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# PROCEEDINGS

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# CULTURE AND INTERNATIONAL JOINT VENTURES: A REVIEW OF THE LITERATURE AND A CASE STUDY

**Bonita Barger, Tennessee Technological University**

## ABSTRACT

*Key Words: Culture, Strategic Alliances, International Joint Venture, Literature Review of Culture*

*AOLTIME WARNER, Compac and HP, and September 11, 2001. What do all of these have in common? A confluence of culture. What is culture? This literature review of culture and the accompanying exploratory case study of a newly formed international joint venture provide definition and boundaries for the discussion of culture and the role of culture in alliances. The concepts of national and organizational culture will play an increasingly dominant role as businesses manage in a global arena. Cross national and cultural research linking management practices to cultural differences and providing viable plans and strategies for successful management are in their infancy.*

## INTRODUCTION

As we approach the next century, a major issue facing business corporations is their ability to compete in a global marketplace. Expansion into global markets is creating tremendous change in how corporations do business. The old paradigms of organizational structure, management, and competition are no longer functional, given the nature of pressures created by globalization. The opening of the communist bloc countries, GATT, NAFTA, and September 11, 2001, have created new business opportunities. Innovative approaches and strategies are needed in this changing global environment of opportunities.

In order to adapt to a changing global economy, many corporations are forming cooperative business ventures that use the resources of two or more companies. These new ventures, called strategic alliances, are a type of cooperative agreement that has become increasingly popular. Strategic alliances vary in organizational structure, type, and purpose. They are seen as ways to increase resources, learning opportunities, and market share.

Joint ventures, one type of strategic alliance, are business enterprises owned by two or more companies that share resources and skills (Pekar & Allio, 1994). These enterprises have been increasingly used to create cross-border or cross-national cooperative business ventures (Geringer & Woodcock, 1989). International joint ventures, legal entities with one partner firm outside of the country where the joint venture resides, are widely used as a means of direct foreign investment (Inkpen & Beamish, 1997). Numerous websites such as http://jvseek.com-Joint Venture Opportunities present the potential investor with opportunities for co-development projects ranging from 250 thousand to 1billionn in Asia, America, Africa and Europe, updated daily.

Although strategic alliances and international joint ventures are increasingly popular business strategies to increase global business cooperation and market share, their success rate is low.

Estimates suggest as high as 60% of all alliances end in failure (Harrigan, 1988; Parkhe, 1991). Numerous articles such as "New Opportunities versus Old Mistakes" (Fasol, 1999) highlight the benefits and risks of strategic alliances.

The impact of globalization and creating ventures across national boundaries requires an understanding of culture. This is especially true in the management of alliances. It is conjectured that national origin and organizational culture play a significant role in the successful management of joint ventures (Cyr, 1994). The bringing together of two established parent corporate cultures with different believes, values, and norms located in a country with a different national origin from one of the parent cultures is bound to create tension, misunderstandings, and opportunities for learning.

To explore this notion of the role of culture further in alliances, a brief overview of how scholars have defined culture over time is needed. In addition, a review of the literature will be presented highlighting national and organizational culture. International joint ventures and the role of culture will be visited from the literature. Findings from a case study of a newly formed alliance will be highlighted to explore the role of culture in one newly formed joint venture.

# GLOBAL EVOLUTION OF THE NET-ENHANCED ORGANIZATION

**Ronald G. Cheek, University of Louisiana at Lafayette**
**Martha Lair Sale, University of South Alabama**
**Robert Hatfield, Morehead State University**

## ABSTRACT

*In the digital, Net-based economy, there is extraordinary pressure on local, regional, national, and international industries to drive down costs and increase productivity. For organizations operating in this economy, pressures come from not only traditional, but also "virtual" organizations. Successful organizations are forced to innovate and continually reinvent themselves and compete. As organizations move many of their sales and operations to the Net, they evolve from local or regional companies to players in the global arena.*

*The evolution to a global enterprise requires a systemic change throughout the organization. Success, or perhaps survival, continues to demand that every organizational decision be focused on the wants and needs of their customers. After moving into the global arena, this challenge is dramatically more difficult when faced with differing time, language, and cultural differences. These successful companies, as they evolve into the global arena will develop, support, and sustain a customer-centric organizational culture.*

*Global customers demand the same 24/7/365 level of service as domestic customers. The power of the Net offers organizations the ability to effectively and efficiently respond to these demands. Organizations that successfully respond to these demands have the potential to develop life-long customers with long-term loyalties.*

*The global arena brings a whole new set of challenges for organizations. Although the Net is able to make distance irrelevant, global customers have different cultures, languages, and time zones. In this paper, we discuss strategies that can be used as they evolve into global Organizations.*

# A COMMENT ON "BIG BLUE'S" FORMER GLORY

**Rob H. Kamery, Christian Brothers University**
**Sarah T. Pitts, Christian Brothers University**

## ABSTRACT

*IBM has been involved in virtually every facet of computing, offering hardware from mainframes to PCs, software, networking services and financing. In spite of all this, there is a large investment risk associated with IBM. There is a constant hazard of finding additional growing businesses to add to IBM's portfolio in an effort to offset any declining or stagnant businesses that are already in IBM's portfolio. If IBM can return to its former customer focus orientation, channel its efforts to increase shareholder wealth and increase its product and service base, it could exhibit the ability to again become the market leader.*

## INTRODUCTION

IBM entered the computing market with its Automatic Sequence Controlled Calculator in 1944. The Mark I was followed by a series of products in the 1950s that helped establish the future of IBM and the computer industry. In 1952, Thomas Watson, Jr., became the president of IBM. Watson envisioned the future of computers and pushed IBM to meet the challenge. Under his leadership, revenue grew from $900 million to $8 billion. One of Watson's greatest moves for IBM was the unbundling of the components of hardware, services, and software that were previously sold in packages. This move gave birth to the multi?billion dollar industry that exists today (Carroll, 1993). Throughout the 1960s and 1970s, IBM introduced many products that helped transform the computer industry. The 1960s saw the introduction of IBM's System/360, which allowed customers to upgrade portions of the computer without having to incur the greater expense of replacing the entire computer.

## MANAGEMENT OF IBM

The 1980s marked IBM's entrance into the personal computing market as well as the beginning of its decline in the industry. Beginning with the leadership of John Opel, IBM began to make strategic mistakes. In the late 1970s, Opel made the decision to turn IBM into the lowest cost producer. Focusing on price performance in the 1980s left little or no room for IBM's traditional values, which were largely comprised of customer service. John Akers became CEO of IBM in 1985, and immediately focused on streamlining the company's operations. While Akers is predominantly blamed for IBM's downfall, his leadership style seemed like it would be a success; Akers was known as a natural leader. He was able to make the necessary decisions, but also was known for listening to his subordinates and could consistently count on their support in his early years of management (Carroll, 1993). When Akers moved into the position of president of IBM, the company was capturing approximately 70 percent of the entire computer industry's earnings.

Akers had stepped into the position of president with charisma and personality, but never with the anticipation of having to engineer a company?wide turnaround. In response to the problems IBM was facing, Akers set up several task forces. In mid?1987 the task forces turned in their reports and made it clear that IBM was not facing a small problem, but was instead at the beginning of downfall and defeat at the hands of competitors. Akers began to try and break apart different segments of IBM's business and have them operate in small, independent environments. By 1993 it became apparent to the Board of Directors of IBM that Akers would not be able to turn the corporation around. Akers had consistently promised higher revenues and greater profits for the board and shareholders of IBM and had not delivered. Breaking away from IBM tradition, the board began to search for outside leadership. In April of 1993, Louis V. Gerstner, Jr. was brought on board as IBM's CEO. Gerstner brought with him a customer?oriented vision and a strategic-thinking expertise that he honed through years as a management consultant. Gerstner immediately began to take action to rebuild IBM's product line, shrink the workforce, and make significant cost reductions. IBM had become so bureaucratic through the years that it was Gerstner's number one priority to reduce the bureaucracy.

## THE INDUSTRY

Information technology is turning out to be a significant productivity engine which is not only continuing to drive into its historical markets, but is also taking aim at a broad based technological future. Revenue for the worldwide information technology market is forecasted to grow at 9% annually through 2001. Revenue for this three year time period is expected to grow from $801 billion to $1,039 billion, an addition of approximately $80 billion in revenue annually (Jones, 1999). According to Salomon Smith Barney's January 1999 industry analysis report, this growth is broad?based, with all major product and service sectors expected to participate as well as consumers driving it both directly and indirectly.

Can IBM meet the challenge? The industry's largest information technology customers are cautiously hopeful that IBM can meet the challenge. One high level IT executive from an East Coast Fortune 10 company was quoted as saying: "… Gerstner deserves credit for crystallizing a direction for a company of IBM's size to go in, but I can't build a career on a road map and a slogan. They have to deliver all the pieces that add up to some clear value?added for online enterprises. They have those pieces on paper, but it is their game to lose" (Scannel, 1998). IBM is focusing on specific business segments such as Personal Computing, Internet Strategy, Services (Total Solutions) and Customer Service, Software, Partnerships and Management changes.

## PERSONAL COMPUTING

The emergence of the PC was almost pure serendipity, a succession of happy accidents. The genius of IBM management was that it was able to let this happen. IBM, through a series of agreements with third parties, began to lose control of its end customers. The company enthusiastically embraced its third parties but it failed to recognize the importance of maintaining relations with its end-users.

The rapid growth of the PC has been an outstanding success, but it left IBM with a number of problems. First, the open architecture of the PC makes IBM reliant on outside suppliers. Had IBM planned its strategy in this market in its usual meticulous manner, there would have been a greater degree of IBM control. Instead, IBM lost the faster market growth and competitive position that it could have enjoyed.

The second problem IBM faced in the personal computing business segment was its position in the price war. As the market became less buoyant, dealers who were independent of IBM's control started a price war that was beneficial to no one, least of all IBM. This price war began as a shakeout of those dealers who could not make the grade and who, with liquidity problems, began to liquidate their stocks. A significant strategy was IBM's discounting structure whereby the dealer was encouraged to sell the last few machines at a heavy discount in order to reach the next price break and obtain a better price on all their purchases. While this strategy looked good on paper, loading in stock to create pressure on retailers is a standard consumer goods marketing technique. The end-buyers wanted the IBM logo but were increasingly persuaded that Compaq, which was not so heavily discounted in the price war and was more profitable to the retailer, was a better deal (Mercer, 1987).

## WHERE IS IBM HEADING IN THE PC MARKET?

The PC revolutionized the market because it provided each user with a stand?alone machine. But when PCs are connected to a network, some of the old centralization problems occur. If all users can use a software program that is stored on the network?server, the necessity for an individual copy of the software for each user is eliminated. IBM's plan is to provide a new technology ? the network computer. The network computer will be an inexpensive replacement for the personal computer in a networked environment; 100,000 of these computers were sold in 1997 (Cook, 1998).

Network computers (NCs) will be an interchangeable commodity that will save money for their customers but may also erode the sales of current mainline PC makers, including Compaq. NCs will not be a replacement for the PC, but instead will eliminate the higher expense of purchasing PCs in a work environment when there is not the necessity for every user to have one. Instead, PCs will be reserved for mobile users (laptops) and for personnel that need to run very powerful programs, such as computer?aided design (CAD).

## INTERNET STRATEGIES

The key mission of IBM's software division is helping customers exploit E?Business opportunities (Weil, 1998). A large part of IBM's future rests on its participation in the Internet and E?Business revolution that is sweeping through the information technology industry. There is much opportunity in this field for qualified solution providers. A significant amount of revenue is being directed to IBM's Consulting and Service Divisions, which saw an addition of $8 billion in 1998 to its services backlog which now totals approximately $50 billion (Jones, 1999). IBM is projecting that over the next four years close to $600 billion will be spent on E-Business/E?Commerce solutions. Hardware is projected to account for 28% of this amount, IT services 58% and software

14% (Weil, 1998). Because of its large size and many business components, IBM is one of few firms capable of offering customers a total solution that incorporates all the necessary hardware and software services.

The Internet is presenting one of the biggest opportunities for IBM to recover from its years of poor performance and participation in the growing information technology industry. IBM's mission on this front is to combine its strength in computing and networks with the worldwide reach of the Internet. Its goal is to create secure Net?based environments where buyers can meet sellers and transact business in confidence. To further this goal, IBM has been rolling out its products and services in this area in the form of business solutions for small, startup companies. IBM will assist a small company in marketing its product on the Internet and taking orders securely from customers. This helps the small company get its start and helps to move IBM to the forefront of the Internet business (Cook, 1998).

## SERVICES

Part of IBM's restructuring process is to build up its Global Services business segment. IBM's overall valuation is in line with that of other multi?billion dollar information technology service providers (DeLamarter, 1986). Contributing to this valuation is the speed with which IBM is completing its assignments. The size of the Global Services' segment is $49 billion. Its 1998 third quarter revenues were $5.8 billion (Weil, 1998). These figures are evidence that IBM is receiving a high degree of customer satisfaction. The Global Services segment is also providing IBM with a sales channel for the company's software and hardware.

Global Services is having difficulty keeping up with escalating demands. As a result of this, management is having to screen new projects against a profitability hurdle rate in order to raise the division's rate of return. This fact is in spite of hiring approximately 15,000 experienced staff in 1998 alone (Weil, 1998). Global Services has the ability, at this rate, to deliver better margins that could increase IBM's future profitability.

## SOFTWARE

One of IBM's most important focuses is a concentration on software for its line of servers. These servers control desktop PCs on corporate networks and the Internet. In essence, IBM is seeking to bypass Microsoft's system and applications software that runs on 80% of the world's desktop PCs (Weil, 1998). IBM's software business is approximately the same size as Microsoft's, but revenue in the past came largely from the mainframe business which is a seriously declining market (Cook, 1998).

In 1995, Gerstner launched IBM into the world of networked desktop computing by acquiring Lotus Development. IBM wanted Lotus Notes for its powerful communications capabilities in a networked world. The acquisition has proved to be an enormous success for IBM. There were 1.6 million Notes users when IBM purchased the company. There are now over 20 million, with 4 million of those being added just in the fourth quarter of 1997. To further its presence in the software market, IBM also purchased Tivoli Systems in 1996. Tivoli is a manufacturer of software designed to manage distributed computing systems. A third of IBM's software revenue came from network computing software in 1998 (Cook, 1998).

## FUTURE DIRECTION OF IBM

IBM still remains on shaky ground as it strives to regain the number one market position. A series of poor management decisions could easily destroy the recovery that IBM has been making since Gerstner's arrival. One strategy that IBM is taking to help its multimedia business succeed is bringing in executives from outside the computer industry. For years IBM was closed to company and industry outsiders. Many believe that this strategy was one of the main factors of IBM's downfall. Furthermore, Gerstner has focused on improving IBM's customer service in an effort to make IBM the industry leader.

IBM has been involved in virtually every facet of computing, offering hardware from PCs to mainframes, software, networking, service, and financing. It is among the top five PC companies; it is the number three UNIX systems company and the number four disk drive company, and it is in the top three of software companies (Niles, 1999). In spite of all of this, there is a large investment risk regarding IBM. The mainframe business segment still suffers from slowing growth. There is also a constant hazard of finding additional growing businesses to add to IBM's portfolio in an effort to offset any declining or stagnant businesses that are already in its portfolio.

## CONCLUSION

IBM is in the process of rebuilding itself to become the market leader; it does not plan to enter the retail business in any form as this might place it in competition with its customers. Essentially, IBM is offering applications (solutions) and value-added tools, and via its services arm it is encouraging its customers to outsource tasks such as system design, management and operation, and system integration and maintenance (Weil, 1998). In a return to customer focus, efforts to increase shareholder wealth and plans to increase its product and service base, IBM has the ability to become the market leader. IBM's participation in the information technology industry over the next two to three years will prove whether or not it has weathered the storm or merely staged a false recovery.

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# DEVELOPING COUNTRIES AND DOLLARIZATION: COSTS AND BENEFITS

**Darla Lang, Sam Houston State University**
**Ahmed Ramahi, Sam Houston State University**

## ABSTRACT

*Almost every country issues its own currency. Despite this, people around the world often use the U.S. dollar to make purchases, borrow, or save. Dollarization occurs when residents of a country extensively use the U.S. dollar or another foreign currency alongside or instead of the domestic currency. Dollarization has been considered the ultimate fix for many countries' lagging economies. However, the country that cannot control its monetary setup and enters into a U.S. dollarization policy, gives up monetary sovereignty, as well as a certain amount of political sovereignty. This paper discusses the different types of dollarization as well as its costs and benefits. In addition, the question of why developing countries seek to dollarize their economies as a means of solving their financial and economic problems is examined.*

## INTRODUCTION

Since the mid 1990's, various financial crises have impacted the entire world, especially affecting the emerging markets. The Tequila Crisis in Mexico, the East Asian Crisis, the Russian Crisis, and the Brazilian crisis have each hit hard the world economy. Their effects spread to include other emerging markets, resulting in currency and banking crises surfacing in those countries as well. Economists point out that these crises are not a consequence of badly managed domestic policies but are due to inherently volatile international financial flows. Consequently, focus has shifted from linking currency crises with changing economic basics to finding effective ways of stabilizing the volatility of international capital inflow and avoiding contagion effects.

Developing nations face two options for withstanding volatile capital flows to their countries: 1) To drastically restrict the flow of capital into the country, moving backwards from globalization or 2) To dollarize. Among the alternative ways of preventing volatility of international capital flows, there have been various suggestions to control capital flow and to implement alternative exchange arrangements. Such arrangements could be to float the exchange rate, fix the exchange rate, create a new regional currency, or adopt a strong supranational currency as a means of insulating the economy from currency crises. This adoption of a strong supranational currency has been called official dollarization.

## LITERATURE REVIEW

Dollarization refers to using dollars instead of domestic currency as a unit of account, store of value, or medium of exchange (Melvin and Peiers, 1996). By October 2000, the U.S. dollar represented more than 66% of all central bank reserves. Moreover, the U.S. dollar is the second most popular currency used by foreign countries, next to their own currency (Hanke, 2000).

Dollarization can take three forms: official dollarization, official semi-dollarization and unofficial dollarization. Official dollarization, sometimes called full dollarization, means the dollar is legal tender and there is no local currency. Official semi-dollarization means the dollar is legal tender and the country also issues its own currency. Finally, unofficial dollarization, or currency substitution, means that the dollar is widely used in private transactions but is not considered to be legal tender. For unofficial dollarization to take place, at least 30% of a country's money supply must be in U.S. dollars. This ranges from storing dollars in countries in which residents cannot legally convert local currency into foreign exchange, to the situation where a government fixes the exchange rate, banks offer dollar-denominated accounts, and the dollar circulates freely.

A country may achieve dollarization in several different ways; however, most alternatives can be divided into two main categories: unilateral decision and bilateral agreement. Unilateral dollarization occurs when the U.S. dollar is adopted unilaterally without any formal recognition or significant engagement by the U.S. government. In contrast, bilateral agreement is dollarization by making a formal agreement with the United States, which specifies the conditions of using its currency. While bilateral dollarization may indicate a long and costly period of negotiations with the U.S. government and the Federal Reserve, unilateral dollarization has the advantage that it can be implemented immediately without the need for any agreements or negotiations. Nevertheless, unilateral dollarization has the disadvantage that it lacks any formal agreement with the United States, and hence, many of the advantages of the bilateral dollarization would be lost, such as the increase in credibility due to the more permanent nature of bilateral dollarization (Curutchet, 2001).

## WHAT DOES IT COST THE ADOPTING COUNTRY TO DOLLARIZE?

Implementation of dollarization includes several potential costs to the adopting country. Any country that engages in official dollarization must destroy its home currency, and as a result, the first source of losses from dollarization is the loss of seigniorage (Chang, 2000). Seigniorage is future revenue from the manufacturing of the adopting country's currency. This revenue is given up when implementing official dollarization. The right to create domestic currency is valuable for a government because newly printed currency can be issued in exchange for goods and services. Newly printed currency costs very little to produce, but at the same time, the central bank of the adopting country can pay for purchases of goods or for foreign exchange with its printed currency. This future revenue potential is foregone when governments adopt official dollarization (Chang, 2000).

A second important issue with respect to official dollarization is that a country's central bank would no longer serve as the lender of last resort to the domestic banking system (Chang, 2000). A lender of last resort is an institution that stands ready to provide credit to banks in the event that they experience a sudden demand for liquidity that is beyond the bank's ability to meet. Such a need arises as when bank runs occur. In most countries this role has traditionally been played by the central bank since the central bank can create credit quickly at a negligible cost simply by issuing domestic currency. But since the ability to print currency would disappear due to the implementation of official dollarization, the central bank would no longer be able to serve as the lender of the last resort to banks of the dollarized country.

A third cost of official dollarization is the loss of a country's ability to maintain independent monetary and exchange rate policies. An independent monetary policy provides three main benefits for an economy. First, it allows the central bank to determine the level of interest rates and to isolate the domestic interest rate from foreign interest rates. This isolation limits the impact of an external monetary shock on domestic interest rates. Second, monetary policy is a tool that gives monetary authorities an instrument of anti-cyclical management of the economy's aggregate demand. This tool can be used to smooth the cyclical fluctuations in the economy that arise from normal fluctuations in the business cycle. Third, a monetary policy can be used to avoid severe deflationary adjustments by giving authorities the ability to influence the price level (Curutchet, 2001). In a dollarized monetary system, the country's central bank no longer has access to its key tool of monetary policy (Chang, 2000), and the national government can neither devalue its currency nor finance budget deficits by creating inflation since it does not issue the currency.

Fourth, if the adopting country is successful in its dollarization process, a return to the previous domestic currency and monetary system could negatively impact its citizens, neighbors, and friends in trade, making the exit from dollarization a costly option. Countries with currency boards have already eliminated much of their choice regarding the exchange rate, and in extreme cases, such countries will have an advantage over dollarized countries since they have more freedom in devaluation (Berg and Borensztein, 2000). Dollarization might be a good cure for the adopting economy, but on the other hand, it might not be easy to step back from it without a significant negative impact.

In addition to these four major costs, there are also other costs associated with the currency conversion process. Computer programs, cash registers, and vending machines must be converted from domestic currency to the chosen foreign currency. In addition, legal and financial costs of revising contracts or of refinancing will be incurred as a one-time expense and will depend in its amount upon the adopting country (Bogetic, 2000).

## WHAT BENEFITS DOES THE DOLLARIZING COUNTRY GAIN?

In contrast to the above implementation costs, dollarization has some favorable aspects as well. Dollarization proponents argue that the cost of foreign credit for a dollarizing country would diminish, leading to economic growth and increased domestic investment (Chang, 2000). Since dollarization would imply the elimination of the home currency, there would no longer be domestic currency loans, and in this sense, devaluation risk would disappear. However, it does not necessarily follow that the cost of credit would be lower for domestic residents since those who had the choice to borrow in domestic currency will be forced to accept dollar loans instead.

Under official dollarization, the country's economic policy is thought to be more credible since official dollarization would be much more difficult to reverse than would other fixed exchange rate regimes. Dollarization supporters posit three benefits from improved credibility (Chang, 2000). First, by eliminating possible devaluation, improved credibility will help reduce interest rates. Second, being irreversible, dollarization implies that monetary policy will be taken out of the hands of the domestic central bank. Some economists consider this a cost, but others explain that if the central bank cannot fully commit to its policy announcements, then there are benefits in taking that control away. Third, since dollarization is irreversible, fiscal discipline will improve. If a government prefers excessive fiscal spending, dollarization may impose discipline by making it more difficult for the government to finance excessive spending behavior. By eliminating seigniorage revenues and inflationary financing, and by pushing the government to issue only foreign debt, dollarization imposes its discipline (Chang, 2000).

Another benefit that the dollarizing country gains is lower transactions costs in international trade and investments. Besides that, the dollarizing country ensures low inflation rates, hopefully close to the U.S. inflation rate. Also, more integration of domestic financial firms into world markets is likely to happen, and that in turn results in strengthening the financial power of the adopting country. Finally, by eliminating the risk of high inflation and devaluation, the dollarizing country supports the development of long-term capital markets, leading to greater levels of international trade (Meyer, 2000).

There are many countries that could benefit from dollarizing their currencies. Countries that have monetary authorities with bad reputations are an example. Moreover, countries that have high and variable inflation and real interest rates, high volatility of the real exchange rate, or with less developed financial systems would benefit from dollarizing (Curutchet, 2001). Benefits will be of more importance for countries that are already highly liability dollarized. High liability dollarized borrowers, whether companies or government, have a larger portion of their debt in U.S. dollars, and therefore are considered financially weak due to that mismatch. The reduction in the volatility of the real exchange rate will have more positive effects on the financial weakness of debtors and the financial system as a whole than in the case of low liability dollarization. (Curutchet, 2001).

## HOW TO DOLLARIZE PROPERLY?

According to Niskanen (2000), the first step in the proper sequencing of dollarization is to replace the country's current exchange rate with a pegged, but adjustable, exchange rate with some major external currency. This decision tends to stabilize domestic demand and reduce short-term exchange rate risk while maintaining the option of adjusting the exchange rate in response to any threats to the country's reserve situation. The second step requires the adopting government to choose the currency against which its currency will be pegged. In many cases the U.S. dollar is the preferred currency, but there are some cases in which currencies other than the U.S. dollar are used. The third step in the dollarization process is to decide whether or not to replace a pegged, but adjustable, exchange rate with a currency board. Fourth, and last, is the decision of whether or not to replace the domestic currency and currency board by officially adopting the reserve currency. Once a government adopts the reserve currency, the probability of reverting back to its pervious national currency becomes lower than the probability that it might eliminate its currency board. In addition, by adopting the reserve currency, the adopting country can reduce the level and variance of domestic interest rates.

## SUMMARY AND CONCLUSION

Developing nations face two options to deal with volatile capital flows to their countries. Besides the option to restrict the flow of capital into the country is the option to dollarize. Dollarization refers to using a foreign currency instead of a domestic currency as a unit of account, store of value, or medium of exchange.

Dollarization offers a rational response of a nation's citizens to enduring high inflation, and according to Melvin and Peiers, any restriction of dollarization by authorized means could result in the restriction of free choice by individuals attempting to protect their purchasing power and wealth. However, dollarization creates a dilemma for policy-makers. A country gives up several things when deciding to dollarize its domestic currency. A dollarizing country gives up the ability to manage its own monetary and exchange rate policies, the country no longer has the ability to print its own money or the ability to guarantee the liquidity of bank deposits, and the country gives up the ability to default on the real value of nominal commitments.

In contrast to these sacrifices, dollarization offers several benefits to the adopting country. Potential benefits include lower inflation rates, which are comparable to U.S. levels, resulting in faster economic growth due to the elimination of devaluation risk; deeper financial markets with more integration of domestic financial firms into world markets; lower transactions costs in international trade and investments; and lower interest rates.

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# CURRENCY CONVERSION AND THE EFFECTS OF ITS IMPLEMENTATION: CASE OF ECUADOR

**Kendra Lema, Sam Houston State University**
**Balasundram Maniam, Sam Houston State University**
**Joe James, Sam Houston State University**

## ABSTRACT

*In March 2000, Ecuador began a process to change its national currency, the sucre, to the United States dollar in hopes of stabilizing its economy and improving the welfare of its people. It was forced into this solution because of its failing economy. The transition has been difficult for Ecuador and the results of the transition have been evident in multiple areas within Ecuadorian society and in its relations with other organizations.*

# THE ADVENT OF THE EURO AND ITS PROSPECTS AS AN INTERNATIONAL CURRENCY

**Balasundram Maniam, Sam Houston State University**
**Sanjay S. Mehta, Sam Houston State University**
**Joe James, Sam Houston State University**

## ABSTRACT

*This paper discusses the implications of the Euro to the European nations and the rest of the world. It gives some historical background, points the pros and cons of adopting a single currency in the European Union (EU) and argues the prospects of the Euro as an international currency. In general, the claim is that the Euro will become an international currency, but it will not replace the US dollar as such. All the questions about the Euro will be approached from the standpoint of the economic theory of fixed exchange rates.*

# FINANCIAL STATEMENT RECONCILIATIONS : EXPLORATORY STUDY TYPES AND NUMBERS FOR HONG KONG H-SHARES

**Gary Miller, Texas A&M Int'l University**

## PURPOSE

The purpose of this research was to gather information about the financial reporting practices for the profit and loss reconciliations in 1997 for Hong Kong H-shares. The H-share financial statements must include a reconciliation between the statements prepared according to PRC accounting standards and either the Hong Kong or International accounting standards (IAS). Annual reports for years ending in 1997 were examined to gather information about the accounting practices for reconciliation items for financial reporting for Hong Kong H-share companies. Thirty-nine companies were selected for the study.

## SUMMARY

Additional accounting guidance for reconciliation items for the profit and loss statements may need to be provided by the HKSA for H-shares in Hong Kong. Some H- share companies may be applying a somewhat different standard. At this time, comparisons among Hong Kong companies may be difficult. Some companies are apparently, using different formats.

Comparisons between the results of this study and an earlier Miller project are presented in the summary and discussion section.

Keywords: H-shares, financial statement reconciliations and Hong Kong accounting practices

# IMPACT OF EXCEPTIONAL ITEMS ON PROFITS: TYPES AND NUMBERS EXPLORATORY STUDY FOR H-SHARES IN HONG KONG

**Gary Miller, Texas A&M Int'l University**

## PURPOSE

In Hong Kong, there has been some controversy about the treatment of financial events that might be considered exceptional or extraordinary for financial reporting purposes. The purpose of this research was to gather information about the financial reporting practices for the treatment of extraordinary and exceptional items in Hong Kong for H-share companies. Very little is known about the accounting practices for the H-shares. There has been some criticism about the practices including the level of disclosures. It may be useful for accountants in other countries and investors to become aware of the accounting practices for extraordinary and exceptional items in Hong Kong for the H-shares. Annual reports for this study will be examined to test a number of hypotheses. Descriptive statistics are, also, included in the study.

## SUMMARY

The classification of nonrecurring material events for financial statement reporting purposes varies throughout the world. Some of these approaches have been described in this paper. In another study, the accounting practices for exceptional items were studied for a sample of Hong Kong companies. In Hong Kong, events are classified as extraordinary only in very limited circumstances. 46.4% and 43.6% of companies for 1995 and 1994 in the 1997 study respectively had, at least, one exceptional item disclosed in their respective financial statements. In this study, only 25.9% and 11.1% of H-share companies for 1996 and 1995 respectively had, at least, one exceptional item disclosed in their respective financial statements.

Key Words: Exceptional, extraordinary, Hong Kong accounting practices, H-shares

# INTERNATIONALIZATION DEVELOPMENT OF THE FINNISH FOREST INDUSTRY FROM MID-1980s TO 2000

**Pasi Sajasalo, Tampere University of Technology**

## ABSTRACT

*This paper presents an analysis of the internationalization processes of the previously four, currently three largest Finnish forest industry companies. The longitudinal analysis of the increased international involvement of the companies utilizes a game-playing metaphor as its starting point. Based on the game-playing metaphor, a novel analytical framework for the analysis of internationalization processes is developed and its usefulness tested. Central to the approach presented in this paper is that it takes a currently lacking action oriented strategic viewpoint on the internationalization phenomenon and sees the actors as intentional players performing competitive moves against each other within the forest industry plying field.*

*Through the analysis utilizing game-playing perspective, the strategic internationalization processes of the companies are outlined and compared to form a holistic picture of the overall development within the industry. The analysis of the overall development of the industry shows the mid-1990s forming a watershed in the strategic behavior of the companies related to means of growth. The change is shown to be closely linked to the major changes in the global competitive arena of the industry. The analysis further shows the overall internationalization development of the case companies having followed distinctive identifiable phases.*

## INTRODUCTION

While the industrial base of Finland has broadened over the past half a century, and especially during the last two decades, according to recent statistics, 28.7 percent of Finnish exports are still forest products (Statistics Finland, 2000). Notwithstanding the rise of basic metal and engineering industries, and especially that of electrical industries, it appears that forest based industries are and will remain an important part of the Finnish economy in the future as well. It is thus worthy of study to explore the processes through which the previously four, currently three remaining Finnish players within the forest industry playing field increased their international involvement and were able to establish positions for themselves within the world top ten of globally competitive paper and board industry. As the nature of competition within the industry has been characterized fierce (Dreher, Cote & Hunley, 1998), it is interesting to find out how the initially small, remotely located companies were able to rise among the major players in this globally competitive field.

## AIMS OF THE PAPER

This paper aims at presenting an analysis of the strategic processes involved in the internationalization of the major Finnish forest industry companies. Internationalization is seen in accordance with the definition given by Welch and Luostarinen (1988) as process of increasing involvement in international operations, although, the possibility of decreasing involvement is also considered. In addition, the paper aims at incorporating a pronouncedly strategic viewpoint to the study of internationalization processes and providing a fresh and dynamic approach for the examination of the phenomenon. The study is, by nature, a longitudinal multiple-case processual analysis of chains of events that led to the currently prevailing state of affairs. The period studied has thus far remained in the internationalization context of the industry quite scarcely studied. Nevertheless, as it may be seen as an important watershed in the strategic orientation of the companies, it is of great interest.

## METHODOLOGY AND DATA

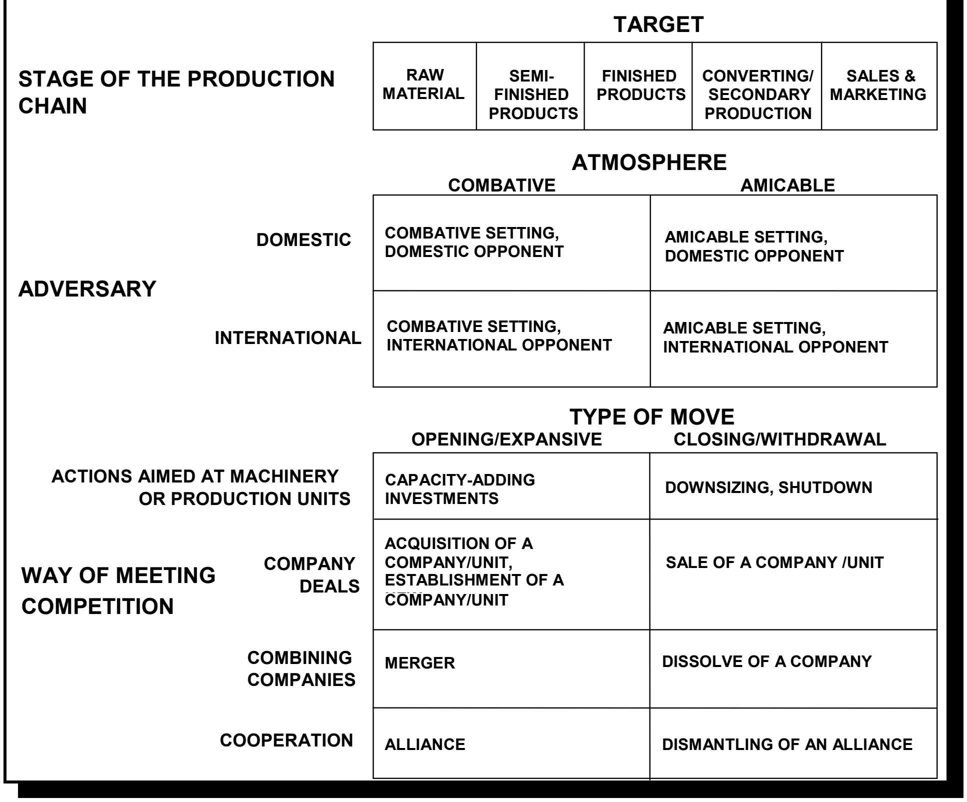
The processes through which the individual companies increased their international involvement are addressed by utilizing game-playing metaphor both as a background idea for the events in the processes, and as a tool for their analysis (see Näsi, Sajasasalo & Sierilä, 1998 for a more covering discussion). Thus, instead of implicitly referring to business activity in game-playing terminology which is often the case (cf. Hampden-Turner & Trompenaars, 1994), the increased involvement in international business activities is seen in this paper explicitly as dynamic game-playing activity.

Utilizing the game-playing metaphor as a starting point for the examination provides a major advantage from the processual analysis point of view. It provides a much needed action orientation into the analysis of internationalization, which has, despite the inherent dynamics of the phenomenon been lacking. Static approaches and models to describe and analyze the internationalization processes have been found to dominate the study (Melin, 1992; Kutschker & Bäurle 1997; Kutschker, Bäurle & Schmid, 1997). In their study of 757 articles published between 1982 and 1990 assessing various streams of study within the IB field, Li and Cavusgill (1995) found that a mere 4.6 per cent of the studies adopted a dynamic view. Thus, an attempt to remedy the current situation is made in this paper by proposing an alternative, dynamic way of addressing the phenomenon.

Contrary to the dominant static approaches, central to the approach adopted in the current paper is that the Finnish forest industry companies are seen as goal-oriented, intentional players planning and carrying out moves against each other and their international competitors in both the national and international forest industry playing field. Although the companies are seen as actively shaping their fortunes through their own actions, it is acknowledged that there are certain limits to the operational freedom of the companies and their management. Thus, a "moderately voluntaristic" view promoted in the strategic management field (Quinn, 1978; Mintzberg & Waters, 1985) is adopted in this paper.

The three analytical frames of reference are adopted, with some adaptations, from Näsi, Sajasalo and Sierilä (1998). With the aid of the frames of reference, each move in the process of increasing (or decreasing) international involvement of each company will be classified according to its 1) target in the production chain, 2) the atmosphere surrounding the move and the parties involved, and 3) by the way of meeting competition and the type of move. The analytical frames of reference of this paper are depicted in Figure 1.

**Figure 1. The three analytical frames of reference**




With the help of the three frames of reference two goals are aimed at: 1) presenting the qualitative data in an organized manner, hence enabling comparisons between companies' internationalization processes, and 2) making the strategies followed more visible by longitudinal analysis. In Mintzberg's (1987) terms what is sought after by the use of the three frames of reference, is the uncovering of a plan or a pattern: making the realized strategies followed by the companies visible.

The process data utilized in the paper are of archival type and based on annual reports, newspaper and business journal articles, articles in trade magazines, and press releases. In addition to the annual reports of the companies over the period of sixteen years, a total of 335 newspaper, business journal and trade magazine articles, as well as press releases make up the data of the study.

## INTERNATIONALIZATION SEEN THROUGH A GAME-PLAYING PERSPECTIVE

Based on the analysis of the internationalization processes of the case companies, the period from mid-1980s onwards may be best described as a period of intensified and accelerating internationalization within the industry. During this period the Finnish forest industry companies increased their international involvement by establishing both marketing and manufacturing units abroad. Thus, at this point the increased international involvement took place mostly through organic growth.

During this first period from mid-1980s to mid-1990s the increased international involvement of the companies took place predominantly in an amicable atmosphere indicating that there were still room to maneuver for the major players in the industry. The competitive situation within the industry could be characterized as yet to intensify due to the fragmented state of the industry, which has been considered as a major obstacle for its future value creation possibilities (Dreher, Cote & Hunley, 1998).

The situation has been, and is currently changing, however. As the result of recent consolidation, there are some dominant players emerging which have concentrated serving a specific segment of the market. Examples of such emerging dominant players include two Finnish companies, Stora Enso and UPM-Kymmene. UPM-Kymmene occupies the number one spot in magazine paper production world-wide, with Stora Enso as the second largest producer. Stora Enso is also the largest producer of newsprint globally. The fine paper production segment is dominated by the US-based International Paper (UPM-Kymmene, Annual Report 2000).

The change portrayed above is closely linked to the development which was detected in the Finnish case companies' internationalization processes. As the major players within the industry, not just the Finnish, were aspiring to become the dominant player, there was a clear change in the internationalization (growth) strategy. This changed strategic orientation was reflected in the major players' response to the intensified competitive situation which was further reflected in the change of atmosphere of the game.

As the number of possible targets for the major players to achieve preferred strategic positions globally had declined as a result of earlier mergers and acquisitions, both the atmosphere and the ways of meeting the competitive situation radically changed. Prior to the mid-1990s the dominant mode of international expansion and growth had been organic growth, but as soon as the target became achieving either globally dominant or even globally sustainable competitive positions alone, the only viable option was to resort to acquisitions and mergers as means for additional growth.

This change in strategy is clearly manifested, not only in results of the game-playing analysis, but also in the investment behavior of the Finnish forest industry companies. The mid-1990s may be seen as a watershed in many senses for the industry. For the first time in the history, in 1997 the forest industry's investment abroad, including acquisitions, surpassed the industry's domestic investments (Finnish Forest Industries Federation, 2001). After 1997, the share of investments abroad has just grown, and in 2000, the investments abroad were tenfold compared with investments in Finland.

This development may be seen as a clear indication of the gradually diminishing role of Finland as an operational base for the industry. The limits for growth have been reached in Finland, and in order to grow into globally prominent players within the industry, the companies have had to become increasingly international. It is easy to predict that the currently prevailing trend towards further increased internationalization is likely to continue, because, despite of all the recent consolidation, the field remains still quite fragmented. Consequently, consolidation has not yet run its course within the global forest industry.

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# THE USE OF SIMULATIONS IN THE LEARNING EXPERIENCE: INTERNATIONAL VS. DOMESTIC FACULTY

**Juan Santandreu R., Lander University**
**Michael C. Shurden, Lander University**
**Stephanie C. Smith, Lander University**

## ABSTRACT

*The use of simulations has permitted students and practitioners to improve their decision making skills in a variety of situations and business scenarios, thus enhancing their business knowledge and providing a strong professional experience. In the business educational arena, which is the main focus of this study, the use of business simulations has allowed business students to make the transition between theory and practice by providing them with the opportunity to manipulate a variety of business variables in a less threatening simulated environment*

*This study focuses on the perceptions of both the American faculty and the international faculty on how simulations affect the business learning experience. Using a web-based questionnaire, information was obtained on how the professionals in education perceived business simulations as a way to improve the quality of learning. In addition to faculty experience and usage, issues related to decision-making skills, team building skills, and strategy formulation were considered.*

*The knowledge gained through the use of business simulations can enhance significantly the student's learning experience. This study provides users of these simulated environments a better understanding of the areas or learning that merit emphasis and those that require improvement.*

## INTRODUCTION AND LITERATURE REVIEW

In today's complex business environment, decision makers constantly face situations that require analysis and evaluation of increasingly difficult levels because of the number of variables that directly or indirectly can affect or influence an outcome. Businesses as well as other organizations and disciplines are relying today on the power of simulations to evaluate complex issues and scenarios. Paiva and Gil, when studying the complexities of the chemical equilibrium of the division of solids, used a simulation to allow students to experience the process of the motion and exchanges between two subdivision states of the solid one frame at a time (Paiva and Gil, 2001).

Many educational institutions have benefited tremendously from the use of new technological advances in computerized systems by adopting new educational methods that include simulations. Educational disciplines from Arts and Sciences to Behavioral and Social Sciences have been able to take education to a higher level by providing the students with opportunities to apply and practice their theoretical knowledge and principles learned in a class setting in a more realistic simulated environment that is less threatening and much more cost effective.

According to Rega, technological advances in computer graphics are helping in the study of human biology. Sony Imageworks created a very impressive representation that approximates the human musculo-skeletal morphology and dynamics to date. Once implemented for education, it will be a very useful tool for teaching (Rega, 2000). In the medical education arena, new computer technology has been able to create computer-simulated patients. The Interactive Patient, a web-based project, provides students with the opportunity to practice and diagnose multiple conditions and situations as if they were medically evaluating real patients (Wofford & Wofford, 1997).

In statistics, Wong and Ng indicate that the use of Internet simulations stimulate the student's thinking process. Traditionally, the way statistic principles are taught allows students to know the computational or procedural aspects, but they do not develop or motivate statistical reasoning. Internet simulations in statistics accompanied with computer graphics can significantly improve the level of understanding of statistical concepts and methods by including interactions that allow what-if situation analysis (Wong and Ng, 1999).

International Communication and Negotiation Simulation (ICONS) allows Political Science students from different countries to participate as diplomats and engage issues of international relevance that require immediate solution. Teams representing different countries participate in international discussions of important issues and are able to form alliances to find potential solutions (Rottier, 1995).

In business education, which is the focus of this article, the use of business simulations has taken the concept of active learning to a new level. Participating teams and students are able to face situations that require a more proactive approach in anticipation of changes in the business environment (i.e., economic, legal and regulatory) and also to actions and reactions of the dynamic and complex competitive environment.

The use of simulations in business schools is very quickly expanding to the business arena; managers can experience the results of applied business strategies ahead of time and are able to evaluate the effects of their decisions before they are actually made. (Henricks, 1998).
The use of cases and simulations, according to Barr and Tagg, is producing a shift in higher educational institutions from one where students go to receive instruction to a place that produces and is responsible for learning (Barr and Tagg 1995).

Using a variety of techniques that include role-playing and simulations when teaching finance to children can provide real experiences that can influence a student's life by simplifying and enhancing his/her knowledge of this otherwise complex matter (Harris 1999).

A partnership between Junior Achievement, a nonprofit economic educational organization, and Lycos, a web-based media company, has introduced JA Titan, an interactive business simulation, online. Children and adults alike can experience being a CEO of a virtual company, complete with production analysis, company and industry reports, and sales analysis. This endeavor is providing young students and practitioners with the opportunity to experience first hand the power of simulated environments and get everyone into entrepreneurial shape (Kooser, 2000).

All business disciplines (i.e., Management, Marketing, Finance, Accounting) have benefited tremendously from the use of simulations by providing educators the means to present and teach difficult materials in a manner that allows students to benefit from a hands-on experience that approximates reality. New advances in simulation technologies have allowed educators to enhance the business learning experience by simplifying complex business processes and interactions in an environment that mimics closely a true managerial experience.

Business education, as well as many other disciplines, never ends. As soon as business students finish their academic goals, they undergo a professional transformation and continue their business education in a professional setting identified as business training. Simulations continue to play an important role in business training by providing sophisticated avenues to problem solving and decision-making restricted only by the financial capabilities of the organization. According to McCune, the high cost associated with new technology sometimes limits the organization's ability to benefit from the use of simulated environments (McCune, 1998).

Some software programming companies today are focusing their efforts on providing simulations that specifically satisfy business needs as opposed to academic needs. Many of them have created special divisions to provide simulations that serve the business needs market. For instance, Maxis, the producer of SimCity game-simulation software, created a specific division to satisfy clients interested in special business simulations. One of the clients that quickly showed interest was Chevron who needed a program to simulate daily operations of an oil refinery (Moore, 1992).

What level of complexity can simulations address? In a recent article, He and Li, indicate that a computer simulation is being used to design an "accelerator-driven transmutation of waste" intended to solve nuclear waste disposal by eliminating long lasting radioactive byproducts through a process that reduces their natural decay time by an order of ten (i.e., 10,000 years to approx. 1,000 years) (He and Li 2001).

Thinking Tools Inc., a software company specializing in high-end interactive simulations, is addressing the need for business/industrial simulations and has experienced the way businesses are benefiting from its use. A significant amount of investment has been allocated to the creation of simulated business environments by companies such as AT&T, Xerox, and Sprint to test theories and complex systems (Henrick, 1998)

From the educational (academic) to the professional (practitioner) business needs, business simulations have demonstrated their usefulness in providing a better understanding of the complex business environment; consequently, their value as an educational tool in both the academic and professional areas cannot be underestimated.

This study focuses on the perceptions of both the American faculty and the international faculty on the ways that simulations affect the business learning experience. Using a web-based questionnaire, information was obtained on how the professionals in education perceived business simulations as a way to improve the quality of learning. In addition to faculty experience and usage, issues related to decision-making skills, team building skills, and strategy formulation were considered.

By determining the areas of knowledge in which business simulations can make a difference by enhancing the student's learning experience, users of these simulated environments will have a better understanding of the areas that merit emphasis and those that require improvement.

## METHODOLOGY

For data collection, a survey design was used. A web-based questionnaire was designed to facilitate and encourage participation and to allow respondents to provide the necessary data quickly and efficiently. Individuals teaching business related courses both in the United States and in the international educational arena, including all possible ranks (from Instructors to Full Professors), were in the population of interest. In addition, an allowance was made to include teaching assistants if present in the sample. Two different sources composed the sampling frame: a) The Academy of Marketing Science Membership Roster 2001-2002, and b) The Society of Marketing Advances 2001 Membership Directory. From this sampling frame, a convenience sample of 642 was drawn that included domestic members, teaching in the United States, and international members teaching outside the United States. The sample distribution was 310 domestic members and 332 international members. In order to have a more realistic evaluation of the return rates, an adjustment of 15% had to be applied to the international members because of non transmission errors-attributed to e-mail address information quality.

An e-mailed cover letter that included information about the purpose of the study and a link for participants to access the web-based questionnaire was used to contact the individuals in the sample. With this system, the participants were assured of both privacy and high ethical standards.

The overall rate of return achieved was 20% and only four questionnaires had to be rejected for lack of completion. The rates of return for the domestic and international groups were 24.8% and 14.8% respectively. Considering the population of interest and prior experience in the educational area, both rates are considered acceptable. Microsoft® Excel statistical tools were used to organize and analyze the data. The next section includes detailed information on the findings of the study.

## RESULTS

Table I presents the sample characteristics of both the international and domestic faculty. Characteristics were quite similar in classification, usage, and experience. One noticeable difference was in the area of rank. Of those surveyed from the international faculty, 47.5% had a rank of full professor, while only 30% of the domestic faculty were classified as such. Only 7.5% of the international respondents were Assistant Professors compared to 28% for the Domestic Faculty. Another area of difference was gender. Approximately 76% of the Domestic Faculty were male, where 55% of the international faculty were male. Table I summarizes the sample characteristics.

| TABLE I : Sample Characteristics | | |
|---|---|---|
| | Distribution | |
| | Domestic | International |
| Classification | | |
| Faculty | 96.0% | 95.0% |
| T. Assistants | 4.0% | 2.5% |
| Other | 0.0% | 2.5% |
| | | |
| Usage | | |
| Used Simulation in Classroom | 48.0%* | 42.5%** |
| Have not used Simulations | 52.0% | 57.5% |
| | | |
| Experience | | |
| 10 or more years of experience | 65.0% | 65.0% |
| 7 – 9 years of experience | 21.0% | 20.0% |
| 4 – 6 years of experience | 13.0% | 7.5% |
| 1 – 3 years of experience | 1.0% | 7.5% |
| | | |
| Rank*** | | |
| Professor | 30.0% | 47.5% |
| Associate Professor | 38.0% | 35.0% |
| Assistant Professor | 28.0% | 7.5% |
| Instructor | 4.0% | 7.5% |
| | | |
| Gender | | |
| Male | 76.0% | 55.0% |
| Female | 24.0% | 45.0% |

*(8% have used simulations for more than 10 years.)
**(12.5% have used simulations for more than 10 years)
***(2.5% distribution difference due to classification)

The objective of the survey instrument was to gather faculty perceptions relating to the use of simulation and its impact on enhancing the business learning experience. The respondents were asked to classify seven aspects using the following scale.

NI-No impact/difference LI-Little impact/difference
MOI-Moderate impact/difference MAI-Major impact/difference

Table II shows the percentages responding to the seven different aspects with regard to the above scale and the distribution between the domestic "D" and the international "I" groups.

| TABLE II: Faculty Perceptions | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Scale | NI | | LI | | MOI | | MAI | |
| Description | D | I | D | I | D | I | D | I |
| | (in percentage) | | | | | | | |
| Decision Making Skills | 0.0 | 2.5 | 17.0 | 10.0 | 48.0 | 47.5 | 35.0 | 40.0 |
| Analysis of Information | 1.0 | 0.0 | 8.0 | 7.5 | 56.0 | 57.5 | 35.0 | 35.0 |
| Team Building Skills | 2.0 | 2.5 | 25.0 | 15.0 | 25.0 | 50.0 | 48.0 | 32.5 |
| Strategy Formulation | 3.0 | 2.5 | 17.0 | 17.5 | 49.0 | 45.0 | 31.0 | 35.0 |
| Managerial Skills | 12.0 | 2.5 | 40.0 | 30.0 | 39.0 | 47.5 | 9.0 | 20.0 |
| How to Apply Conceptual Skills | 8.0 | 5.0 | 22.0 | 30.0 | 22.0 | 40.0 | 48.0 | 25.0 |
| Team Management Skills | 5.0 | 2.5 | 27.0 | 30.0 | 21.0 | 35.5 | 47.0 | 30.0 |

Based on the results presented in Table II, 83% of the domestic faculty felt that simulations have a "moderate impact" or "major impact" on "Decision Making Skills" as compared to 87.5% for the international faculty. Certainly, one would expect students to improve decision making through the use of simulation. "Analysis of Information" also received high marks from both domestic and international respondents. Approximately 91% of the domestic respondents and 92% of the international respondents ranked this aspect as either having a "moderate impact" or "major impact." The percentage of respondents differed somewhat with regard to "Team Building Skills." Approximately 82.5% of the international faculty gave this aspect either a MOI or MAI. The domestic faculty had 73% giving a MOI or MAI to "Team Building Skills." Both groups gave Strategy Formulation the same percentage (80%) with regard to MOI or MAI.

The international teachers placed a larger emphasis on the use of simulation in affecting "Managerial Skills." Only nine percent of the domestic teachers thought the use of simulation had a "major impact" on "Managerial Skills" as compared to 20% of the international teachers. The "minor impact" response for the two groups on this aspect was different as well. Thirty-nine percent of the domestic teachers gave "Managerial Skills" a "minor impact" rating, while 47.5% of the international teachers gave this category a "minor impact." The percentage of the international teachers who gave either a MOI or MAI to "How to Apply Conceptual Skills" and "Team Management Skills" were 65.% and 65.5% respectively. The percentage of the faculty respondents who gave a MOI or MAI to these categories were 70% and 68% respectively.

## CONCLUSIONS

The results of this analysis indicate that both international and domestic faculty believe there are major advantages in using simulations to enhance the quality of learning in business education. Both faculty believe that "Decision Making Skills," Analysis of Information," "Team Building Skills," "Strategy Formulation," Managerial Skills," "How to Apply Conceptual Concepts," and "Team Management Skills" are significantly improved by using simulations in the classroom. This study suggests that these areas should be emphasized when implementing simulations in the classroom.

It becomes essential that both international and domestic faculty implementing simulated environments as part of course activities in the classroom must find ways to improve the use of simulation on "Managerial Skills," "How to Apply Conceptual Skills," and "Team Management Skills." A well-balanced combination of additional activities directly or indirectly associated with the simulation process can provide an effective way to improve these skills. Regardless of the country of residence, each faculty member should evaluate the type of simulation he/she intends to use, as well as make any necessary adjustments to provide a more comprehensive experience in all areas where developmental skills are expected.

To take a step further in the understanding of how simulations influence the learning experience, it would be interesting to evaluate whether there are significant differences in the perceptions between faculty members from the domestic institutions and those from the international arena. This analysis could lead to a more comprehensive perspective on how business simulations enhance the skills students need to succeed in the dynamic and very competitive business environment of tomorrow.

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# STRUCTURAL PROBLEMS IN THE JAPANESE ECONOMIC SYSTEM

**Neil Terry, West Texas A&M University**

## ABSTRACT

*Between its prewar peak in 1938 and 1990, Japan's GDP increased from being only five percent of the United State's to almost eighty percent. Although Japan occupies only 0.3 percent of the world's land area and has less than three percent of the world's population, it has become the second largest industrial economy in the world, producing fifteen percent of the world's output of goods and services. It has enjoyed large balance of trade surpluses with the United States since the early 1980s, and has foreign exchange reserves of over $200 billion. In the mid-1980s, Japanese companies' results were so stunning that many Western companies believed that they were competing unfairly. After making economic history with spectacular advances in its economy, Japan now confronts an economic malaise that has lasted for almost ten years. The purpose of this research is to identify structural inefficiencies with the Japanese economic system. Specific focus areas include structural problems in the labor market, capital market, product market, and with government intervention.*

## INTRODUCTION

Until the oil shocks in the 1970s, Japan experienced outstanding growth rates in national income: from 1950-1973, the annual real growth of Japan's GDP averaged ten percent. After the first oil crisis in 1973, Japan's growth rate was sharply reduced to 3.8 percent per year from 1973 to 1979. But this fall was true for all countries, and Japan still enjoyed higher growth rates than the OECD average of 2.8 percent per year from 1973-1979. Between 1980 and 1990, national income per person rose in real terms nearly four percent annually, compared with less than two percent in the United States. But the Japanese economy has dramatically slowed down since 1992. There is great debate over the reasons for the recent economic stagnation in Japan. The discussion that follows provides an overview of structural problems with the Japanese economy. The primary ideas in this paper are based on the works of Buchholz (1999), Krugman (1997), Meier (1998), and Porter (2000).

## PRODUCT MARKET

Does Japan really play by different economic rules? You might think that this would be a simple question of fact, but it is not. On paper, Japan's markets are fairly open. Japan is blatantly protectionist when it comes to agricultural goods. On manufactured goods, however, Japan's tariff rates are about the same as those of other industrial countries, and Japan has few of the voluntary export restraints that limit imports of autos, steel, and other goods in both the United States and Europe. Japanese officials can describe their nation as a leading practitioner of free trade. There is only one thing wrong with this picture: If Japan is so open to the world, how come nobody can sell there? The common complaint is that Japan negotiates freer trade in order to gain export access to other markets, while using a variety of explicit and implicit restrictions to keep foreign imports out of Japan. This lack of trade reciprocity is one of the most commonly cited inefficiencies in the Japanese economic system. In many ways Japan and West Germany before its reunification with East Germany were similar economies. Both were high-saving countries that exported large amounts of capital to the rest of the world. Both were also crowded countries, with few raw materials, that had to run trade surpluses in manufactured goods simply to pay for their food and energy. And both ran very large trade surpluses in manufacturing in the 1980s. But there the resemblance ends. Germany is one of the world's greatest markets for imported manufactured goods. The trade surplus came about only because exports were even larger. Germany simply trades more, in both directions. Whatever complaints one may hear about German economic policy, neither the Americans nor their fellow Europeans accuse the Germans of having a tacitly closed market. Manufactured imports as a percent of GDP were 3% in Japan versus 17% in Germany for the year 1990. This is an extremely large difference for two countries that have economies and populations that are approximately the same size.

Another structural problem in the Japanese product market is the misalignment between the needs of Japanese customers and the needs of the global market. The consumers in Japan are very hard to please and sensitive to appearance and packaging. Demanding consumers continually push producers to upgrade their products through improved performance and additional features. But Japanese products are often too costly or unique to compete in the global market. One of the consequences has been the concentration of Japanese success to a limited array of fields and industries that is too narrow for a nation of its size and national income. The Japanese have excelled in areas like electronics and autos, but are not competitive producing food, software, and textiles. Most countries have a modest amount of success in most major industries, but the Japanese are consistently in an all or nothing market situation.

A well-established problem in the Japanese product market is the creation of an environment where business deals are developed out of loyalty, old-school-ties, and bribery instead of market competition. In the eighties and nineties the Japanese were famous for running up the corporate expense account in order to wine and dine business partners and politicians (domestic and foreign). A famous example is the implicit purchase of the 1998 Nagano Winter Olympics. Financial markets have long had unique characteristics through special relationships between Japan's banks and industries. In the early postwar period of economic growth, controlled interest rates meant that access to credit was crucial, leading to guided rationing to favored industry groups clustered around powerful main banks. In the end, Japanese corporations in the postwar period that gained access to credit were those that new or learned how to gain favor from bankers. This vestige of imperfect competition and good-old-boy mentality has been a lasting drain on the Japanese economy.

## LABOR MARKET

The Japanese labor market has two notable structural inefficiencies. The first problem is the well-known tradition of lifetime employment. This commitment has traditionally aligned the incentives of the employee with those of the company. Furthermore, employee identification shifts to the company and away from the specific job or task. The notion of lifetime jobs has several positive features including lower turnover and decreased hiring and training costs. The structural problem with lifetime jobs is that the system is not flexible enough to adjust to business cycles. One only needs to think about how technological advances eliminate old jobs and creates new jobs to understand the inefficiency of lifetime employment. The second problem with the Japanese labor market is the shortage of trained talent. Japan is often praised for its strong basic education system and its large pool of well-trained engineers. Although Japanese universities produce many graduates in fields such as electrical and production engineering, they are surprisingly weak in fields that have been performing poorly during the last decade or so including chemistry, chemical engineering, finance, software engineering, and aeronautical engineering. More broadly, the Japanese employment system excels at developing multi-skilled workers, but it is much less effective at developing specialists. This proved to be particularly problematic in industries such as securities and software, which require highly specialized workers in an increasingly knowledge-intensive economy.

## CAPITAL MARKET

Japan has historically been a market with several formal and informal capital market restrictions. One of the most notorious has been the strict restriction on foreign direct investment and arduous rules governing local ownership. The common complaint is that the Japanese are willing to invest abroad but try to limit foreign ownership on their soil. Government reasoned that infant industries and industries with high spillover effects to other industries need protection. During the immediate postwar period, a series of laws were introduced to regulate the financial markets, including the separation of banks and securities firms and the establishment of specialized financial institutions. The regulations were intended to allocate scarce financial resources to necessary sectors while the capital market was still undeveloped and bank loans represented the dominant form of corporate financing. It was not until 1970 that the government allowed 50-50 joint ventures. Although efforts toward deregulation continued, this basic framework was still intact in the 1990s, even though Japanese firms had free access to overseas capital markets. The restrictions placed on foreign investments have stunted the growth of the Japanese economy.

A second structural problem in the Japanese capital market has been persistently low returns on investment. While periods of low profits would have been expected as companies pursued long-term competitive advantage, low profitability has been a chronic condition. Many companies seem to gain market share by sacrificing long-term profits rather than by offering superior quality or attaining a lower total cost position than rivals have. Because they face little pressure from shareholders, large Japanese companies tended to maintain unprofitable businesses indefinitely instead of deploying capital and labor to more productive uses. This long-run inefficiency in the capital market is analogous to the structural problems associated with lifetime jobs in the labor market. In fact, the existence of lifetime jobs with long-run objectives and security is one of the reasons that Japanese firms have had problems earning short-run returns.

Another structural problem with the Japanese economic system is directly related to the savings and consumption habits of the nation. In parallel to other policies, the Japanese government maintains a set of generally sound macroeconomic policies. Aided by low defense spending throughout most of the post-World War II era, the government sustained a budget surplus for many years. Individual savings rates were high because of government policy, the need to save for the purchase of a home and fund retirement, and the Japanese cultural view of savings as a virtue. The net result has been an ample supply of low-cost capital for the corporate sector. The problem with all of the savings is that consumption in Japan has not expanded as much overtime as national and personal income. Domestic consumption in the United States is approximately 65% of total gross domestic product. The economic growth of Japan has been highly dependent on foreign consumption through exports instead of domestic consumption. Given the impressive level of economic growth and development achieved by Japan since World War II, the expansion of domestic consumption is a crucial part of future economic growth. Essentially, Japan is a country that has outgrown the ability to achieve high economic growth by relying on exports.

## GOVERNMENT INTERVENTION

The history of Japanese government intervention in industrial development began in the early post-World War II period, when the nation was in shambles and the government sought to rebuild the economy and restore their balance of payments. As time passed, proponents of the government model justified continuing intervention by arguing that late developer countries, such as Japan, needed government participation in industry to catch up to their more developed rivals. Responsibility for guiding economic growth lay with the central ministry bureaucrats who created and implemented industrial policies. As the chief formulator of industrial policies, the Ministry of International Trade and Industry (MITI) was identified as the catalyst for the Japanese miracle, supported by other agencies including the Ministry of Finance (MOF), the Ministry of Posts and Telecommunications, the Bank of Japan, the Economic Planning Agency, the Liberal Democratic Party, industry associations, and the keiretsu business groups. These networks offered MITI the crucial mechanisms through which it affected industrial policies and coordinated policy initiatives. At the same time, these networks made it difficult for foreigners to enter Japan. In particular, networks involving suppliers, wholesalers, and retailers kept foreign firms from competing on an equal footing with domestic counterparts. The side effect has been the traditional deadweight loss and X-inefficiency caused by limited competition.

The belief that the government should actively guide the economy is the cornerstone of the Japanese government model. The principal agents for playing this role were powerful ministries, notably MITI and MOF. Staffed by elite, career bureaucrats, these ministries ensured the continuity of policy well beyond the terms of elected officials. Retiring from politics at a relatively young age, bureaucrats then took key posts in other public institutions or the private sector. Government entities have traditionally targeted desirable industries for support. Targeting was manifested in laws, policy guidance provided to companies, and in the official visions for the economy prepared by MITI that was disseminated widely. After the 1970s, targeting sometimes involved more of a signaling role, highlighting the importance of an industry without explicitly offering subsidies or tax incentives. Government intervention in particular industries has continued, however, often in the name of goals such as promoting information technologies or conserving energy. Many failures occurred in sectors or industries in which basic and applied research and innovation are important to competition. This was a chronic problem in chemicals, aircraft, software, and securities. In essence, too much money was spent developing industries deemed strategic by the government, neglecting other industries that might have been more profitable.

Another structural problem with the Japanese economic system is the creation of implicit policies that restrict competition by fostering the growth of quasi-monopolies. The Japanese government has stressed the importance of limited domestic competition so that a few companies in Japan are big enough to compete effectively in the world market. A notable example is Nippon Steel, formed in 1970 by the merger between Fuji Steel and Yahata Steel. Originally one company, Fuji and Yahata Steel had been broken up by the Allied Occupation Command after World War II. MITI welcomed the merger, which would produce a company that controlled more than 30% of the market for major steel products. Although the Fair Trade Commission (FTC) initially opposed the merger, it was eventually approved with only a few conditions. The approval of this merger sent a clear signal that anti-trust regulation in Japan is essentially nonexistent. In addition to allowing larger mergers that concentrated major industries, government has also coordinated the allocation of new plant investment. This occurred in petrochemicals, synthetic fibers, and pulp and paper, among other industries. The aim has been to minimize over-capacity and excessive competition. Several attempts to tighten antitrust enforcement in the 1970s and 80s failed due to political opposition. The FTC has been more active since 1990 because of strong pressure from the United States. Government planners believed that regulating capacity and preventing excessive competition were necessary for long-term industry success. Bureaucrats have been concerned that Japanese companies were too small to take advantage of the economies of scale necessary for international competitiveness. To achieve these economies, companies were strongly encouraged to cooperate by dividing up product lines in order to increase the scale of their production. Mergers were especially encouraged, because they were the most effective means to achieve scale economies quickly. These ideas were first advanced by MITI in 1963, but they remained firmly in the government mind-set well into the 1990s, despite the fact that Japanese companies have become large and powerful global players.

## CONCLUSION

Forty years from now the economic stagnation that is currently plaguing Japan will probably be nothing more than a deviation from the log-run positive trend. In the past the Japanese viewed many of their structural inefficiencies as part of the strength associated with their unique economic system. Today it is clear that the key to economic recovery is the elimination of these structural inefficiencies.

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# THE TRADE-CREATING EFFECTS OF CAPITAL FLOW LIBERALIZATION IN ASEAN COUNTRIES

**Joshua Lewer, West Texas A&M University**
**Neil Terry, West Texas A&M University**

## ABSTRACT

*Foreign capital liberalization stimulates bilateral trade. Accordingly, countries without asset restrictions tend to have lower trade barriers, more trade, and higher welfare. A gravity model of bilateral trade is used to empirically quantify the effects of asset liberalization for five ASEAN countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand. The estimates indicate that the trade-creating effects are substantial, averaging nearly 200 million U.S. dollars for every one-tenth reduction in capital restrictions. This result is consistent with models that illustrate the optimality of unobstructed asset-trade flows between trading partners. To increase trade volume and economic growth among ASEAN members and non-member economies, financial reforms that pursue open and impartial treatment of foreign investment are required.*

## INTRODUCTION

In addition to exports and imports, factor movements are also an indicator of economic integration. As national economies become more interdependent, labor and capital should move more easily across national boundaries (Gerber, 2002). Capital movements between countries that are in the interest of economic efficiency are eminently desirable. There are several ways to measure capital flows. The most basic distinction is between flows of financial capital representing paper assets (stocks, bonds, currencies, bank accounts, etc.) and flows of capital representing physical assets (real estate, factories, businesses, etc.). The latter type of capital flow is called foreign direct investment. To some extent, the distinction between the two is immaterial, because both types of capital flows represent shifts in wealth across national boundaries and both make one nation's savings available to another. The purpose of this paper is to investigate the impact foreign capital liberalization has on bilateral trade and economic welfare. Specifically, a gravity model of bilateral trade is used to empirically quantify the effects of asset liberalization for five ASEAN countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand.

## CONTROLS ON CAPITAL FLOWS

A potential problem with short-term capital moving freely between major countries is exchange rate instability. Many of these capital flows have nothing to do with economic fundamentals such as inflation rates, resource productivity, and general economic conditions. Rather, they reflect reactions to rumors, political events, and bandwagon effects where speculation against a currency in and of itself generates further speculation against that currency (Appleyard and

Field, 1995). Such volatile short-term capital flows cause considerable instability in exchange rates. A remedy is to impose limitations on the inflow and outflow of funds (Goldstein, 1984). Capital flows among countries could be restricted in a number of ways. For example, a tax could be levied on any exchange market transaction involving a capital flow, or a tax could be imposed on all short-term foreign bank accounts in a country (Tobin, 1978). A second way to limit capital flows is to employ a system of dual or multiple exchange rates. In this situation, a different exchange rate is employed depending on the nature of foreign transactions. The central monetary authority of the country could also restrict capital flows by exercising moral suasion against capital outflows such as the United States did in the late 1960s through its voluntary restrictions on bank lending overseas. Stronger measures such as outright prohibitions might also be adopted. Many countries resort to restrictions on the capital inflow, such as ceilings on foreign borrowing, minimum reserve requirements on foreign loans, and interest rate equalization taxes.

Controls on capital mobility, however, go against the most efficient use of capital in the world economy. If capital moves from a country where the marginal product of capital is low to a country where the marginal product of capital is high, there is an increase in world output and greater efficiency in resource allocation from the capital flow. However, proponents of capital controls contend that a large fraction of the capital flows in the recent floating-rate period is not of this type. Rather, the daily movements of the speculative funds in and out of leading countries' financial markets may be hindering efficient resource allocation because traders and long-term investors are receiving misleading and uncertain signals. Yet, the majority of economists dislike capital controls. The danger is that the controls will prevent the flow of capital that is moving in response to true marginal productivity differences. Nevertheless, there appears to be no time in the postwar period when at least some countries did not have capital controls.

## ASEAN BACKGROUND

The Association of Southeast Asian Nations (ASEAN) is a political and security grouping of nations in Southeast Asia. ASEAN was founded in 1967 and has recently begun a slow movement toward creating a free trade zone. The five ASEAN countries included in this study are Indonesia, Malaysia, Philippines, Singapore, and Thailand. The ASEAN countries not included did not have complete and reliable economic data for empirical evaluation. Singapore is clearly the most successful free-market economy in ASEAN. Singapore is blessed with a highly developed and free business environment. Singapore traditionally receives high marks from international business experts for being open to trade and investment. Exports, particularly in electronics, chemicals, and services are the main drivers of the economy. In contrast to Singapore, the economy of Indonesia is generally recognized as corrupt and restrictive. The country faces severe economic problems stemming from secessionist movements, the lack of reliable legal recourse in contract disputes, weakness in the banking system, and strained relations with the International Monetary Fund.

The ASEAN country with the most volatile economy during the last five years is Thailand. After enjoying the world's highest growth rate from 1985 to 1995, increased speculative pressure on Thailand's currency in 1997 led to a crisis that uncovered financial sector weakness. Thailand entered a recovery stage in 1999, expanding 4.2%, largely due to strong exports. An ailing financial sector and the slow pace of corporate debt restructuring has been a drag on economic growth in Thailand. In 1998 the Philippine economy deteriorated as a result of spillover from the Asian financial crisis started in Thailand. Growth fell to -0.5% in 1998 from 5% in 1997, but recovered to 3% in 1999. The government of the Philippines has a solid economic reform record in recent years. In addition to dismantling monopolies, opening the banking sector to greater foreign competition, and reducing the level or regulation, the government recently cut tariffs in order to increase trade and further their economic integration within the region. The fifth ASEAN country included in this study is Malaysia. Economic reforms started in the 1970s have helped Malaysia develop a free-market economy. Malaysia had a GDP growth of 8.6% in 2000, mainly on the strength of double-digit export growth and continued government fiscal stimulus. Malaysia's failure to make substantial progress on key reforms of the corporate and financial sector clouds prospects for sustained growth and the return of foreign investment. In the end, the five ASEAN countries included in this study represent a robust sample of economic and political diversity in Southeast Asia.

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# ILLITERATE FRATERNITY: FUTURE PERSPECTIVES

**Jack E. Tucci, Abilene Christian University**
**Richey E. Owen III, Abilene Christian University**
**Samuel D. Cappel, Southeastern Louisiana University**

## ABSTRACT

*A limited study of student's knowledge about international trade policies revealed that few students are aware of the scope of international trade in general and in the western hemisphere specifically. This ignorance is reinforced by differing special interest groups who seek protectionist measures for their own industries. These same groups campaign on the immediate negative effects of free trade agreements as opposed to the greater positive long run benefits of international trade and cooperation. Mercosur (trade union in South America representing 200 million consumers and a one trillion dollar market) has recently experienced economic difficulties but is expanding its trade relations with other countries. Mercosur is preparing to make an important decision about which international trade organization to join. Although there is building pressure to formalize the Free Trade Agreement of the Americas (FTAA), hurdles exist. As the European Union and the North American Free Trade Agreement partners extend their reach around the world, the Mercosur partners will need to decide which will be most beneficial for them in the immediate term. Hurdles such as currency stabilization, change in governmental policies by member states, labor unions, and most importantly, the economic illiteracy of the composite populations in respective countries will need to be overcome.*

## INTRODUCTION

One of my daughters (and my) favorite movies is "Sleepless in Seattle" (Arch, 1993). In that movie, Tom Hanks plays the role of a widower (Sam) who has a son (Jonah) that wants Tom Hanks to remarry because of his Sam's loneliness. During the movie, Jonah makes a phone call to a radio talk show and tells about Sam's loneliness. Several hundred female listeners to the talk show feel sorry for Sam and write letters to him expressing their desire to marry him. Jonah shows him a letter they received from a woman in Oklahoma. Sam asks Jonah "Do you know where Oklahoma is?!" Jonah replies "Somewhere in the middle?" Sam says "I am afraid to even think of what they are not teaching you in school!" As academics, we the authors, often feel the same way when we desire to talk about global economic issues. Even simple questions such as "where is Uruguay?" often elicit a response similar to Jonah's "Somewhere in the middle?"

A recent survey of American college students revealed that roughly only three students out of one hundred and seventy (<2%) knew of any other trade agreements other than the North American Free Trade Agreement (NAFTA), the General Agreement on Trades and Tarriffs (GATT), and the European Union (EU). None realized that there are well over 130 trade agreements worldwide, much less the long term positive impacts of free trade among trading partners. However, what was found during the same survey was that progress has been made in these same students' understanding of the benefits of prosperous economies and the resulting stability of their respective national governments .

The general population's understanding is quite different, however, since many depend on age old ideas of market independence, isolationism or even blatant isolationism, rather than understanding the level of market interdependencies (Lee, 2001) . A quick walk through any grocer, even of modest size, and a sample reading of the labels and discovering the point of origin of many products would soon educate many to our interdependence. Many need to ask themselves the following questions; where does my fruit come from in the winter, what is the point of origin for the material in my clothes, and where is it manufactured or sewn? For many who rally around trade independence, their ethnocentric bias is often carried in a foreign car to the rally, clothed with goods from another country, while standing on a wood platform made from wood imported from a neighboring country.

Even fewer realize how sometimes small changes in an economic policy in one country can nearly decimate a struggling industry in another country. This fact is exacerbated when a majority of the population is ignorant not only of the economic drivers in the foreign country, but are more likely than not, ignorant about the country in general. While a majority (66%) of Americans believe that NAFTA has been great for large organizations, they are ignorant that over 60% of all U.S. based foreign trade is accomplished by firms classified by the U.S. Department of Commerce as being a "small business" (Reynolds, Hay and Camp, 1999; Landers, 1998; Erramilli and D'Souza, 1993).

## BENEFITS OF INTERDEPENDENCE

The secondary reason most of the general population resist expansion of trade agreements and the opening up of domestic markets to foreign trade, besides ignorance, is the short term perspective of people and the world market. In the short term, free foreign trade without pain in the domestic market is impossible. Nevertheless, many do not see the tenacity of labor markets, instead they only see the short term displacement of labor. Regardless of the "facts," as some would present them, labor is truly only displaced in a faltering economy (Smith, Magnusson, and Wherlen, 2001). The U.S. economy is evidence of this phenomena. When foreign trade is introduced, yes, displacement occurs. Nevertheless, redeployment quickly follows as the economy expands. This is evidenced by very low unemployment rates in the United States during the 1990's after the adoption of NAFTA in 1994. Mixing two economic factors such as (1) economic cycles and (2) the impact of foreign trade to disprove the benefits of interdependence is unfair.

Contributing to peoples fears of interdependent markets for resisting trade agreements and short-term thinking is not accounting for flexibility and adaptability in markets. Anecdotal evidence makes it clear that it may be okay to some for a dominant domestic market leader (such as Wal-Mart) to close domestic competitors out of a domestic market, but an international player proves fearful to the ignorant. This fear stems from the impatience of seeing balance occur after the weaker competitors have been either forced to improve or fail. The news media has reported judiciously on how unions have played this card repeatedly to protect domestic workers when in fact, even after the agreement had been signed, the volume of work performed by foreign workers is statistically insignificant (<1.5% of U.S. GDP) (Smith, Magnusson, and Wherlen, 2001). Adaptation occurs over time and people seldom see the present except for the bad, or remember the past except for what was good, while at the same time refusing to see the future for what might be. If organizational change is unsettling to the members of an organization, why should it not be unsettling to the members of society? Nevertheless, international trade has brought great improvements in the standard of living for people all over the world.

Skeptics of the benefits of trade agreements contravene the job creation activity that goes hand in hand with the entrepreneurial climate created by such agreements (Sage ,1993). In the U.S. alone, 87% of all new jobs created are by small entrepreneurial firms (employing less than 250 employees) vying to satisfy the unmet needs of the consumer (Timmons, 1999). Stability in the national and global economy is the driver behind stable governments (Kleinheisterkamp, 2000). Potentially the greatest possible gains for trading countries is the creation of opportunities of entrepreneurship introduced by opening up foreign markets. If countries are to be entrepreneurial, they must take a first mover approach to establish themselves in the world market in areas where they are competitive.

## MERCOSUR

The membership of the Mercosur nations is composed of four primary members, Uruguay, Paraguay, Brazil, and Argentina which represent 200 million consumers and a combined economy of over one trillion dollars (Mye and Patagonia, 1996). It has two associate members, Bolivia and a more aggressive international trading partner, Chile which has been leaning towards trade independence more every year. Since its inception, Mercosur has seen continued growth through expansion of joint trade treaties with other countries both near and far such as South Africa (Buscaglia and Long, 1996). There has been many benefits of the Mercosur agreements including normalization of pricing practices and reduction of trade tariffs of the Mercosur members as well. Other benefits include the coordination of products to be traded and the development of specific industries within each of these member states (Osava, 2000).

## NORTH AMERICAN FREE TRADE AGREEMENT

The North American Free Trade Agreement (NAFTA) is composed of three primary members; the United States of America, Mexico, and Canada. The outgrowth of this treaty has positive, far reaching effects on the economies of the three members economies. One of the primary differences between the NAFTA members and the Mercosur members is the often understated level of interdependence brought about by the high level of multi-national ownership enjoyed within the NAFTA membership (Bonelli, 2000). Once considered the weaker of the three NAFTA members, Mexico has made sharp economic gains and has reduced unemployment considerably since joining. NAFTA is not free from critics. Again, most criticisms come from the short term ill effects of redeployment of labor during the transition stages or environmental disparities between trading partners (Hilpold, 2001). Many still perceive that big business benefits the most, although this is patently false. Most anecdotal reporting of how big business has benefitted is the reporting of the Maquiladora influence along the border between the United States and Mexico.

## FREE TRADE AGREEMENT OF THE AMERICAS

What has history shown us? Momentum is powerful, especially when the long term benefits outweigh the short term costs. The reason for Free Trade Agreement of the Americas (FTAA) is as clear as the original thinking was for Mercosur and NAFTA trade agreements: that well balanced economies provide for more stable governments which result in higher standards of living and fewer burdens on society in general. It is an inevitable fact that FTAA will come to pass in 2005 for this very reason (Anderson, 1996). However, it will not happen easily. Each member country must be willing to accept responsibility for a stable currency and minimal trade restrictions and tariffs. Free trade is working well for both the EU and NAFTA and for the benefit of all associate members. As the economic engine of the western hemisphere continues to build, there will be continuing pressures to bring in the remaining nations into a tariff-less hemisphere. There will be problems as each country follows the applied rules of economic advantage and develop those resources of which it is best suited and has the natural advantage (Becker, 2001).

Secondarily, special interest groups such as labor unions, student unions, and cooperatives will resist changes in economic policies in order to maintain power and control over what are sometimes artificially created economies for their products or services (Millman and Pinkston, 2001). Mexican farmers complaints about U.S. sugar and avocado quotas are but one example of how “special interest” old line companies and groups want federal protection (Thompson, 2001). However, this is not limited to agriculture (Rowley, Thorbecke, and Wagner, 1995). Labor unions perceived protection of American trucking in the United States will be a major hurdle for NAFTA in the near term (Stokes, 2001; Weiner, 2001). No one country is innocent of trying to protect one market segment or industry within their economy. All areas of each members economy will have to be reviewed with an open eye toward protectionism based on special interests rather than on what protectionism should be used for; protecting national competitors from dumping and other economic atrocities.

## CONCLUSION

For progress to be made, both national and local governments, public and private schools and all institutions of higher learning must begin to use all resources to educate the public about the benefits of open markets and close relations with their trading neighbors. Higher standards of living including those of improved health standards, stability in governments, and lower crime because of fuller employment are but a few benefits of a global trading society.

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# TESTING THE BALANCE OF PAYMENTS STATEMENT USING THE STANDARDS OF UTILITY APPLIED TO CORPORATE FINANCIAL ACCOUNTING STATEMENTS

**Mark Sullivan, DePaul University**

## ABSTRACT

*The quality of business financial statements is frequently measured by reference to the usefulness of the information provided to users of those statements. Researchers ask users and experts what information they want and they perform laboratory tests and market-based tests to determine whether and how the information is actually used.*

*The development of the Balance of Payments accounting system has benefited from a different type of scrutiny than that afforded business financial statements. The publication of the statement itself is mandated by the International Monetary Fund and the overall reporting mechanism is periodically reviewed by a committee of the Fund, the IMF Committee on Balance of Payment Statistics. The focus of the committee, however, is on the validity, timeliness, and methods of collecting the data. Little, if any, work has been done on the usefulness of the presentation for non-expert users.*

*This paper proposes a set of goals for the Balance of Payments Statement and suggests that an alternate presentation for the statement might better accomplish those goals. It then reports on a test where one group of MBA is asked to answer a series of questions about two different countries using the traditional Balance of Payments format and another group is asked to answer the same questions about the same countries using the revised format. The paper concludes that relatively modest changes in the Balance of Payments presentation could provide significantly more useful information to the users of the statements.*

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