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Will we ever have a cash free society?

The idea of a cash free society has been a vision of the future for quite some time. But can it become a reality ask **Bernardo Batíz Lazo, Thomas Haigh and David Stearns** who trace its history and investigate its future.

Recently the International Finance Corporation (IFC) published its Mobile Payments Report, comparing case studies of cashless payments in industrialised countries (i.e. Japan, USA) with developments in emerging markets (i.e. Kenya, Brazil, Thailand). The intent is clear: to encourage the adoption of mobile payments (as an effective cashless payment mechanism) globally.

The inevitable cashless future seems like a very modern vision. Yet the idea that clumsy and expensive-to-handle coins and notes could be replaced by efficient electronic payments is more than fifty years old. Whether initiated by various types of plastic cards, chip cards or more recently, mobile phones this has remained a tantalizing prospect rather than a daily reality. As we have argued in previous works the cashless society is a remarkably long-lived and resilient image of the future that has permeated retail financial markets since the 1950's.

The “future” is an important driver of organisational change. Successful innovation depends, implicitly at least, on convincing others of the existence of a future in which the innovation is already accepted. This is evident in forecasting, recommendations of management consultants and Schumpeter's ideas on the business cycle as well as in the links between science fiction and technological developments.

Often ideas come first from science fiction writers. Think of Jules Verne's flight to the moon, H. G. Wells warnings of aerial bombardments prior to the First World War, Arthur C. Clarke's ideas on geosynchronous communications satellites and Robert A. Heinlein's claimed invention of the waterbed.

In contrast, literature foresaw only limited advances in the way we exchange money. Instead the vision of a “cashless society” appears to have originated within the world of business and moved only later into the realm of fiction. Capitalism was the default social organization of American science fiction, but few authors put much attention into imagining its future. By the 1940s many had adopted the term “credit” as the universal name for future currencies, including Isaac Asimov for his two main strands of work (the far-future Foundation saga and the near future Robot stories). Usually, however, this functioned as a simple linguistic substitution for “dollar” and one reads of credits being slapped onto counters, flung to parking attendants, drawn from pockets, and the like.

In 1954 business technology researchers and consultants in the USA started to discuss the possibilities of a “checkless society” where sleek, efficient, and safe electronic messages would replace cumbersome, costly, and easily-forged paper checks. Once the major banks digitized their accounts, they argued, it would be relatively simple to connect their comput-

ers over a telecommunications network, and process most routine payments entirely in electronic form. A few of them even predicted that paper notes and coins would eventually be replaced by a nationwide electronic funds transfer system (EFTS), activated by some kind of economic identification card, ushering in a completely “cashless-checkless society.”

Although the cashless-checkless society remained mostly a banker’s dream (sometimes was framed under more positive alternative such as “the electronic payment society” or “the credit card society”), the volume of paper processing (and particularly personal checks in the U.S.) continued to grow even as the vision of electronic payments spread beyond the community of banking technology enthusiasts. Today, when we encounter the scene in 2001: A Space Odyssey in which a character calls home to the USA from an orbital payphone we are likely to forget that in 1968 the “plastic all purpose credit card” he inserted to make electronic payment was a less conventional part of its futuristic setting than the regular commercial rocket service that had taken him to the space station.

Different groups of people promoted different versions of the vision, for different reasons. For instance, John Diebold, who had earlier popularized the term “automation”, and his consulting firm, The Diebold Group, promoted the concept of the cashless-checkless society as the appropriate solution to deal with the growing problem of paper processing.

By the early 1970s, there were six primary actor groups vying for control over the structural details of the cashless-checkless society in the USA. The first was the Federal Reserve, with George Mitchell being their most vocal representative. The large, technically-advanced commercial banks formed the second group, and their position was most clearly articulated by John Reed of Citibank. Reed saw electronic payments as a competitive weapon, something that would allow innovative banks like his to displace those that were slower to adapt.

The smaller, less technically-savvy banks formed the third group, and their position was articulated by James E. Brown of Mercantile Trust Company of St Louis. Concerned that the larger commercial banks would use their technical expertise to consolidate the banking industry. He favoured the development of a shared EFT infrastructure managed either by the Fed or by regional associations. This position was quite similar to that held by the fourth group, which consisted of the credit unions, savings & loans, and mutual savings banks, collectively known as the “thrifts.”

The fifth group consisted of the large national and regional retailers. In many ways, large retailers such as Sears and Wards were in a better position to offer a nationwide EFT system than the banks were: they issued more credit cards than all the banks combined; they had “branches” throughout the country that were open late and on weekends; they had an extensive network of electronic cash registers capable of making electronic deposits and withdrawals from cardholder accounts; and many already cashed payroll checks for their working-class customers.

The national credit card associations made up the sixth and final group, and their most vocal and assertive spokesperson was Dee Hock, CEO of the organization that would soon be rebranded as VISA. Hock saw his own organization at the centre of an international EFT system. He favoured a shared cooperative system that would give as much access to small rural banks as it did to large ones. But he also promoted the development of several of these types of cooperative systems, creating competition at the system level so that there would still be an incentive for innovation.

A similar pattern surely exists today. The apparent “inevitability” of cash’s disappearance has been used as a self-fulfilling prophecy to promote many different alternatives. The odd thing about the “cashless society” has always been that it is defined in terms of something that won’t be present, rather than in terms of what will.

None of this is to deny that cash is becoming increasingly rare in many contexts. In the European Union, Iceland is the most cashless society as measured by purchase value in shops, where only about 9 per cent of the turnover is paid by cash. In Turkey telecom operators (Turkcell), banks, authorities and a private e-identity service-providing company (E-Güven) have agreed upon a common SIM-based identification solution. As a result, Turkish customers can use their mobile phone for secure connections to online banking, government services etc. The success of the mobile banking solution M-PESA in Kenya has been noted to provide important insights into the functioning of payment systems that go beyond interoperability issues in the interaction between financial services and telecoms. In Hong Kong, major transport operators launched in September 1997 a contactless card primarily for transport ticketing. In 2011, the “Octopus” card had over 11 million daily transactions of which about 40 per cent were non-transport, small value payments such as vending machines or fast food restaurants.

Indeed, in many countries to pay with cash is to mark oneself a potential criminal or terrorist (so much so that

large transactions must be reported to the government). But the assumption remains that the growth in automated payment volumes (direct debits, standing orders and customer credits) together with increasing use of plastic cards (and/or mobile phones) will triumph as the premier payment method(s) and will substitute for checks and cash.

There are at least two learning points these cases provide to today's managers. First, various actors will struggle to define the particulars of that vision in terms that are most favourable to themselves. Actors that are most successful at enrolling other actors into their particular definition of the vision tend to "win," not only strengthening their economic position in the industry, but also their ideological control over it.

Second, trade associations, technology suppliers, leading banks, industry commentators and consultants had all endorsed "the cashless society" as not just desirable but inevitable. Once consensus on the future destination was reached a variety of specific systems or approaches could be presented as a step toward realizing this future goal, making the future a banner around which a heterogeneous alliance of interests could gather. When technologies fail to perform as expected this could be characterized as a bump in the road to the future, rather than as a challenge to the inevitability of eventually arriving at the agreed destination. Hence, going against the established future vision will likely mean failure, but working with it will not guarantee success. ■

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Ivo Zander

The Entrepreneurial Perspective

Envisioning the battle between giants and startups

I remember a seminar in Sydney, which proved to be one of those too few instances where I seem to have got it right in predicting the future. At that seminar, I made a prophecy about Nokia which eventually appears to have come true.

The seminar was about the structure and dynamics of the cell phone industry, and the main issue was if a number of the smaller entrants would be able to survive over the coming years. This was some time in late 2004, and while things had calmed down since the heydays of the IT boom a few years earlier, Nokia still reigned supreme in the cell phone market. Towards the end of the seminar, I was asked about my opinion about the survival chances among competitors, and in contrast to earlier discussions the question I wanted to ask was: "Can Nokia survive?". The comment sprung from my suspicion that being located in a peripheral region, far from the dynamic and fast-moving markets of consumer electronics, would make it difficult to keep up with other companies in the long run.

I don't know if the analysis is really at the heart of Nokia's current decline, the picture is most likely more complex than that (and the end of the story yet to be told). Recent developments nevertheless serve as a reminder that large and established corporations, whether in the fast-moving IT industries or elsewhere, need to retain their entrepreneurial spirit and forward-looking capabilities. And unfortunately, in today's debate the issue of entrepreneurship in already established corporations has become overshadowed by a quite simple-minded focus on new startup companies. Entrepreneurship in established corporations is really like any entrepreneurial process, but it comes with a number of pre-conditions and features that require par-

ticular attention in trying to design a truly entrepreneurial corporation. It is a theme I may be able to get back to and explain in more detail in some of the future issues of this magazine.

Considering the fact that not even established giants seem to be safe as the industrial landscape shifts and changes, Nokia's experience also reminds me of the need for keeping a continuous supply of new firms to fill out emerging gaps 'from below'. Here I notice the perhaps surprising absence of a sustained buzz around the Swedish IT industries, where concepts such as 'Wireless Valley' once were able to attract worldwide interest and admiration. Much of Sweden's capabilities from the early 2000s are still around and tested in various company settings. But for some reason (and perhaps because we learnt the wrong things from the burst of the IT bubble) it has been difficult to create a collective brand and something exciting around them. Such excitement is important for inspiring people in the field to try out their skills and ideas, for giving them the confidence to build those world-leading companies which today appear to emerge mostly from somewhere else. Excitement is equally important for attracting that 'true' venture capital Sweden needs so much but still finds difficult to come by.

Let's hope there is improvement around the corner in terms of entrepreneurial spirit in both existing and startup companies. Perhaps, I sometimes think, one should try to create a sense of competition between the two camps. Showing 'the others' how to do it may be just as motivating and rewarding as any monetary compensation, and those of us who are more distantly involved may still be able to just enjoy the competition and the ride. Nokia and Ericsson vs. Startup United? I'd like to see that battle.