondents attended regional AAA meetings more frequently than the respondents in the NAT or NON groups. The NON group, which was selected from faculty who had not attended the national AAA meeting or any of the four regional AAA meetings for which the authors had lists of registrants, attended national AAA and regional AAA meetings far less often than the other groups. The three groups were very similar with regard to attendance at meetings sponsored by universities or accounting firms as all three groups had means roughly midway between rarely and frequently for these types of meetings.

Part four also asked faculty to rank the two most important types of meetings. The national AAA meeting was ranked as the top meeting by 71% of the NAT respondents but it received the top rating by only 45% of REG and 53% of NON respondents. The regional AAA meetings were ranked as the most important by 40% REG, 22% NON, and 12% NAT respondents. University and accounting firm sponsored meetings were considered most important by a combined total of less than 7%. Approximately, 12% of all respondents wrote in “other” meetings as the most important. As previously noted, sectional AAA meetings were the most common write-in is meeting. It is also possible that many respondents may consider “national AAA” meetings to include the section meetings rather than just the annual meeting of the AAA membership. With regard to being included among the top two meetings, the national AAA meeting was cited by 87% of NAT respondents but by only 73% of REG and 69% of NON respondents. The regional AAA meetings were included in the top two by 77% of REG but only 59% of NON and 48% of NAT respondents. Focusing on the NAT and REG groups, it is not surprising that they consider the meetings they attend to be important. These results, taken with consideration of the different makeup of the NAT and REG respondents as shown in Table 1 of the study, are also suggestive of different markets for the regional and national AAA meetings.

Faculties at doctoral granting institutions comprise a small percentage of the participants attending regional AAA meetings. The faculties at bachelors and masters degree granting institutions appear to be much more likely to attend a regional AAA meeting rather than the national AAA meeting. The American Accounting Association should continue its policy of allowing a paper presented at a single regional meeting to also be presented at the national meeting to expose the paper to different audiences.

CONCLUSION

The most important result obtained from the survey was that there is a definite need for holding professional meetings. The desire to “determine what is happening in the profession” is a necessity that will continue into the future. This was very important among all three of the groups surveyed. There are concerns that also need to be addressed. First, the “availability of funds” is crucial, particularly for faculty at non-doctoral institutions. Although the study did not survey the extent to which institutions fund faculty attendance at professional meetings, the importance of funding indicated that if accounting educators are expected to pay all costs of attending meetings, then very little travel to meetings may take place. The byproduct of such a situation is that the accounting profession may cease to grow and develop. As travel allotments in state budgets continue to diminish, outside resources have to be found to support the level of travel necessary to maintain intellectual capital. Second, many respondents expressed a desire to actively participate in the research process. Sitting passively listening to speakers does not appeal to many of the respondents. The exchanging of ideas is a concept that excites many of the respondents and thus makes the professional meeting worthwhile. As one respondent stated, “The key to a successful professional meeting is: good interesting topics, good friends, [and a] good location.”

READING THE MAJOR ECONOMIC INDICATORS TO EXAMINE THE IMPACT OF THE OLYMPIC GAMES ON BEIJING'S ECONOMY

Charlie Song, University of West Florida
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Abstract: Beijing staged an unprecedented Olympic Games in 2008, both in terms of the US\$43 billion investment from 2002 to 2008, and the state-of-the-art competition venues built, where more athletes set world records and more countries earned medals than at any other Olympics before. But the true impact of the Games on Beijing's economy is the focus of this study: a number of macro-economic indicators officially released by the Beijing municipal government have been examined to assess the impact. The indicators utilized include Beijing's GDP, employment, expendable income of the citizens, international and domestic tourism income, total investment in fixed assets, and investment in real estate. The study found that the Olympic effect on Beijing's economy was apparent, but that quantitative measurement was difficult. In the period after winning the bid to host the Games, Beijing's GDP growth rate was significantly faster than in the period before winning the bid. The most apparent impact on Beijing's employment is the number of migrant workers—over 300,000—who flooded into the city to help complete a large number of construction projects, including the National Stadium (the Bird's Nest) and the National Aquatic Center (the Water Cube) that signified the state-of-the-art projects for the Olympics. The expendable income of Beijing citizens after winning the Olympic bid grew at a significantly higher rate than before the winning bid, after applying a paired sample *t* test comparison. The growth of both international and domestic tourism income was also significantly faster after the winning bid, except in 2003 when the SARS virus broke out. Investment in real estate and total investment in fixed assets both grew significantly, contributing to Beijing's strong GDP growth. A significant amount of the increase in total investment is attributable to fixed asset and real estate investment, and is believed to be due to the Olympic effect.

INTRODUCTION

After winning the bid in 2001 to host the 2008 Olympics, Beijing's municipal government set about maximizing the economic benefits that the Games could bring to the city. In 2003, the Beijing government issued the Olympic Master Plan (Reform, 2005) that consisted of five major sections covering overall strategic planning, construction of Olympic venues and related facilities, improvement in the living environment and the city's primary infrastructure, development of social environment, and implementing strategies. According to a report by the Beijing government (Reform, 2007), investment related to the Olympic Games from 2002 to 2008 equated to over RMB ¥290 billion, equivalent to US\$43 billion. A total economic impact of RMB ¥1,376 billion (US\$190 billion) was estimated as a result of this investment. The Beijing Organizing Committee for the Olympic Games (BOCOG) quoted that domestic and international economists anticipated that Beijing's successful Olympic bid would almost certainly have a positive effect on Beijing's economic growth (BOCOG, 2003). Estimated using an input-output model, between 2002 and 2007 the investment and consumption demand spurred by the Olympic Games would lift the capital's GDP growth by an additional annual rate of 1.67% on average, while the original GDP increase rate was 9% (Lin, 2004).

In 1977, the city of Los Angeles was the sole applicant to enter a bid to host the 1984

Olympics; cities around the world shied away from hosting the Olympic Games due to the enormous financial burden placed on the government and taxpayers. It was under the leadership of Peter Ueberroth, that the Los Angeles Olympics set a landmark in modern Olympic history by financing the Games primarily from private sources. The organizing committee's revenues not only offset the US\$683.9 million overall costs of staging the Games, but also generated a US\$380.6 million surplus. Thereafter, the Olympic Games became an event desired by cities around the world. Over the past two decades, host cities have placed great emphasis on the economic implications of the Games on the city's development, as well as the likely impact on socio-cultural and environmental areas. The implications have also received increasing attention with economic studies aiming to provide a measure of the net gains from hosting the Olympic Games (Kasimati, 2003). The analyses of the implications were conducted mostly in terms of cause-effect relationships such as growth in tourism, urban infrastructural improvements, growth in the job market, or the more intangible benefits of civic pride and international image-building (French and Disher, 1997; Madden and Crowe, 1998; Persson, Anderson and Sahlberg, 1998; Haynes, 2001; Milton-Smith, 2002; Hotchkiss *et al.*, 2003; Brunet, 2005; Ma *et al.*, 2005; Zheng *et al.*, 2005; Tucker, 2006; Willner, 2007).

This study utilized official data on Beijing's major economic indicators such as GDP, employed labor force, total investment in fixed assets, investment in real estate, international and domestic tourism, and expendable income released by the Beijing Municipal Commission of Development and Reform (BMCDR) from 1994 to 2007. Beijing's GDP and the rate of growth before and after winning the bid to host the Olympic Games were compared to determine the significance of the impact of the Olympic Games' preparation on Beijing's economy. There was an enormous amount of investment in the construction of the Olympic venues, the city's primary infrastructure, commercial and residential properties, and other related service facilities: so in the period 2000 to 2007, the ratio of investment in real estate relative to the total investment in fixed assets was examined utilizing correlation techniques to assess the impact real estate investment has had on Beijing's economic growth. These ratios reflect the level of dependency of Beijing's economy on investment in real estate development during the preparatory period for the Olympic Games and may help anticipate, to some degree, whether Beijing's economy can maintain the rate of growth in the post-Olympic era.

ECONOMIC IMPACT STUDIES OF THE OLYMPIC GAMES

The Olympic Games, one of the most influential mega events, is now highly sought after by many countries, regions, and cities around the world. The Games are generally perceived to have the capacity to increase economic activity, to create new jobs, and to boost tourism through the net increase in demand for goods and services that they are assumed to generate. Studies on the economic impact of special events have covered a wide range of topics in terms of assessing the methodology, employment and wages, community improvement, urban economic development, tourism, macroeconomic conditions, and the Games' legacy (Council, 1998; Hiller, 1998; Pyun, 1999; Baade & Matheson, 2000; Siegfried & Zimbalist, 2000; Crompton, Lee, & Shuster, 2001; Tyrrell & Johnson, 2001; Austrian & Rosentraub, 2002; Preuss, 2002; Chhabra, Sills, & Cabbage, 2003; Hotchkiss, Moore, & Zobay, 2003; Kasimati, 2003; Daniels, 2004; Daniels, Norman, & Henry, 2003; Bohlmann & van Heerden, 2005; Coates & Humphreys, 2005; Dwyer, Forsyth, & Spurr, 2005; Gursoy, Kim, & Uysal, 2005; Jackson, *et al.*, 2005; and Preuss, 2007).

Kasimati (2003) summarized that in order to quantify the economic impact of hosting the Olympics from 1984 to 2004, two main approaches have been used under the broad label of the input-output (I-O) and the computable general equilibrium (CGE) framework. The input-output

model was also used to estimate the economic impact of the Olympic Games on the city of Beijing (Ma, Lin, Huang, Xu, Li, & Zhang, 2007) (see Table 1).

Table 1
Economic Impact Studies of the Summer Olympic Games (1984-2004)*

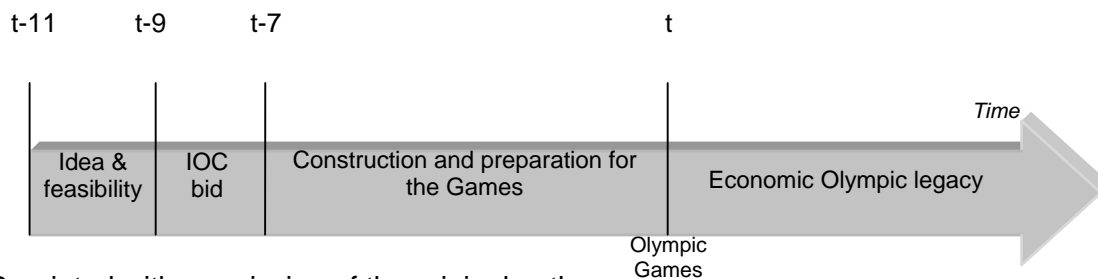
| Host City | Year | Reference | Type of Approach |
|-------------|------|--------------------------------------|-------------------|
| Beijing** | 2008 | Ma <i>et al.</i> , 2005 | I-O (RIMS II) |
| | | Zheng <i>et al.</i> , 2006 | No modeling |
| Athens | 2004 | Balfousia-Savva <i>et al.</i> , 2001 | Macro-econometric |
| | | Papanikos, 1999 | Multiplier |
| Sydney | 2000 | Arthur Anderson, 1999 | CGE (MMRF) |
| | | NSW Treasury, 1997 | CGE (MMRF) |
| | | KPMG Peat Marwick, 1993 | I-O |
| Atlanta | 1996 | Baade and Matheson, 2002 | Econometric |
| | | Humphreys and Plummer | I-O (RIMS II) |
| Barcelona | 1992 | Brunet, 1995 | No modeling |
| | | Brunet, 1993 | No modeling |
| Seoul | 1988 | Kim <i>et al.</i> , 1989 | No modeling |
| Los Angeles | 1984 | Economic Research Associates, 1884 | I-O (RIMS II) |

*Adopted with permission of the original author (Kasimati, 2003)

**Information was added by the author of this study

Preuss' study (Economic dimension of the Olympic Games, 2002) pointed out that the economic impact of the Olympic Games can be observed from the origination of the idea to enter a bid to host the Games, usually four years before winning the bid. A successful bid may further extend the impact period, not only up to the year of the Olympics but also long after the closure of the Games (see Figure 1).

Figure 1
Phases of Economic Impact of the Olympic Games*



*Reprinted with permission of the original author.

The financial investment for the Olympics usually begins after winning the bid, seven years before the Games actually take place, and peaks during the final two to three years, mainly because of the constructions of Olympic venues and final improvements to the host city's infrastructure.

1988 Seoul Olympics

Pyun's study (1999) of the 1988 Seoul Olympics summarized the impact of the Games on Korea's economy as follows:

During the period from 1982 to 1988, the production resulting from the Olympic projects amounted to 1,846.2 won that accounted for 0.4% of GNP over the same period. Furthermore, from 1982 to 1988, 336 thousand new jobs were created. Similarly, in production and income generation, the impact on employment of Olympics-related projects became visible starting in 1983. During the period from 1982 to 1988, employment in Olympics-related projects accounted for 0.3% of the total employment. In 1987 alone, Olympic projects employed 0.5% of the nation's total employed.

The developmental needs for Beijing in 2008 were very similar to those for Seoul in 1988. Seoul is the capital of South Korea and the center of the nation's economy and financial, logistical and business infrastructure. Seoul's GDP accounts for approximately one quarter of the nation's total GDP, as well as the total work force employed (Seoul Metropolitan Government, 2006). Therefore, the economic impact of the Seoul Olympics on the city and the nation was significant. Compared to Seoul, Beijing, the capital of China has just a little over 1% of the country's total population and accounts for only 4% of the nation's GDP. Although more than US\$40 billion has been spent on preparing for the Beijing Olympics, the significance of the Games' impact on the nation's economy is presumably limited.

1992 Barcelona Olympics

In the process of preparing for and hosting the 1992 Olympic Games, the city of Barcelona underwent an impressive urban transformation, according to Brunet (2005), The Barcelona Games were a total success in organizational and sporting terms; the urban transformation generated by the Games had far-reaching economic and social impacts; and Barcelona has been highly successful in harnessing the impetus and legacy of the Games: by 2001, the city was ranked as the Europe's sixth most attractive.

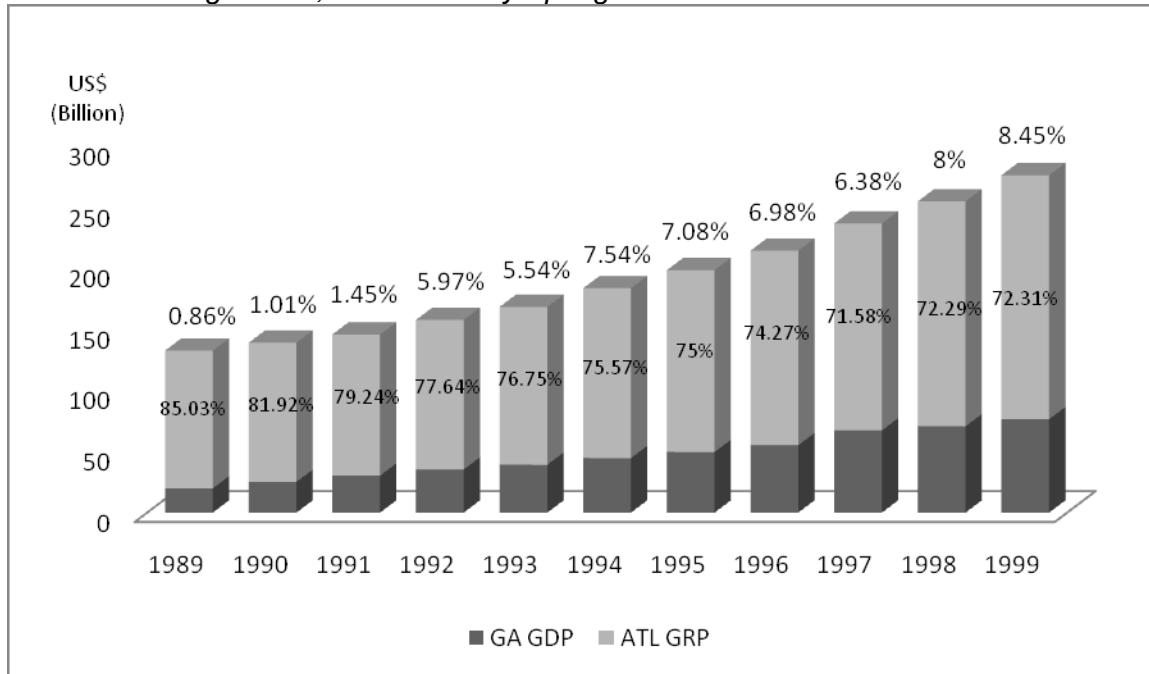
From 1986 to 1992, the investment in urban renewal in Barcelona amounted €12.3 billion. Projects included coastal area recovery works, the creation of parks, housing, hotels, offices, telecommunications and related services, sports facilities and equipment, cultural and health facilities, roads and transportation systems, and other infrastructural improvement. Brunet (2005) believed that Barcelona's investment in infrastructure and urban transformation was the key element of the economic resources mobilized by the Olympics, and was crucial for the positive economic impact of the Games. The impact was reflected by the city's transformation and the subsequent increase in economic activity, income and consumer spending. Between 1986 and 2000, visitors from abroad doubled, reaching a total of 3.5 million per year. The city's tourist industry continued to harvest the economic impact, twelve years after the Olympics.

1996 Atlanta Olympics

The 1996 Atlanta Olympics were very successful in creating a short-term economic stimulus, a legacy of sporting facilities, and urban design amenities (French & Disher, 1997, Summer). Hotchkiss, Moore, and Zobay (2003) identified a 17% employment increase in an extended area of counties that hosted Olympic events, which translated into approximately 293,000 more jobs. However, it was inconclusive how much GDP growth resulted directly and

indirectly from the Olympics. Figure 2 provides the state of Georgia’s GDP and GRP for the great Atlanta area to illustrate the economic growth before, during and after the Olympics.

Figure 2
 Georgia GDP, Atlanta-Sandy Springs-Marietta GRP and Growth 1989-1999



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 2 indicates an ascending pattern for Georgia’s GDP and for Greater Atlanta’s GRP in terms of both absolute value and growth rates. While Georgia’s GDP grew steadily, Atlanta’s GRP as a proportion, decreased from 85.03% in 1989 to 72.31% in 1999. The significant increase in Georgia’s GDP started in 1992, four years prior to the Games in 1996. The growth rates were even higher after the Olympics, peaking at 8.45% in 1999. It is inconclusive whether the Olympics contributed to the growth since the U.S. economy as a whole grew at a faster rate after the mid-90s. Actual dollar inflows during the Olympics are relatively easy to identify, however, the “legacy” of the Olympics in terms of long-term benefits is more difficult to measure (Hotchkiss, Moore, & Zobay, 2003).

2000 Sydney Olympics

In a study by Madden and Crowe (2002) the Sydney Olympics were modeled over a 12 year period from 1994 to 2005 with three phases: the pre-event (1994-1999), the event (2000), and the post-event phase (2001-2005) to define the economic impact of the Games on the state of New South Wales (NSW) and Australia. The impact on the growth of NSW and on Australia’s GDP, as well as the growth of employment, are summarized in Table 2.

Table 2
Effect of Olympics on Macroeconomic Variables

| Percentage Change | Pre-Event Phase | Event-Year Phase | Post-Event Phase |
|-------------------------------|-----------------|------------------|------------------|
| New South Wales GDP | 0.437 | 1.156 | 0.152 |
| Australia National GDP | 0.168 | 0.307 | 0.009 |
| New South Wales Employment | 0.475 | 1.344 | 0.127 |
| Australia National Employment | 0.187 | 0.484 | 0.005 |

Source: Estimating the economic impact of the Sydney Olympic Games (Madden & Crowe, 2002)

Between 1997 and 2004, an additional 1.6 million international visitors came to Australia as a result of the Olympics, generating an additional Australian \$6.1 billion in tourist earnings and creating 150,000 new jobs (Council, 1998). Besides the economic impact, Haynes (2001) concluded that the Sydney Olympics had a strong social impact on Australia's sport and physical activity participation rates, sporting infrastructure, sport expertise and indigenous issues related to the native Australian culture.

2004 Athens Olympics

Before the 2004 Olympics, labor force growth in the Athens area was 4.35% more than the national figure, and from 2003 to 2005, unemployment was 1% lower than the national average. The most significant increases in the labor force were found in the construction sector and in hotels and restaurants, with an increase of 7.7% and 6.0% respectively. The 2004 Athens Olympics were mainly financed by public subsidies and only 20.1% of both operating and capital expenditure of €11.274 billion was covered by private funding (Tziralis, Tolis, Tasiopoulos, & Aravossis, 2006). Because of the significant amount of public funding for the Olympics, the deficit faced by the city of Athens in 2003 was 3.2% of its GDP, compared to 1.4% in 2002. In 2004 the deficit grew to 3.25%, falling to 2.8% in 2005, one year after the Olympics (Research, 2004).

Based on Preuss' study (2004) there are four groups of "winners" from the positive effect of the Olympics: (1) the local politician who have been able to use the external resources flowing into the host city; (2) the construction industry with contracts for extensive projects; (3) the high income groups because the construction projects contribute to the gentrification of areas of the city; and (4) tourists who benefit from an improved tourism infrastructure and additional attractions in the host city.

OLYMPIC GAMES IMPACT AND BEIJING'S ECONOMY

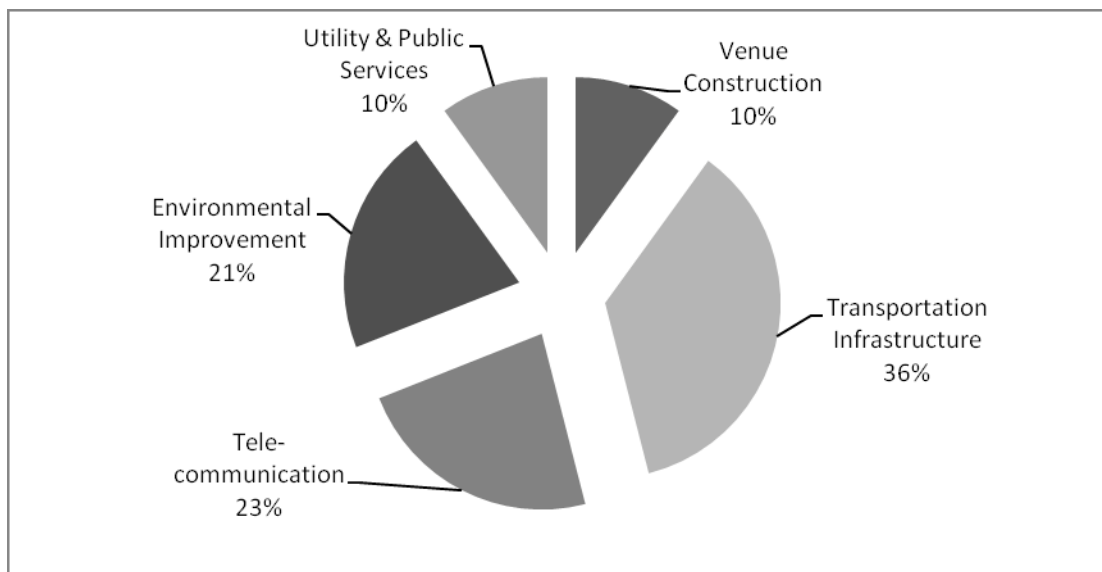
Compared to any previous host city, Beijing has definitely given more priority to the Olympic economy and more studies have been conducted to estimate the Olympic effects on the economy of Beijing and on the country as a whole. Using the Google search engine—key words: Chinese characters "Olympic economy"—6,440 related documents were listed one month prior to the Opening Ceremony of the Beijing Olympics. The most authoritative release of study results has to be from the Beijing Olympic Economy Research Association (BOERA) and the Olympic Library & Information Center (OLIC) because of their resources and expertise provided by BOCOG, the Research Institute of the General Administration of Sports of China, and Beijing Sport University (BSU), the top tier university in the disciplines of sport sciences in

China. The leading researchers include Chen Jian, the BOERA president, and Lin Xianpeng, the OLIC director and professor of sport economics in BSU (Lin, 2004; & Chen, 2008).

The economic evaluation of hosting the Olympic Games can vary according to the adopted standards since the scope and breakdown of Organizing Committee for the Olympic Games (OCOG) funds have historically varied from country to country (Pyun, 1999). The economic dimension of the Olympic Games can neither be determined by a single figure nor by a trend through comparing several Games as Preuss pointed (2002), "On the one hand the economic dimension depends on why the city wants to host the Games, on the other hand it strongly depends on the development level and size of the host city." Similar to Barcelona and Seoul, Beijing has used the Olympics to extensively improve the infrastructure of the city. The improvement projects include, but are not limited to, Terminal Three of the Beijing Capital International Airport (the largest single-standing airport terminal and building in the world), five new subway lines including the airport express line; Beijing-Tianjin bullet train line with a speed of up to 220 mile per hour; Beijing South Train Terminal; Forth, Fifth, and Sixth Ring Road around the city; and hundreds of miles of city roads. Beijing's telecommunications infrastructure is among the most sophisticated in the world. During the Olympics and the Paralympics, the city offered free wireless internet access at major competition venues, a service which lasted two and a half months. Beijing's Olympic-related operating and capital expenditure was projected to total RMB ¥290 billion (US\$43 billion) between 2002 and 2008.

Figure 3 illustrates the distribution of Beijing's investment on the major Olympic projects. Although the Olympic venues impressed thousands of Olympians and television viewers around the world, their construction amounts to just 10% of the total investment. Of the total investment, nearly 50% was used for capital expenditure such as environmental improvements and transportation infrastructure.

Figure 3
Beijing Olympic Investment Projects Distribution (2002-2008)



Source: "2008 Olympic Master Plan" issued by the Beijing Municipal Commission of Development and Reform (2002) from <http://www.bjpc.gov.cn/fzgh/oyxdgh/>

The original estimate of operating costs for the Beijing Games was US\$162.5 million and

the most recent estimate of costs rose to US\$200 million (Wei, 2007). At the same time, the BOCOG's official estimate of income was also US\$200 million, generated from six major sources: (1) the share of TV broadcasting fees, (2) share of TOP program sponsorship, (3) marketing development, (4) tickets and Olympic merchandise sales, (5) Beijing government's subsidy based on the contract between China and the IOC, and (6) post-Olympic resale of materials used for the Games (China Economy Weekly, 2006). However, a non-official estimate stated that Games income was expected to reach US\$340 million (Voice of Germany, 2008). The final and accurate figures for Olympic related income and expenditure are typically available one year after the Games.

The economic effects are potentially quantifiable by using economic variables such as income, employment, etc. They are measured in commonly agreed units with standardized methods across time. At the micro level, direct measurement may be possible but data is not generally available as Willner (2007) pointed out, "Economic variables such as GDP, gross investment, etc. are less subject to manipulation and discretion...this investment should come with the improvements in a number of macro measures of economic well-being. The baseline measure of this is real GDP growth and changes in that growth rate that may be attributed to the Olympic effort."

The following macro-economic indicators identified as Beijing's GDP, employed labor force, expendable income of the citizens, tourism income, total investment in the fixed assets and in real estate are to be examined to evaluate the Olympic effects on the city's economy.

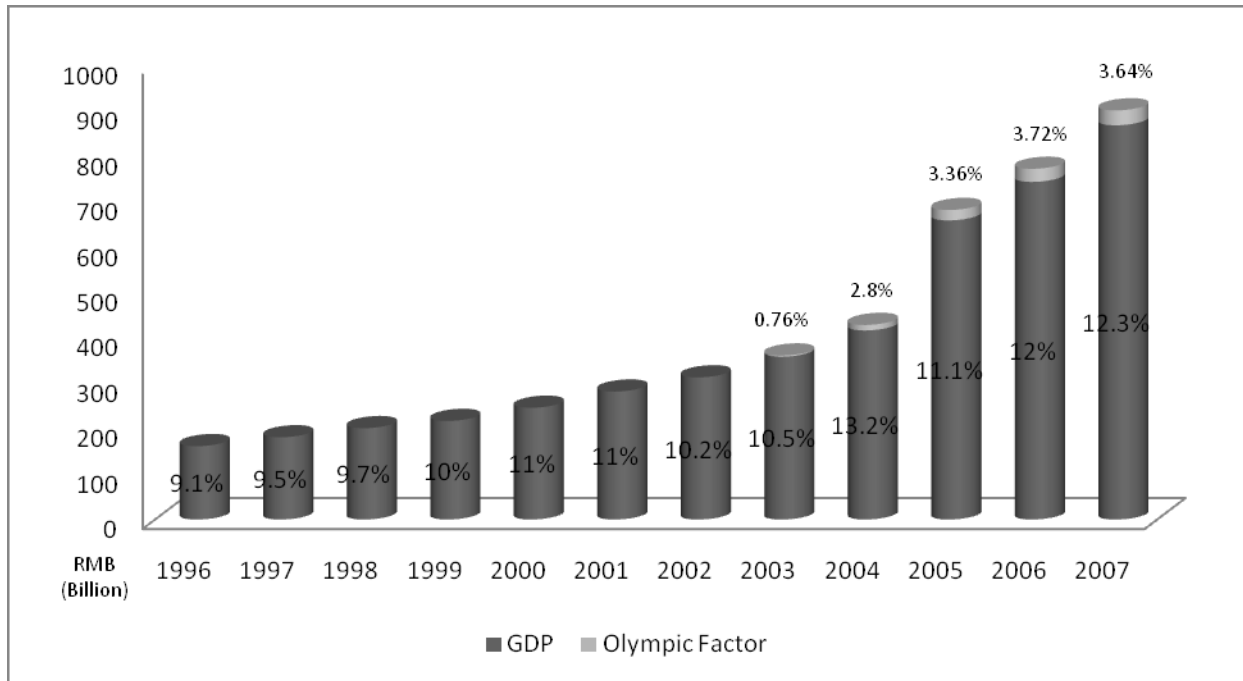
GDP and the Olympic Economy

The primary sources for information on Beijing's macroeconomic indicators are available online from the Beijing Municipal Commission of Development and Reform (BMCDR), the Beijing Bureau of Statistics (BBS), and other government websites. Figure 4 illustrates Beijing's GDP and the growth rates from 1996 to 2007. Preuss' three economic impact phases of the Olympics (2002) is adopted to determine the appropriate time period for GDP comparison in this study.

From 1996 to 2001, Beijing's GDP grew from RMB ¥161.57 billion to RMB ¥281.76 billion in absolute terms, an increase of 74.4%. From 2002 to 2007, annual GDP nearly tripled, growing from RMB ¥313 billion to RMB ¥900.62 billion in total value. The rates of growth between 1996-2001 and 2002-2007 are compared in Figure 5.

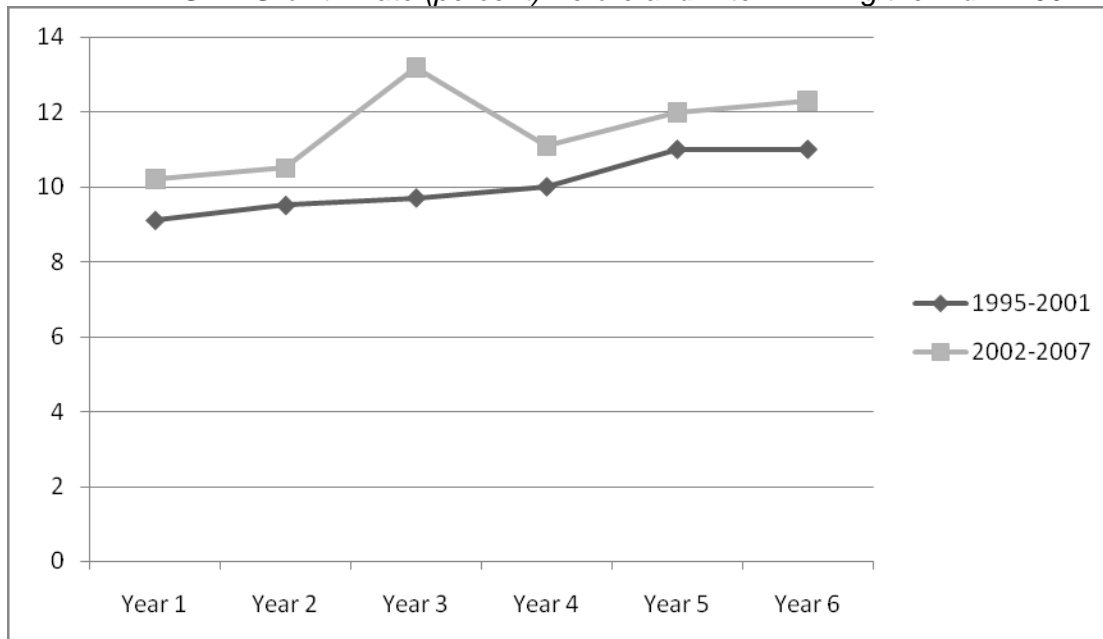
A significant difference was detected in a paired samples *t* test between the means of GDP growth rate before and after winning the bid of the Olympics ($t(5) = -3.727, p < .02$). Beijing's average rate of GDP growth after winning the bid was 11.55% which was 1.25 points higher than the national average 10.26% (Baidu Knows, 2007). Investment in Olympic projects contributed to Beijing's GDP adding an additional RMB ¥2.75 billion in 2003, the lowest year, and RMB ¥32.78 billion in 2007, the highest year, according to the study by Ma, Lin, Huang, Xu, Li, and Zhang (2007), and the contribution to GDP growth created by Olympic investment range from 0.76% in 2003 to 3.64% in 2007. Another report conjointly released by the State Bureau of Statistics of China (SBSC) and BBS reported the average rate of Beijing's GDP growth would be 0.8% higher during the peak years of Olympic investment from 2005 to 2008 than in the prior five year period from 2000 to 2004 (China Securities Daily, 2007).

Figure 4
 Beijing's GDP, Growth Rate (1996-2007) and Olympic Contribution to GDP Growth (2003-2007)



Sources: Official annual release of economic statistics by the Beijing municipal government from <http://www.bjpc.gov.cn/zhjh/ndjhzb/>; Ma, Lin, Huang, Xu, Li, & Zhang, (2007).

Figure 5
 GDP Growth Rate (percent) Before and After Winning the Bid in 2001



Source: Official annual release of economic statistics by the Beijing municipal government from <http://www.bjpc.gov.cn/zhjh/ndjhzb/>

Employment and the Olympics

Table 3 depicts Beijing's employment growth from 1997 to 2006 and is based on available and officially released data by Beijing municipal government .

Table 3
Beijing's Employment and Growth (1997-2006)

| YEAR | TOTAL | | TERTIARY INDUSTRY | | |
|------|-----------------------|---------------|-----------------------|---|--|
| | Employed (million) | Growth (%) | Employed (million) | Composition in Total Employed (%) | |
| 2006 | 9.197 | 4.75 | 6.340 | 68.9 | |
| 2005 | 8.780 | 2.8 | 5.847 | 66.6 | |
| 2004 | 8.541 | 21.44 | 5.598 | 65.5 | |
| 2003 | 7.033 | 3.55 | 4.148 | 59.0 | |
| 2002 | 6.792 | 8.0 | 3.763 | 54.4 | |
| 2001 | 6.289 | 1.55 | 3.418 | 54.4 | |
| 2000 | 6.193 | 0.11 | 3.382 | 54.6 | |
| 1999 | 6.186 | (0.58) | 3.279 | 53.0 | |
| 1998 | 6.222 | (0.51) | 3.247 | 52.2 | |
| 1997 | 6.558 | (0.67) | 3.272 | 50.0 | |

Source: Beijing Statistical Yearbook 2007 (Beijing Bureau of Statistics, 2007)

Negative growth rates in the total employed labor force were observed before 1999. Marginal growth followed in 2000 and 2001, the year Beijing won the bid. From 2001 to 2006 the total employed labor force registered 46% growth, rising from 6.289 million to 9.197 million. Based on BMCDR's official news release in January 2007, the Olympic construction projects attracted over 300,000 migrant workers from farmlands throughout the country. The total income for these workers exceeded RMB ¥11 billion (Xu, 2007). The growth pattern of tertiary industry employment indicates the change in Beijing's labor market and reflects the trend towards more service-oriented businesses such as retail, wholesale, hotels, restaurants, tourism, and business/political conventions (see Table 3).

Both direct and indirect Olympic effects on Beijing's employment from 2003 to 2010 are indicated in Table 4, based on the information extracted from available sources. Employment directly related to the Olympics increase steadily from 2003 and peaked at 701,000 in 2008, the Olympic year.

Table 4
Olympic Effect on Employment 2003-2010 (million)

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* | 2009* | 2010* |
|-----------------|-------|-------|-------|-------|------|-------|-------|-------|
| Total Employed | 7.033 | 8.541 | 8.780 | 9.197 | -- | -- | -- | -- |
| Direct Effect | .046 | .174 | .289 | .316 | .313 | .701 | .327 | .276 |
| % of Total | .66 | 2.04 | 3.29 | 3.44 | -- | -- | -- | -- |
| Indirect Effect | 1.071 | .931 | .909 | .704 | .612 | -- | -- | -- |
| % of Total | 15.23 | 10.9 | 10.35 | 7.66 | -- | -- | -- | -- |

Sources: Beijing Statistical Yearbook 2007 (Beijing Bureau of Statistics, 2007);

* Estimated by Ma, Lin, Huang, Xu, Li, & Zhang, (2007).

Expendable Income and the Olympics

Expendable income per capita grew consistently for Beijing citizens from 1997 to 2007 (see Table 5).

Table 5
Expendable Income (per capita) and Growth Rates (1997-2007)

| Year | Income (RMB) | Growth before price index | Growth after price index |
|------|--------------|---------------------------|--------------------------|
| 2007 | 21,989 | 13.9 | 11.5 |
| 2006 | 19,298 | 13.2 | 12.2 |
| 2005 | 17,653 | 12.9 | 11.2 |
| 2004 | 15,637.8 | 12.6 | 11.5 |
| 2003 | 13,882.6 | 11.4 | 11.2 |
| 2002 | 12,463.9 | 13.5 | 15.5 |
| 2001 | 11,577.8 | 11.9 | 8.5 |
| 2000 | 10,349.7 | 12.7 | 8.9 |
| 1999 | 9182.8 | 8.4 | 7.8 |
| 1998 | 8472.9 | 8.4 | 7.9 |
| 1997 | 7813.1 | 13.5 | 7.8 |

Sources: Beijing Municipal Commission of Development and Reform from <http://www.bjpc.gov.cn/zhjh/ndjhz/b/>; China Economic Database from <http://database.ce.cn/district/tjgb/>; Beijing Labor Department from <http://www.bjld.gov.cn/zxzx/fzgb/>

The Olympic impact on expendable incomes may be qualitatively identified by comparing price index growth rates before and after Olympic investment took place. The average growth rate of expendable income was 8.18% prior to winning the bid, after 2001 expendable income grew by 12.18%, at a 4% higher growth rate. A paired samples *t* test indicated a significant difference in comparing the income growth rates (after price index) before and after winning the bid to host the Olympics in 2001 ($t(4) = -4.471, p < .011$). Beijing has displayed rapid growth, along with the rest of the country, for the last 20 years. The significantly higher growth rate after winning the bid may qualitatively indicate the Olympic impact if the quantitative measure is difficult to determine. The true Olympic effect on expendable incomes may be further clarified by making a post-Olympic comparison several years hence.

Tourism and the Olympics

The Olympic effect on tourism has been positively proven by previous Games, the most successful examples being Barcelona and Sydney, attracting extraordinary numbers of tourists. During the Beijing Olympics the city expected 600,000 international and 2.5 million domestic visitors (Chen, Tourism continues to grow after the Olympics, 2008). Table 6 provides the tourist income data released by the BMCDR from 1998 to 2007 and this may help us to examine the Olympic effect on Beijing's tourism.

The information in Table 6 indicates that total income from both international and domestic tourism grew steadily (with the exception of 2003 caused by the SARS outbreak). After 2003, income from international tourists displayed consistent double digit growth compared to the period before 2002. The growth rate in the incomes generated by both

domestic and international tourists was slower in 2002 for unquantifiable reasons.

Table 6
Beijing Tourism Income 1998-2007

| Year | International (US\$ billion) | Tourism Growth Rate (%) | Domestic (RMB billion) | Tourism Growth Rate (%) |
|------|---------------------------------|----------------------------------|---------------------------|----------------------------------|
| 2007 | 4.58 | 13.7 | 175.36 | 18.3 |
| 2006 | 4.03 | 11.2 | 148.27 | 14 |
| 2005 | 3.62 | 14.2 | 130 | 13.5 |
| 2004 | 3.17 | 66.8 | 114.5 | 62.2 |
| 2003 | 1.9 | (38.9) | 70.6 | (23.9) |
| 2002 | 3.1 | 5.1 | 93 | 5 |
| 2001 | 2.95 | 6.5 | 88.77 | 29 |
| 2000 | 2.77 | 10.8 | 49.6 | 10 |
| 1999 | 2.5 | 4.7 | 45 | 6 |
| 1998 | 2.38 | 6 | 42.45 | 8.4 |

Sources: Beijing Municipal Commission of Development and Reform from <http://www.bjpc.gov.cn/zhjh/ndjhzb/>; Beijing Economic Database from <http://database.ce.cn/district/tjgb/ss/bj/index.shtml>

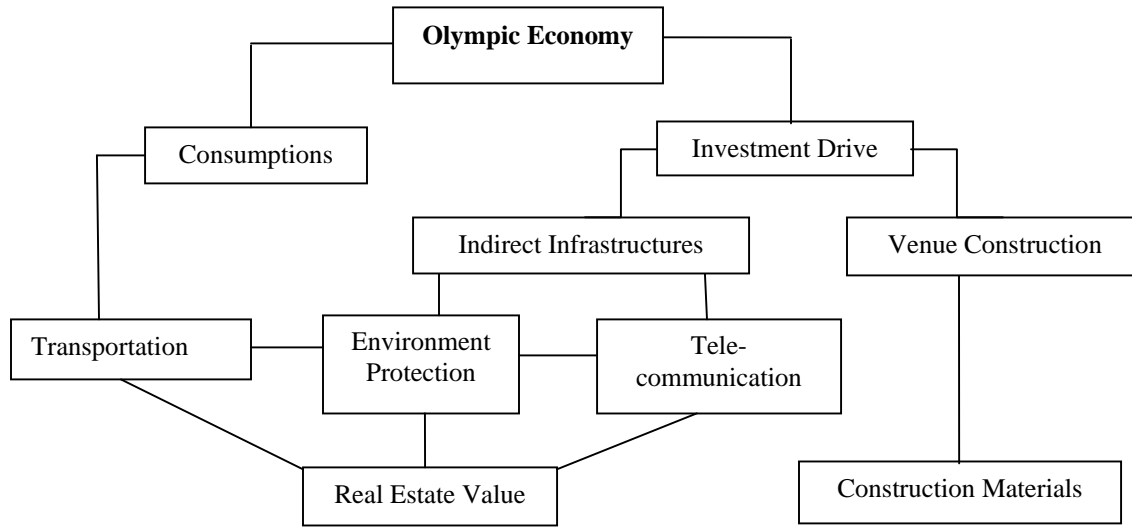
The Olympic Effect on Total Investment in Fixed Assets and in Real Estate

As depicted in Figure 3, approximately 10% of Beijing's overall Olympic investment was spent on venue construction with the remaining 90% allocated to infrastructure improvements in transportation, telecommunications, utilities and public services, and the environment. Beijing's Olympic Games used 31 competition facilities, 12 of which were newly built venues, including the "Bird's Nest" (the National Stadium) in which the opening and closing ceremonies were held and the National Aquatic Center, also known as the "Water Cube" where American swimmer Michael Phelps won eight gold medals, a feat unprecedented in the history of the modern Olympics. In addition, the Games needed 59 official training facilities, some of these were newly built while almost all of the existing facilities underwent renovation or retrofitting. According to China Economy Weekly (2006), there were 8,000 projects, 9,000 construction sites, more than 10,000 cranes, and 140 million m² of construction space in Beijing two years before the Games. The subway line #4 alone, for example, needed more than a RMB ¥300 million (US\$44 million) investment. Considering that labor in China is extremely cheap and readily available, the many Olympic-related construction projects were significantly larger than the equivalent monetary investment could have achieved in the United States.

Figure 6 illustrates how the Olympic economy is related to real estate and venue construction and is based on Xu's study (2007).

Beijing's real estate market has experienced booming growth for several years. From 2005 to 2007, Beijing's commercial and residential house prices skyrocketed and registered consistent double digit growth, with the exception of non-residential housing (see Table 7). The purchase of economy housing in the residential sector displayed the most rapid growth rate.

Figure 6
Olympic Projects and Olympic Economy



Source: Olympic investment leads fast growth in the construction sector, (Xu, 2007)

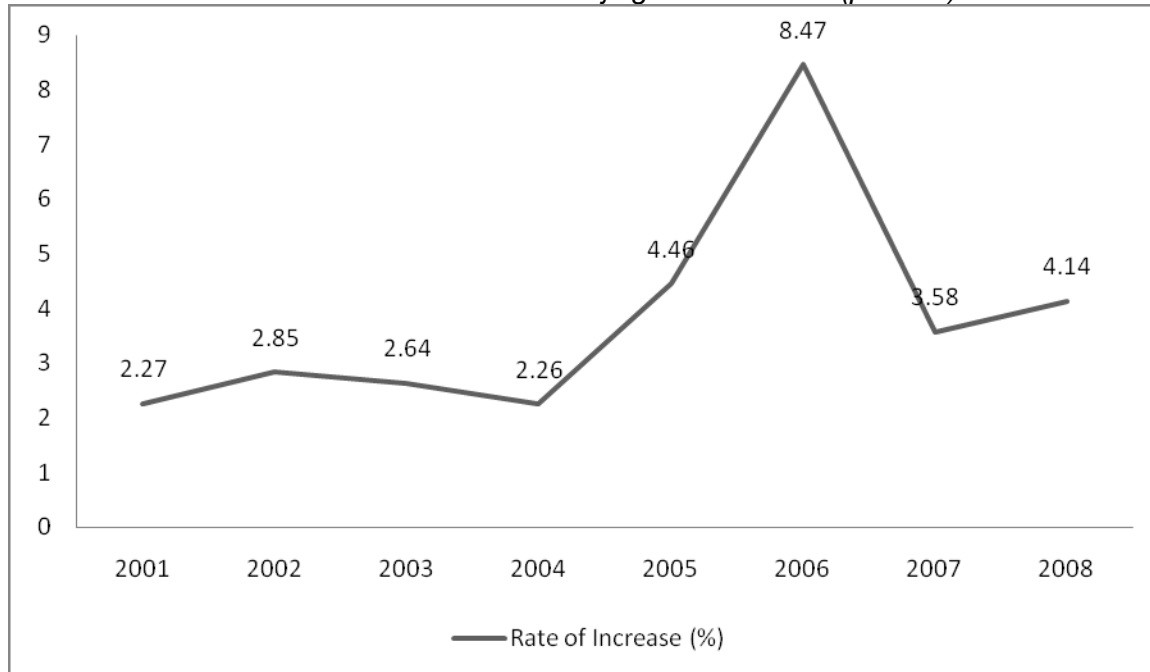
Table 7
Beijing's Real Estate Price Hikes in 2006 and 2007 (percent)

| Real Estate Type | 2006 | 2007 |
|---------------------------|------|------|
| Total House Prices | 8.8 | 11.4 |
| 1. New Commercial Housing | 8.6 | 11.8 |
| Residential | 9.6 | 12.8 |
| Economy | 11.2 | 14.4 |
| Luxury | 6.5 | 10.3 |
| Non-residential | 3.8 | 6.5 |
| 2. Pre-owned Housing | 9.8 | 10.2 |

Sources: Beijing Municipal Commission of Development and Reform from <http://www.bjpc.gov.cn/zhjh/ndjhzb/>

Land prices are a primary indicator of the health of the overall real estate market particularly when construction materials and labor costs are relative constants. Figure 7 displays the growth rate for Beijing's land prices from 2001 to 2008, with the peak in 2006. The real estate price hike mainly resulted from the land price increase a few years previously; construction projects had completed and real estate products were then available.

Figure 7
Rate of Increase in Beijing's Land Prices (percent)



Sources: Beijing land price report (Anonymous, 2007); Analysis of Beijing's land trade market (Qi, 2008).

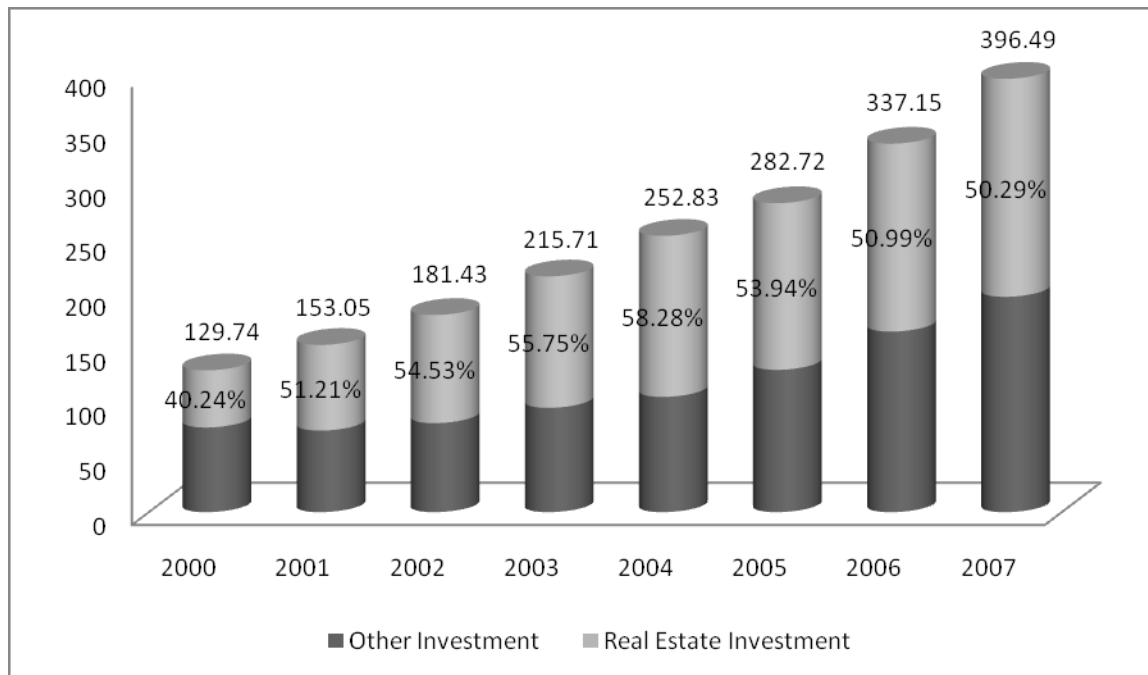
Beijing's total investment in fixed assets contributes to a large portion of GDP (see Table 8) and a significant portion of Beijing's total investment in fixed assets was allocated to real estate investment (see Figure 8). The most obvious increase in fixed asset investments was after Beijing won the Olympic bid in 2001. The contribution to GDP from fixed asset investments peaked in 2003 and 2004, when most Olympic projects were funded and broke ground. The portion of investment in real estate out of total fixed asset investments mirrors the ratio of total fixed asset investments to GDP. From 2002 to 2005 the percentage investment in real estate relative to fixed asset investments was consistently at 54%.

Table 8
Ratio of Total Investment in Fixed Assets to GDP (2000 – 2007)

| YEAR | TIFA (¥billion) | GDP (¥billion) | TIFA/GDP (%) |
|------|--------------------|-------------------|-----------------|
| 2007 | 396.49 | 867.84 | 45.69 |
| 2006 | 337.15 | 743.28 | 45.36 |
| 2005 | 282.72 | 658.55 | 41.24 |
| 2004 | 252.83 | 416.32 | 60.07 |
| 2003 | 215.71 | 358.44 | 60.18 |
| 2002 | 181.43 | 313.00 | 57.97 |
| 2001 | 153.05 | 281.76 | 53.42 |
| 2000 | 129.74 | 246.05 | 52.73 |

Sources: Beijing Municipal Commission of Development and Reform from <http://www.bjpc.gov.cn/zhjh/ndjhzb/>

Figure 8
Beijing's Total Investment in Fixed Assets and the Portion of Real Estate Investment (RMB billion)



Source: Beijing Statistic Yearbook 2007 (Beijing Bureau of Statistics, 2007)

Although the percentage investment in real estate out of total fixed asset investment decreased slightly in 2005 and 2006, total volumes continued to increase to RMB ¥152.5 billion and RMB ¥171.92 billion, respectively from RMB ¥147.34 billion in 2004. A Pearson correlation test revealed that Beijing's GDP growth was positively correlated with investment in real estate from 2001 to 2007 at a level of $r = .966$ ($p < .001$). This result may indicate that real estate has been one of the key factors behind Beijing's economic growth during the Olympic-effect period.

CONCLUSION

The study found that Beijing's economic growth gained momentum after winning the bid. A significant difference was detected in a paired samples t test between the mean of the GDP growth rate before and after winning the Olympic bid ($t(5) = -3.727$, $p < .02$). Beijing's average rate of growth after winning the bid was 11.55% which is one and a quarter points higher than the 10.26% national average. However, the significance of the impact on Beijing's total economy is yet to be quantitatively determined. In order to draw a more convincing conclusion, future studies of the Olympic impact on Beijing's economy will be needed at least a few years after the Games in reference to Preuss' phases of economic impact of the Olympics (see Figure 1).

The growth rate of expendable income was significantly higher after Beijing won the bid to stage the Games compared to the period before winning the bid. The task for quantitatively defining the percentage increase in expendable income attributable to the Olympic effect is also inconclusive because of complexities and difficulties filtering other potential economic and social factors from the Olympic effect. The Olympic-related construction projects certainly had a significant impact on Beijing's labor force during the preparation for the Olympics. The labor

force income injection stimulated consumer spending, thereby generating further economic activity, and additional savings were deposited into the banking system. The newly constructed facilities needed an additional labor force and provided new employment opportunities to Beijing residents. Therefore, the Olympic Games had a long-term impact on Beijing's employment and extended economic activity through the newly employed labor force. There is also a harsh reality that the employment boom generated by the Olympic effect was only short term in nature with the majority of the labor force used by the Olympic projects made up of migrant workers from other parts of China. Most of the 300,000 migrant workers had left Beijing even before the Opening Ceremony of the Olympic Games.

The tourism income from both domestic and international visitors was significantly higher after Beijing's winning bid, apart from in 2003 when the SARS outbreak stopped tourists from traveling. The Olympic effect on the tourist economy is generally convincing; especially if one compares growth rates for tourism income pre and post bid. During the Olympic Games, billions of people around the world watched the Olympics on TV, online, and with many of them onsite. China Central Television (CCTV) estimated that there were 430 million people in China watched the Opening Ceremony of the Games and 460 million watched the Closing Ceremony live on CCTV. In the United States, for example, NBC coverage of the Opening Ceremony from Beijing attracted 34.2 million viewers, making it the biggest television event since the Super Bowl and the number of viewers far surpassed the 25.4 million from Athens in 2004 and 27.3 million from Sydney in 2000 (Associate Press, 2008). The implications of TV's ability to influence people to travel to destinations such as Beijing can be an interesting investigation in the future in order to draw a more definite conclusion about the Olympic effect on Beijing's tourism.

The proportional contribution of the total investment in fixed assets to Beijing's GDP and the correlated real estate investment have indicated the Olympic effect on Beijing's economy since the winning bid for the Games. Although the actual investment in Olympic venues was not significant out of the US\$43 billion spent by the Beijing government on preparing for the Games, after adding the investment in the city's transportation, telecommunications, and other infrastructure improvements, the Olympic effect on Beijing's economy is no longer questionable. The remaining question would be how much the Olympics have lifted Beijing's economy in quantitative terms over the seven year span (2001 – 2008). A post-Olympic economic effect study, conducted a few years hence, may better answer the question. Also, it remains to be seen whether the high contribution made by real estate investment to Beijing's GDP over the years will lead to a potential scarcity of investment resources during the post-Olympic era.

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CHINA'S NEW CORPORATE INCOME TAX LAW: IMPLICATIONS FOR FOREIGN BUSINESSES

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Abstract: In March 2007 China passed its most important tax legislation since 1994. Before China passed the new law, domestic enterprises (DEs) and foreign investment enterprises (FIEs) were taxed differently. Under the old provisions, FIEs enjoyed several tax loopholes not afforded to DEs. FIEs enjoyed substantially lower effective tax rates than DEs. The new law is designed to produce more equitable treatment for DEs and FIEs while simplifying the income tax provisions. Similar to the U.S.'s Tax Reform Act of 1986, the new legislation focused on tax simplification and fairness. The EIT contained four main themes: Simplified Tax System, Wide Tax Base, Low Tax Rate, and Stringent Administration.

Foreign investors will ultimately have to decide whether operating in China without the previous tax incentives will affect their bottom line enough to move their operations to a more "foreign friendly" country. The purpose of this article is to discuss the provisions of the new EIT and present implications for foreign investors.

INTRODUCTION

The National People's Congress of China passed the long-awaited *Law of the People's Republic of China on Enterprise Income Tax* (EIT) in March 2007 to take effect January 1, 2008. This legislation is China's most important new tax legislation since 1994 (Moss Adams, 2007). This new law consolidates the *Provisional Regulations of the People's Republic of China on Corporate Income Tax* (CIT) of 1993 and the *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* (FEIT) of 1991. Before China passed the new law, the CIT regulated domestic enterprises (DEs) and the FEIT regulated foreign investment enterprises (FIEs). Under the old provisions, FIEs enjoyed several tax loopholes not afforded to DEs. The new law is designed to produce more equitable treatment for DEs and FIEs while simplifying the income tax provisions. The new law is not designed to discourage foreign investment in China, but in response to years of criticism, to put all entities on a more even playing field.

The purpose of this article is to discuss the provisions of the new EIT including differences in the old and new provisions. The article also presents implications for foreign investors as a result of the new law. The remainder of the paper is presented in four sections. Following the introduction, the first section provides a look at the reasons reform was needed. The second section gives an overview of the new EIT. The third section is a discussion of implications for foreign investors. The fourth section contains concluding remarks.

WHY REFORM WAS NEEDED

Since the 1980s the Chinese government, because of economic objectives, provided tax incentives for FIEs that were more favorable than those for DEs (Interpreting the New Enterprise Income Tax Law, 2007). DEs were taxed at 33 percent on profits while FIEs

received tax breaks that cut their tax rate to as low as 15 percent. Some suggest that the actual corporate income tax rate for FIEs is, on average, 11 percent (Interpreting the New Enterprise Income Tax Law, 2007). The disparity was justified on the basis of the need to attract foreign investment. On the surface the disparity was not apparent. The marginal tax rate for DEs was 33 percent. FIE taxes included a 30 percent national tax and a three percent local tax, giving a total marginal rate of 33 percent. However, the effective tax rate for FIEs was close to 15 percent because many of those companies were eligible for generous tax treaty benefits and tax incentives, especially if they invested in certain industries or in certain areas of the country.

After the many years of debates over tax reform and criticism from DEs arguing that income tax laws were not equitable and stymied competition with FIEs, the Chinese government officials were in agreement in March 2007 when the votes were counted. An overwhelming 97 percent of the National People's Congress supported the new Corporate Income Tax Law (Equal Rights, Equal Rules Under New Law, 2007).

THE NEW EIT

Similar to the U.S.'s Tax Reform Act of 1986 (TRA of 1986), China's EIT legislation focused on tax simplification and fairness. The EIT contained four main themes: Simplified Tax System, Wide Tax Base, Low Tax Rate, and Stringent Administration (Ho & Landau, China: Impact of New Corporate Income Tax Law on Foreign Investors, 2007). The new law is aimed at promoting competition as China enters the World Trade Organization (China Reforms Tax, Benefits Oil Firms, 2007). By eliminating some of the previous benefits afforded to FIEs and reducing the tax rate for both FIEs and DEs, the new law will produce a more equitable tax systems for all corporations operating in China.

The new EIT establishes two types of entities. "Tax resident enterprises" (TREs) are those entities established in China under Chinese law or foreign enterprises that have their effective management office based in China. The new law does not define "effective management." "Non-tax resident enterprises" (non-TREs) are entities established outside China (not under Chinese law) and have their effective management based outside China. Non-TREs either (1) have a place of business located in China or (2) do not have a place of business in China but derive income from sources in China. TREs will be subject to China's corporate income tax on their worldwide income while non-TREs will be taxed only on China-sourced income.

The new standard tax rate is 25 percent. This promotes both simplification and fairness. The new rate is lower for TREs that were taxed at 33 percent under the old law and non-TREs that were taxed at 30 percent. However, since non-TREs generally enjoyed effective tax rates as low as 15 percent because of tax incentives, the new law puts TREs and non-TREs on a more even playing field. Exceptions do apply. First, a rate of 20 percent is afforded to small or low-profit companies, but the rate applies to both TREs and non-TREs. Second, qualified high or new technology TREs and non-TREs enjoy a 15 percent rate. Third, certain enterprises located in Western regions will continue to receive preferential rates. Finally, a 20 percent rate is applied to passive income derived by non-TREs. Since the new law does not define such terms as small, low-profit, or high tech, there are still questions remaining about what companies (TREs or non-TREs) will be afforded the lower rates.

The new law implements unified expense deductions for TREs and non-TREs. Under previous provisions, DEs were unable to deduct wages exceeding certain limitations while FIEs were not subject to the limitations. The new law permits TREs and non-TREs to deduct actual

costs of wages. Certain research and development costs will be deductible for TREs and non-TREs. Again, the new law produces a more equitable tax treatment.

Certain government grants and interest from state bonds will be non-taxable. In addition dividends from qualified TREs paid to TREs will be exempt from corporate income tax.

Several anti-avoidance provisions apply. Related party transactions require additional disclosure. Interest expense associated with an enterprise's debt exceeding a prescribed debt/equity ratio may be disallowed. Controlled foreign corporation (CFC) rules allow Chinese shareholders to be taxed on a portion of undistributed profits retained by CFCs in certain low-tax areas when enterprises lack valid reasons for not distributing their profits. Transfer pricing adjustments were not previously subject to tax consequences. However the new EIT imposes an "interest levy" on such adjustments. In addition, the new law allows for re-characterization for tax-motivated transactions.

The new EIT contains several phase-in provisions. The new rates will be phased in for FIEs over a five-year period. Existing tax holidays for FIEs will be grandfathered in until such agreements expire. It is expected that future preferential treatment will be afforded based on type of investment rather than location or investor.

IMPLICATIONS FOR FOREIGN INVESTORS

Because the EIT provisions will be phased in, foreign investors have ample time to assess the impact of the new law on their China operations. Non-TREs will face choices regarding their business model, investment structure, site selection and financing strategy (Zhang, Kadet, & Ye, 2007). The new EIT provides both opportunities and challenges with regard to tax planning and compliance issues for foreign investors (Ho & Landau, 2007). Opportunities remain for non-TREs to receive favorable tax treatment for certain industries. High technology, environmentally friendly activities, and energy conservation are among the favored industries.

Challenges face those non-TREs that will have to adjust pricing or costs for higher tax rates. Several unclear provisions such as whether an entity qualifies as a low-profit business still have to be worked out. In addition, if provisions are ultimately added to put a cap on salary deductions similar to those under the old law, companies with highly-paid expatriates and foreign employees will face higher tax consequences.

One tactic non-TREs should consider is transferring Chinese taxable income to sources such as state bonds or qualifying government grants that maintain preferential treatment under the new law. Related party transactions can have a dire effect under the new law. Transactions that may fall under the related party provisions should be examined for disclosure requirements. Thinly-capitalized companies should evaluate the possibility of issuing additional capital.

Not all foreign entities operate in China because of the tax incentives offered by the Chinese government. China may also be attractive to foreign investors because of low labor costs and availability of labor force. China has approximately 1.3 billion laborers available for employment. High labor costs in many other countries might far outweigh an increase in the corporate income tax rate. In addition, some companies may not be able to produce enough products in their home country because of market demand from economic growth. Even with an increase in tax rate, the 25 percent rate may be lower than some entities' domestic rates.

Once all the options are considered, it is apparent that China will not have a mass

exodus because of the new law. What the new law will require is for non-TREs to evaluate the new tax provisions into their long-term plans. Foreign investors must optimizing global tax benefits and rely on traditional internal tax planning such as tax-aligned supply chain and transfer price planning (Zhang, Kadet, & Ye, 2007).

CONCLUSION

Foreign investors will ultimately have to decide whether operating in China without the previous tax incentives will affect their bottom line enough to move their operations to a more “foreign friendly” country. Will loopholes be found that will allow FEs to be classified as a TRE? Will other countries come to the forefront with tax incentives attractive enough to entice FEs away from China?

The new EIT has several goals similar to the U.S. TRA of 1986 – specifically, tax simplification and fairness. If, however, China’s tax reform follows the path of the TRA of 1986, taxpayers will continue to complain that rates are too high, that their particular situation such as industry or location needs special concessions, that compliance with the tax law is too burdensome, and that the law is not fair.

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Journal of Business Issues
College of Business
University of West Florida
Pensacola, FL 32514

2008, No. 1

JOURNAL OF BUSINESS ISSUES