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Contents

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The Chairman speaks ...

*To say **SCMS Journal of Indian Management** is improving edition after edition is to state the obvious. Content-wise, it seems, this edition is the richest we have produced so far.*

Today we are on the threshold of the third major shift in global power over the last 400 years, namely, the rise of Asia as the new economic power. India and China are the two major players in this phenomenon. There has been a lot of excitement as well as apprehension aired by experts on the future of these two countries. Naturally the entire business community all over the world must be deeply concerned about it.

It is in this context that we bring out the lead article in this issue, an insightful detailed study on the financial systems in China and India written by a great scholar on the subject, Dr.Subramanian Swamy. Dr.Swamy arrives at the conclusion that the pill for success of both these countries will be the political will of the respective governments to streamline the economies.

The rest of the articles in this edition have also been carefully selected to be interesting and informative. I am sure you will enjoy it.

I take this opportunity to wish our readers and well-wishers a Happy and Prosperous New Year.

Dr.G.P.C.NAYAR
Chairman, SCMS Group of Educational Institutions

SCMS Journal of Indian Management

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Editorial

Prayerful tribute to the fond memory of Drucker!

Drucker is dead. The Sun in the management sky is set.

Drucker was a business icon.

Drucker discovered the continent of business management. At once he invented still another yet more sublime world of business management.

Drucker, the Guru to whom other gurus kowtow, has grown to a perennial source of managerial knowledge and wisdom.

The inspiration of the Leader-to-Leader Institute never dies. It defies death.

Drucker's untiring mind was agile from 1939 to 2005.

To be back to the hard reality of mortal death, the author of one and thirty books in business will never write again with his inimitable ease and grace. Never can a writer wield so powerful a pen to ink ideas in so lucid a style. Never shall an editorial columnist lure the eyes of the readers. Never can an HBR be proud of Drucker's sign.

SCMS Journal of Indian Management pays her prayerful tribute to the fond memory of the departed soul and seeks his blessings in her future journey.

Dr.D.Radhakrishnan Nair

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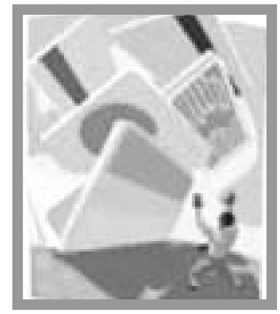
Financial System Constraints in China and India– A Comparative Perspective



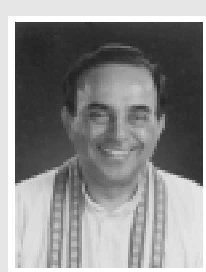
Subramanian Swamy

China and India are currently among the fastest growing economies in the globe. However, economic history is strewn with examples of countries such as in Latin America and lately in East Asia that had grown promisingly at first but only to falter later and fall behind because of an economic crisis. Instead, the US and West European nations constitute another category of nations which grew in a sustained way to become and remain by modern standards developed countries. Into which category of nations will India and China fall? The author explores and seeks an answer.

China and India are currently among the fastest growing economies in the globe. Together the two nations represent 38 per cent of the global population. Continued growth of the world's second and fourth largest economies respectively [measured by PPP based GNP] at the current rates or higher, has enormous implications for the current globalisation process underway and the consequent re-structuring of world economic order itself.

In 1997-98, several of the most dynamic and fast growing East Asian economies suffered severe financial crisis that devastated them. It revealed that growing economies could not be sustained with a weak financial system.

Economic history is strewn with examples of countries that grew promisingly at first, only to falter and fall behind because of a crisis, and then unable to regain the earlier momentum. Such examples are found in Latin America and now in East Asia.



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There are on the other hand examples of countries, such the US or of Western Europe, that in the modern period (starting from nineteenth century) experienced sustained growth and matured economically to become *and remain* developed countries. Moreover whatever crisis they faced was overcome by these countries without losing their long-term growth momentum.

Into which of the two categories will China and India find themselves in two decades from today? We seek an answer to this important question from economic history.

Professor Richard Sylla [15] in his 2001 Presidential Address to the *Economic History Association* has summarized succinctly his and other scholars' research on this binary categorization of nations. According the findings of these scholars, an efficient financial system is an essential and defining condition to determine into which of the two categories nations will sooner or later find themselves in.

By that defining condition, we propose to show here that China and India will, *ceteris paribus,* fall into the first category in the company of nations of Latin America and East Asia, unless of course both countries carry out soon enough fundamental reforms of their respective financial systems. Whether the political constraints and compulsions permit such reforms is a question of deep interest here. The moment of truth for both nations is near, may be 2010.

Can the two nations reform their respective financial systems to obviate a financial crisis and also meet the requirement of sustained growth, or are there constraints that would prohibit the China and India from carrying out these reforms? I propose to argue here that political constraints and economic compulsions in both countries are such that these required reforms cannot be carried out. Financial crisis thus seems highly probable. However, India appears better placed than China institutionally, and being a democracy, to rectify itself subsequent to a crisis through the electoral process, as past experience shows. For China, not being a multi-party democracy, such rectification would require a major political upheaval.

The main function of the financial system is to mobilize resources through financial assets or debt instruments and to facilitate the allocation and deployment of these mobilized resources spatially and over time efficiently and optimally in an uncertain environment to maximize the growth rate of the economy and achieve the highest rate of return on the resources deployed.

This function encompasses a 'financial architecture' i.e., payment system with a medium of exchange, a transfer mechanism for resources mobilized from savers to borrowers/investors/other users of resources, and eventual repayment to savers, with a reduction of risk through insurance and diversification.

Financial architecture is constituted by the following: (i) Institutional regulators such as the Security Exchange Commission (2) International standards of accounting to ensure transparency in transactions (3) Corporate governance norms for management, shareholders and stakeholders; and (4) Sound banking and prudential norms such as those posted by Basel II norms which limit moral hazard and soft-budget constraints.

The system's ability to perform the main function stated above and be stable depends on the following three factors:

[a] Macroeconomic Fundamentals

[b] Structural Parameters

[c] Institutional Quality

By current international standards, both China and India have impressive macroeconomic fundamentals such as a high growth rate in the range of six to eight per cent per year, a relatively low annual inflation rate below five per cent, a foreign exchange reserve level exceeding ten months of imports, and a declining headcount ratio of poor people. The perception today is thus that both economies are going strong and will fuel global growth in the future.

While today's popular perception of China and India in this regard may be pleasing, it is important to remember that economic history is full of such favourable perceptions evaporating before the reality that dawns with a bang. At one stage in the nineteenth century, many countries of Latin America were considered more wealthy than North America. Now, the exact opposite is true. In the 1980s, it was widely perceived that Japan would overtake the US. In fact Japanese business had begun to buy up prized US real estate, and became owners of major corporations in North American mainland. That trend has now been completely reversed. In the case of the 'Asian Tigers,' the World Bank had published with a volume titled *The East Asia Miracle* [16] which was an unabashed prescriptive advocacy of the export-led free trade strategy of East Asian economies. The celebrated World Bank remark that these economies had got their "basics right" - by implication other developing countries had not-come back to haunt the World Bank after the 1997 financial crisis. East Asia, especially Japan, has yet to fully recover from that crisis.

Although the Bank did attempt damage limitation by subsequently publishing another volume title*d Rethinking East Asia's Miracle* [12], the institution's credibility was hit hard because on the contrary, the very area where the East Asian countries had got their basics quite wrong was in the financial system, to monitor which under the 1944 Bretton Woods Charter, the World Bank and IMF were set up in the first place.

However, the unexpected 1997 East Asian crisis, and its contagion effect on other countries led to considerable research in the IMF under the umbrella topic of 'financial architecture' that has vastly improved our understanding of the financial system. Measures of crisis vulnerability and crisis prevention have been developed [e.g., *Compilation Guide to Financial System Indicators, IMF 2004]* that now enables the IMF to estimate the probability of a financial crisis year-end 1996, just six months before the East Asian crisis.

II. The Financial System in China and India

The current macroeconomic fundamentals have been secured in China and India by milking the financial system, without nurturing it by more reforms, and by sweeping the malaise in the system under the carpet. That is, macroeconomic fundamentals have been ensured in both countries increasingly at the cost of deteriorating structural parameters and institutional quality.

As a consequence, now in 2005 the structural parameters in the banking and fiscal sectors indicate a looming crisis. More crucially, as presently structured, the banking sector in the two economies is internally ill-equipped to meet the challenge inherent in the developing financial crisis. The institutional quality of the financial system of the two countries is out of sync with the needs of increasing globalization, because even today Soviet vintage prudential norms and opacity in transactions are present in the system.

The financial systems of the two countries are bank and budget centric because their capital markets are under developed, and prone to insider trading, rigging and scandal. Their respective bond markets are in its infancy (see Swamy [13]).

Moreover, (1) the sector is dominated by government ownership: More than 80 per cent of the deposits in, and in excess of 60 percent of the assets are of banks that are wholly government owned and not self-regulating on market principles, (2) a lack of modern prudential and governance norms (3) weak opaque non-independent regulatory bodies, and (4) directed credit and captive finances. Besides, the fiscal budgeting has limited scope because of large contingent liabilities and irreducible heads for fund allocation, e.g., subsidies, interest payments re-capitalization of lending institutions, pensions and defence.

Hence because of these two factors, the financial system in China and India are subject to a double jeopardy that causes the system to under perform and sub-optimise the allocation of resources in conversion to productive investment and by creating excess capacity.

It needs to be stated here however that relatively India's financial system is institutionally better structured than China's, although Indian Regulators have yet to fully emerge out the shackles of the Soviet-style command mindset of yesteryears. For example, even today, government-owned banks which as stated above, receive 80 per cent of all deposits, are compelled to deploy about half of the funds in low interest, albeit low risk, government securities [to finance the government budget's fiscal deficit]. Another 20 per cent is directed credit, and 25 per cent is kept in mandatory reserves. Such straitjacketing of fund dispersal on government direction applies to other financial institutions in insurance, provident fund and employees state insurance as well. Thus the Indian financial intermediation relies less on market based risk management and depends more on government policy even today.

III. The Possibility of Financial Crisis in China and India

Empirically, it has been observed that a financial crisis envelops an economy via three different routes of causation:

(1) A run in the foreign currency market that induces a banking collapse which in turn triggers a fiscal crisis.

(2) A banking collapse that causes a fiscal crisis which then induces a foreign currency run.

(3) A fiscal crisis that triggers a banking crisis which subsequently induces a foreign currency run.

The first route was observed in the 1997-99 East Asia crisis. Gerard Caprio and Daniela Klingebiel of the IMF have documented 117 systemic banking crises in 93 countries since the 1970s. A subset of these 117 cases document the second and third route listed above to a financial crisis. A financial crisis thus is not of a one-way causation. The routes of causation mutually reinforce, that could richochet or cascade to a bubble and which bubble can theoretically implode by any of the nine possible routes, which each represent permutations of causation of foreign exchange, banking and fiscal crisis [3x3].

By which routes are China and India respectively likely to head to an expected financial crisis? Both countries presently do face severe financial systemic problems but of different kinds that require different corrective measures to rectify them and stave off a crisis.

It is the thesis of this study that the imminence of a financial system crisis in China will be triggered by a banking failure, and in India by the unsustainable fiscal deficit in the union and state government budgets.

Based on a predictor model of two IMF economists, Andrew Berg and Catherine Pattatilo, it can be ruled as improbable that a financial crisis in China or India will come via the 1997 East Asian route, that is, triggered by a currency crisis. The structural parameters in the balance of payments accounts are such in both countries that the estimated probability of a currency crisis is low. Thus a crisis is indicated if:

(i) Short-term foreign debt, including portfolio investment, the diaspora's repatriable deposits, loans which become due for payment within the fiscal year, and short-term foreign exchange loans of banks and companies reaches a level such that the foreign exchange reserves falls below 80 per cent of that level. At present, this is estimated in China and India to be well above that level [in fact, exceeding 100 per cent]. But since 2002, the foreign exchange reserves as a ratio of short-term debt has been falling because of a sharp acceleration in the latter. In 2003, short-term debt in China rose 38.1 per cent to $ 78 billion while total current value external debt rose by just 13 per cent to $ 194 billion. In India, since 2002, short-term external debt has doubled.

It could be argued that the 80 per cent level is too low as an indicator of potential crisis, since in terms of the three Keynesian motives to hold reserves, the present level of foreign exchange reserves in China and India are all easily accounted for. On the question of how much cash to hold, John Maynard Keynes had suggested three motives for holding cash: transaction, precautionary and speculative. Thus, enough reserves to cover the import bill of a few months is the *transaction motive.* There are reserves necessary for other motives as well. Reserves are essential to cover the payment obligations on maturing debt. This is the *precautionary motive.* Finally, to provide the short-term commercial credit and portfolio investment, i.e., for 'hot' money that could move out quickly, reserves are essential as buffer for the *speculative motive.*

East Asian countries that suffered the 1997 melt down *did have* enough reserves for the transaction motive, but not for the precautionary and speculative motive. The question here is if India and China have enough reserves for all three motives. There is also an opportunity cost to consider. The reserves that India and China hold are in low yield US Treasury bills that fetch just two per cent interest rate. But the rates paid by the two countries for foreign investment are much higher. Hence, the reserves that India and China hold should be enough to cover for all the three motives, and not more. Any excess over this norm level imposes a cost which is a dead weight loss to the economy. Allocating for these three motives as in Table-1 the foreign exchange reserves appear to be sufficient in both countries to meet the contingencies arising out of a developing currency crisis on postulated four months import cover. However, if the cover is taken as eight months, reserves are insufficient.

Adequacy of Foreign Exchange Reserve: 2000 ($US billions)

Motive	China		India	
	2000	2003	2000	2003
Transaction[1]	65.07		25.60	38.62
Precautionary[2]	21.42		6.24	15.09
Speculative[3]	57.25		7.90	19.11
Total Required	122.04		39.74	72.82
Available	157.80		42.30	107.45

(i) 1. Four months import cover 2. Debt Service 3. Portfolio and other short-term debt.

Source: Statistical Abstract of China, National Bureau of Statistics, Beijing, 2001. Statistical Abstract of China, Central Statistical Organization, New Delhi 2001.

(ii) Net present value of foreign debt is more than 37 per cent of GDP. At present, this ratio is 16 per cent in India and 13 per cent [of uncorrected official GDP] in China.

(iii) Current account deficit in the balance of payments accounts is larger than negative 2.5 per cent of GDP. At present this ratio is 1.1 per cent in India and 1.9 per cent in China. Although both ratios are positive i.e., in surplus, but it has declined in China from 4.1 per cent in 1997. In case of India it has risen from a negative 2.0 per cent but it is not yet a sustainable trend.

(iv) Foreign Direct Investment is less than 60 per cent of the total capital inflow. At present FDI corrected for scope is 62 per cent in India and 67 per cent in China. But this ratio due to rising portfolio investment has been declining during the last four years in both countries and on present trend could fall below the 60 per cent mark by 2007.

Fitting these parameters into the Berg-Pattatilo model, it can be inferred the probability of an imminent currency crisis of liquidity is low in China and India, less than 10 per cent unless the crisis is exogenously induced by a banking or fiscal crisis or both, but as of now or in the foreseeable future currency crisis cannot be the trigger for the general financial crisis.

It is now an accepted view in the literature that even with healthy macroeconomic fundamentals, an economic system can experience a financial crisis induced by a policy mismatch such as the 'unholy policy trinity.' Thus, if in an economy, capital account convertibility [CAC], a fixed or pegged exchange rate regime, and an expansionist monetary policy [M3 rising at a rate exceeding 15 percent annually] are seen together, *a currency crisis is likely*. At present, China has the first two of the trinity and India just the third. Recent credit squeeze policy in China has brought M3 further below the 15 per cent cut-off level. [In 2004, it was 14.5 per cent, below the 2003 level of 20 per cent].

Mismatches in loan disbursement norms of financial institutions had also helped trigger the East Asian crisis (see Desai). These 'policy' mismatches were: (i) *currency mismatch*—issuing local currency loans against foreign currency deposits (ii) *maturity mismatch*—issuing long-term loans against short-term deposits, and (iii) *management mismatch*—following prudential norms in receiving deposits and practicing cronyism [*"guanshi"* in Chinese] in loan disbursement. At present, the third mismatch is present in the Chinese and Indian financial system.

IV. Banking System in China

Chinese banks have been nearly bankrupted by an apparently unshakeable State commitment to a soft-budget constraint, and "policy loans" that are allocated on non-market principles and on government directives.

By the end of 2002, the total assets of the Chinese banking sector were 26.4 trillion yuan, representing 85 per cent of the total assets of the entire financial sector. Although the role of capital markets is growing, the size of these markets remains quite small, with a capitalization of 1350 billion yuan by end June 2003. Hence the Chinese financial system is bank-centric. Since the banks have a total NPL exceeding the assets, China has today a banking crisis that is hidden by the monopolistic system and the State's commitment to bail it out.

China's banking sector comprises of many institutions. These include state-owned banks, joint-stock banks, city commercial banks, and credit cooperatives etc. However, banking is dominated by the four state-owned commercial banks, which account for 61 per cent of the loans. Some academics argue that this is typical of an oligarchic market, which tends to lower the efficiency for allocating financial resources and result in distortions in the system. Further, dominant state ownership in the banking sector tends to erode the credibility of the threat of market failure and the effectiveness of the banking supervisory authorities to enforce prudential rules and requirements.

The second tier of the banking market comprises eleven joint-stock commercial banks with a diversified ownership structure. However, the key shareholders of these banks are local governments and the state-owned or state-controlled enterprises. In September 2003, their assets represent 13.7 per cent of the total banking sector assets of 26.4 trillion yuan. These banks have expanded rapidly in recent years. For example, in 2001 alone, their assets increased by 24 per cent. At present, five joint-stock banks are already listed in local stock exchanges.

In September 2003 there were 112 city commercial banks, most of which were created by way of restructuring and consolidating urban cooperatives. These banks represent five per cent of the total banking assets. In addition, there were 35,588 urban and rural cooperatives, accounting for 10 per cent of the total banking assets.

Foreign banks for now play a rather limited role in the system. In September 2003, there were 191 licensed foreign banking institutions in China, among which 157 were foreign bank branches, 11 sub-branches, and 15 subsidiaries incorporated locally with 8 branches. Foreign banks represent 0.3 per cent in the local currency lending market and around 13 per cent in the foreign currency lending market.

Despite the improvement of the asset quality in recent years, the size of non-performing loans (NPLs) is a major threat for the banking system in China. In September 2004, the NPL of the banking sector, including state owned banks, policy banks and joint stock banks, amounted to 2,532 billion yuan ($309 billion) measured according to the five-category supervisory loan classification system, and the NPL ratio thus was 18.7 per cent. The non-performing loans of state-owned commercial banks reached 1,999 billion yuan and the NPL ratio was 21.4 per cent, an equivalent of 20 per cent of GDP of 2002.

The asset quality of the joint-stock banks varies. Some have healthier balance sheets than the state owned banks. The NPLs for joint-stock commercial banks is 8.5 per cent on average. The asset quality of other banking institutions is just as worrisome. Most of them are still using the four-category loan classification system based on the status of past-dues. This old classification system is less stringent. Although the figure for NPLs for these banks is not comparable with that for the state-owned banks and shareholding banks, it is generally believed to be higher.

However, data weaknesses and judgment bias adopting the supervisory loan classification also suggest that the scale of problem loans may be higher. These weaknesses include the relatively large share of loans classified as special mention and doubtful, the lack of proper treatment of restructured loans and foreclosed assets, and not to mention, losses from non-credit activities.

At present, the capital adequacy ratio for most Chinese banks is below regulatory requirements. At the end of September this year, the composite capital adequacy ratio of the state-owned commercial banks is merely 4.61 per cent, significantly below the minimum regulatory requirement of eight per cent (Basel I) and 12 per cent (Basel II). The same ratio for joint-stock commercial banks and city commercial banks are 6.83 per cent and 6.01 per cent respectively. Capital adequacy should however be calculated on the assumption of sufficient provisioning for loan losses. Therefore, allowing for deficiency of provisions for loan losses, the capital adequacy ratio for Chinese banks becomes much smaller than stated above. As Luo Ping of China Banking Regulation Commission in a speech in New Delhi at a seminar [14/11/03] stated, pre-provisioning CAR for SOBs would be just two per cent.

The resolution of the problems in the banking sector depends critically on the reform of the state-owned enterprises (SOEs). These enterprises represent the vast majority of the state-owned commercial banks' loan book and recurring non-performing loans. In this context, the structural problems of these banks cannot be successfully addressed unless the SOEs are at least partially rehabilitated and have become credit-worthy borrowers.

In the interest of social stability, banks largely bear up the reform cost of the SOEs. For example, by the end of 2000, 51.2 per cent of the 62,000 firms that had completed their change of ownership failed to repay bank loans. In fact, there has been so much stress on the appropriate terms of settlement for employees of the bankrupt enterprises that some restructuring of SOEs proceeds at the expense of banks when enterprises are closed down or declared bankrupt.

A banking crisis as a consequence, is already at hand because: Firstly of a huge amount NPLs [$309 billion; according to S&P $864 billion to maintain] status quo would require 40 per cent of GDP or $600b as work out requirement in State Owned Banks and at regional cooperative banks' level [with higher NPLs because exposure arises out of a lack sound risk analysis and more on 'policy considerations' at the local level].

Secondly, Chinese banks do not have any prudential norms for bank exposure to real estate that are prone to asset bubbles building up quickly. There is also considerable pump priming for automobile credit purchase.

At present, 17 per cent of new loans are going to real estate activity which is highly leveraged, and since 2000 these prices of real estate have been rising sharply. Property bubbles do burst–Japan in the 1980s is a case in point, not to mention other East Asian nations in the 1990s. Overall urban land and property prices rose by end 2004 to 70 per cent above the 2001 level (*Business Week* USA April 4, 2005). In Shanghai property values doubled in 2004, while rentals fell.

Besides, it is estimated by Automotive Resources Asia [*Economist,* March 20, 2004], that at the present rate investment in the sector, the gap between capacity and sales will widen from half a million on sales of 2.2 million to a gap of three million excess in automobiles alone by 2007. Profit margins at eight per cent are comfortable but have been moving downwards since 1999.

Provisioning for these bad loans has of course meant a less tight monetary policy. China had already been pump priming for the last five years. Broad money to GDP ratio rose from 62.3 per cent in 1990 to 171.4 per cent in 2002 to 183.2 per cent in 2003 [for India it was 43.5 per cent to 69.3 per cent. In the US, it is 65 per cent]. China's government debt including quasi-fiscal liabilities [e.g., bonds to recapitalize banks, pension] is now at 95 per cent of GDP [uncorrected], much higher than India's 81 per cent. In ten years 1990-2000, China's pension fund contributors doubled, while retirees tripled. The contribution at 227.8 billion yuan is slightly higher than the distribution of 211.5 b Y. By 2007, the former will fall short of the latter.

This has meant creating inflation potential since the rate of growth of fixed assets in China has declined from 24.3 per cent in 1998 to 10.9 per cent in 1999 to 9.9 per cent in 2000, and to even lower [9.8 per cent] in 2003. In that, more than half is accounted for increases in capital construction and property related projects. China estimates *[News From China,* April 2004, p.20] that of the eight per cent growth rate in 2002, real estate contributed 1.85 per cent].

Consumer price official index in China has also accelerated to five per cent on a y-o-y basis, up from 3.6 per cent.

V. Consequent Fiscal and Currency Crisis in China

As a result of the soft budget constraint facing the SOEs and above mentioned factors, China's corrected fiscal deficit at the central level is now six per cent of GDP [uncorrected has risen to 3.6 per cent]. Government total fiscal deficit including provincial deficits may be as high as 13 per cent today. This is one of the highest in the world [In 2000, out of 74 countries tabulated, only seven had fiscal deficits exceeding seven per cent, and only four including China and India had deficits exceeding 10 per cent]. The ensuing banking crisis has thus already affected the fiscal budgetary health of China.

The consequent inflation and the continued fast export-led growth will mean commensurate wage increases to sustain consumer demand and to meet demand for skilled labour in exporting firms. This can induce a currency crisis because of the peculiar and precariously balanced structure of China's foreign trade, in which reprocessed imports from East Asia is exported to US and EU and thus a surplus on the current account is earned to cover the deficit with East Asia.

More importantly China's foreign trade comprises of two rather different components: (1) imports that is processed and re-exported and (2) 'domestic' or 'own' trade, i.e., exports of goods primarily originating in the domestic economy, and imports for domestic consumption and production use. The former reflects China's rising role as a labour-intensive processing and assembly centre, fueled by outsourcing and external final demand, while the latter is more strongly influenced by domestic economic trends.

If we divide China trade into these two component parts, we find two very revealing trends. The current trade surplus is completely due to the positive balance on processing trade i.e., value added in China before re-exporting to final-destination markets, which reached US$40 billion last year. At the same time, China's own domestic – centred foreign trade is increasingly in deficit, with the balance declining from a positive level of nearly US$20 billion in 1998 to a deficit of the same magnitude in 2001. The primary driver of this deficit has been rapidly growing domestic-centred imports, which more than doubled over the last three years compared with domestic-centred export growth of only 50 per cent – a testament to the strength of ongoing import liberalization and domestic demand growth in China.

Over the past 15 years, the opening of the Chinese economy and the rise of the ASEAN nations have added another link to the production 'chain' that changed the regional division of labour. Capital goods are now shipped from Japan to economies like Taiwan and Korea, which in turn send capital-intensive inputs to China and ASEAN for labour - intensive processing and assembly before re-exporting to developed markets. Thus, each time a new link is added to the Asian production chain, recorded intra-Asian trade value jumps significantly, while the final value of goods exported to end markets outside of Asia may not have risen at all.

This means that a good part of China's rapid trade growth is, in effect, 'double-counting.' Because China records high import and export growth and has become the main exporter to the G3, it appears as though China is grabbing world trade share and US market share at a phenomenal pace while the Asian NICs appear to be losing out. Over the last decade, the Chinese mainland has recorded an ever-increasing trade deficit with the Asian NICs, reaching US$40 billion in 2001, and an ever-increasing surplus with the US.

Yet after we adjust for 'production chaining,' we find that China's 'true' export penetration into the G3 markets over the last ten years has been much less pronounced. China still runs an underlying surplus with the US, to the tune of about US$40 billion; however, the Chinese mainland is either in balance or deficit with every other trading partner (including, despite the hype, Japan). In GDP terms, surprisingly, China has no discernible effect on any of the three countries; even the US$40 billion surplus with the US represents only 0.4 per cent of US GDP, and this figure has not changed much over the last ten years, so that the net annual growth impact is negligible.

It can be expected therefore that China's current account will turn negative in the first decade of the 21st century because of a rapidly increasing deficit in domestic trade. This will cause a currency crisis once a banking collapse takes place. That is, even without a crisis, continued high growth rates will cause skilled workers' wages to rise which could put Chinese exports at comparative disadvantage against South Asian countries or even East Asian countries, thereby slowing exports, upsetting the regional trade balances, and thus cause a currency crisis especially following a banking collapse.

Furthermore, China's high domestic saving which is keeping the SOBs flushed with funds. Two problems will however arise soon. First, China's the rate domestic saving has peaked (see Modigliani. Franco, and K.Cao. Moreover, China's incremental capital-output ratio is estimated after conforming data to international practice at 6.0, which is very high. Further, if China is unable to keep it's commitments to the WTO on the financial sector, FDI which is already very high at US $ 50 billion could consequently taper off.

Second, savers will have alternatives if and when China implements its WTO assurance to open to foreign banks on 'national treatment' basis by 2007. That will hit the SOBs and undermine the Communist Party's main controlling weapon of financial authority.

So far economic reforms have been successful in legitimizing the CCP which it had lost during the GPCR. But the implementation of this particular assurance to the WTO on opening the banking sector to foreigners will undermine the authoritarian political control that financial patronage affords to the CCP. Therefore will this assurance be implemented? *I am doubtful.*

But if China does keep it's commitments to the WTO, the SOBs would suffer a sharp drop in depositors because the thus WTO enabled foreign banks would be able to attract them better by a higher deposit interest rate. At present, SOBs give merely two per cent as interest on deposits. Such a desertion by depositors will make the SOBs wholly untenable financially and would lead to their crash. Already in 2004, bank deposits growth has slowed with the advent of limited foreign bank freedom to operate.

In turn, the State owned enterprises [SOEs], of which two-thirds are in the red and surviving because of loans from SOBs that are not paid back [soft-budget constraint], would have to wind up and render millions unemployed.

Furthermore, foreign banks in China would find it profitable to lend to the private sector, which at present gets less than five per cent of all bank loans. According to *[Beijing Review* 8, 2004], 77 per cent of the private enterprises are facing financial difficulties. This sector is relying on informal sources for finances. Enterprises will have to, as the Review suggests to commercial banks for their existence in the near future. This would enable the private sector to emerge as serious competitor to the SOEs, but with less padded employment potential. Will the prevailing political constraints permit that? According to George Gilboy, that is unlikely since it will mean permitting the private sector to emerge as an independent economic power and the consequent Party's control over the financial system decisively weakened.

VI. A Financial Cleft Stick or Catch -22 for China

It is thus a Catch-22 situation for China. It means either being resigned to an inevitable financial crisis arising from:

(i) 50 per cent NPL

(ii) 2 per cent CAR

(iii) Fiscal deficit of 13 per cent of GDP implying inflation

(iv) Contingent liabilities to provide for enhanced pension, increased social security to meet the rising layoffs & migrants, and rural subsidies to contain food prices

(v) M2/GDP rising towards 200 per cent.

(vi) A depleting current account surplus.

(vii) The deteriorating balance of trade in Chinese-origin products and switch processing trade.

or to face a political upheaval arising from the consequences of essential financial sector reforms.

Judging by the continued rise of new NPLs of SOEs, and that there appears no Chinese determination to allocate bank funds more efficiently, e.g., by privatizing or to permit the SOBs or foreign banks to finance the private sector firms that squarely face a hard budget constraint a banking crisis appears inescapable.

Small and medium enterprises which are mostly private, account for 60 per cent of the industrial output and yet get less than five per cent of all bank loans. They are charged a higher interest rate of those borrowings of 8-10 per cent against the official 5.3 per cent. But they rarely default. Hence, they have to rely on the grey market for the balance of the required capital paying interest rates as high as 18 per cent.

The trigger for the financial crisis in China will be the present credit squeeze [set to contain accelerating inflation]. Judging by reports, it will cause a slow down on investment growth over the next three years, and drive the private sector at the margin to cut back investment and cause a serious unemployment problem. *Beijing Review* [April 8, 2004] reveals that 99 per cent of the private sector is SMEs and 775 are already in financial difficulties. Chinese macroeconomic stability till date has been maintained on two wheels: pump priming and public confidence in banks, i.e., that government will bail out banks, *and can bail out banks in the future*. That is why the people save so much in low interest deposit accounts in banks.

However this credit squeeze will further increase the NPLs in banks or cause closure of private companies. It is this sector that has in the last thirteen years [1990-2003] absorbed 36 million excess labour freed from SOEs and was expected to absorb 9-14 million this year. According to the IMF, since 1997, 27 million worked have been laid-off as a result of closing of loss – making SOEs.

At present, total deposits held by financial institutions are $2.1 trillion while loans are $1.7 trillion. The surplus of deposits over loans is dangerously low, may become lower because the credit squeeze will probably increase NPL especially of SMEs [77 per cent already in trouble] and real estate property developers. Liquid liabilities of banks as a ratio of GDP has already exceeded 200 per cent, world's second highest after Japan (India: 52 per cent, US: 62 per cent). Coupled with very low Basel ratio, the fragility of Chinese banks is obvious for all to see.

Moreover, China will also have to find funds to import 30 MMT foodgrains beginning 2007, the food deficit arising from falling acreage productivity, water tables, and disrepair of public irrigation system. Developing food imports dependence is thus an untold Chinese story that is implicit in the foodgrains output declaring down from 512 (1997) to 432 (2003). This will put additional burden on the budget, and on the farmer who will find that imports depresses farm prices.

The credit squeeze is moreover cutting consumer demand for durables, but is not containing the food prices. To contain rising food prices, the Chinese government has decided [at a Cabinet meeting on July 14th 2004], to pump $18 billion in agricultural subsidies to farmers in 2005. From where is that to come from? Probably from currency printing.

Then there is the under researched topic of provincial governments depending on transfer of resources from the central government. In 2002, the provinces own revenue as a ratio of GDP was 8.1 per cent but its expenditure 13.5 per cent. The balance was made up by the central government transfers and bank credit. This imbalance will continue to widen at the cost of investment.

The Chinese financial system thus is now prone to a crisis if adequate correctives are not applied immediately. Interestingly, this is recognized by leading officials of China. Speaking at the plenary session of the National Peoples Congress in March 2004, China's Prime Minister Wen Jiabao stated that on banking system reforms "China is engaged in a last ditch fight that we cannot afford to lose."

However, ground level corrective action today does not reflect this official acknowledgement. Whatever action has been taken is quite inadequate to stave off the crisis.

The Communist Party of China had in the past courageously undertaken reforms but more because it was necessary *and which also legitimized the Party* especially after a prolonged disorder which had damaged the party's credibility nationally and internationally. After the Great Leap Forward, the Great Proletarian Cultural Revolution and the Gang of Four, the Communist Party's standing with the people was eroded. Chairman Deng had understood that and skillfully launched reforms.

Dramatic as the financial crisis scenario appears, it is the reality in China. There is today clearly a Catch-22 type political bind on the financial system. Either China will have to carry out financial reforms and face a possible political upheaval arising from a large number of urban workers laid off, or retain the political levers on the financial system and face an economic crisis caused by a banking bankruptcy that cannot be bailed out by fiscal measures.

With a peaked domestic saving rate, a high incremental capital ratio, and an uncertain FDI, there is no scope for raising or even sustaining the present growth rate in GDP without reforms that are able to increase total factor productivity. The last few years of sustaining demand by 'pump priming' has already been reversed since June 2004 by new credit restrictions, leading to open discussion of whether a 'soft-landing' of the economy is possible.

Hence, consider a banking crisis deepened by this credit squeeze, which is accentuated by the ticking pension bomb that will require funding of $600-800 billion [by 2025, China's 65+ years population will have risen from 10 per cent to 25 per cent]. At present, the IMF estimates that there are 105 million contributors and 32 million beneficiaries. But the implicit pension liability is 90 per cent of GDP with a financing gap of 70 per cent of GDP. At present, the pension system however covers only 20 per cent of the workforce. Beijing cannot print more money to meet these gaps.

Add to it the threat of private savings shifting to foreign banks as per WTO mandate for 2007, plus a rise in wages of skilled workers caused by continued high growth and through increased labour demand of more and more multinationals coming to China, that will erode China's comparative advantage.

On top of it all, the off loading of the yuan equivalent of the US $ 300 billion exports net of deductions parked in US Treasury bonds plus FDI of US $ 50 billion, and the inflow of dollars by the continued speculation especially by the Sino disaspora, that the yuan will appreciate, thereby flooding China with more speculative dollars for windfall profits in a future exchange for yuan, the bubble burst scenario is clearly visible. It is well known that defending a fixed rate has been everywhere a cause for crisis. Even if the WTO assurance on foreign banks is not implemented, these ingredients (And add the need to finance food and oil imports) are sufficiently fissile to cause a bubble burst.

Last March at the NPC, the Chinese authorities had hoped for a soft landing [lower inflation and growth rates], but hard landing appears certain to most analysts [unemployment, inflation, recession, slump in growth rates]. But as a foreign banker was quoted by Wall Street Journal as saying: "If Chinese banks can't be fixed, then the government will not open up the banking industry, because they know local banks can't compete."

To me therefore a crash landing seems probable by 2010.

VII. The Fiscal Crisis in India

In India, unlike in China, it will not be the bankruptcy of the banking sector that will trigger the crisis. That will come from the failure of fiscal budgeting system. There is already 'a comprehensive fiscal failure' as now admitted by the leading person of the government in economic affairs, the Deputy Chairman of India's Planning Commission, Dr.Montek Ahluwalia. In July 2004 told a news daily that India was experiencing "a comprehensive fiscal failure."

It is also widely recognized that a major new generation of reforms are required to stave off this failure but which political constraints will not permit to be implemented. In my view, as on the last occasion of a balance of payments crisis in 1990-91, it will be only at the brink of the precipice when Indian political constraints will melt and allow the new generation reforms to be initiated. As before, it may require a regime change, of course brought about democratically.

The malaise in the Indian financial system as we saw is *not* in its macro economic fundamentals *per se*. It is that these fundamentals have been attained by running the fiscal system to the ground, e.g., inflation has so far been contained by financing the large government deficit by a surplus of private saving over private investment. Growth rate in GDP has been sustained by disproportionate rise in the service sector which is now 52 per cent of GDP.

However, Indian financial institutions are in place even if straitjacketed by the government. India has a long functioning central bank [The Reserve Bank of India], a well-defined capital market regulator [The Securities and Exchange Board of India], and a modern IT — savvy paperless stock market.

The banking system is also not in shambles as in China. NPL is not more than 15 per cent and the bad debt is about $15 billion. Capital adequacy ratio requirement of 12 per cent is also met by most banks.

India's problem is as stated above, that the government budget is a can of worms. At the Central government level, the budget finances are in a debt trap, made inflexible by politically irreducible commitments for amortization, defence subsidies, counter guarantees and pensions which account for 95 per cent of all revenue mobilized in the Budget.

This is compounded by the political inability to prune what can be pruned with greater political determination: defence, subsidies, and government administration expenditure, or to raise new taxes substantively.

Moreover, the provincial governments are increasingly dependent on transfers and grants from the Centre, and are getting close to defaulting on their employees' salaries. Early in 2004, the Supreme Court ordered the state government of Bihar to pay employees their six months overdue salaries. The order was complied with thanks to an extraordinary grant from the central government which is run by a new coalition in which the state party is also a constituent.

Moreover, most public sector enterprises units are in the red, and the state electricity boards are bankrupt. The central government is making the provisions for these government enterprises out of loans squeezed from the SOBs. This has had a negative effect on the private industry investment [as a ratio of GDP], which ratio has been declining since 1995.

Total investment in agriculture has also declined, while a small rise in the service sector investment has neutralized the decline in public sector savings to keep the total domestic savings ratio roughly constant. In fact, in the Central Budget, the Capital Account Budget has to be increasingly, year after year, be in surplus to finance the Revenue Account Budget deficit.

Given that the decade long constancy of the savings ratio continues, there is no way to raise growth rates or even keep it from falling (due to the law of diminishing marginal returns), unless domestic industry increasingly modernizes, e.g., by utilising the IT industry's software output [at present only two per cent of that output goes into domestic industry] for which additional investment can come from the government reducing its budgetary deficit or through FDI or both.

Foreign direct investment even after scope correction does not exceed US$ six billion annually, and unlikely to rise further. Unless infrastructure and labour laws are vastly reformed, not much more FDI can be expected. The new government in New Delhi is battling its Communist partners even for a small concession on FDI in the Budget proposals, and have threaten to withdraw parliamentary support. As for labour laws, there is not a remotest chance that the Communists coalition partners would agree.

The trigger thus will be this Budgetary deft stick:—-the impossibility of finding new resources, coupled with the rising demand for funds from a newly invigorated private corporate sector. At present, 90 per cent of the financial household saving is being deployed to finance the gap between public saving and public investment. The former is negative at 2¼ per cent. The economy will not be able to find the resources for both. Therefore:

(i) real interest rate will rise to exceed the growth rate in GDP, causing investment decline, followed by the growth rate falling below the real interest rate. This can then spiral the economy onto a tail spin into a depression, and a return to the "Hindu" growth rate [derisively termed to be below four per cent growth rate that is below unemployment clearing poverty reducing of a minimum of six per cent].

(ii) The rise in interest rate will put the debt dynamics on an explosive path as well. According to a study of Dr.Kalpana Kochhar of IMF, the real effective interest rate on government debt [defined as the ratio of interest payments in a year to outstanding liabilities at the end of the previous year] has risen already from 3¼ per cent in 1997-98 to 6 ¼ per cent in 2000-01. As Martin Feldstein showed mathematically, when the rate of interest exceeds the growth rate, debt will follow the explosive path.

(iii) This will send the government budget headlong into an internal debt trap. At present the Budget is already on the verge of a debt trap. Hence, this will mean a down grading by international rating agencies as it happened in 1990-91.

(iv) The NRIs, studies show, behave just as any other nervous investor, will hence begin pulling out their deposits because of what is called 'a herd mentality.' Along with 'hot money,' this withdrawal will be sizeable and enough to cause a currency crisis.

(v) The rising fiscal deficit will impact on the external current account balances either by the private sector reaching out abroad for funds or for the government seeking financing of debt through floating bonds or asking SOBs to seek short-term loans from abroad, both of which will carry heavy servicing obligations.

(vi) To rescue the Indian economy from this inevitable, spiral, it will need a paradigm shift in current political outlook and require a non risk - averse leadership as in 1990-96 India had, to complete the reform process to totally dismantle the remaining Soviet style controls on the economy.

(vii) The task of reforms was interrupted in 1996 once well past the crisis, by an electoral defeat of pro-reform Prime Minister Mr. Narasimha Rao, a defeat organized by the rentier class and the crony capitalists. Since then, successive governments have made *ad hoc* and sporadic efforts to reform but no new generation reforms have been initiated to succeed the first generation de-regulating liberalization of 1991-96.

(viii) The provinces in India are also equally in the red, getting close in some states to defaulting on payment of salaries to its own employees. According to data obtained from the Planning Commission, the majority of the provinces of India are 'debt-stressed,' i.e., close to insolvency. Most of the state public sector enterprises are making losses while the state electricity boards with monopoly on transmission are deeply in red with accumulated losses that are staggering. India is clearly headed towards a budgetary dead-end.

Given the decade long constancy in the domestic savings ratio, the long term decline in the agricultural investment rate, a stagnant private investment because of a record 11 per cent of GDP being the fiscal deficit, there is no way the growth rate of the Indian economy can be raised or prevented from falling due to the law of diminishing returns, unless productivity is increased by modernization of domestic industry for example by using IT software. FDI which on the most inclusive definition does not exceed US$ 6 billion per year, is unlikely to increase to raise the level of investment unless infrastructure and labour laws are brought to international standards. Both these at the very least require new legislation which under the present political dispensation appears a remote possibility.

Conclusion

In India and China, political factors had led economic reforms being implemented during the two decades since 1980. Growth rates thus accelerated and exports boomed. Increased foreign investment was seen and many poor people were lifted above the poverty line.

However, since the late 1990s, both countries have experienced severe problems in the financial system. In China, the government owned banking system is in crisis and almost bankrupt. It is being kept afloat by liberal recapitalization by the State. In India it is the fiscal budgetary system that is locked in a debt-trap and inflexible commitments for current expenditure, that require large pre-emption of bank funds for meeting the revenue deficit, funds that otherwise would have been available for private investment.

To rectify these imminent bankruptcies, a banking one in China and fiscal one in India, would require a new generation of financial reforms that may hurt political interests that are very difficult to ignore. Hence politics in the coming decade would be the constraining factor in the implementation of these reforms.

A crisis, ceteris paribus, appears probable in both countries. India is institutionally better equipped to fire fight the crisis once it envelopes the economy because of the flexibility of democracy in being able to replace failed leadership. The Chinese institutional system is still underdeveloped, and it political order is more brittle, and the leadership is not only not directly accountable but less capable of political change as demonstrated during the 1989 Tiananmen incidents. As Gordon Chang has aptly observed the collapse of the Soviet Union came about because it reformed politically "too fast," China would collapse, according to Chang because it erred by moving too slow.

Therefore, I expect, *ceteris paribus* that India is potentially more likely to get ahead of China after the crisis in the two economies.

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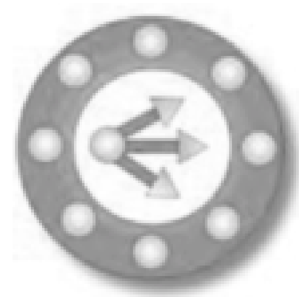
Developing Competitive Advantage through Corporate Social Development: Linking Corporate Social Action to Business Strategy

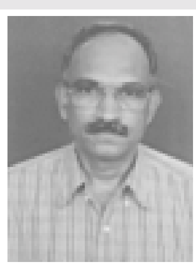


C.Gopalakrishnan and Sarla Achuthan

With the retreat of the government from various spheres of socio-economic activity, there is a pressing need for the private sector to step in and it is in this context that Corporate Social Development (CSD) assumes importance. This article argues, by illustrating several examples of Indian corporates pursuing CSD that the concept has evolved from a focus on philanthropy during the early days to a stage wherein CSD is linked to business strategy. The article brings out instances of enlightened corporate self-interest and public interest coinciding and how CSD can be strategically linked to achieve the desired goals.

With liberalization and privatization and the consequent shrinkage of governmental social activity, the role of business is also expected to undergo changes. Private sector has been expanding without much governmental hurdles (licensing etc.) and it is, therefore, in a much better position to take up the social activities or is expected by the larger society to increasingly play more active role in the social arena.

In the past too, private business has been engaged in various social activities. However, most of these activities before 1960 could be considered as actions of religiously motivated charity or secular philanthropy (Sunder, 2000). While merchants and others undertook charitable work, it was ad hoc in nature and had clear undertones of religious piety and, therefore, had done with the idea of personal satisfaction of the giver of such charity. On the other hand, secular philanthropy addressed a broader audience as the beneficiaries were not limited to a particular caste or religion, but it was still undertaken with the idea of personal satisfaction of the giver.



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However, charity and philanthropy went far beyond mere personal gratification. As Rudner observed, "secular philanthropy …was … investment in elite identify and status creation in their own caste, within the state and in India generally" (Quoted in Sunder, 2000). In short, charity and philanthropy had been used for strategic considerations of business. Enlightened self-interest of the merchants and business, however, coincided with the interest of public.

The next stage of development of corporate social action coincided with the independence of India and industrial development. As Venkatsubbiah had observed, industry accepted (though some of them very reluctantly) social responsibility as part of the management philosophy (Venkatsubbiah, 1977). In a number of cases the industry operated schemes of corporate social development programmes directly. In the case others, Non Governmental Organizations (NGOs) started playing increasing role in the implementation of the social programames of the corporations.

The concept has undergone further changes in the recent times. There is a general acceptance by the industry and business of the concept of corporate citizenship. With the growth in the problems of the Indian society, a large number of corporations have actively engaged in corporate social development (Sundar, 2001). However, according to Sundar, NGOs are critical of the corporate effort in social development. Further, they also complain that "industry expects an immediate quid pro quo in the form of publicity or some other tangible benefit and therefore offers sponsorship quicker than untied aid; that ad hoc, one-time assistance is more easily obtainable than sustained support, partnership or personal involvement, the last being the rarest of all" (Sunder, 2000).

2. The Problem

The problem of sustainability still remains, in addition to industry's expectations of benefits from the social programmes. However, these two problems are related: if corporations perceive benefits from the corporate social development programmes, sustainable funding may not be a problem; otherwise only one-time sponsorships from the industry could be expected.

However, there are a number of areas where the corporations' enlightened self-interest and public interest coincide. This paper will look at on this aspect of corporate social development, i.e., linking corporate social action to business strategy, so that sustainability would not be a problem, as in this case there is no need to appeal to the goodness of the industrialists, for moral preaching, or even to remind from time to time of the social responsibility of business.

3. Methodology

This paper will be based on a number of published case studies of corporate social action. Some of these were obtained from the web-sites of organizations.

3.1 Product Choice and Social Development

Lupin Ltd, national leader in anti-TB drugs, was established by D.B. Gupta thirty years ago with a meager capital of about Rs.5000. Today, Lupin has a number of facilities approved by USFDA and UKMCA and is the world's largest manufacturer of rifampicin with a market share of 25 per cent. In 2002, the company's sales were Rs. 9560 million and is one of the largest pharma companies in India (www.lupinworld.com).

3.2 Lupin and Community Development

According to the company, "Lupin Human Welfare and Research Foundation was established in 1988 to conduct welfare activities near the vicinity of the plant." The Foundation is involved in activities connected with rural literacy, civil work, rural health and social welfare in about 400 villages spread over Bharatpur, Alwar, Raisen and Rajgarh districts of Rajasthan and in Bhopal, Madhya Pradesh. Financial support for these activities is received from the government, international agencies and NGOs. (www.lupinworld.com).

Lupin was established, when the problem of Tuberculosis was rampant in the country and eradication of the disease was a national priority. However, not many pharma companies, including multinationals, were interested to manufacture anti TB drugs, in view of the national priority, for the drug may come under governmental control and may have practically very little margin.

Lupin's initial choice of product to manufacture was not only motivated by its social concern, but also dictated by the realities of the resources that the organization processed.

It did not have any distribution system nor was the organization capable of meeting competition. That is how when LUPIN chose to enter into the anti TB segment, the economic realities coincided with the social sense of the organization. For example, there was practically no competition as the major Indian pharmaceutical companies and the multinationals were not interested in this segment. As the major market was institutional, Lupin was not handicapped because of lack of distributors.

Social commitments of the organization, corporate sociall development and business strategy perfectly matched the initial product choice of Lupin.

3.3 National Dairy Development Board and Social Development

National Dairy Development Board's Operation Flood has been the world's largest dairy development programmme. The programme covers 1,01,000 villages and 11.1 million farmer families. By 2001, the programme had created 96,000 village cooperatives, and 170 milk unions in 285 districts of India The programme involves daily procurement of 17.6 million litres of milk, processing and distribution (www.nddb.org).

The Operation Flood programme of NDDB was created with the conviction that the nation's progress lies largely on the development of rural India and was started in 1965 to fulfill the desire of the then prime minister of India, the late Lal Bahadur Shastri.

Can social development be business? NDDB's experience shows clearly that social development itself could be good business. Not only that it is good business, it also shows that social and economic development could be achieved if good business practices could be used to promote social development (www.nddb.org).

3.4 Corporate Social Development (CSD) and Relations with Community and Government

The idea of community relations is uppermost in the minds of organizations when they engage in CSD activities in the vicinity of their plants. Lupin, as stated above, has been very active in community development in the vicinity of its plants. Zydus Cadilla, another large pharmaceutical manufacturer, is another organization, like many others in the sector, involved in the rural health programmes of the community in the vicinity of its plants.

On the other hand, Zuari Agro, a very large fertilizer manufacturer, failed in the early 1970s to understand the needs of the community and had to pay a heavy price with agitations by the local community, court cases, hostile state government and the political parties, and even closure of the factory. The experience taught the organization a lesson to be more proactive to the needs of the community and the organization has been operating successfully since then (Gopalkrishnan and Rao, 1979).

While concessions from the government are another important reason for the organizations to engage in large scale CSD, relations with government and community are equally important to them. Reliance Industries has the largest number of shareholders from the state of Gujarat and also some major plants in the state. It has invested Rs.240, 000 million in Jamnagar district in Gujarat for refinery and petrochemical complex with port and power facility (Reliance Rural Development Trust). Reliance has designed a plan to invest Rs.1100 million in 2206 villages in different districts of Gujarat to create rural infrastructure which could include rural roads, Nursery schools for children, Village offices, and community halls. These are some of the priority areas identified by the Government of Gujarat in 1995 and Reliance joined hands with the Government in 2001. According to Reliance, "this is the synergy of industrial initiatives and government efforts in the direction of reshaping the villages." (Reliance Rural Development Trust). Clearly, relations with the local community and the government are very important for Reliance, in addition to the overall goodwill.

3.5 Corporate Social Development and Employee Welfare

An important role that CSD could play is with the employee welfare. Gujarat Tractor Corporation Ltd. was an ailing organization in the 1980s and early 90s. Year after year, losses from the operations of the organizations mounted, though the management attempted turnaround of the organization by way of voluntary retirement schemes for employees and small incremental investments, without any real improvements in the operations.

In the early 1990s, a new managing director Mr.C.J.Jose tried an altogether different approach, more out of empathy with the workers. Pained by the loss of livelihood of the workers in the voluntary retirement schemes, he designed a scheme where the retiring employees were offered a scheme to start cooperatives and ancillaries leasing equipment from the organization to supply components to the organization. Earlier, one of the consultants had identified surplus staff, manufacture of large number of components in house, low labor productivity, quality problems with the components and heavy rejections as some of the causes for the poor performance of the tractor manufacturer.

The idea was a brilliant one, for it unleashed the entrepreneurial skills of the employees, benefiting the organization, which could turn around without creating unpleasantness and the employees, who became successful entrepreneurs supplying quality components to the organization. (C.Gopalkrishnan, 1998, 2000).

A small pump manufacturer in Ahmedabad attempted successfully a similar strategy when faced with worker strike for more wages. The organization reduced the wage cost element while the workers as entrepreneurs in the restructured work relations, earned much more than what they were earning earlier.

Restructuring work relations could be one of the sources of developing competitive advantage to the organizations.

3.6 Arvind Mills and Slum Improvement

Arvind Mills, Ahmedabad, one of the largest manufacturers of cotton textiles with global ambitions and global partners, found it difficult to attract the best employees to work in its plant in Ahmedabad in the late 1980s and 1990s.

The problem that Arvind Mills faced had its origin in the sprawling slum colonies in Ahmedabad. Officially, there were about 2500 slum colonies in Ahmedabad and about 40 per cent of the population lived in these colonies. The slum colonies developed over a period of time with the growth of Ahmedabad as a major manufacturing centre.

The living conditions in these shanty towns were very bad. There was also a slum colony next to Arvind's own manufacturing facility. Out of enlightened self interest, Arvind decided to improve the conditions in all the slum colonies in Ahmedabad, for which they partnered with the local administration, a non-governmental organization, a bank promoted by Self-employed Women's Association (SEWA is an NGO), and an architect, who had worked on such projects and took up the slum colony next to its plant for improvement, though subsequently they planned to improve other slum colonies (Tripathi, 1998).

3.7 Godrej and Worker Welfare

Godrej Manufacturing Company established a school for the education of the children of its workers in Mumbai providing the best facilities available for education. The condition was that only two children per family would receive free education from the school established by Godrej. Godrej also involved itself in promoting family planning and welfare programmes for its workers (Sharma & Nambudiri, 1974, Sunder, 2000).

Here again the major motivating factor was enlightened self interest. Godrej felt that increase in wages received by the workers from time to time was offset by the large worker families, which lead to worker unrest. The organization, therefore, believed that the solution for the problem of worker unrest lay in smaller and happy families.

3.8 Consumer Education

Torrent Pharmaceuticals and CIPLA, (another large pharma company) have been running a series of advertisements educating the consumers on the nature of some common ailments and the precautions to be taken. Here again the society at large and the organizations in particular are clearly beneficiaries of this education programme.

3.9 ITC and Outsourcing

ITC, with its nationwide net work of distribution has developed programs to procure supplies directly from the farmers (e-choupal). The organization provides information on better technologies on farming, provides better seeds and other inputs at cost price, and buys the supplies at market price. As a result, the farmer gets a better price, while ITC gets a better quality produce at lower prices, as it has been able to cut all middlemen. Clearly, the farmer as well as the organization is the beneficiaries. ITC also procures products of rural industry and distributes through its vast distribution net work, for the benefit of both the parties.

3.10 HLL, SHAKTI, and Rural Distribution

Hindustan Lever Ltd. has been developing its rural distribution system using rural women (a project called SHAKTI). The project envisages "creating about 11,000 Shakti entrepreneurs, covering 100,000 and touching the lives of 100 million rural consumers" (HLL Project Shakti Concept Paper). The project aims at creating profitable micro enterprise opportunities for rural women. HLL arranges micro credit to the women, trains them and uses their services for distribution of its products in the rural areas. The benefits, of course, accrue to both the organization and the rural women. According to the concept paper, a typical Shakti entrepreneur conducts business of around Rs.15,000 per month, which gives an income of Rs.1,000 or more monthly on a sustainable basis. This earning is very significant because these women are from below the poverty line and live in extremely small villages. As the concept claims, the project is a win-win partnership.

4. Conclusion

These are a few cases where the business organizations have linked their strategy to Corporate Social Development. The areas of operation are varied: rural distribution, outsourcing, consumer education, worker development, and family welfare, development of rural infrastructure, slum improvement, community development, and even choice of product itself or the business of the organization. The competitive advantage developed are in areas such as: market dominance (Lupin, NDDB), Cheaper sources of raw materials and other inputs (NDDB, ITC, GTCL), higher productivity (ITC, GTCL), better governmental relations (LUPIN, Reliance), better community relations (Reliance, Zuari, Arvind, Zydus Cadila), market development (HLL), better relations with the share holders (Reliance), and goodwill (Nirma, Torrent, Ashima). The list, perhaps, of advantages that can be generated is endless and the options for social development depend only on the imagination of the business organizations.

Neither Charity nor Philanthropy is the driving forces behind the above instances of CSD. The much used term Corporate Social Responsibility also does not explain these social actions on the part of corporations. They were merely trying to develop competitive advantage for their organizations through corporate social development and it goes to show that enlightened corporate self interest and corporate social development can be strategically linked to achieve the desired goals.

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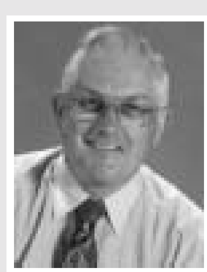
Managerial Work Goals and The Role of Learning: Evidence from Ten Asian Countries

Cecil Arthur Leonard Pearson and Samir R.Chatterjee

Dr.Cecil A.L.Pearson and Dr.Samir Ranjan Chatterjee in their study evaluated the work goal preferences in ten countries. A major purpose of this study was to benchmark representative managerial work goal preferences in the work setting of these ten nations…. despite different sample sizes across countries, and demographic profiles with some other internation variations, there were patterns of similarities and differences of work goal preferences.

A hallmark of progressive contemporary institutions is evidence of the relentless search for sustainable prosperity. The widespread increasing competition and fervent changes in business environments have heightened the pursuit of designing organizational architectures that are likely to lead to competitive advantage (Halal and Taylor, 2002; Lovelace, Shapiro and Weingart, 2001). One paradigm that has recently attracted considerable attention from practitioners and the academic community as a mechanism for enhancing institutional competitiveness is learning (Driscoll, 1995; Schulz, 2001; Senge, 1992). In particular, the notion of learning has been coupled with the more popular concept of organizational learning as "… a new form of labour." (Marquardt, 1996; p.17) for facilitating corporate efficiency. In spite of a plethora of definition and interpretations for organizational learning (Yeo, 2000), and the aspirations of many institutions to be branded with such distinction, relationships between the individual and the firm are yet to be clarified. On the one hand it is widely accepted that the ability to learn, and thus, to be able to react to opportunity and threats, more promptly than competitors is a fundamental attribute of a learning organization. On the other hand there is considerable debate if the manifestation of learning is underpinned by personal, cultural or environmental features.



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Managerial Values and Work Goals

The spread of globalization has substantially impacted many fundamental domains of industrial society. For instance, the rapid developments and advancements of information technology have manifestly increased the need for education facilities to upgrade the vocational skills, and analytical and cognitive capacities of potential employees (Felstead, Krah and Powell, 1999). And these gargantuan amounts of information will advance newer initiatives in knowledge management (Raub, 2002). Moreover, a number of commentators (Child, 1981; Negandhi, 1983; Ralston, Gustafson, Cheung and Terpstra, 1993) have suggested the spread of globalization, and consequently, industrialization, and the historic transformations from centrally planned bureaucratic systems to free market economies (Autenrieth, 1993; Kaubek and Brewester, 1995) as well as the liberalization of economies, such as the Indian movement from a closed and regulated economy (Gopalan and Rivera, 1997; Khalilzadeh-Shirazi, 1994), is likely to result in more homogenous corporate architectures. In addition, the use of common technologies can be expected to lead to unprecedented changes in the way international business is conducted. Arguably, the blending of these dominant business arrangements with divergent nationally based values will compell managers to embrace newer attitudes and behaviours, and the cumulative effect will be the manifestation of patterns of work-related managerial values.

A strong research interest in managerial work values has been a feature of the cross national management literature. Perhaps the most well-known of these endeavours has been the widely acknowledged contribution of Hofstede (1980) who collated world-wide data during the 1960s and early 1970s. Even earlier there were notable contributions by Allport, Vernon and Lindzey (1931), and the added precision provided by Rokeach (1979) how global beliefs guide actions and judgments across a variety of situations. Consequently, the estimation of relationships between managerial work related orientations and their capacity to facilitate better business engagements has attracted a plethora of research. This may be summarily reviewed as the employment of Western instruments within Western and Eastern work settings (Nicholson and Stepina, 1998; Westwood and Posner, 1997,) Western instruments in Asian countries (Gopalan and Rivera, 1997), Western and Eastern scales with international managers from Asian and non-Asian countries (Ralston et al., 1993), as well as research that employed an Eastern measure in Asian work places (Pearson and Entrenkin, 2001). Despite these several, often narrowly focus and fragmented, avenues providing a wealth of information, comparison of the results leaves room for alternative interpretations, and this has encouraged the use of an universal non-cultural scale.

One of the more focused streams of work values investigation has been in terms of work preferences. The assumption that work goal are sought to satisfy needs has provided a sound foundation for the work dimensions of vocation (Super, 1973), importance (Lofquist and Dawis, 1971), personal values and systems as developed by England (1967), as well as the concept of work preferences as conceived by Pryor (1979) and his work aspect preference scale. The dimension of importance, as an attribute of work preference, has enticed researchers to give attention to particular work outcome in contrast to focusing on a value system (Dose, 1979). Indeed, from the collective approaches of this line of enquiry Elizur (1984) introduced the notion that the prioritization of work goal preferences was a reliable way of assessing the work values of managers.

Social scientists have shown considerable interest in examining managerial work goals. The underpinning for these research endeavours is that work, which occupies an extensive amount of a person's waking life, has significant direct and indirect ramifications for both employees and the wider community (Harpaz, 1990; Lundberg and Peterson, 1994). For instance, there is a vast literature about the economic and non-economic socio-psychological attachments to working in terms of relationships with organizations (types and structures), the individual (family issues and job design) and the community (social norms and investment). Some of these core attributes were examined in the seminal Meaning of Working study, which was a cross national investigation that was conducted by George England and colleagues (*MOW*, 1987). This investigation evaluated a conceptual model to explain how the formation, existence and consequences for the phenomenon of work meaning varied across the seven most industrialized nations (of the period 1981 to 1983) with a sample of 8,192 workers, including managers. Their eminent study was to spawn a number of assessments with work goals.

Role of Learning in Managerial Value Shifts

Schwarts (1992) defined values as a person's or social group's consistent beliefs about something in which they have an emotional investment. He suggested that values were desirable goals, varying in importance, which serve as guiding directions in their lives. Managerial values of hard work, goal achievement, material success, self discipline are building blocks of not only the organizational culture, but also the social culture. As the new agenda of global linkage and economic reform becomes increasingly relevant to many societies, the individual, group and social level components of managerial values often are not in alignment. What an individual manager considers to be a highly important value might not be valued by the immediate group as well as in the manager's society. Moreover, as societies change, personal values and social values often have reciprocal influences as macro level agenda filters through the micro level.

Tolbert et al. (2002) contended that an organization's ability to respond to the global imperatives was a result of proactive managerial process. This proactive process essentially transforms cooperatives culture at all levels of an organization to a geocentric and globally inclusive entity. They suggest,

"… this process and initiative address critical global diversity and charge issues meant to attract and retain the best employees; gain a marketing advantage through enhancing customer service, innovation and awareness of global and domestic diversity issues; increase employee creativity, quality, teamwork, and innovation; reduce costs associated with marginalization of employees and lower producing …" (Tobert et al. 2002, p. 465).

Managerial learning in an era of macro level economic transformation involves the diffusion of reform values to the macro level and micro level structures, behaviours and cultures of organizations. In addition, HRM issues of recruitment promotion, appraisal and development are deeply linked to this concept of global learning organization. Organizations such as Infosys, Wipro and Ranbaxy Laboratories have all been able to create a global culture due to the managerial primacy of learning as the key work goal.

Global learning as a work goal leads to three essential managerial value emphases. They are:

1. A sense of global mindset throughout an organization where managerial imagination and discretionary freedoms are seen in an enlarge context.
2. A sense of accountability beyond the bottom-line issues of a function, task or departmental goals towards a broader and multi- dimensional responsibility.
3. A sense of collective responsibility in learning not only towards comparatives organization strength but also contributing to a greater cause towards quality, innovation, industry reputation as well as broader social responsibility.

The purpose of this study is to assess the work value orientations of managers in ten Asian nations. Evaluating the perceptual orientations of managers facing contemporary changes in work organizations brought about by economic reform and global imperatives in of considerable relevance in Asia. Priorities of work goal variable indicate the changing values of manager as societal level priorities shift dramatically away from tradition through the forces of market ideology, technology, educations, alliances and logistics. Thus, in this study work goal were assess as proxy work values.

Methodology

Despite, on enormous range of instruments for scoring values the 11 item managerial work goals scale that was employed by the Meaning of Working (MOW) researchers, was chosen for this study. This choice was determined on two main grounds. First, the MOW instrument is arguably, acultural. Second, the linking of work values and work goals has been previously demonstrated by Elizur (1984) who contended a value has relevance in a work setting when the degree of importance can be estimated in terms of the work context and is measured in an ordered range from very important to very unimportant. Given the relatively open reporting of the scale (and the ease of translation) the MOW instrument was administered.

Respondents and Site

Questionnaire responses were provided by 2466 managers from ten Asian nations. These indigenous managers were employed in a wide spectrum of service and manufacturing organizations of their home country. For instance, their institutions were engaged in banking and finance, health, education, building and construction, mining and a range of goods producers. These firms, which were drawn from the public and private sectors varied in size from large corporations to small family firms.

Procedure

To optimize the response rate the managers were invited to complete a questionnaire by members of their guanxi. In the Chinese culture guanxi is understood to be a reciprocal obligation to respond to requests for assistance, and it is likely this phenomenon exists in other societies under other nomenclature. This notion was extended by employing the patronage of prestigious institutions when they were attended by potential respondents. For instance, the unique Indian sample was mainly comprised of executive Indian managers from across the nation when they attended the School of Human Values of the Indian Institute of Management at either Calcutta or other educational facilities. Also, the Mongolian managers, who attended United Nations Educational programs in the capital Ulaanbaatar, were invited to complete a questionnaire during their program. In addition, Japanese and Chinese managers, who are seldom exposed to questionnaires in the workplace, were encouraged by eminent educational and business institutions to be study participants. In the other countries (of this study), participants were induced to complete questionnaires by educational representatives. In some instances, the initial participants then invited other colleagues to complete a questionnaire. Nevertheless, all participants voluntarily completed a questionnaire under the condition of anonymity.

There was one version of questionnaire, but it was administered in four different languages. A back translation, that engaged three independent bilingual teams, was used to translate the original English format to the required questionnaire language. The questionnaire that was administered in China was Mandarin, the questionnaire administered in Japan was in Japanese characters, and there was a Thai compilation for the Thailand managers. In spite of the questionnaire being translated for the intent of meaning it was realized that non-English extant societies have very rich languages while in developing countries certain words have yet to become commonly used. Thus, it was not always possible to get a perfect correspondence with the Western nomenclature. However, this was not an issue for the respondents of India, Singapore, Malaysia, Mongolia, Brunei, Maldives and Mauritius as the English language is widely taught in their educational systems.

A prominent attribute of the study was that it sought the perceptions of a diverse group of managers. Indeed, not only were the managers from different countries and cultures with unique languages, customs and tastes, but there were also variations in ethnicity, religion and nuances. Consequently, focus groups, which were small groups of managers, were established in each country. There was more than one focus group in each country. These focus groups were subsequently, invited to provide elucidation of the relative importance of the managerial work goal preferences as reported by the study managers.

Measures

Two types of data were obtained. First, demographic information, which included gender, managerial level, age (by a range of years), and formal education level attained, were sought to develop a profile of each manager. Second, the relative work goal preferences of each manager were obtained.

Work goal preferences were assessed with a standard instrument. This scale, which was initially employed in the seminal Meaning of Working study (*MOW*, 1987), has been popularized by several recent studies (Chatterjee and Pearson, 2000; Corney and Richards, 2001; Harpaz, 1990; Lundberg and Peterson, 1994; Okachi, Pearson and Chatterjee, 2001; Pearson and Chatterjee, 2000). In practice, the manager ranks in relative importance each one of a set of 11 work goals. The set of 11 work goals are shown as Table 1. The respondents assign a one (1) to that work goal which they perceive to be the most important, a two (2) to the second most preferred work goal and so on until the relatively least preferred work goal is scored with an eleven (11). From these data an arithmetic mean is estimated for each work goal of the managerial sample. The work goals are then assigned rank scores, with the lowest mean score attracting a rank of one (1), the next highest mean a rank of two (2), until the least preferred work goal, which has the highest mean score, is assigned a rank score of 11.

Table 1. Scale for measuring work goal preferences

Respondents are required to rank in order (1 = first to 11 = least) the importance of each work goal for their work life.

- ❍ a To have work that is interesting
- ❍ b A lot of autonomy in decision making
- ❍ c Good personal social interrelationships
- ❍ d The opportunity to learn new things
- ❍ e A job that is matched with my abilities and experience
- ❍ f A good opportunity for promotion
- ❍ g Convenient work hours
- ❍ h A good salary
- ❍ i Good physical working conditions
- ❍ j A variety of tasks and roles
- ❍ k Good job security

Source: Harpaz, 1990; MOW, 1987

Analysis

Frequency tables were constructed from the demographic data, and the relative importance of each work goal was expressed as a ranked score by the procedure that has been outlined.

Results

Table 2 shows the demographic profile of the respondents of the ten countries. The low representation of female managers in the Indian and Japanese samples reflect the traditional practices of sex role discrimination in the work place that favours men more than women, strategically. Nevertheless, the extent of women managerial participation in the other countries, and particularly in the Thailand sample, underscores the emerging role of women in the contemporary Asian labour market. There was a reasonable distribution of respondents across the three categories of managerial level, except for the Indian and Mauritius samples. A feature of the Indian sample was that the participants were mainly Chief Executive Officers who had been invitees to the 'change masters' educational programs, while the Mauritius sample reflect the accelerated structural reorientations of the industrial, financial and tourism sectors in the search for global markets. Expectedly, the Indian, Japanese and Mauritius samples had higher numbers of more mature managers. A notable feature of Table 2 is a high proportion of the respondents held university degree qualifications. Overall, the content of Table 2 shows the similarities and differences of the respondent demographics across the ten study countries.

Table 2. Demographics of Each Country Percentage

		China	India	Japan	Singapore	Malaysia	Thailand	Mongolia	Brunei	Maldives	Mauritius
	Respondent #	416	421	195	231	143	156	380	115	208	201
Gender											
	Female	43	6.9	5.6	32.9	32.9	71.8	45	26.1	43.3	25.9
	Male	57	93.1	94.4	67.1	67.1	28.2	55	73.9	56.7	74.1
Managerial Level											
	Executive	18.8	70.1	26.2	29.4	37.1	14.7	32.3	19.1	44.2	78.1
	Senior	44.7	25.4	34.8	37.2	35.6	26.3	46.1	39.2	38.5	16.4
	Supervisory	36.5	4.5	39	33.4	27.3	59	21.6	41.7	17.3	5.5
Age (years)											
	20-29	52.5	5	7.7	36.8	21	44.2	24.2	11.3	33.7	8.8
	30-39	32.2	16.9	32.3	38.1	45.5	27.6	44.7	25.2	35.6	24.6
	40-49	10.3	34	27.7	20.8	25.8	22.4	21.6	51.3	21.4	32.3
	Above 49	5	44.1	32.3	4.3	7.7	5.8	9.5	12.2	4.3	34.3
Formal education											
	Senior high school	13.7	6.2	30.3	18.2	30.1	6.4	3.9	50.5	19.7	10
	Trade or vocational	18.8	38.2	6.6	19.5	14.7	12.2	7.4	19.1	34.6	17.4
	University	67.5	55.6	63.1	62.3	55.2	81.4	88.7	30.4	45.7	72.6

Table 3 shows the work goal rankings for the study countries. A salient aspect of Table 3 is the expressed high consensus for the work goal of an *opportunity to learn new things* at work. It is also shown in Table 3 that the managers expressed consensus, albeit at a lower level of preference, for the work goal of *interesting work*. At an even lower level of preference there was reasonable agreement by the respondents for the work goal of a *good match of job incumbent competencies and experience with the job requirements*. The two comfort work goals of *convenient work hours*, and *good physical working conditions* attracted the lowest levels of managerial preferences. An interesting feature of Table 3 is that the economic work goals of *promotion, salary* and *job security* were seldom reported as relatively important. And despite the attention that has been given to the content and context dimensions in the job design literature the work goals of *job autonomy*, *job variety* and *social interrelationships* were perceived by the study managers to be relatively unimportant. The pattern of work goal preferences for the demographic profile of the respondents was a curiosity that was ameliorated by comments from focus groups.

Table 3. Work goal rankings

Work goal	China	India	Japan	Singapore	Malaysia	Thailand	Mongolia	Brunei	Maldives	Mauritius
Opportunity to learn	1	1	1	1	2	1	1	1	1	2
Promotion	2	6	6	3	1	8	4	5	5	7
Interesting work	3	2	3	2	5	2	2	2	2	1
Salary	4	9	8	5	4	9	7	6	10	8
Goodmatch	5	4	2	4	3	4	5	3	3	3
Job autonomy	6	7	7	6	9	6	8	10	7	4
Interpresonal	7	5	5	7	7	3	3	4	4	5
Job security	8	8	9	9	8	5	10	9	9	10
Job variety	9	3	4	8	6	7	6	7	6	6
Convenient hours	10	11	10	10	11	10	9	8	11	11
Work conditions	11	10	11	11	10	11	11	11	8	9

Contributors from the focus group lead to a better appreciation for work goal differences and similarities across the ten countries. In fact, the members speculated that the work goal preferences were likely to be determined by country effects, which is consistent with a conclusion derived by Lundberg and Peterson (1994) in their cross cultural study with US and Japanese managers. For instance, Chinese focus group members stated the relatively low preference for the work goal of *job autonomy* expresses the distribution of power and authority (and maintains power distance) to endorse Confucian principles. Indeed, in Chinese work settings incumbents in higher institutional positions maintain power and status by controlling information flows and centralizing decision making. Members of the Indian focus groups proposed that *salary*, although by itself was important, would not be relatively important to the Indian study managers (who were mainly CEOs) who already enjoyed high remuneration. And the Malaysian focus group members contended the high preference for the work goal of *promotion* was understandable in the context of a country experiencing the after effects of the Asian financial meltdown. Thus, the work goal of promotion was relatively important as it realized a salary increase, and consequently, led to greater consumer capacity. The Mongolian focus groups also accounted how economic circumstances can substantially influence work goal preferences. Their members said that in the new Mongolian market economy, many managers were still employed in low paid government jobs, but now living costs were much higher, and the State was no longer responsible for the community economic welfare. Hence, many managers held a second job. Thus the work goal of *convenient work hours* became relatively important. When the comments from the members of the geographically dispersed focus groups were consolidated, for each of the 11 work goals, it became possible to more positively speculate the underpinning for the greater variations in the rank scores of specific work goals.

In addition to providing foundation for understanding wider divergent work goal preferences, the focus groups also added to the discovery of why some work goal rankings were less divergent. For instance, the work goal of a *good match between incumbent skills and experience and the job requirements* was reasonably preferred by many respondent managers, but likely for different local nuances. For instance, the focus group members in India, Singapore and Brunei believed relatively high work goal rankings for this work goal reflected a preference for jobs that enabled managers to demonstrate the skills and competencies they had acquired from an investment in education. In contrast, the Japanese focus group members stated the matching of job and person was expectedly highly ranked because importance has always been given to the multi task capabilities of Japanese workers, and indeed, skills enhancing in turn contributes to elevating the preference for the work goal of *interesting work*. Alternatively, in other countries (e.g., India, Singapore and Thailand) where the work goal of *interesting work* attracted high preferences the focus group members suggested other reasons. In these countries the proposal was along lines that managerial work is seldom repetitive, and is more likely to be ambiguous, conducted at a frenetic pace, and frequently managers have to satifice. Inherently, these challenges lead to interesting work, and the opportunity to work in competitive global markets has sharpened the intensity of this work interest. These notions were advanced by the several focus group members who also promoted the perspective of convergence. Their broad suggestions were that as contemporary society becomes more exposed to Western management principles and practices managerial work is likely to become freer of past ideological baggage, and hence, work goal preferences are like to be reshaped.

Focus group members endorsed the convergence of five work goals. Members promoted the notion in the new global economy no job is secure as all things are in transition so the work goal of *job security* is likely to attract a low preference. These members also suggested *job variety* is likely to be ranked low, not because it is not desired, but became it is indeed, ubiquitous in managerial work. As it is so common, it becomes relatively less preferred. The least two preferred work goals were reported as the two comfort goals of *convenient work hours* and *good physical working conditions*. The focus group members reflected that managerial work entertains long work days, and hence, convenience is unexpected. Also, in the context of Asian managerial work seldom has prominence been given to the 'trappings' of work settings. Consequently, work premises are often less elaborate than their Western counterparts as they attract less importance than Western organisational structures and internal culture. A striking feature of the pattern of work goal rankings was the high endorsement for *learning new things at work*. Consequently, it was regularly commented by the members of the focus teams that managers in dynamic work places are aware of the need to acquire skills and competencies that will be the hallmark of tomorrow's jobs.

Concluding Discussion

This study evaluated the work goal preferences in ten countries. A salient connection of these countries is their participation in the competitive global arena, and consequently, these nations have been engaged in searching for a fine balance between tradition and change. This journey has compelled reformation of institutional arrangements to facilitate attainment of potential benefits from advancing information technology, emerging information about contemporary managerial business practices and theory as well as entertaining the changing expectations of labour markets to create organizations that are more context relevant. A major purpose of this study was to benchmark representative managerial work goal preferences in the work settings of these ten nations. The empirical evidence is that despite different sample sizes across countries, and demographic profiles with some inter nation variations, there were patterns of similarities and differences of work goal preferences.

Focus groups were employed to facilitate elucidation of the work goal preferences. The collation of the considerable comments from these groups led to an observation that the differences in work goal preferences were underscored by traditional cultural values, and influences on managerial work from dominant properties of the contemporary market place. Thus, some work goal preferences such as those for *salary, job autonomy* and *job variety* had greater variations in rankings between countries; while other work goals, such *interesting work*, *a good match*, and the two *comfort goals* had lesser variations in preferences between countries. The focus group members also suggested that the hierarchical relative importance of work goals is also an outcome of tradition and contemporary exigencies. A most salient finding was that the work goal of *an opportunity to learn at work* was frequently endorsed as the most preferred work goal, yet in the seminal Meaning of Work study (Harpaz, 1990; *MOW*, 1987) this work goal was ranked seventh. The focus group members unhesitantly and universally stated that in their opinion the work goal of *learning* was the most important work goal preference of managers in their country.

The extent of these divergences in work goal preferences has potential to infer implications for emerging organizational architecture. For instance, Chinese society (including the overseas Chinese influence in most nations of the Asian Pacific), which has historically been established on Confucian ideals, is likely to be characterized by institutional frameworks and management styles that express centralization, formalization and notions of harmonious hierarchical social order. Alternatively, latent in traditional Indian society was a complex tapestry of religion and caste, which are features that helped shape organizational structures of the period of the British rule. And some commentators (Pascale and Athos, 1981) have contended the Japanese managers were adept at utilizing social and spiritual forces to create unique human resource management styles that were praised and revered by Western managers, for their sophistication and production capacity. In contrast to the strict rules of behaviour expected in Confucian society is the openness and group orientation of Mongolian institutional arrangements, attributes that are rooted in an ancient nomadic tribal society. These are broad descriptions, but the key attributes of them illustrate there are different sensitivities and unique features that require appreciation when conducting successful international business. Thus, a major challenge for those who have a pecuniary stake in international labour markets and interrelated issues is how to integrate and balance these rich traditional values with the dominant priorities of business modernity. More specifically, the findings of the study reveal a challenge for practitioners responsible for the institutionalisation of international Human Resource Management (HRM). The extent of differences across work goal ranks demonstrates both etic (culture common) and emic (culture specific) managerial preferences. Incorporating these features either for multinational corporations or even local companies that have multinational cadres would require flexible HRM policies and practices that give careful consideration to both the etic and emic dimensions.

The strong consensus for the work goal of *learning new things* at work has pragmatic applicability. For instance, this salient finding has the capacity to be aware of those responsible for the company HRM policies and practices to provide a comprehensive opportunity for employees to acquire educational accomplishments both within the organization as well as from recognized external accrediting bodies. Expanding the responsible provision for further learning contains an important caveat. Indeed, any training, reskilling or expansion of competencies should be vocationally relevant (Beasley and Pearson, 1999; Pearson and Chatterjee, 2004) preferably for current jobs (Dougherty, 1999) with some flexibility for speculated future tasks. This in turn has some consequences for education provider facilities given the extent and distribution of non-standard jobs (i.e., flexi time, part time, job sharing). Clearly, these centres will be required to undertake radical changes to traditional courses of study in the pursuit of best practices that incorporate contrasting ideological and value assumptions.

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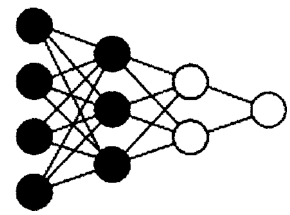
Effort in Complex Task Performance and the Difficulty of Extending Current Research to the Field



Megan Lee Endres and Hassana Mouhieddine Tabch

Recent research addresses how task complexity and uncertainty affect employee effort and performance, but the extension of findings to managers is difficult due to lack of understanding of the effort-performance relationship and to the use of different definitions of effort. Results presented here reveal that the relationships between self-efficacy, effort, and performance vary depending on what measure of effort is used. The effort-performance relationship is linear for one effort measure, but not for another. Given that different measures of effort are not distinguished in the literature raises a concern that research results may be misinterpreted by both managers and researchers.

The majority of managerial decision making is characterized by complexity and uncertainty (Wood, Mento, & Locke, 1987). Little research is conducted on the effects of complexity on decision making, however, and particularly on employee effort and performance. This lack of research does not provide adequate support to managers who seek strategies to improve performance through effort in complex, uncertain situations.

One issue in the literature follows from the assumption of a linear relationship between self-efficacy (self-beliefs in ability to perform a specific task), effort and performance. In fact, the relationship may be non-linear in many complex tasks (Kanfer, 1987). In fact, a defining element of a complex task is that performance may not increase through effort and persistence (Wood, 1986). A linear effort-performance relationship implies that motivation occurred with more performance or, conversely, that a low performer is not motivated and did not apply effort. Managers who rely on the premise that more effort leads to performance also may incorrectly conclude either that (1) the low-performing employee is not applying effort to the complex task, or (2) that a high-performing employee is applying considerable effort. In the case of a nonlinear effort-performance relationship, these unfounded assumptions may be incorrect and could result in erroneous personnel decisions.

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A second ambiguity in the organizational literature arises from not distinguishing between different operationalizations of effort in complex tasks. Measures used in the literature range from subjective to objective, including self-perceptions, time spent on the task, and task strategies. Subject perceptions are distorted in complex task performance (Taylor, Cosier, & Ganster, 1992), suggesting that perceptual measures of effort may be different from objective measures. Results may not be equivalent, and application of the results to practice may be misapplied. In a related study, for example, Tubbs and Dahl (1991) found that different operationalizations of goal commitment yielded different results for whether assigned goals predicted performance. The authors stated that researchers often assume that alternate measures of a construct are valid and both can be interpreted interchangeably.

The current research seeks to examine the literature and analyze data in order to illustrate how incorrect conclusions are formed about effort, performance and motivation when: (1) effort-performance relationships are non-linear, and (2) different operationalizations for effort are used, but treated as equal. The study is described, results are presented, and implications for research and practice are detailed.

Literature Review

Task Complexity

Task complexity refers to the nature of the work. Tasks have three main dimensions: outputs, required acts, and information cues (Wood, 1986). Attributes relating to these three dimensions make a task complex. Tasks may be complex due to: (1) component complexity, the number of distinct acts used in performance and the number of information cues a person must process for performance, (2) coordinative complexity, the nature of relationships between task inputs and products, and (3) dynamic complexity, changes in the task over time. Effort does not necessarily result in performance in these types of tasks.

Nature of the Effort-Performance Relationship

Researchers often use performance measures as proxies for motivation, but motivation is actually dependent on the amount of effort a person applies to performance (Kanfer, 1987). When researchers use performance as a proxy for motivation, they implicitly assume that the relationship between effort and performance is linear.

In some studies, the linear effort-performance relationship is clear. People can achieve success by applying themselves and persisting. For example, Bandura and Cervone (1986) conducted studies in which subjects peddled a stationary cycle, and effort was directly related to performance. In contrast, effort is often not linearly related to performance in complex tasks, and both effort and performance must be measured in order to conclude that motivation is affected (Kanfer, 1987). Therefore, researchers should not erroneously assume that higher performance implies more motivation and effort. Conversely, researchers may wrongly conclude that lower performance implies less motivation and effort.

Stone (1994) used mediator analysis to investigate the effort-performance relationship and to determine whether motivation occurred in a complex task. In his 1994 study, effort (measured as time a person spent on the task) and information search mediated the effect of self-beliefs of ability on performance. Increases in performance could be attributed to increased effort.

Theoretical development of the effort construct extends beyond the simple definition of time spent on a task. For example, Kahneman (1973) promoted the idea of mental effort, which indicates cognitive attention to a task. The concept of mental effort aided in distinguishing that different types of tasks call for different types of effort. Another influential development relating to effort is the concept of chunking (Simon, 1974). Individuals identify patterns and themes in data in order to be adaptive and efficient in their decision making. Effort in complex situations is not necessarily applied for optimal performance, but to balance outcomes, such as the decision maker's stress and performance quality.

In sum, the effort-performance relationship may not be linear in complex tasks. Past researchers indicated that effort is not necessarily linearly related to performance, and that effort is a more encompassing concept than time subjects spent on a task. Therefore, motivation cannot be inferred by studying performance outcomes only. More consistent research is needed to study effort in complex tasks and to verify that effort is positively and linearly related to performance.

Self-Beliefs of Ability, Effort and Performance

Self-referent thought affects effort in complex tasks through a generative capacity, meaning it can mobilize effort to fit performance (Bandura, 1997). Self-efficacy, a central component of Social Cognitive Theory (SCT), is a form of self-referent thought and is defined as the judgment of one's capabilities to plan and execute action. Task attributes, such as complexity and uncertainty, are important inputs into the formation of self-efficacy.

Task complexity and uncertainty may cause upward or downward cycles of self-efficacy perceptions that affect effort, persistence, and performance (Lindsley, Brass, & Thomas, 1995). When the task requirements are not clear, individuals may overestimate or underestimate the effort required for performance. In extreme causes, learned helplessness can result from continued failures despite high effort expenditure (Brown & Inouye, 1978). When a task is overly complex or uncertain, people may also believe that their actions will not lead to effective performance, especially when the environment is perceived as punishing or unresponsive (Bandura, 1982).

Self-efficacy formation is an iterative process in which a person gathers experience about the task, his/her performance experience, and the situation in order to form self-efficacy perceptions. Estimates of self-efficacy should become more accurate with task experience as people better assess the task, their own abilities, and the task environment. Better estimates of self-efficacy should lead people to put forth the right amount of effort that is necessary to perform a task.

Past Research on the Self-Efficacy-Effort-Performance Relationships

Self-efficacy positively affects effort in simple tasks, across domains and fields of study (Bandura, 1997). In contrast, few studies addressed self-efficacy in complex tasks and how task attributes affect its formation and outcomes. A positive self-efficacy-effort-performance relationship was hypothesized in few studies that are outlined here.

Stock and Cervone (1990), Stone (1994), and Endres (1998) measured effort as total time spent on the task. Cervone, Jiwani, and Wood (1991) measured the frequency with which subjects changed elements in a decision task. Wood, George-Falvy, and Debowski (2001) measured the quality of information search, judged by task strategies. Self-perceptions of effort are also often measured in the literature in task performance (e.g., Shepperd, Arkin, Strathman, & Baker, 1994).

Stock and Cervone (1990) used two complex problem-solving tasks in order to examine the effects of proximal goal setting on self-regulatory factors (self-efficacy perceptions and self-evaluations) and task persistence. The authors found that self-efficacy perceptions mediated the effects of proximal goals on persistence, and that subjects who attained proximal goals increased their persistence. Regression analysis verified that self-efficacy perceptions mediated the effect of proximal goals on persistence.

Stone (1994) used a computer decision-making task to study overconfidence in initial measures of self-efficacy. Component and coordinative complexity resulted from the need to match multiple cues with a choice for which the decision rules were not clear. Initial self-efficacy perceptions were overestimated and did not influence future performance, effort, and strategy formation. Subjects given mildly negative performance expectations were most persistent versus those who received positive or strongly negative expectations.

Cervone et al. (1991) used an organizational decision simulation task to investigate the effects of assigned goals on self-regulatory factors (self-efficacy perceptions, self-evaluations, and personal goals). Dissatisfaction with past performance caused subjects to exert more effort, but these subjects used inferior strategies that produced poor results. Decisional effort was operationalized as the "total number of factors changed for all employees for each trial" (p. 260). Quantity measures of effort, such as this one, count total subject attempts at a task or actions during a task.

Endres (1998) used a multiple cue probability learning paradigm (MCPLP) decision-making task to determine whether assigned, easy goals were superior to assigned, difficult and impossible goals in affecting self-efficacy, personal goals, effort and performance. Subjects were given three cues and asked to predict a P/E ratio from the cues, with 25 per cent of the variance in the outcome variable unexplained. Self-efficacy did not affect effort significantly, and effort did not affect performance.

Wood et al. (2001) studied subject effort in performance of a complex, CD-Rom search task. Subjects with high self-efficacy wasted less effort (indicated by their use of more high-quality strategies) versus subjects with low self-efficacy. No differences were found in total search effort between the high and low self-efficacy groups. The Wood et al. study illustrates that it is possible for two effort measures (general versus specific) to yield different conclusions about the self-efficacy-effort and self-efficacy-performance relationships.

Goal orientation affects effort perceptions (Taylor, Fisher, & Ilgen, 1984), leading credence to the idea that self-reported measures of effort may vary in accuracy based on one's personality. VandeWalle, Cron, and Slocum (2001) investigated the importance of goal orientation and its effects on goal setting, self-efficacy, and effort. In contrast to past studies, VandeWalle et al. did not propose that effort would mediate the relationship between self-efficacy and performance. Instead, they proposed and confirmed that effort would mediate the relationship between goal orientation used in training and performance. Self-efficacy exerted an independent positive effect on performance.

Other researchers have discussed relevant aspects of the self-efficacy—performance relationship. Kuo, Chu, Hsu, and Hsieh (2004) presented an intriguing concept of effort-saving behaviour in relation to self-efficacy to effectively search the Web. The authors discovered that subjects with low self-efficacy increased effort in order to increase their accuracy, but those with higher self-efficacy did not increase effort in order to increase accuracy. These results show that effort mediated the self-efficacy performance relationship, but subject goal determined the direction of the mediation.

Bandalos, Finney, and Geske (2003) use study strategies to measure effort in a study of self-efficacy to perform on statistics tests. Using a structural equation model, the authors found that effort did not mediate the relationship between self-efficacy and test achievement. Test anxiety was a significant mediator between self-efficacy and performance, however, and was suggested to be a key cause of ineffective strategy use.

In sum, very little research has been conducted on the self-efficacy-effort-performance relationship in complex tasks. Because so few studies are published, definitive conclusions cannot be drawn yet. Effort was measured differently across research – as time spent on the task, quality of strategies used, quantity of strategies used, and self-perceptions of effort.

Hypotheses Development

The hypotheses are developed based on past research which indicates that self-efficacy should predict effort, which should then predict performance. Because a limitation of past research is the single operationalization of effort, rather than the comparison of different measures, two types of effort are referred to: timed effort and perceived effort.

The task for the present study was deliberately designed to have a very high level of complexity and uncertainty. Subjects were asked to make a series of predictions based on three cues, and these three cues each explained approximately 25 per cent of the variance in the criterion. Subjects were only told to make the predictions, and were given no information about the amount of task uncertainty or their likelihood of achieving results. With 25 per cent of the variance unexplained, subjects could not improve in their ability to predict, and more time on the task would not result in more performance. These conclusions are based on past analyses using the same task (Endres, 1998; Taylor, 1987). Therefore, self-efficacy is not expected to predict timed effort, and timed effort is not expected to predict performance.

H1a: Self-efficacy will not predict timed effort.

H1b: Self-efficacy will predict perceived effort.

Self-perceived effort, however, is expected to be consistent with self-efficacy perceptions. If individuals can accurately predict their own performance, they should accurately infer how much effort they are expending.

H2a: Timed effort will not predict performance.

H2b: Perceived effort will predict performance.

Finally, past research indicates that effort should mediate the self-efficacy-performance relationship. Due to the construct operationalization differences and difficulties discussed above, perceived effort should be a mediator of the relationship, while timed effort should not be.

H3a: Timed effort will not mediate the self-efficacy-performance relationship.

H3b: Perceived effort will mediate the self-efficacy-performance relationship.

Study Design

The research design is a 3 x 3 factorial, incorporating three levels of goals over repeated-measures trial blocks, called Profit Centers. Subjects completed four Profit Centers of predictions (A, B, C, and D). Profit Center A served as a practice trial.

The complex task used in this study is a multiple cue probability learning paradigm (MCPLP) task designed by Taylor (1987) and adapted from Cosier (1980). Subjects were told that they were playing the role of a financial manager for ABCD Electronics, Inc. Subjects were asked to predict price/equity (P/E) ratios based on three financial ratios that were given to them as cues (current ratio, inventory turnover, and debt-to-equity). A subject made 20 predictions in each Profit Center, or 80 predictions total (20 decisions x 4 Profit Centers). The three financial ratios used as cues have multicollinearity near zero. The correlations between the cues and the criteria explain approximately 75 per cent of the variance in each Profit Center, leaving 25 per cent of the variance unexplained.

Performance was measured as the accuracy of the subject's predictions. The lower the average prediction error over a block of 20 decisions, the better the performance.

Because self-efficacy is a task-specific construct, the self-efficacy questionnaire is unique for each study (Bandura, 1997). This uniqueness makes the pilot study more important to help establish validity and reliability. Cronbach's (1951) alpha calculations reveal that the self-efficacy scale displays high internal consistency in Profit Centers B (a = .924, n = 159), C (a = .935, n = 158), and D (a = .939, n = 159). Correlations between the three self-efficacy measures also indicate high test-retest reliability. Self-efficacy perceptions are correlated significantly for Profit Centers B and C (r = .666, p < .000, n = 158), B and D (r = .585, p < .000, n = 159), and C and D (r = .874, p < .000, n = 158).

Timed effort was operationalized as the number of minutes a person worked on predictions in a Profit Center. The subject noted the time he/she started each Profit Center's predictions, and the time he/she ended. A clock on the wall was visible to all subjects. Self-reported effort was measured as a question after each Profit Center, phrased as: How much effort did you exert to make the last 20 P/E predictions? (0 = no effort at all; 100 = a great deal of effort).

Results

The sample size for this study was determined with Cohen's (1988) power tables. Subjects were 80 males and 82 females from undergraduate management classes at a large public university. Subjects were told that they had the opportunity to earn extra credit points in their class, and signed up to participate in one of 25 experimental sections that took place during the week outside of their classes. Although subjects believed their performance was linked to how many extra credit points they would receive, subjects were given all extra credit points after the experiment was completed and the subjects were debriefed.

The correlation table for the study variables is in Appendix A. The two effort measures significantly correlated in Profit Centers A (r = .342, p < .000, n = 157), B (r = .274, p < .000, n = 155), C (r = .223, p < .005, n = 156), and D (r = .229, p < .005, n = 150). Pearson correlations between effort and performance are negative because a lower value for the performance measure indicates better performance.

Hypotheses 1a and 1b: The Self-Efficacy-Effort Relationship

As expected (H1a), Self-efficacy did not predict timed effort at the p < .05 level in Profit Center B, C, or D (Table 1). For H1b, self-efficacy did not predict self-reported effort in Profit Center B, but did predict self-reported effort in Profit Centers C and D.

Table-1 Regression Analyses of Self-Efficacy as a Predictor of Effort

Model 1: Timed Effort		*SS*	*df*	*Mean Square*	*F*	*Sig.*
1: Profit Center B	Regression *r*	25.493	1	25.493	1.979	.162
	Residual	1945.500	151	12.884		
	Total	1970.993	152			
2: Profit Center C	Regression *r*	8.020	1	8.020	1.786	.183
	Residual	682.636	152	4.491		
	Total	690.656	153			
3: Profit Center D	Regression *r*	4.683	1	4.683	1.102	.296
	Residual	620.290	146	4.249		
	Total	624.973	147			
Model 2: Self-Reported Effort		*SS*	*df*	*Mean Square*	*F*	*Sig.*
1: Profit Center B	Regression *r*	799.968	1	799.968	2.161	.144
	Residual	57750.266	156	370.194		
	Total	58550.234	157			
2: Profit Center C	Regression *r*	5016.058	1	5016.058	10.877	.001
	Residual	71478.133	155	461.149		
	Total	76494.191	156			
3: Profit Center D	Regression *r*	4065.436	1	4065.436	7.233	.008
	Residual	87678.995	156	562.045		
	Total	91744.430	157			

Hypotheses 2a and 2b: The Effort-Performance Relationship

As expected (H2a), timed effort does not predict performance significantly in Profit Center B (Table 2). Timed effort predicts performance at a marginal significance level in Profit Centers C and D. For H2b, the self-reported effort measure predicts performance significantly in Profit Centers B, C, and D.

Table-2 Regression Analyses of Effort as a Predictor of Performance

Model 1: Timed Effort			*SS*	*df*	*Mean Square*	*F*	*Sig.*
1: Profit Center B		Regression *r*	4.632E-05	1	4.632E-05	.000	.995
	Residual	190.480	154	1.237			
	Total	190.480	155				
2: Profit Center C		Regression *r*	3.360	1	3.360	3.312	.071
	Residual	157.261	155	1.015			
	Total	160.621	156				
3: Profit Center D		Regression *r*	3.022	1	3.022	3.101	.080
	Residual	145.172	149	.974			
	Total	148.193	150				
Model 2: Self-Reported Effort			*SS*	*df*	*Mean Square*	*F*	*Sig.*
1: Profit Center B		Regression *r*	16.691	1	16.691	15.050	.000
	Residual	175.227	158	1.109			
	Total	191.918	159				
2: Profit Center C		Regression *r*	13.045	1	13.045	13.923	.000
	Residual	148.031	158	.937			
	Total	161.076	159				
3: Profit Center D		Regression *r*	14.971	1	14.971	16.133	.000
	Residual	146.619	158	.928			
	Total	161.590	159				

Hypotheses 3a and 3b: Self-Efficacy-Effort-Performance Mediation Test

In order for effort to mediate the self-efficacy-performance relationship, the following criteria must be met (Baron & Kenny, 1986):

1) X (self-efficacy) is correlated with Y (performance).

2) X (self-efficacy) is correlated with the mediator (effort).

3) The mediator (effort) is correlated with Y (performance), when X (self-efficacy) is present in the prediction equation.

4) The effect of X (self-efficacy) on Y (performance) is zero when the mediator (effort) is present.

Self-efficacy predicts performance in Profit Centers B ($F = 7.534$, $p < .007$, $n = 157$), C ($F = 10.293$, $p < .002$, $n = 157$), and D ($F = 20.020$, $p < .000$, $n = 157$). Based on these results, Step 1 of the mediation tests is fulfilled.

Self-efficacy does not predict timed effort in any Profit Center, so the mediation test fails for timed effort in Step 2. H3b is verified, and timed effort does not mediate the relationship between self-efficacy and performance.

Self-efficacy predicts self-reported effort significantly in Profit Centers C and D (Table 1, above), thus satisfying Step 2 of the mediation test for Profit Centers C and D only. Table 3 shows that self-reported effort does not predict performance when self-efficacy is present in Profit Center C or D. Therefore, H3b is not supported. Self-reported effort does not mediate the relationship between self-efficacy and performance.

Table-3 Mediation Test of the Self-Efficacy-Self-Reported Effort-Performance Relationship

		Type III Sum of Sq	df	Mean Square	F	Sig.
PCC: SE➠P	Corrected Model	131.504	123	1.069	1.305	.190
	Intercept	365.189	1	365.189	445.767	.000
	SETOTQ1	54.043	58	.932	1.137	.350
	EF1Q2	63.487	63	1.008	1.230	.262
	Error	27.035	33	.819		
	Total	1783.545	157			
	Corrected Total	158.539	156			
PCD: SE➠P	Corrected Model	128.850	126	1.023	1.088	.408
	Intercept	447.006	1	447.006	475.795	.000
	SETOTQ1	59.334	55	1.079	1.148	.347
	EF1Q2	53.522	63	.850	.904	.640
	Error	28.185	30	.939		
	Total	1736.961	157			
	Corrected Total	157.034	156			

Summary of Results

Self-efficacy positively predicts self-reported effort in Profit Centers B, C, and D. Self-reported effort positively predicts performance in Profit Centers B, C, and D. Self-efficacy does not predict timed effort, and timed effort only marginally predicts performance in Profit Centers C and D. Neither measure of effort mediates the self-efficacy-performance relationship.

Conclusions and Post Hoc Analyses

Discussion of Results

The current research sought to examine the relationships between self-efficacy, effort, and performance, when two operationalizations of effort are used. The first purpose was to determine whether effort-performance relationships are linear in a highly complex, uncertain task. The second purpose was to compare two types of effort measures, self-reported and objective, for consistency. These two types of measures are used in the complex task literature and discussed interchangeably.

Volumes of research support the predictive ability of self-efficacy on effort (Bandura, 1997), mainly in simple task situations. In the present study, however, self-efficacy does not predict the amount of effort (time) a person applies to the complex task. Time spent on the task also does not predict performance, except at a marginal significance level.

Self-efficacy is a strong, positive predictor of self-reported effort, and self-reported effort strongly predicts performance. That self-efficacy predicts self-reported effort is not surprising. Subjects received feedback about their performance during the task, and were asked to report their own effort after seeing this feedback. When responding to the self-reported effort question, a subject may have subconsciously considered, "I must not have tried hard enough if my score was so low." Conversely, the subject may have thought, "I must have put forth considerable effort to perform so well."

Two possible conclusions are discussed here. First, subjects' perceptions may be distorted, and they may have reported that they put forth a different amount of effort than they actually did (in terms of time). In their study to compare self-report and discrepancy measures of goal commitment, Tubbs and Dahl (1991) found that different task conditions (in their study, different goal difficulty levels) may affect the validity of a self-report measure.

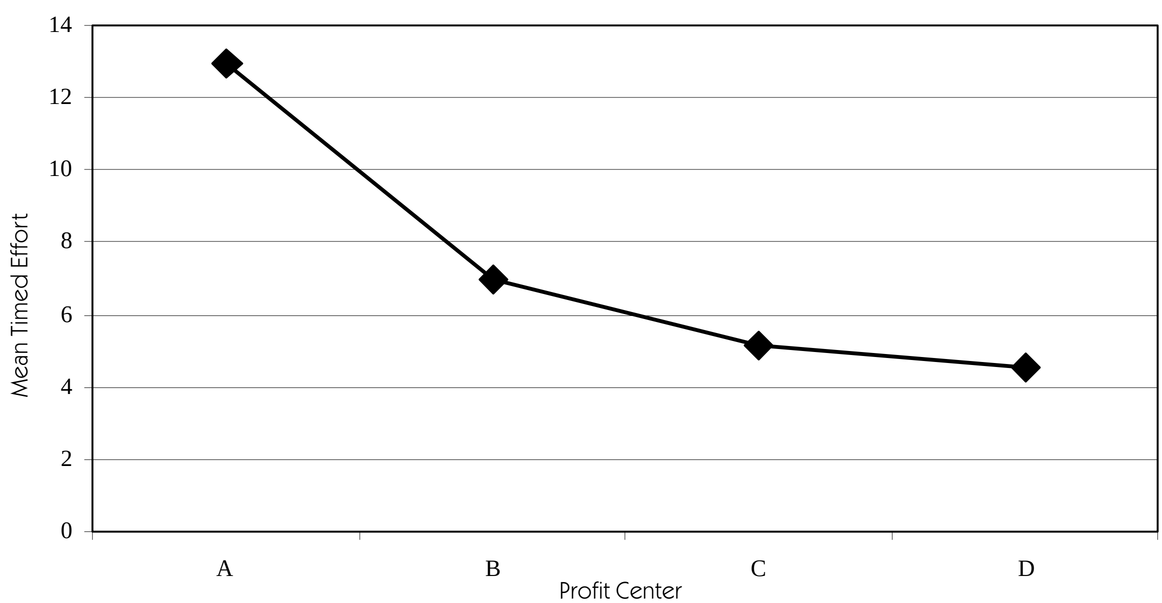
This first possible conclusion of perceptual distortion has been found in past studies (e.g., Taylor et al., 1992). The task is more complex than the other two self-efficacy-effort studies in which a complex task was used (Stock & Cervone, 1990; Stone, 1994). The uncertain nature of the task was designed purposely—75 per cent of the outcome variance was explained by the three cues that subjects received, and 25 per cent of the outcome variance was unexplained. More time on the task did not necessarily lead to better performance.

Self-efficacy predicted performance, though, indicating that subjects' estimations of their ability to perform the task were correct. Self-efficacy also predicted self-reported effort, showing that subjects reported that they put forth the amount of effort needed for equivalent performance.

So, even if perceptions were distorted as reported in past complex task studies, subjects in this study were still able to predict their own ability to perform the highly complex task. This leads to the second posed question of whether timed effort is an appropriate measure of effort in this task. A second possible conclusion from this study is that time spent working on a task is not an appropriate measure of effort in a highly complex, uncertain task. The effort-performance relationship may, in fact, be linear in this type of task, but with a different operationalization of effort such as number of strategies employed (although not measured here). The charts below illustrate the stability of subjects' self-efficacy and self-reported effort over time in the task, and also show the decrease in the amount of time subjects applied to the task.

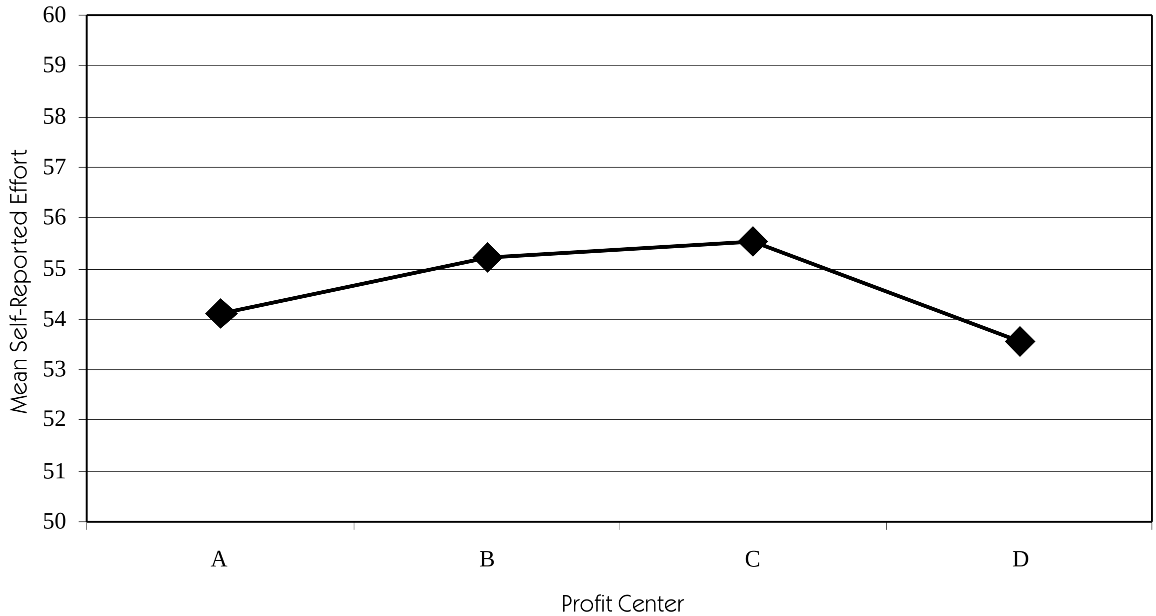
Chart 1 shows mean timed effort over time in the task. Timed effort decreased significantly from Profit Centers: A versus B ($t = 11.842$, $p < .000$, $df = 153$), B versus C ($t = 7.022$, $p < .000$, $df = 151$), and C versus D ($t = 3.970$, $p < .000$, $df = 147$). In post-task interviews, subjects repeatedly stated that they 'tried hard' and 'kept trying to figure it out.' These interviews indicate that subjects continued to believe that they put forth effort, or that they engaged in self-talk to convince themselves that they were trying.

Chart 1. Mean Timed Effort Over Profit Centers A, B, C, and D.



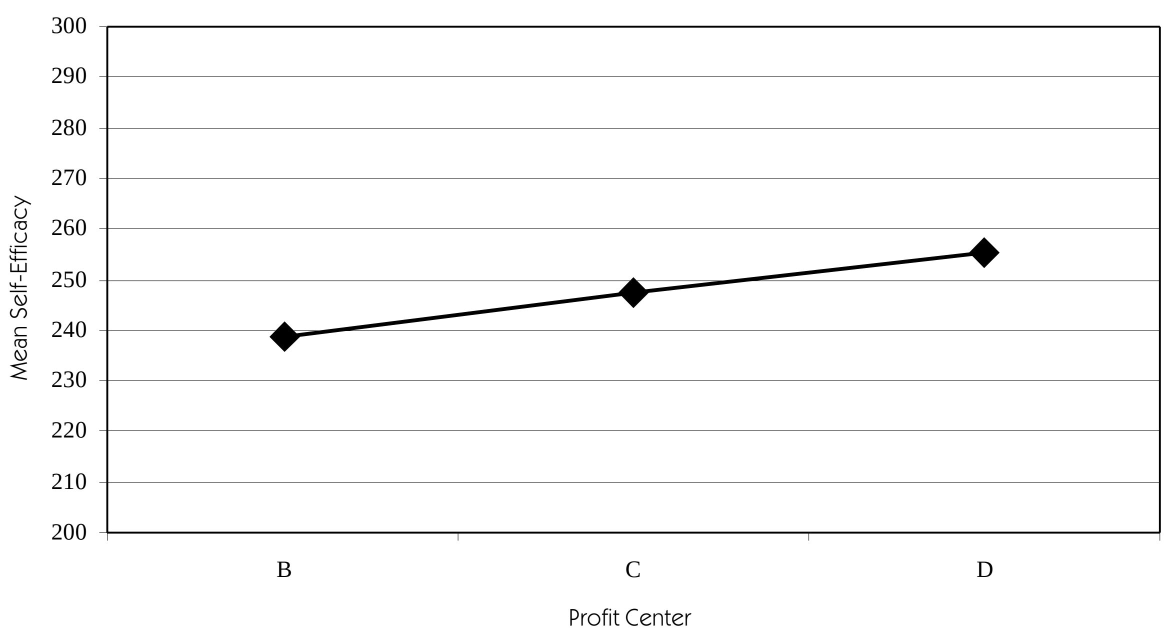
Although one might suspect that subjects stopped putting time into the task because they gave up, the charts below show that while timed effort decreased, self-reported effort and self-efficacy did not change. Subjects' beliefs in their ability to perform the task remained consistent. Self-reported effort over the four Profit Centers is illustrated in Chart 2. The difference between self-reported effort over time in the Profit Centers is not significant: A versus B ($t = -.833$, $p < .406$, $df = 159$), B versus C ($t = -.066$, $p < .948$, $df = 159$), and C versus D ($t = 1.683$, $p < .094$, $df = 159$). The difference between Profit Centers C and D self-reported effort may be considered significant at a marginal level, but overall, differences are not significant. Subjects reported that they put forth consistent effort across the Profit Centers.

Chart 2. Mean Self-Reported Effort Over Profit Centers A, B, C, and D.



Self-efficacy data indicates that subjects did not feel helpless or give up on their own ability to perform the task (Chart 3). Although subjects spent less time on the task over time, self-efficacy remained consistent despite that subjects spent significantly less time on the task.

Chart 3. Mean Self-Efficacy Over Profit Centers B, C, and D.



Appendix A. Study variable Pearson correlations (two-tailed)

			1	2	3	4	5	6	7	8	9	10	11	12
1	SE PC B	r												
		Sig.	-											
		n												
2	SE PC C	r	.666											
		Sig	.000	-										
		n	158											
3	SE PC D	r.	.585	.874										
		Sig	.000	.000	-									
		n	159	158										
4	Performance PC B	r	-.215	-.395	-.351									
		Sig	.007	.000	.000	-								
		n	158	157	158									
5	Performance PC C	r.	-.200	-.249	-.312	.654								
		Sig	.011	.002	.000	.000	-							
		n	159	158	159	160								
6	Performance PC D	r	-.123	-.282	-.337	.585	.606							
		Sig	.123	.000	.000	.000	.000	-						
		n	158	157	158	160	160							
7	Perceived Effort PC B		r	.117	.270	.243	-.295	-.275	-.334					
		Sig	.144	.001	.002	.000	.000	.000	-					
		n	158	157	158	160	160	160						
8	Time PC B	r	-.114	-.064	-.034	.000	-.006	-.109	.274					
		Sig	.162	.433	.674	.995	.936	.179	.001	-				
		n	153	152	153	156	155	155	155					
9	Perceived Effort PC C		r	.126	.256	.288	-.283	-.285	-.342	.728	.054			
		Sig	.114	.001	.000	.000	.000	.000	.000	.507	-			
		n	158	157	158	160	160	160	160	155				
10	Time PC C	r	-.082	-.108	.019	-.077	-.145	-.207	.232	.480	.223			
		Sig	.313	.183	.810	.341	.071	.009	.004	.000	.005	-		
		n	155	154	155	156	157	156	156	152	156			
11	Perceived Effort PC D		r	.105	.206	.211	-.264	-.253	-.304	.593	-.087	.736	.208	
		Sig	.189	.010	.008	.001	.001	.000	.000	.280	.000	.009	-	
		n	158	157	158	160	160	160	160	155	160	156		
12	Time PC D	r	-.038	.005	.087	.020	.012	-.143	.261	.351	.238	.532	.229	
		Sig	.647	.954	.296	.805	.880	.080	.001	.000	.003	.000	.005	-
		n	148	147	148	150	150	151	150	147	150	148	150	

In sum, data here indicate that subjects' ability to predict their performance remained intact in a highly complex, uncertain task. Subjects' self-perceived ability to perform the task, or self-efficacy, and self-reported effort remained stable across trials. This information, combined with post-task interviews indicating that subjects believed they applied consistent effort, leads to the conclusion that timed measures of effort may not be as useful in a highly complex, uncertain task as they are in a less complex task where effort-performance relationships are clearer.

Implications, Future Research and Study Limitations

One important implication for research is that time spent on a highly complex, uncertain task may not always be a meaningful indicator of effort. Other operationalizations may be used, such as the number of strategies employed. Timed effort measures may be very useful in complex task studies such as in Stock and Cervone (1990) and Stone (1994), where more time spent on the task can necessarily lead to higher performance. Different types of objective and subjective effort measures should be used and compared, especially as self-efficacy affects them. As few as twenty have been conducted on self-efficacy effects in complex tasks, and even fewer when using a highly uncertain, complex task.

One helpful factor in comparing the level of task complexity in studies is when researchers quantify the amount of uncertainty contained in a task. A standard for calculating the amount of complexity and uncertainty in a task would be valuable for comparison across studies. One method is the Multiple Cue Probability Learning Paradigm (MCPLP) (e.g., Taylor, 1987).

Two potential areas for research on the self-efficacy—effort—performance relationship are the role of anxiety in performing a complex task (Bandalos et al., 2003) and the possibility of effort-saving behaviour in individuals with high self-efficacy (Kuo et al., 2004). The new views of the way self-efficacy affects effort open new potential explanations.

For organizations, it is imperative to realize that highly complex, uncertain situations may post new problems for managers and employees. When learning a new task, frustration arises from the belief that time spent on a task should lead to better performance, when it does not always. Employees or trainees who are learning a new task should not have their perceptions undermined if they believe they are applying effort toward a task. Trainers and managers should strive to determine what type of effort leads to higher performance, what sort of strategies the individuals are applying, and how to teach/communicate these strategies for better performance. The manner in which managers approach the employees and seek to understand their feelings of efficacy can help promote positive outcomes.

Limitations

A limitation of the current study is that self-reported effort measures were collected after subjects received feedback on their performance. Although this data illustrates how subjective measures differ from objective measures in the literature, and the nature of the task was best presented in this manner, a future study might delay feedback for the purpose of gathering subjective data. Subjects signed up for experimental sections that occurred at different times, and they may have interacted regarding the experiment. However, subjects were told that interaction regarding the experiment would result in loss of extra credit points. Furthermore, the university is largely a commuter school, so less interaction may have occurred than would have at a different location.

Keywords: Decision making, effort, measurement issues, self-efficacy.

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eProcurement: Extending eSupply Chain Benefits to MRO

Abbas Foroughi and Mehmet C.Kocakulah

MRO supply procurement is the last link in the supply chain to go online. With eProcurement, which features online supplier catalogs, hosted by buyers or suppliers, or accessible through trading exchanges, companies realize savings in purchase time, access to supplier markets, and control over maverick buying. This paper discusses the shortcomings of traditional MRO procurement methods, the opportunities eBusiness offer to enhance MRO procurement, and the specific ways eProcurement can benefit MRO procurement.

Companies who have begun using e-business are experiencing the benefits which the speed, flexibility, and real-time communication of the Internet give to supply chain management, as goods flow from suppliers, manufacturer, distribution, retail outlets, and consumers (Poirier and Reiter, 1996). eBusiness increases levels of communication and collaboration both internally and externally by streamlining the flow of information within the company and between the company and external business partners.

One area of the supply chain in which potential lies for large cost savings and improved efficiency is in the procurement of indirect materials, those that are not used directly in the production of goods, but are necessary for the maintenance, repair, and operation of the company. Such indirect materials are referred to as MRO (maintenance, repair, and operating supplies). U.S. companies spend $1.4 trillion dollars annually on MRO supplies, which amounts to 20 per cent of the gross domestic product of the United States (Foster, 2000). MRO supplies include everything from office supplies, business services, and cleaning supplies, to trucks, warehouse, equipment, spare parts, and plant machines. They are low-value, non-critical, high-volume items that are used by every employee and must be stocked on an as-needed basis to prevent shut downs and to maintain

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efficiency and capacity. This paper discusses the shortcomings of traditional MRO procurement methods, the opportunities eBusiness offers to enhance MRO procurement, and the specific ways eProcurement can benefit MRO procurement. The following sections describe challenges encountered in using eProcurement, evidence of the status of eProcurement use, and examples of businesses that have implemented eProcurement. The paper finishes with a discussion of the possible future for eProcurement and a description of key ingredients to the successful use of eProcurement.

Shortcomings of Traditional MRO Procurement Methods

The process through which a firm actually acquires the supplies and services it needs requires several steps, including determination of need, communication of need, identification of potential sources, solicitation and evaluation of bids and proposals, preparation of the purchase order, followup and expediting, receipt and inspection, clearing the invoice and payment, and maintenance of records (Institute for Supply Management).

Procurement of MRO supplies is often overlooked in efforts to bring new technologies to supply chain management. Replenishment of MRO supplies is, in many firms, still done manually and sporadically, by individual employees. A typical procurement scenario would involve the purchasing department in what could be several days of information gathering, requesting blueprints for the parts needed, attaching them to other material specifications, and mailing them to potential suppliers for a bid. Bids that are offered must be evaluated, and terms negotiated, before orders can even be placed. This entire scenario could take up to four weeks (Schneider and Perry, 2000).

Many firms are still missing opportunities for cost and efficiency savings in their MRO supply chains because MRO materials are often purchased outside the formal purchasing organization, and user-friendly tools are not available to support this process (Kilpatrick, 2001). Individual employees often order MRO supplies from multiple vendors, even hundreds of them. The results are extra or duplicate inventories in the supply chain, mountains of purchase orders and invoices, poorly managed storerooms and stock oversights, (Fijalkowski) as well as lengthy cycle times, frequent errors, and returns.

Since many MRO supplies are “non-stock,” special-order items, employees spend great amounts of time finding them and making sure they meet the specifications (Fijalkowski). Individual employees often engage in “maverick” buying that does not adhere to procurement policies or to existing supplier contracts (Alberg Software, 2000). According to the National Association of Purchasing Management estimations, one-third of indirect buying can be characterized as maverick, resulting in increases of 27 per cent (Foster, 2000). Enterprise Resource Planning Systems (ERP), used during the 1980s and 1990s, have helped to streamline the purchase of items needed for production, but the 30 per cent of the purchase budget that includes non-production items, such as MRO, are often not managed by ERP (Alberg Software, 2000). And, procuring and maintaining needed MRO supplies is a complex undertaking, often involving thousands of parts, suppliers, and inventory stockpiles, and multiple decision makers spread all over a company who have different agendas and little communication with each other (Genesis Solutions, 2002).

eBusiness and eProcurement

Modern information technologies-the Internet, intranets, extranets, and Electronic Data Interchange—can now provide support for supply chain management that can bring cost and time savings and improve communications at each step in the MRO acquisitions process. The Internet links business to consumers and business to business with speed and ease of use that facilitates the flow of information from the retailer to the customer and vice versa. Company intranets allow internal users to share information with each other and may span multiple locations throughout the world (Bartoo, Elliot, and Naik-Iyer, 2000). Marketing and sales, accounting and finance, and customer service can be linked together through the company intranet. Extranets extend the company’s intranet to other companies and organizations, such as suppliers, manufacturers, and distributors (Bartoo, Elliott, and Naik-Iyer, 2000). EDI allows the computer-to-computer exchange of standard transaction documents, such as invoices, bills of lading and purchase orders invoices (Laudon and Laudon, 2000), reducing transaction costs, time and cost savings, faster communications with supply partners and better control and reduction of inventories (Francis, 2000). Data from EDI can also be integrated with applications such as accounts payable, inventory control and production, planning in order to further reduce costs (Premkumar, Ramanmurthy, and Nilakanta, 1994).

The benefits of eBusiness are also coming to companies who have begun to procure indirect materials from electronic catalogues on the Internet in what is called Internet-based procurement (IBP) or eProcurement. Electronic catalogues give customers an alternative means of determining the products and services available, the suppliers, how to contact them, as well as providing comparative analysis of suppliers. According to the ARC Advisory Group's e-Procurement Solutions Worldwide Outlook, the e-procurement solutions software market, worldwide, is estimated to grow to from $50 million in 1997 to almost $2 billion in 2000, to more than $10 billion by 2005 (Kilpatrick, 2001).

Online catalogues can be used in seller-side, buyer-side, application-service provider, or on Internet exchange models. Seller-side solutions are provided by suppliers who post their catalogues and specifications sheets on their websites. Examples are Grainger, Boise Cascade, and Office Depot. Self-service catalogues are used by 55 per cent of those implementing eProcurement. Online supplier catalogues offer buyers many useful options such as controls for maverick buying, in which only authorized employees can access certain catalogues; automatic approvals for inexpensive items; and automatic display of previously negotiated prices (Is eProcurement Transforming Business?).

Companies using the buyer-side model use software that accepts and standardizes vendors' catalogues, configures pre-negotiated prices, and maintains them on the buyer's intranet, through which purchase orders can be created, routed, approved, and sent to the seller. Updates are made to the catalogues over the Internet. Software can either reside on an organization's intranet, or be hosted by an application service provider. The buyer-side model is recommended for larger companies, because they can be implemented quickly, are easily integrated with back-end systems, and result in a short, easily calculated payback period (Foster, 2000). Examples include Ariba, Commerce One, and Oracle. Ariba's Operating Resource Management System (ORMS) resides on a company's enterprise server as an intranet application. The company negotiates purchasing agreements with suppliers, who place their catalogues and price lists on the company's server. Employees can access, view, and order from the catalogues, according to pre-established rules and privileges set by the company. Orders are sent through a workflow system for approvals, sent to the company ERP system for processing, and relayed to the supplier over the Internet through the Ariba Network. Chemical, pharmaceutical, and hi-tech firms, as well as the government, are the markets in which eProcurement of indirect materials has become most prevalent (Foster, 2000).

Companies are also using Internet marketplaces, also called independent trading exchanges (ITEs), where indirect materials can be purchased at set prices or sellers can bid for buyers' business. Third-Party application service providers link buyers and suppliers into networks of interoperable marketplaces, trading communities, and commerce portals (Swinton, 2002). According to Forrester Research, the number of such portals, which in 1999 was only about 100, will reach the 10,000 mark in 2003, and half of the $1.3 trillion B2B trade will be conducted on digital marketplaces (Is eProcurement Transforming Business?). Exchanges can both be horizontal, such as Works.com and Intelysis.com; and industry-specific, like Ventro.com and TPN Register. Digital marketplaces help both buyers and sellers achieve efficiency in their procurement process. For buyers, this model offers access to below market bulk prices, and suppliers achieve access to potential buyers with minimal marketing. Digital marketplaces enable small buyers to have the same access to many sellers that large buyers usually do, as well as equal opportunities for obtaining short-term discounts and liquidations (Is eProcurement Transforming Business?).

Indirect materials procurement vendors are finding that the close connections they establish with buyers through eProcurement has opened up new horizons of services they can offer. For instance, they are adding content aggregation, which coordinates and compares data from a wider pool of possible vendors. Employee-facing suite development will enable employees to use the same interface used for purchasing for expense and forecasting reports, time and attendance sheets, personnel and benefit forms, and other administrative tasks. eProcurement vendors are also collaborating to make a total e-commerce framework. For instance, Ariba and Descartes Systems Group recently created the Ariba Logistics Commerce Service, which offers buyers, suppliers, and marketplaces a variety of logistics and fulfillment services by subscription or per transaction (Foster, 2000).

Benefits of eProcurement

eProcurement can enhance the MRO procurement process in many ways. eProcurement systems can be easily and economically implemented, and compared to ERPs, offer significant, immediate return on investment. "The return on investment for eProcurement is amazing," according to Kut Ritcey, partner with Deloitte Consulting. "We've seen studies that show it can be as high as 300 per cent over the lifetime of a system.

Other studies show that companies can expect to reduce their external spend by nine per cent after implementing one of these systems." (Is eProcurement Transforming Business?, 2). While the average cost of processing a purchase order manually ranges from $75 to $200, automating procurement reduces cost to between $10 and $40.

Second, eProcurement provides long-term benefits, since it gives procurement staff more time to search for strategic sourcing opportunities. IBM, for instance, brought together representatives from its global operations to define a common set of commodity procurement processes that could be used globally (Is eProcurement Transforming Business?).

Third, the risk factor for buying indirect items online is very low. "If you buy office supplies electronically and something goes wrong, you are not going to sink the company. On the upside, you can cut 20 per cent of the cost," says Bob Parker, Service Director of eCommerce strategies for AMR Research, in Boston (Foster, 2000, 2).

Fourth, Internet procurement can reduce material and service costs for MRO goods and services five per cent - ten per cent by reducing maverick purchasing, defining the use of preferred suppliers, and providing better leverage for contract negotiations. Buying practices that do not conform to the corporate policy can be avoided. Time to process a purchase requisition is reduced by 50 per cent - 70 per cent. Requisition processing costs can be reduced by 70 per cent order. Shorter fulfillment cycles and improved purchase control enable some organizations to implement just-in-time MRO procurement strategies.

Fifth, eProcurement enables companies to make better decisions related to rationalizing their supplier base by providing a broad overview of the market (Reese, 2003). eProcurement provides new levels of visibility to CFOs and finance directors about what the company is buying and from whom (Bedell, 2002). CFOs can have confidence that employees are adhering to corporate contracts made with suppliers, can trace company spending trends, and can negotiate better prices on future contracts (Bedell, 2002).

Sixth, the web-based environment of eProcurement eliminates the need for IT support of traditional software, supports maintenance of all data in a central database, and makes the purchase to pay cycle "almost instantaneous…from as much as two weeks to under an hour," according to Chea Simm, Business Development Manager at Compusearch (Bedell, 2002, 2).

Seventh, eProcurement systems are giving companies a variety of new options for procuring materials they need. "Different products may call for different solutions," said Ritcey, of Deloitte Consulting. "So, one company could conceivably use electronic data exchange to source capital inputs or raw materials, a supplier's self-service catalogue for office suppliers, a buying network for, say, paper stock or certain chemicals, an online auction site to book cheap cargo rates with a carrier that has extra space and perhaps a multi-supplier mall just to browse for even better deals" (Is eProcurement Transforming Business?, 3).

Eighth, eProcurement enables companies to maintain lean inventory levels, since inventory databases can be linked to suppliers' ordering systems, and minimum threshold levels set, at which suppliers will automatically replenish inventory levels.

Ninth, improvements in procurement practices offer greater and more certain benefits than improvements in sales practices. Savings in procurement enhance the bottom line directly, while the impact of increased sales on profits depends on the profit margin of particular products or services (Johnson and Liggett).

eProcurement Challenges

"Paper-based purchasing is still the norm in the maintenance world," according to Tom Singer, of Tompkins Associates, in Oak Brook, Illinois (Singer, 2003, 1). Problems with integration to backend systems, which may have incompatible platforms, are a stumbling block to many eProcurement efforts. Some companies use multiple ERPs, some of which may not be compatible. Suppliers need to be able to handle different eProcurement systems customers are using. Ariba, i2, Commerce One, for instance, each has a specific format. (Bedell, 2002).

As with any new technology introduced into the workplace, an eProcurement system's effectiveness depends, ultimately, on its being adopted and regularly used by employees. Since eProcurement systems are a self-service tool, end users sometimes resist using it (Bedell, 2002).

Maintenance requires a wider supplier base than other business functions, and an eProcurement system needs to provide access to a broad supplier base. Many suppliers, especially smaller ones, do not have the technological capability to integrate with eProcurement platforms. They are small, lacking the IT infrastructure and capital necessary to provide eProcurement. Many of them are afraid eProcurement will just enable buyers to leverage price concessions.

Procuring MRO supplies over the Internet is not a strategic priority with many companies, who think it's more worth it to buy uniform direct materials parts from a few suppliers rather than putting money into spot buying of MRO supplies from a wider supplier pool. They are over looking problems of traditional MRO procurement like excess safety stocks and the impact of delays on work order planning and scheduling (Singer, 2003).

MRO eProcurement is still a fragmented market, with many different solutions offered, so some companies are hesitant to rely on it. Many companies have Enterprise Asset management systems or ERP packages for maintenance support that cannot be easily integrated to an electronic marketplace (Singer, 2003).

The potential for legal problems also exists in the way digital exchanges are operating. Exchanges that mark up inventory for revenue, control the receivables as a virtual distributor, have control over the receivables, but the title to the inventory remains with the supplier (Is eProcurement Transforming Business?).

eProcurement creates a whole new set of responsibilities for purchasing departments (Foster, 2000). Content management involves maintaining product and price data in the supplier catalogues that are placed on company enterprise systems and making updated information available to the employees who need them. Workflow management must be done to provide smooth, timely expenditure approval at various levels that assures compliance with budgets and procedures and eliminates maverick buying. Systems integration is also an issue. In order to obtain savings from the elimination of paperwork, eProcurement systems must integrate with enterprise resource planning (ERP) systems for accounting, payment, and inventory management. Supplier integration is also essential, with real-time links to suppliers' systems that can confirm purchases and make quick updates of their catalogues on a company's enterprise system. Information analysis from procurement systems' data can be used in negotiating better pricing with vendors, allocating costs to various departments, auditing and planning.

Examples of eProcurement Implementations

US Filter, based in Philadelphia, is a diversified company with six division in more than 400 sites that offers water purification and treatment products for water treatment plants and manufactures equipment for water treatment and distribution systems. US Filter procurement processes were plagued by random, maverick buying by employees from multiple suppliers. The company set a priority on reducing its supplier base. Control of supply selection was moved from end-users to purchasing managers, so that pricing, delivery, and other contract terms, could be negotiated up front. Data warehousing conducted on purchasing information provided a clear picture of procurement expenditures and key MRO suppliers. The top ten suppliers' online catalogues were made available to employees through Datastream's iProcure system, which is a third-party operated electronic marketplace. Now, employees in US Filter's 400 sites can go online and order MRO materials from approved suppliers (Reese, February 23, 2003).

Coca-Cola Enterprises, Atlanta, Georgia, The Coca-Cola Company's biggest market, producer, and distributor, Coca-Cola Enterprises (CCE), distributes more than 4 billion 24-eight-ounce servings of bottled, canned, and fountain products annually. In order to maintain service levels, Corporate Manager of Procurement Gregg Watermann and his team consolidated the MRO supplier base for the company's 65 production facilities. Each facility was given the choice of a list of preferred suppliers. MRO procurement has also been placed online. SAP R/3 ERP and Commerce One's eProcurement platform enable CCE's buyers to log onto the CCE intranet, gain access to the preferred suppliers' catalogue, on its website. Buyers can make selections, according to agreements/prices established with the supplier, place them in a shopping cart, and return to the CCE intranet. The SAP then completes a purchase order, which moves electronically through an approval process and is then delivered to the supplier via EDI (Avery, December 12, 2002).

Goodrich Corporation's Aerostructures operates through ten manufacturing and service facilities around the world, manufacturing and providing maintenance for nacelles, thrust reversers, and commercial and military aircraft components and structures, as well as aircraft maintenance repair and overhaul services. Goodrich Corporation's purchasing is decentralized among each business group. Originally, Goodrich purchased MRO items in bulk in order to achieve lower unit prices, despite the high costs of carrying a lot of inventory. Onsite commodity cribs were supplied by volume purchasing agreements in an inventory management system that purchased in batch, held inventory, and issued it to manufacturing in batch. According to Robert A. Grochala, Purchasing Manager for indirect materials and services, Goodrich was paying dearly for purchasing and holding large inventories. The company envisioned large cost savings from a process that would eliminate the need to hold large stores of inventory, but would get supplies delivered to point of use for manufacturing. Goodrich made an Enterprise Sourcing Agreement with Grainger Integrated Supply, which provides services such as product sourcing and purchasing, inventory management and reduction, material item data identification and description, point-of-use ordering and delivery support. Aerostructure's goal is to achieve "zero MRO inventory held onsite except at the point of use, coupled with direct delivery of replenishment stocks to the point of use by the manufacturer or distributor. In one year, Aerostructures has experienced a reduction of more than $3 million in the costs associated with the purchase and inventory of MRO products (Avery, Nov. 7, 2002, 2).

GE Lighting, one of General Electric's oldest divisions, produces more than 30,000 kinds of light bulbs, in 28 locations all over the world. A large amount of the cost of producing light bulbs goes toward indirect materials and parts in production and assembly, which must conform to specifications on more than three million blueprints and design drawings. GE Lighting's bidding process for indirect materials was slow and inefficient, requiring purchasers to send packages containing photocopies of blueprints and other specifications information to potential suppliers. Gathering these documents, sending them, evaluating bids, negotiating for a final price, and placing an order could take up to one month, making GE Lighting's flexibility and response time to customers poor. GE Lighting has made significant improvements to its procurement processes, and purchasing personnel can now access a procurement system from their desktop computers. Employees can create purchase files that include basic information like quantity, delivery date, and delivery information. Then, they select the suppliers they prefer from a supplier database, attach electronic copies of digitized blueprints and engineering drawings and send the bid package to the desired suppliers. Suppliers are usually asked to respond in a week through the Internet and purchasing staff then evaluates bids and awards a contract online. From four weeks or more, the entire process was reduced to 10 days, resulting in significant savings in process time, in addition to eliminating paper and postage costs. In addition, the new ease of sending out bid packages made it possible to use more suppliers, including more in foreign countries. With more competition for bids, prices have dropped, resulting in savings of 10 per cent to 20 per cent on many indirect materials. Suppliers have found production planning to be easier as a result of a reduced lag time in finding out if bids they submit are awarded (Schneider and Perry, 2000).

eProcurement: The Present and the Future

According to a report on the last quarter of 2002 (Reese, 2003), eProcurement of MRO supplies is growing slowly, but return on investment and systems integration are issues impacting on overall growth of this market. The average percentage of indirect materials purchased online rose by 1.5 to 10.5 per cent. The number of organizations who purchased indirect materials online rose from 90.5 per cent to 94.3 per cent for large companies, and from 75.8 per cent to 78.9 per cent for smaller companies. Use of enterprise online procurement tools rose from 35.9 per cent in the third quarter, 2002, to 42.6 per cent, in the fourth quarter. However, only 42.6 per cent of large companies and 15.4 per cent of small companies reported cost savings as a result of online purchasing and supply management activities. Many companies still have return on investment concerns and difficulties with integrating current systems that prevent them from moving into enterprise-wide eProcurement. Still, 19.5 per cent of buyers report being at least halfway toward implementing eProcurement. (Reese, January 24, 2003).

As one of the last links in the supply chain to be automated, online procurement is still in its infancy. However, eProcurement software and online trading exchanges are offering more and more services and capabilities. Demand is growing, for instance, for digital marketplaces to offer value-added services, such as demand planning, inventory management, as well as a means of factoring in costs of transportation, customs clearing, regulatory/tax, insurance, and warehousing in the bidding process.

Success with eProcurement will continue to depend on suppliers' willingness to provide up-to-date, easily accessible electronic catalogues in appropriate formats and to use XML open standard to send and receive purchase orders and receipts electronically. E-Procurement systems must be integrated with existing financial, human resource, and ERP systems to enable automated approval and accounting. Process re-engineering and organizational change must accompany e-Procurement efforts, to make sure employees are on board. Companies who do successfully implement eProcurement will find that online procurement is an integral part of successful B2B exchanges and an essential part of supply chain strategies aimed at reducing cycle times and lowering costs (IBM Global Services).

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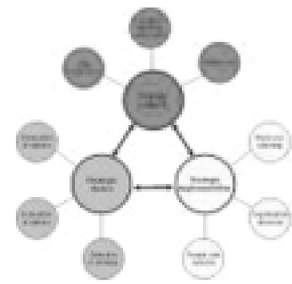
Strategic Decision Making for Business Process Outsourcing



Deeksha Singh and Gaurav Mishra

Deeksha Singh and Gaurav Mishra classify the business functions into core and critical function. Then they highlight some common and hidden benefit along with deleterious effects of outsourcing. They also propose the model of outsourcing, decision-making in the form of a decision making true for any organization and thereby specifying what are organizations could and what it should outsource. The article is aimed at business leaders and practitioners as a tool to assist them in making decisions about business process outsourcing.

Outsourcing is lending out the critical, but non-core, activities to focused specialists who can do it better than you. Outsourcing has been as old as the business. A decade ago it was known as "make or buy" or "facilities management" and use to be remarked by the question - "Can we buy this item less expensively than we can make it in the quality and quantity we need?" Outsourcing was used to be synonymous with the management of the technical infrastructure. But today, outsourcing is more of a method of contracting. It's becoming part of the philosophy of how businesses are managed and is tied very much into what core competencies a company has. The current debate on outsourcing has been instigated by the recent fad of assuming outsourcing as inevitable management strategy for any organization. Therefore there has been unprecedented rush for availing its benefits.

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In this article we first classify the business functions into core & critical functions. Then we highlight some common and hidden benefits along with the deleterious effects of outsourcing. We also propose the model for outsourcing decision-making in the form of a decision making tree for any organization and thereby specifying what an organization could and what it should outsource. The article is aimed at business leaders and practitioners as a tool to assist them in making decisions about business process outsourcing.

The template provided for making outsourcing decision may also be used to assess firms' BPO requirements and re-orient them to extract maximum benefits from BPO operations. It is also useful for academicians to develop models on the lines suggested in this article for BPO. Academicians are invited to test the efficacy of this model empirically and improve upon it.

Classification of Business Functions

To elaborate upon the proposed model for outsourcing decision making, the business functions can be classified into three major categories – core business functions, critical business functions and peripheral activities.

Core Business functions

Core business functions are those that distinguish a firm from its competitors. These are the important business functions without which the firm cannot function. These functions are usually unique to an organization, non-standardized, difficult to document and hence generally unstructured. For example, for a transport company the movement of fleet is the core function; for a market research firm data-collection and analysis is the core function and so on.

Critical Business Functions

Critical Business functions include those "usual functions" which are repetitive, standardized, measurable, structured and non-creative in nature, but equally essential for an organization to function. These functions usually do not differentiate a firm from its competitors directly. However, they do have a significant indirect effect on the overall functioning of the firm. For example, customer satisfaction survey for the transportation company would be a critical function.

Peripheral Activities

Peripheral activities are those, which are not at all important for the organization, but have to be performed efficiently. Failure to deliver the peripheral activities may jeopardize the functioning of the entire system. Some of these need sophisticated skills while others may be less skill intensive. For example, for an educational institution, the maintenance of the infrastructure is a peripheral activity.

While strategic analysis is needed to decide on outsourcing for core and critical business functions, the peripheral activities have generally always been outsourced to external vendors. The model proposed here deals with outsourcing decision of core and critical business functions. Before elaborating on it, we will discuss some benefits and losses of outsourcing.

Benefits of Outsourcing

Outsourcing offers new opportunities for both customers and vendors. For customers, it means there are more choices and for suppliers, it represents expanded market opportunities along with more ways to be perceived as adding value to the client.

1. Lower costs

An outsourcing organization spreads the costs of capacity across a number of clients resulting in lower costs for all clients. However cost reduction should not be the prime reason for outsourcing as competitiveness based only on cost is not sustainable on its own in long run.

2. Risk sharing or reduction

By exporting high-risk projects or processes to a more professional external organization, reduction of risks can be achieved. A case in point is that of pharmaceutical firms. Many smaller pharmaceutical firms sometimes have the expertise to invent a molecule, but do not have the expertise and resources to go for clinical trials. These can be outsourced to bigger firms for a mutually win-win relationship.

3. Economies of scale

The outsourcing company has infrastructure, expertise and excess capacity that can be offered to the client at discounted prices. Smaller organizations might not be able to afford to maintain them in-house because of the insufficient demand to justify their full-time utilization.

4. Access to greater skill pool/intellectual capital

Outsourcing organizations have access to international experts, infrastructures and often have access to group-ware based repositories of knowledge, experience and expertise, which are regularly updated. A firm cannot avail itself of all of these on its own unless it outsources these functions.

5. Greater focus - elimination of non-core activities

Organizations need to be clear on what are "core" and "non-core" functions. By eliminating non-core activities, an organization can release its human resources to concentrate on core functions.

6. Cash Infusion

By selling off the intellectual capital, accumulated equipment etc. of the function being outsourced, the company can obtain immediate cash infusion.

Thus, as seen above, the fundamental value proposition of outsourcing is the simultaneous service improvement and cost reduction obtained by sharing the costs of the required technical depth, focus and experience. However, all outsourcing is not always good. In the next section we discuss the darker aspects of outsourcing.

Where Outsourcing Pinches?

With so many pro-outsourcing arguments it is difficult to support the arguments against outsourcing but, in absence of planned move, outsourcing can definitely prove hazardous to organizations.

1. Risk exposure

There is substantial risk exposure associated with outsourcing. The three key risk areas are loss of control of major projects, potential financial litigation and the loss of intellectual capital.

2. Diseconomies of scale

The smaller and less high profile the outsourcing client, the larger the incentive for the outsourcing organization to downscale the attention the client receives resulting in bureaucratic and un-responsive service. However given the competition in this field and customer orientation, outsourcing organizations cannot really afford to take their clients for granted.

3. Limited access to knowledge base

Due to the explosive growth of outsourcing the available "talent pool" has been overstretched and there are not enough experts to meet the demand. So, if the contracts do not stipulate the skills and experience levels required from the outsourcing organization there remains the strong chance of client receiving lower access to higher skills.

4. Loss of intellectual capital

There are primarily two types of knowledge: explicit and tacit. Explicit knowledge is published in public while tacit knowledge is in the heads of the experts. Loss of personnel associated with outsourcing leads to a loss of tacit intellectual capital and capability.

5. Loss of control of core activities

The core business functions generally include the development of new products and creative client relationship-building mechanisms. But to develop these new products firms need intellectual capital in the form of people, services and systems and by outsourcing them, many organizations risk losing control of their future.

6. Greater focus -the "Squeaky Wheel" syndrome

Paradoxically, due to the size, cost and associated contractual issues of the outsourcing efforts it is observed that senior management starts giving more focus to those outsourced areas than when those functions were performed in-house.

Outsourcing Strategy

The issues discussed above should be kept in mind before making the outsourcing strategy. Figure 1 presented here presents our model for making outsourcing decision making. The model is detailed and self-explanatory.

The key here is to divide the systems into strategic and non-strategic ones with the objective of achieving sustainable competitive advantage for the firm. Sub systems should be further grouped in to family of components. Those falling in to non-strategic categories should be outsourced giving due consideration to utilizing the existing assets. For family of components falling in the strategic category, approach should be to invest and develop capabilities. However if the investment is not justified and/or it may not be possible to develop expertise for some of the strategic tasks, these may be outsourced till such time as the firm is capable of doing them on its own.

On the basis of the above model some of the functions that can be outsourced with reference to the products, processes, utilities etc are enumerated below:

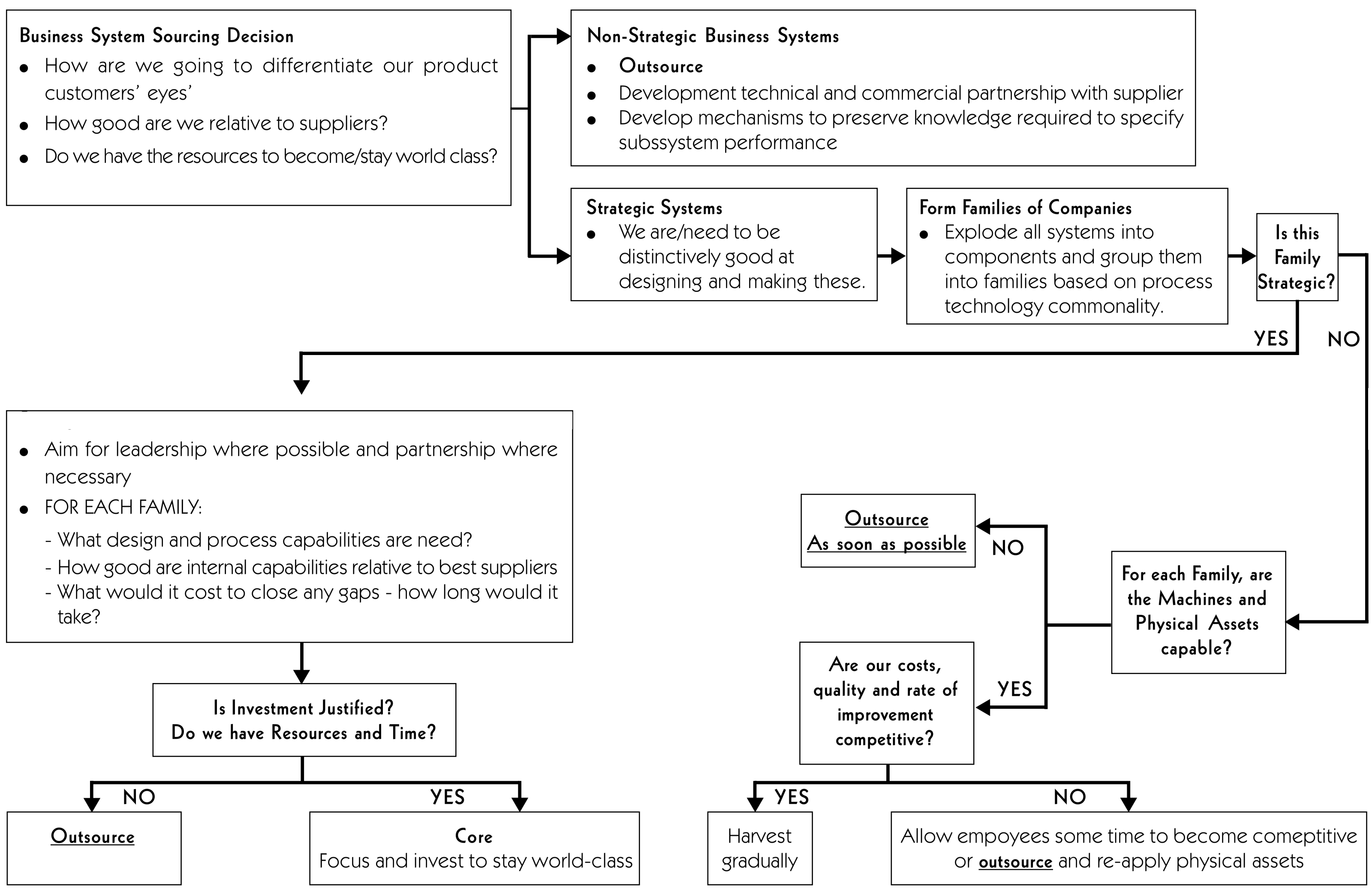
With reference to Products the following can be outsourced:

- Technology
- Manufacturing

With reference to processes the following can be outsourced:

- Design Development
- Process Installation
- Equipment Service
- Maintenance

Figure 1: Flow Chart for Strategic Business Process Outsourcing



Utilities and other services that the organizations can outsource on regular basis are:

- Travel Services
- Temporary Labour
- Outplacement
- Copiers / Fax
- Customer Satisfaction services
- Fleet services
- Security, Janitorial, Food Service, etc.
- Information Services
- Human Resource Management
- Procurement
- Payroll
- 3rd Party Warehouse

The last words

Organizations need to be clear about their goals before making outsourcing decisions. Certain things which an organization must be clear about are listed below:

- **Clean house before you sell it.** Due to the poor costing and productivity measurement systems in place many organizations have high expectations. In effect, in many cases it has been observed that there is no effective benchmark for evaluating whether productivity has been improved!

  If you can't measure it, don't outsource it.

- **Best Practice Project Management is vital.** If the scope, objectives, risk, quality, costs and benefits of the work involved have not been defined professionally and precisely and managed by expert project managers, then both parties are exposed to frustrating and expensive debates about issues such as what work was "in scope" and what work was "outside scope." Certainly, very few parties involved have expert project managers required to manage complex outsourced projects.

  If you can't manage it yourself, don't outsource it.

- **Get a good lawyer.** The form and content of tenders and legal contracts need to be well established before you think of outsourcing. The development of the outsourcing contract requires the client organization to ensure that they seek expert legal and accounting advice in the areas concerned.

  If you can't make it legal and binding, don't outsource it..

- **Evaluate your intellectual capital.** The difference between the traditional market valuation (physical assets, inventory, etc.) of companies such as Microsoft and Sun and the actual share price is huge. In other words, the market values the knowledge of the people much higher than the value of the traditional physical asset. Therefore it is critical that the client organization understands what intellectual capital it has in its systems and people and the same should be reflected in contract too.

  I you can't understand it, don't outsource it..

- **Build a "win-win" relationship.** The inherent conflict between the agendas of the client and outsourcing organizations as discussed earlier makes it imperative that there is consideration within the relationship for long-term "win-win" scenarios. By structuring the contract to include its objectives, the client organization can create a relationship where the outsourcing partner is focused on producing the expected savings, improved service and so on.

  If the parties cannot be locked in to profit sharing, don't outsource it.

Conclusion

Outsourcing is no panacea. It works for many businesses but could be disastrous for others. Outsourcing is not merely a cost cutting exercise but it is a roadmap for business excellence and wider opportunities. It helps the organizations to retain the focus exactly on the reason of their existence. The chart presented here can be used by decision makers in making right choices and remain on right track.

Strategies for Local Firms in Emerging Market Economics

Azhar Kazmi

One cannot normally expect Americans to tell the Chinese or Indian, for instance, how to enable their firms to compete against the American MNCs. It is primarily for the Chinese and Indians to think on how would their firms need to compete and survive against the American onslaught. Dr.Azar Kazmi presents a discussion of some major aspects of strategy formulation by local firms in emerging market economics particularly India.

There has been much emphasis on the strategies that multinational corporations (MNCs) might adopt with regard to their operations in the emerging market economies. Less attention has been paid to the impact on the local firms in terms of how they would need to respond to the environment as the economies in which they exist are increasingly opened up to the winds of change outside. This is understandable as most MNCs belong to the developed world. The discipline of management studies is dominated by people of the developed economies and therefore tends to focus on their own needs that mostly turn out to be the needs of the MNCs. A large body of literature has focused on the pros and cons of MNC entry into foreign, particularly the emerging markets. Yet, much of this work is aimed at telling the MNCs how to make their task easier. One cannot normally expect Americans to tell the Chinese or Indians, for instance, how to enable their firms to compete against the American MNCs. It is primarily for the Chinese and the Indians to think on how would their firms need to compete and survive against the American MNCs' onslaught. This article presents a discussion of some major aspects of strategy formulation by local firms in emerging market economies particularly India.

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Emerging Market Economics

Emerging market economy (EME) is a term generally attributed to Antoine W. van Agtmael of the International Finance Corporation of the World Bank who coined it in 1981. It is defined as an economy with low-to-middle per capita income. Such countries constitute approximately 80 per cent of the global population, representing about 20 per cent of the world's economies. This may seem to be a loose definition yet countries whose economies fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. So even though China is deemed one of the world's economic powerhouses, it is lumped into the category alongside much smaller economies with a great deal less resources, like Chile. Both China and Chile belong to this category because both have embarked on economic development and reform programs, and have begun to open up their markets and emerge onto the global scene. EMEs are considered to be fast growing economies. Nearly 40 countries of the world, shown in Exhibit 1, are characterized as emerging market economies.

Exhibit 1 : Leading Emerging Markets

Asia	Americas	Europe	Middle East	Africa
China	Mexico	Russia	Turkey	Egypt
India	Brazil	Poland	Israel	Libya
Pakistan	Argentina	Ukraine	Jordan	Morocco
Malaysia	Venezuela	Czech Republic	Syria	South Africa
Indonesia	Ecuador	Slovakia	Lebanon	Nigeria
Thailand	Peru	Hungary	Iran	Kenya
Vietnam	Chile	Romania	Iraq	Zimbabwe
Philippines	Colombia	Bulgaria	Yemen	Tanzania

Source: http://www.emdirectory.com/definition.html Retrieved August 20, 2005

Entering Foreign Markets

Generally the MNCs enter foreign markets in the first instance owing to one or more of the following reasons[1]:

- To gain access to new customers
- To achieve lower costs and enhance the firm's competitiveness
- To capitalize on its core competencies
- To spread its business risk across a wider market base

Gaining access to new customers: The home markets that MNCs have traditionally served are in most cases saturated. The MNCs realize that they are able to gain slight advantages putting in huge efforts against equally formidable rivals. Naturally, they would like to seek markets where they would have to make lesser effort to gain the same or higher advantage. Among the economies of the world, the first to gain their attention are the emerging market economies for they offer better potential than other less developed economies. *Achieving lower costs and enhance the firm's competitiveness*: Production economics lies at the core of several MNCs' decision to enter foreign markets. Domestic sales, though huge, are not able to satisfy the burgeoning aspirations of the MNCs and they seek to enlarge their production base to realize better economies of scale and capture the benefits of learning-curve benefits thereby enhancing their cost competitiveness. Added to the advantage of lower costs owing to cost competitiveness is the promise of locational advantages in terms of lower costs of labour, material, energy and other inputs to the production process. *Capitalizing on core competencies*: Operating in the tough competitive conditions of their home countries, MNCs develop core competencies that they feel could be used profitably in foreign markets through extension of the economies of scope. This keen sense of doing profitable business propels the MNCs to enter foreign markets. *Spreading business risk across a wider market base*: This reason is the usual motivation of any firm to spread business risk over a wider market base covering a variety of countries each having a unique risk profile. Overall, the MNCs operate in a large number of countries so that adverse conditions in a few are offset by favorable conditions elsewhere providing them balanced and continual source of income. The four reasons cited above seem to be perfectly valid and understandable from the MNCs' viewpoint. The question raised in this article is: If large, resourceful, formidable, and competent MNCs look forward to entering emerging markets what strategy alternatives do local firms in those emerging markets have to compete with and survive? I will be focusing on India as an example of emerging market economy while attempting to answer this question.

An Existing Framework of Strategy Options

Dawar and Frost, 1999 make an incisive analysis and refer to the usual three ways in which local firms in emerging economies can respond to the MNC threat to their markets and existence. Most local firms, they say, "assume they can respond in one of only three ways: by calling on the government to reinstate trade barriers or provide some other form of support, by becoming a subordinate partner to a multinational, or by simply selling out and leaving the industry. We believe there are other options for companies facing stiff foreign competition[2]."

Exhibit 2: Strategy Options for Local Companies in Competing against Global Companies

INDUSTRY PRESSURE TO GLOBALIZE			
	High	dodge rivals by shifting to a new business model or market niche	contend on a global level
	Low	defend by using home-field advantages	transfer company Expertise to cross-border markets
		Tailored for home market	Transferable to other countries

Source: Adapted from N. Dawar & T. Frost, "Competing with Giants: Survival strategies for Local Companies in Emerging Markets" *Harvard Business Review*, 77:1, (Mar-Apr 1999), p. 122.

Resources and Competitive Capabilities

First of all, the three usual options, suggested by Dawar and Frost, are feasible but only to an extent. Prior to the opening of the economy, almost all emerging economies go through a phase of internal opposition and calls for a level playing field. To the extent that local firms can agitate against the entry of MNCs and opening up of economies they do so individually and/or collectively through lobbying and other political means. The "Bombay Club" (not referring to a famous Indian restaurant in Washington D.C.), for instance in the early 1990s was formed under the *de facto* leadership of Rahul Bajaj to oppose the opening up of the Indian economy by calling for a level-playing field for local and foreign firms. That did not work ultimately.

Host government support to local firms remains in many emerging economies by imposing restrictions and requirements such as local content requirements, restricted imports and exports, imposition of tariffs and quotas, etc. This also works only to an extent as there are significant international commitments such as to the World Trade Organization that the emerging economies have to satisfy. The third option of selling out or leaving the industry remains an alternative albeit an extreme one and does not resolve the issue.

Dawar and Frost, 1999 suggest a framework of strategy options for local companies in competing against global companies. This framework is shown in Exhibit 2. Our further discussion is on the four strategy options that Dawar and Frost suggest.

Strategies for Local Companies in Emerging Markets

Dawar and Frost opine that optimal strategic approaches hinge upon whether a firm's competitive assets are suitable only for the home market or can be transferred abroad and whether industry pressures to move toward global competition are strong or weak. The four strategy options for local companies in emerging markets and their explanation and critical analysis are as below.

1. Using Home-Field Advantages

In situations where the pressures for global competition are weak and a local firm has competitive strengths well suited to the local market, a good strategy option is to concentrate on the advantages enjoyed in the home market, cater to customers who prefer a local touch, and accept the loss of customers attracted to global brands. This has most likely happened with the limited success of foreign automakers in India against Maruti Suzuki and the carving out of a niche by McDonald in Indian fast food market where it has to resort to local cuisine to compete with the vast array of differentiated fast food sellers. The phenomenal success of Indians and Indian companies in the business process outsourcing industry can largely be attributed to the country's home-field advantages like high-quality technology education and communicative ability in English language.

An illustration of a local company wielding considerable global standing owing to its home-field advantage is that of Moser Baer based in Chandigarh, India. India has one of the largest music and video industries in the world, publishing thousands of titles each year. India is the second largest compact cassette (audio) market in the world. Hence, India is one of the fastest growing markets for optical media in the world. Moser Baer has a 'home field advantage' in this potential Rs.15 billion market[3].

A report on colloquium of experts, published in *Vikalpa* the journal published by the Indian Institute of Management, Ahmedabad, concludes that there are three strategy types of Indian companies. In an increasing number of industries, Indian companies are reaching the point of having global advantages-favourable factor conditions, domestic demand characteristics comparable to that overseas, presence of ancillary and supportive skills, and pervasive confidence for looking beyond domestic markets. On the 'pull' side, from the situation of Indian origin being a handicap, the world has come to acknowledge 'India advantage[4].'

2. Transferring the Company's Expertise to Cross-Border Markets

Emerging economy markets often have companies that possess resource strengths and capabilities suitable for competing in other country markets. Under these conditions, launching initiatives to transfer its expertise to cross-border markets becomes a viable strategic option.

Observers of the Chinese corporate scene say that China Brilliance, the Chinese automaker would shortly become a global market player. Through 2001, it has been extremely active on the international scene, signing partnership agreements and alliances with western companies as diverse as BMW and MG-Rover. The agreements covered a variety of subjects: shared technology, licensing, marketing. Though China Brilliance is not yet selling cars under its own brand name in the western markets, it has links with car companies in Europe, the US and Japan, and has a global network of alliances and potential suppliers. China Brilliance's managers have shown that they know how to create and run a global operation.

Other Chinese companies are moving in the same direction. Legend, the computer company which famously signed alliances with a number of Japanese and US computer and component makers in the 1980s, now produces a domestic product that can compete with its western rivals and is expanding its network of partnerships in the rest of the world.

The biggest overseas Chinese companies - Cheung Kong, Kerry Everbright, CP Group and others - are also among the largest investors in China itself. Over the past two decades, these overseas Chinese companies have been a natural conduit for Chinese companies acquiring not only investment but also technology and skills[5].

3. Shifting to a New Business Model or Market Niche

When industry pressures to globalize are strong, any of these three sub-options make more sense:

a. Shift the business to a piece of the industry value chain where the firm's expertise and resources provide competitive advantage

b. Enter into a joint venture with a globally competitive partner

c. Sell out to a global entrant into the home market who concludes the company would be a good entry vehicle

All the three sub-options mentioned above are fairly common among the local firms in emerging economies. Strategic actions to move the firm on the value chain to those activities where competitive advantages have better prospects entails a retrospective mental exercise by top management on the focusing on the core competence of the firm. It makes business sense to do things that the firm does the best as has been demonstrated by the core competence movement since the last few years. There are nearly 700 contract manufacturers in the consumer electronics industry based on the beautiful island state of Penang in Malaysia. These value chain focused manufacturers have made Malaysia a success story in manufacturing and export of consumer electronics components around the world particularly in the U.S. and Japan. Examples of local firms entering into joint ventures with MNCs are legion as this is a favourite route for global entry for many of the MNCs themselves. For example, joint ventures between Ford and Koc of Turkey, Vitro of Mexico, and Alfa of Korea as well as between DuPont and Sabanci of Turkey, seek complementarities of benefit to each party. Also, Mahindra & Mahindra is licensed by Peugeot to produce automobile parts.

In 1988, for example, Ford Motor formed a partnership with Kia to introduce the Sable into Korea. Ford was interested in Kia's distribution and after-service network; Kia wanted a premium model to complement its product line at a time when technology transfer for producing the car was too costly for Kia. In another case, Digital Equipment Corporation designated Tatung, a Taiwanese FC and market leader in computers, as the main distributor of its workstations and related client-server products. With this 1994 agreement, Digital took advantage of Tatung's local experience and distribution network, and Tatung gained the benefit of carrying a technologically advanced product. All these instances of the adage: "if you can't beat them, join them" illustrate a defensive approach by local firms to MNCs entry into their home markets[6].

A common route for MNC entry into foreign market is via acquisition of local firms. In countries such as Brazil, China, India, South Africa, Turkey, etc. where business traditions have been strong good quality local firms with necessary infrastructure are available and constitute a good firm market for acquisitions. Local firms in such cases may find it more profitable to sell out to MNCs rather than taking up a fight with them. But this would be possible if there are no daunting government regulations against acquisition. For instance, In Vietnam, acquisitions were not permitted until 1997. Initially foreign ownership was limited to 30 per cent of equity, with each foreign investor holding no more than 10 per cent; and this had to be approved on a case-by-case basis by the prime minister's office, making it practically impossible for most investors. Thus, acquisition was mainly an option for acquiring a firm previously established by another FDI firm. In some cases, restructuring by local firms may also yield offshoots of businesses that they may be willing to sell to aspiring MNCs[7].

4. Contending on a Global Level

If a local company in an emerging market has transferable resources and capabilities, it can sometimes launch successful initiatives to meet the pressures for globalization head on and start to compete on a global level itself. Home grown MNCs in emerging economies are not a new phenomenon. The trend was noted quite early in a *Harvard Business Review* article in 1979 when the prevailing term for non-US, non-Soviet economies was third world countries[8].

A more contemporary view is seen in the case of Goldstar, now part of the LG group that enjoyed an early mover position in the Korean electronics market until Daewoo and Samsung entered the industry. As the competition grew fierce, Goldstar merged with Lucky, and the new group acquired Zenith, a major TV manufacturer in the United States, in order to penetrate the North American market. The examples of China Brilliance, Legend quoted above and several above like the Tatas of India offer insights into the efforts of local firms taking up global positions.

Conclusion

MNCs and local firms do not stand on the extreme ends of a continuum in opposition to each other but somewhere in between where they could seek opportunities for cooperation as well as healthy competition. Local firms in emerging market economies like India need to look at MNC entry as an opportunity to be exploited as so many firms have demonstrated in a variety of industries over a period of time. With time, it is a question of the confidence that stirs local firms to change to global firms themselves. This might not always be necessary though. They could continue to remain local firms but strong enough to compete and cooperate with the MNCs. This might require a lot of flexibility in terms of external and internal environment. To external environment, local firms should offer the flexibility of appropriate market response to emerging needs. Internally, the local firms need to better understand themselves in terms of the unique capabilities and competitive advantages they possess and how these could be leveraged to put them in a safe and secure competitive position.

Note

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Capturing Value in Global Markets: The Case of Samsung Electronics

Rishikesha T.Krishnan and K.Kumar

In this paper Dr.Rishikesha T.Krishnan and Dr.K.Kumar of IIMB undertake the study of the specific case of one EMC, Samsung Electronic (SEC) that appears to have progressed beyond ODM to a market leading position in certain industries…. This is one of the special situations where a single case study can be justified as a means of understanding the relevance and explanatory power of our framework.

Companies from emerging markets (henceforth referred to as EMCs) typically enter international markets by offering low prices, based on the low cost of inputs, principally labour (Erramilli, Agarwal and Kim, 1997; Pananond and Zeithaml, 1998). As labour costs increase, the competitiveness of EMCs[1] is liable to be eroded. To continue to compete effectively in international markets, they then need to be able to compete on additional dimensions, or to be able to build cost advantages that transcend factor cost advantages such as those based on scale, proprietary learning or proprietary product or process technologies. Additionally, they may seek to differentiate products or services so that the value they provide to customers is not based on a low-cost proposition alone. However, achieving this is not easy, and only some EMCs make a determined effort to go up the value curve. Of those that try, only some succeed.

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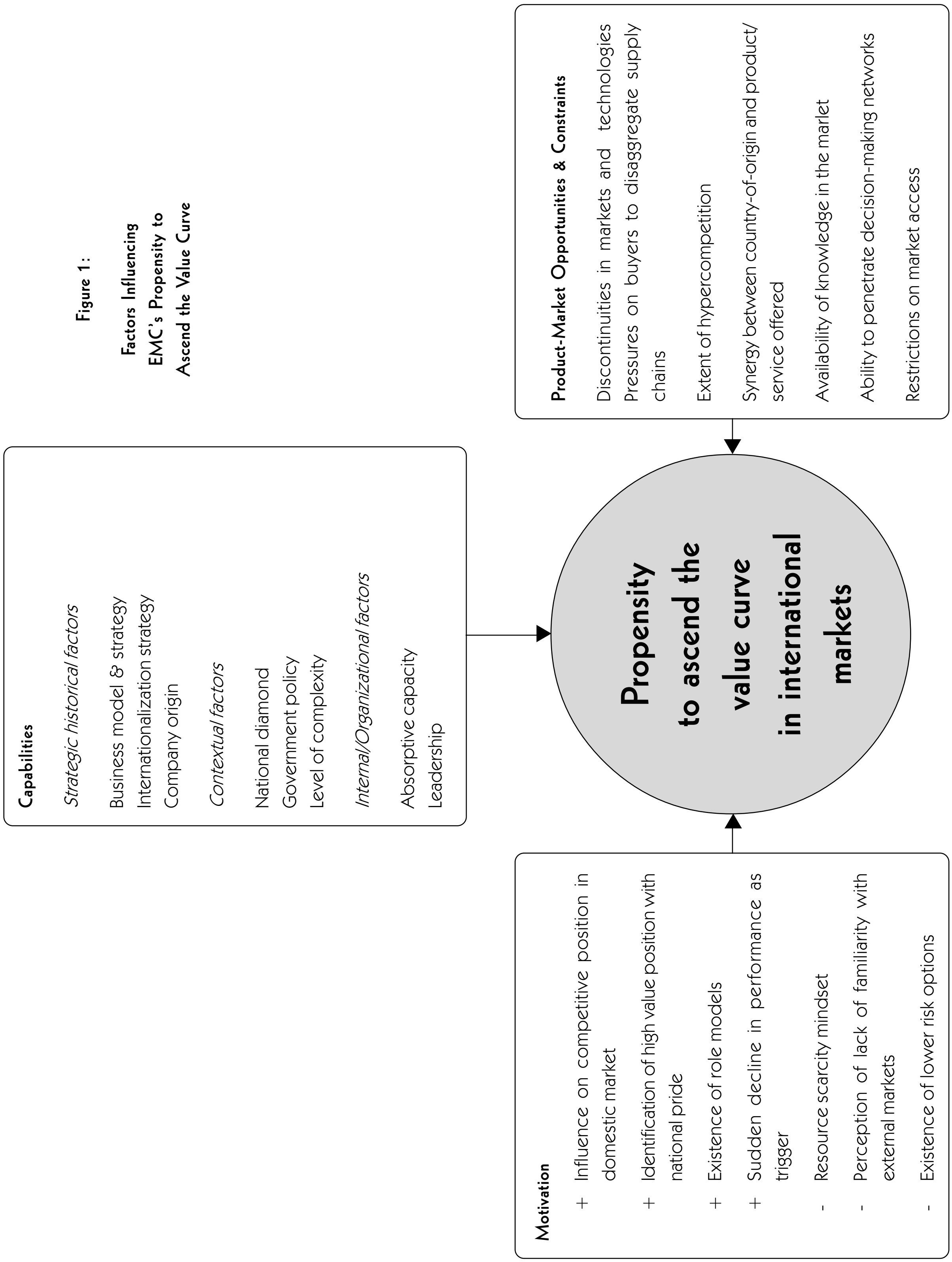
In an earlier paper (Krishnan & Kumar, 2003), we explored the rationale, motivation and strategies for EMCs ascending the value curve in international markets. Increased factor costs, poor bargaining power, the threat of backward integration by their customers, and the threat of new entrants from other geographies competing on the same cost dimension are the major drivers to ascend the value curve.

Figure 1:

Factors Influencing EMC's Propensity to Ascend the Value Curve



In the framework we proposed (see Figure 1), the propensity of EMCs to ascend the value curve is dependent on their motivation and willingness, the availability of suitable opportunities and their capability to do so. We proposed that the willingness of an EMC to attempt this transition is enhanced if establishing a higher value position in external markets would help its domestic business, such a high value position is closely identified with national pride and prestige, role models for the creation of such a position exist and if there is a trigger such as a sudden decline in financial performance in global markets. The willingness would be constrained by the extent to which a mindset of resource scarcity exists, the extent to which top management perceive they are unfamiliar with external markets and by the existence of lower risk options.

While willingness to take the risks involved is a necessary condition, EMCs need to develop internal capabilities in order to be able to ascend the value curve successfully. The existence of such capabilities would depend on a number of strategic, contextual and internal organizational factors. Strategic historical factors include the business strategy followed by the company, the reasons for its entry into international markets, and whether the company was "born global" or gradually entered global markets. Though it is firms that compete, features of the national environment (the "national diamond) such as factor conditions, demand conditions, the presence and competitiveness of related and supporting industries, and firm strategy, structure and rivalry affect the pressure on firms to innovate (Porter, 1990) and thereby provide the context for capability development. Government policy can also help or hinder capability development. The level of complexity involved in building new capabilities also affects the extent to which the company can ascend the value curve in that particular business. Capability development also depends on the absorptive capacity of the company and the leadership's vision of the importance of creating new capabilities.

The EMC's ability to ascend the value will depend on opportunities and constraints related to the product market. Discontinuities in markets and technologies and pressures on buyers to disaggregate their supply chains constitute important opportunities in the product-market. Hypercompetition in end product markets makes direct entry into those markets very difficult but can open up opportunities in intermediate markets. The relationship of the EMC's country-of-origin with the product/service in question and related products and services will also influence the extent to which product-market opportunities can be exploited. The degree of tacitness of technical knowledge and the extent to which technical knowledge is traded in the market, the ability to penetrate decision-making networks, and the degree of market access are other important drivers of product-market opportunities that involve the EMC ascending the value curve.

Though many EMCs have succeeded in making transitions up the value curve [such as Korean and Taiwanese companies that have moved from being manufacturers of original equipment (OEM) for large multinational customers to doing the design of such products as well (ODM)], few companies have graduated to the status of being leaders in their respective businesses and capturing the premia that go with strong brands and a premier market position. Studying companies that have achieved the latter allows us to investigate the framework we have proposed in greater detail and look for nuances that may be related to different stages of the process of ascending the value curve.

In this paper, we study the specific case of one EMC, Samsung Electronics (SEC), that appears to have progressed beyond ODM to a market-leading position in certain industries. SEC is arguably the most successful company in South Korea. It has emerged from the Asian crisis stronger than before. It is a leader in the highly competitive DRAM (memory chip) business that has been exited by a number of leading companies in the United States and Japan. It has established an early lead in the rapidly growing NAND flash memory business, and is also one of the leaders in LCD-TFT monitors. In addition, it has over the last decade created a powerful global brand in the mobile handset and high definition television businesses. SEC is on the verge of entering the exclusive club of companies that have a market capitalization in excess of $100 billion. And much of this has been achieved in an open and highly competitive economic environment, and in a period in which South Korea has passed through serious economic and political turmoil. This is one of the special situations where a single case study can be justified (Yin, 1984) as a means of understanding the relevance and explanatory power of our framework.

The Case of Samsung Electronics[2]

With an estimated brand value of $10.8 billion and a rank of #25 in the Interbrand survey of Top 100 global brands in 2003[3], Samsung Electronics (SEC) is nipping at the heels of its role model, Japan's Sony Corporation (brand value of $13.1 billion

& ranked of #20). In the two preceding years, SEC more than doubled its brand value and improved its ranking by seventeen places. In addition to being a world leader in memory chips, SEC is today the third largest player in the mobile handset business and a major player in such diverse businesses as ADSL equipment for broadband networks and LCD displays. SEC is highly profitable (a net profit of $5.3 billion on sales of $36 billion in 2003) and is today less dependent on memory chips for sales and profitability. Though SEC has, for many years, been one of the most successful multinationals from outside the developed world, today it is well on its way to being known as a trendsetter and global leader, and to join the ranks of the top consumer electronics giants of Japan and Europe.

Founded in 1969, Samsung Electronics (SEC) started through the OEM route, typically with products that were already in the later stages of the product life cycle, such as black and white televisions[4]. Since the Korean market was limited in size, export was always an important mode of achieving sales[5]. Over time, in order to overcome trade restrictions, SEC also set up plants in other countries to manufacture products there[6]. Some products were focused on external markets - e.g. colour televisions were initially exclusively for export because at that time there was no colour TV transmission in Korea. Similarly, the microwave oven business built up in the early 1980s was targeted at the U.S. market based on the requirements of large buyers like J.C. Penney and General Electric[7]. These efforts proved Samsung's ability to absorb technologies, build up capacities, deliver on time and with adequate quality, and to improve productivity and efficiency over time. Some design capabilities (more in the technical design sense than in the sense of design based on an intuitive understanding of user needs) were also developed. Generally, the approach was a vertically integrated one with all important components being made in-house. Where technologies were not easily available, SEC acquired companies that had the technology (for example, it bought a magnetron plant in the United States and shifted it to Korea when Japanese firms refused to share the magnetron technology with it) or partnered with companies that were not doing well in the market (to get the technology for memory chips, the company collaborated with failing companies in Silicon Valley)[8].

Though originally started as a separate company, a major driver of SEC's growth was the memory chip business that was merged with SEC in the mid-1980s. As in other businesses of SEC, they started at the later stage of the PLC as an assembler of Large Scale Integrated Circuits in the mid-1970s. By the mid-1980s, they were manufacturing VLSI chips under licence, graduating to independent DRAM design and production by 1988 and leadership in DRAM design by 1994[9]. SEC is today the largest producer of memory chips in the world, and among the top four producers of all semiconductors (by value). SEC's progress in the memory chips business can be attributed to the identification of sources of technology in the initial stages (US semiconductor firms that were not doing well); strong involvement of Korean Americans with experience in the semiconductor business; quick absorption of process skills (for later chips, SEC still obtained some design technology but was able to handle most of the process issues on its own); marriage of explicit knowledge obtained from technology sources with tacit knowledge built internally both in Korea and in San Jose; speed of execution and learning; strong demand growth and the willingness and ability to make large investments in production capacity[10]. Scholars who have studied the company have been uniform in their praise for Samsung's discipline and intensity of effort[11] (the company could remain in a "war mode" for months on end to meet new challenges such as the demanding specifications of General Electric in the microwave oven business), and the ability to manage by target and think several years ahead[12].

Throughout the 1970s and 1980s, SEC benefited from Korean government policies to help the chaebol. The Samsung chaebol's entry into electronics was a part of the Korean government's initiative to move away from Heavy industry and chemicals towards electronics and durable consumer goods. The Korean government invested in specialized research institutes and the development of qualified manpower. It protected the chaebol from competition in the domestic market, and provided low-cost loans to facilitate expansion of capacities and entry into foreign markets[13].

While SEC was successful in its efforts to build a large electronics business, some problems remained. Prices were always under pressure (not surprising considering that most of its products were in later stages of the PLC), and the Samsung brand name was associated with low-end products. Moreover, SEC was not immune to the excesses of the Korean chaebol. The company's emphasis was on volumes and production at any cost ("Production is King" at Samsung, according to a number of studies in the 1980s and early 1990s[14]). Inventories piled up in different parts of the supply chain. As the cash cow of the

Samsung group, SEC was used to raise funds for the entry of other Samsung group companies into new (and often questionable) businesses such as Samsung's late entry into automobiles in the mid-1990s[15].

The Asian financial crisis was a major trigger for the move of SEC into the next stage of evolution[16]. Though Samsung was already a well known brand, it was not considered a top-tier brand. The largest selling products were memory chips that though branded as Samsung were not visible as end products. The crisis in Asia coincided with a "low" in the memory chip business - SEC's net profits plunged from $2.8 billion in 1995 to $194 million in 1996[17], and still lower in 1997. Simultaneously, a reform process was kicked off in Korea and with the debt levels of companies like SEC coming under increasing scrutiny, the company had to reduce debt rapidly. The company used this opportunity to restructure internally (sale of non-core assets, reduction of manpower, liquidation of excess inventories, improvement in supply chain efficiencies, etc.). The fall in the value of the Korean *won* offered an opportunity to flood the export market with low-priced exports, but SEC's top management resisted this[18]. Instead they decided to put in place a plan to build a more stable income stream that would make the company less vulnerable to the ups and downs of the semiconductor business. The cornerstone of this was an effort to move towards higher value products based on a strong, global brand.

These tough decisions were taken by the new management team at SEC led by Yun Jong Yong, a long-time SEC employee who became head of SEC in January 1997. As a part of the chaebol reform process, in mid-1998, the Samsung Chairman allowed decision-making to be pushed down from the executive staff at the corporate office (i.e., from himself!) to the operating management. Yun Jong Yong and his team administered shock treatment to the company such as reducing the manpower by 30 per cent and even closing the main Suwon plant for two months to prevent further build-up of inventory[19]. The acceptance by Samsung and SEC of the restructuring programme enabled SEC to reduce its debt substantially and then expand chip capacity to meet an expected upturn in demand using funds raised by securitizing accounts receivable and obtaining credit from equipment suppliers[20].

SEC has been quite successful in its move upmarket. In mobile phones, SEC is a strong and profitable #3 and has a higher average price realization than market leader Nokia ($198 compared to $152 in 2003)[21]. By 2003, the telecom business was contributing about one-third of SEC's revenues and profits[22]. The complementary drivers of this have been brand building, design and technology integration. While SEC had a strong technological competence even earlier, the challenge was to translate this into differentiated products and to be able to capture the value of this differentiation. One important element of this strategy was the use of its manufacturing technology to pioneer feature-rich new products with which the company would be identified[23]. SEC has been first-to-market with a number of product features in mobile phone handsets (e.g. voice-activated CDMA handsets)[24]. Combined with elegance in design, this helped SEC capture the attention of young up-market customers across the world[25]. Entering the US market in 1997, it was able to build a strong position in CDMA mobile handsets in the United States thanks to the early adoption of the CDMA technology in Korea, a tie-up with Sprint and the setting up of a design and marketing centre in Dallas[26]. The rapid growth and evolution of the Korean market in advanced telecommunication such as broadband networks has also provided a good testing ground for SEC's products[27]. SEC brought in new people in key positions (such as an HBS MBA Eric Kim, as Senior VP Marketing; this was a significant break in tradition as Kim was not fluent in Korean!)[28].

SEC used the sponsorship of important events such as the Olympic Games and the Soccer World Cup to launch a global brand campaign; prior to this it also consolidated all its global advertising under a single advertising agency. SEC spent $200 million on the 1998 Winter Olympics and 2000 Summer Olympics alone, leading to a five per cent increase in global brand recognition[29]. Subsequently, it used an in-film (supported by external advertising) campaign in the popular "virtual reality" film *Matrix Reloaded* to strongly associate itself with contemporary technology[30]. Global advertising expenses have risen to about $400 million per year in the process[31]. SEC has also taken tough decisions to improve its brand profile such as moving away from mass retailers such as Walmart to specialized retail stores like Best Buy[32], and exiting some low-end product lines altogether[33].

SEC used international consultants to weave the design and branding efforts together into a brand-led design campaign built on the twin pillars of reason and feeling[34]. The brand positioning was consciously inclusive ("all are invited") unlike many other brands that put high technology on a difficult to reach pedestal[35]. The Korean government launched a national design initiative in 1994 and SEC followed suit with one its own in 1995[36]. SEC has addressed the design challenge through a global approach integrating design efforts across design centres located on multiple continents. These local design centres allow the company to be sensitive to local user needs but the company, through its overall brand and design philosophy, makes sure that the core brand values are the same everywhere[37]. Local design also facilitates reduction in time-to-market. The early success of the organised effort to upgrade design skills was reflected in SEC obtaining three IDSA awards in 1997[38] against just one in the preceding four years.

To speed up the overall product development process, decision-making has been decentralized, and the organization flattened[39]. Decisions regarding product portfolios and launches are taken by global product managers managing individual product lines rather than top management. The compensation of these product managers is directly linked to the profitability of their divisions and the company's stock price[40]. Young product evangelists are encouraged to champion new product ideas and given enough funding to take them to market[41]. For new products, SEC quickly assembles large teams of designers and engineers from different divisions and charges them with producing quick results[42]. Between 1998 and 2003, SEC doubled the number of designers to 350[43] and hired 800 PhDs (total about 1900)[44]. It believes that its integrated manufacturing set-up and manufacturing capabilities allow it to make sure that newly developed products reach the market quickly. As a result, SEC has cut time-to-market to as low as five months, from fourteen months in 1997[45]. SEC is able to launch more new platforms and products per year than its competitors[46].

Internal manufacturing efficiencies allow SEC to be a cost-competitive manufacturer. Also, it has most of the key technologies in-house including microelectronics and chip design, and TFT-LCD and other display technologies. This allows it to integrate technologies in novel ways within the boundaries of the company. The company believes that the shift from analog to digital technologies reduced experience-based entry barriers[47] and that the company's ability to integrate technologies to exploit digital convergence has enabled it to "make new waves[48]." Software has, so far, not been a major area of focus for SEC[49]. SEC has backed up its variety-based strategy with strong supply chain capabilities; according to SAP, SEC has "by far the most advanced supply chain system among Korean companies[50]."

In semiconductors, SEC has moved into application specific chips and customized applications such as graphics chips for games consoles and high-density memory modules for heavy-duty servers[51] so as to distance itself from the highly commoditised standard memory chips business. These "power" applications are increasingly critical for the integrated communications and entertainment devices that result from convergence across technologies[52]. SEC moved key R&D personnel into this area in 1997. SEC has taken an early lead in the NAND flash memory business that is expected to grow substantially in the coming years[53]. SEC has also made efforts to strengthen its product lines in monitors, LCD displays, and semiconductors. It supplies many of these products to its competitors as well believing that a presence in the OEM business is still helpful in terms of understanding emerging trends and applications. At the same time, its own in-house units are expected to compete with outside suppliers for company business[54].

The company has continued to invest heavily in research and development. In the mid-1980s SEC invested only about 0.5 per cent of its revenues in R&D but this had risen to 5+ per cent in the 1990s[55] and has crossed six per cent in 2001[56]. According to one estimate, 22 per cent of the company's employees are involved in R&D[57].

By 2003, SEC is an outstanding success story. It accounts for about one-tenth of Korea's exports[58] and one-fifth of the capitalization of the Seoul Stock Exchange[59], and is the most widely held emerging market stock[60]. It is the world's largest producer of memory chips (by a big margin) and the third-largest producer of cell phones (but with healthy profitability). It appears to be well positioned to take advantage of new opportunities in the trend towards "digital homes."

Lessons from the Samsung Experience

SEC's transition can be seen to follow a progression such as that described by Forbes and Wield (2002), moving through the stages of (1) learn to produce; (2) learn to produce efficiently; (3) learn to improve production; (4) learn to improve products; and, finally, (5) learn to design new products. In addition, it has also "learnt to lead" through technology integration and brand-driven design. However, perhaps more interesting than this *sequence* itself is the *process* through which the transition has occurred.

While the earlier improvements along the value curve were based largely on the development of technological capabilities, the transition to a top-tier brand involved discontinuous change. It appears that this discontinuous change would not have happened without the Asian financial crisis and the resultant pressure on Korean firms to improve their profitability and reduce their vulnerability to market cycles. Absent this crisis, there would have been little motivation to move away from the existing business model and, as part of the Samsung chaebol, SEC might have continued to be a source of funds for other businesses and high levels of debt would have remained. The tough restructuring undertaken by Yun Jong Yong would not have been possible without the crisis, nor is it likely that a strategy based on product variety could have been contemplated without the decentralization that was forced by the reform of governance structures within the chaebol.

The second most important factor that has enabled SEC's transition is the opportunity provided by the shift from analog to digital, the convergence of different markets (such as communication and entertainment) and the integration of diverse digital technologies. The prior development of some of the key technological capabilities was essential to be able to take advantage of the market opportunity. It is a moot point whether this was part of a grand plan or simply fortuitous. SEC was able to ride this wave because it had elements of the diverse technologies; it had experience in the consumer electronics, telecom and component industries; and it was able to organize itself to integrate across these different businesses and technologies. Thus the SEC experience suggests that moving up the value curve calls for action at multiple levels (product, business and corporate). The move into products and businesses that were at an early stage of the product life cycle and seen as "high technology" gave the company the opportunity to upgrade its corporate image as an innovator. Within the opportunity space, SEC was able to take advantage of the emergence and rapid growth of mobile communications. The existence of competing standards, and Korea's adoption of the CDMA standard provided SEC with an early-mover advantage, the ability to develop and test new products and hence a credible basis for claims of leadership in the mobile phone space.

However, SEC would not have been able to capture the value it was creating for customers without the global brand-driven, design-based campaign. This third element required innovative marketing thinking and acquiring the tacit knowledge of global branding through the recruitment of senior marketing professionals with global experience, supplemented by consultants and advertising agencies. Within this paradigm, specific decisions such as the creation of a global brand-led design philosophy, empowering teams to pioneer new-to-the-world feature rich products that gave Samsung the tag of an innovator, manifold increases in advertising budgets, the choice of an egalitarian platform for the brand (that brought a large number of young customers into the Samsung fold) and product proliferation at a faster pace than competitors made a significant contribution to the success of the attempt.

A fourth important factor in the SEC transition has been the role of the leadership. While the crisis provided the trigger, it is the company's leadership under Yun Jong Yong that took the tough decisions such as reducing manpower (a major shift in Korea where lifetime employment was the norm), stopping production to reduce inventory (sacrilege in a company in which "Production is King"), bringing in a senior manager not fluent in Korean, committing to "irreversible" investments in brand-building through advertising, and foregoing short-term opportunities to flood export markets with low-end products based on the low value of the Korean *won*. The SEC leadership made a conscious strategic choice to move up the value curve and backed this up with appropriate investments in R&D, product development and brand-building. The leadership also chose target markets, products and businesses carefully, ensuring an alignment that facilitated moving up the value curve. They endorsed moving out of product lines that could be inconsistent with the new image they sought to create even if this resulted in some losses in revenues or profits in the short term.

Established brands such as Sony and Nokia do appear to have played a role in inspiring SEC's strategy. In interviews with senior SEC managers, one finds frequent mention of Sony as the company against which SEC benchmarks itself. It is of course ironic that SEC's period of ascent has also coincided with a decline in the position of Sony as an innovator except for a few market segments such as video games. In many ways, SEC is better placed today than Sony as it has excellent manufacturing capabilities and a strong position in many of the core components that go into digital products.

Government support does not appear to have played a very important "direct" role in this stage of the ascent up the value curve, though the government's seriousness in chaebol reform must have played a role in SEC's decision to put its house in order. Some decisions of the government such as the design initiative started in 1994 and the hosting of the soccer world cup in 2002 helped SEC's moves, but were probably not critical to the process. The government's adoption of the CDMA standard also helped SEC in the mobile handset business as explained above.

The Framework Revisited

In the above analysis of the SEC case, we focused largely on "later stage" ascent of the value curve, i.e. the movement from being a competitive player with a global presence to taking a lead role or what has been described by Mytelka (1999) as moving from "keeping up" to "getting ahead." At this stage, willingness to ascend the value curve was enhanced largely by a trigger (in this case, the Asian crisis) that stirred the company from its inertia. Willingness was also enhanced by the existence of role models, in particular Japanese companies like Sony that had earlier traversed the path to brand leadership. The former suggests that the trigger can come even from external events as opposed to our expectation in Krishnan and Kumar (2003) that only a sudden decline in performance would provide a trigger. The latter indicates that, as we expected, role models are important, but that the role model need not necessarily come from the domestic market. Of course, the geographical proximity of Korea and Japan, the close historical links between companies in the two countries and the emergence of successful Japanese companies about twenty years ahead of the Korean companies can explain the influence of Japanese companies on Korea.

Behavioral factors did influence the willingness and motivation of SEC to ascend this last stage of the value curve. In the case of Korean companies at this stage of development, "resource scarcity mindset" *per se* was not an issue, for the Korean chaebol were already large and successful, and had benefited from considerable financial support from the Korean government. However an important barrier to overcome was the willingness to make investments in intangibles such as brand-building as opposed to investments in plant and machinery (production capacity). The Chaebol were already very familiar with external markets (for SEC, exports have historically constituted about 70 per cent of revenues), but they needed some tacit knowledge of brand-building and the confidence to reach out to a new generation of buyers with new rather than "me too" products - this came from the global brand-driven, design-based product development initiatives that were facilitated by new hires from the international market and consultants backed up by a large team within the company.

The willingness to eschew lower risk options is of tremendous importance at this stage of the progression of ascending the value curve. This is clearly manifested in the SEC case (overcoming the temptation to push volume-based exports using the low value of the won; pulling out of low-end product lines to avoid brand dilution, etc.). It thus appears that lower risk options will always exist but unless a company is willing to forego some of these and resolutely concentrate on the higher value-adding business, ascending to the final stages of the value ladder will be difficult.

In the case of SEC, strategic historical factors did not play a significant role in holding back the company. In fact, SEC had a number of strong technological capabilities that it had already developed and the major resource it lacked was a strong brand. Contextual factors also did not play a significant negative role, and in fact some contextual factors (government choice of CDMA as a standard, the government's design initiative, etc.) facilitated the ascent up the last stages of the value curve. Demand conditions may also have helped SEC - e.g. Korean users are known to be early adopters of advanced handsets. Being largely vertically integrated, the presence of related and supporting industries was not critical to SEC. The influence of firm strategy, structure and rivalry is not clear.

Clearly, by the early 1990s, SEC had built a strong absorptive capacity for diverse technologies and it was able to build on these in the next decade. The learning capabilities of the company were extended beyond technology and manufacturing to technology integration, supply chain management, intuitive understanding of user needs, product design, and brand-building.

As discussed in the preceding section, leadership has been crucial for the ascent at this later stage of the value curve. Given the influence of leadership in enhancing willingness, overcoming obstacles, eschewing lower risk (but distracting) options, building organizational capabilities, seizing opportunities, and re-designing the organization to make the effort succeed, this appears to be the most critical factor at this stage of ascending the value curve.

Product-market opportunities are obviously very important for a company seeking this late stage ascent of the value curve. Discontinuities in markets and technologies (competing standards, convergence, etc.) and the availability of knowledge to fill knowledge gaps were the two most important product market-related factors we could see in this case. By this time, Korea had already established itself as a source of high-quality goods, and hence country-of-origin issues were not significant. SEC was actually able to take advantage of hypercompetition to position itself since it was able to manage product proliferation effectively, both from the product development and supply chain perspectives. At least in the case of SEC, we have no evidence regarding the importance of the ability to penetrate decision-making networks or that of restrictions to market access. However, the absence of the former is not surprising given that SEC was reaching out to retail customers through brand-pull and hence decision-making networks may not be relevant in this case.

Conclusions and Agenda for further Research

This case suggests that our framework is fairly comprehensive in identifying the factors influencing the propensity of EMCs to ascend the value curve in international markets. However, the importance of different factors varies at different stages of the progression of ascending the value curve. The framework we proposed needs to be fine-tuned to these different stages. Further, we need to move beyond a single case to identify the relative importance of these factors. This single case does however suggest that at the late stage of ascent of the value curve, the most important factors will be leadership (largely to (1) overcome the temptation of lower risk options, (2) to keep the company firmly on the path to higher value addition, and (3) make the investments required in intangible assets), the availability of product-market opportunities that allow the company to re-position itself, the absorptive capacity of the company, and the occurrence of a trigger that can drive the effort.

Note

[1] In this paper, any reference to an EMC is related to a company from emerging markets that has a presence in international markets. Value addition is looked at in the specific context of its internationalization.

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The Optimal Weight and Composition of a Basket Currency in Asia---The Implications of Asymmetry

Naoyuki Yoshino, Sahoko Kaji and Tamon Asonuma

Asymmetries are likely to become lower as a result of economic integration, through trade liberalization and financial integration. However, this is not a proven theory. Economic integration has not yet been proved to be the necessary condition for a successful introduction of a common currency. Therefore, the sequencing of events towards the adoption of a common currency may not necessarily be "economic integration first." What is important is that asymmetries are removed. With more symmetry, there is less loss (in terms of economic welfare) from introducing a common currency.

Much has already been written about the causes of the 1997-98 financial crises in Southeast Asia. The two known culprits are the de facto fixing of exchange rates against the US dollar and short-term capital flows. When the US lowered federal fund rates in early 1997, massive amounts of short-term capital shifted to countries such as Thailand, Indonesia and South Korea. Southeast Asia was viewed as the region of the 21st century, and expected return on investment was high. In addition, since the exchange rates of the local currencies were virtually fixed against the US dollar, expected exchange risk was nil.

Establishment of offshore markets, for instance in Thailand opened easy access to overseas capital. Banks in these countries borrowed short from abroad, and lent long domestically. As we all know now, this "maturity mismatch" turned out to be a recipe for disaster. Tan, Karigane and Yoshitomi (2001) point out that there were two types of mismatch, the other being the "currency mismatch" i.e. borrowing in US dollars and lending in the local currencies.

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Eventually, the foreign lenders began to have doubts about their borrowers' ability to pay back their loans. As lenders rushed to sell the local currencies and buy the US dollar, a herd mentality developed in the markets. The exchange rates came under heavy pressure to depreciate against the US dollar; the central banks had to keep intervening in the foreign exchange markets until foreign exchange reserves were exhausted. Now these countries had to turn to the International Monetary Fund (IMF) for help.

The IMF did what they always did when asked to lend money to countries; they agreed to lend under conditions that included macroeconomic policy tightening. As many have argued, this may not have been the correct response, although higher interest rates would not have encouraged further capital flights. Indonesia and Korea raised their interest rate in 1998. This made it difficult to borrow money, and economic growth in these countries turned negative. Table 1 compares some key economic indicators for 1995, 1998 and 2002.

Table 1: ASEAN+3 Key Economic Indicators 1995, 1998, 2002

1995	Population Growth Rate	Per Capita GDP	GDP Growth Rate	Gross Trade per GDP	Domestic Savings per GDP	Inflation Rate (CPI)	M2 Growth Rate
Cambodia	5.2	32	6.9	79.9	-2.6	7.8	44.3
Indonesia	1.7	1038	8.2	53.9	30.6	9.5	27.6
Lao PDR	0.2	4294	7.0	n.a	n.a	n.a	16.4
Malaysia	2.9	4294	9.8	192.1	39.7	3.4	24.0
Myanmar	1.9	n.a.	6.9	2.5	13.4	n.a	40.5
Philippines	2.4	1055	4.7	80.6	14.5	8.0	25.2
Singapore	3.2	23806	8.0	n.a	50.2	1.7	8.5
Thailand	1.2	2829	9.2	90.4	37.3	6.1	17.0
Viet Nam	1.7	288	9.5	74.7	18.2	n.a	22.6
China	1.1	288	10.5	n.a	42.5	17.1	29.5
Japan	0.2	42231	1.6	16.8	29.9	-0.1	3.0
Korea	1.0	10850	8.9	61.9	35.6	4.4	23.3

1998	Population Growth Rate	Per Capita GDP	GDP Growth Rate	Gross Trade per GDP	Domestic Savings per GDP	Inflation Rate (CPI)	M2 Growth Rate
Cambodia	4.7	254	3.7	77.4	-0.4	14.8	15.7
Indonesia	1.2	473	-13.1	96.2	26.5	58.5	62.3
Lao PDR	2.8	259	4.0	n.a.	n.a.	90.0	113.3
Malaysia	2.4	3254	-7.4	209.4	48.7	5.3	1.5
Myanmar	3.8	n.a	5.8	1.4	11.8	25.3	36.5
Philippines	2.2	867	-0.6	111.0	12.4	9.8	8.0
Singapore	3.5	20885	-0.9	n.a.	53.3	-0.3	30.2
Thailand	1.0	1828	-10.5	101.9	35.2	8.1	9.5
Viet Nam	1.5	361	5.8	97.0	21.5	7.8	25.6
China	0.9	762	7.8	n.a.	40.8	-0.8	14.8
Japan	0.3	31372	-1.1	19.5	28.6	0.6	4.4
Korea	0.7	6850	-6.7	86.0	34.4	7.5	23.7

2002	Population Growth Rate	Per Capita GDP	GDP Growth Rate	Gross Trade per GDP	Domestic Savings per GDP	Inflation Rate (CPI)	M2 Growth Rate
Cambodia	2.6	297	5.5	126.6	12.1	3.3	31.1
Indonesia	1.2	819	3.7	63.9	21.1	11.9	4.7
Lao PDR	2.8	331	5.9	n.a.	n.a.	10.7	*21.1*
Malaysia	2.1	3880	4.2	210.2	41.8	1.8	5.8
Myanmar	2.0	n.a	n.a.	*1.0*	*11.3*	57.0	34.2
Philippines	2.1	969	4.4	97.3	19.5	3.1	9.5
Singapore	0.8	20887	2.2	n.a	44.7	-0.4	-0.3
Thailand	0.8	1993	5.2	122.3	*32.0*	0.7	2.6
Viet Nam	1.3	440	7.0	115.0	28.8	*-0.4*	*25.5*
China	0.6	963	8.0	n.a	39.4	-0.8	19.9
Japan	0.1	31277	0.3	20.5	n.a.	-0.9	3.3
Korea	0.6	10006	6.3	78.6	29.3	2.7	14.0

Source: ADB Key Indicators 2002, MOF Home Page. Data for Brunei were not available.

Much has been written also about the lessons from the Asian financial crises. One such lesson is the dangers of relying on indirect financing (raising capital through borrowing from banks). For countries in the region, including Japan, the dominant form of saving is bank deposits, and the dominant means of raising capital is bank borrowing. The reason why such a form of financial intermediation is dangerous is because, once banks are hit by crises, the economy freezes over. This was exactly what happened in countries hit by the 97-98 crises (and indeed in Japan for about a decade after the bubble burst and banks were left with huge amounts of bad debt on their balance sheets).

After this experience, naturally all eyes to encouraging a shift from indirect to direct financing (raising capital through stock and bond markets). The creation of a well-functioning bond market in Asia has become a key topic (because many recognized stock markets were not for the novice investors). Concrete plans are put forward, as discussed in Chaipravat (2004).

In this paper, we review the merits and demerits of different exchange rate regimes, and in the context of how to avoid the repetition of 1997-98, discuss the possibility of a basket-peg or ultimately a common currency in Southeast Asia. There are three main conclusions. One, even if basket-pegs were optimal as a currency regime in this region, the optimal levels of weights (on the different exchange rates inside the basket) are not the same for all countries. This is due to the asymmetry in policy goals and economic structures. The conclusion implies that (pegging against or introducing) a common currency may not be optimal. Two, regional currencies and not just the major currencies (the US dollar, the euro and the yen) should be included in the basket. And three, the sequencing of events towards the adoption of a common currency may not necessarily be fixed. What is important is that asymmetries are removed. It is also important that symmetry be not only achieved but maintained.

The organization of the paper is as follows: Section 2 compares the floating, fixed and basket currency peg systems. Section 3 uses Malaysian and Thai data to investigate the welfare effects of introducing a common currency system in Asia. Section 4 briefly discusses our conclusions in relation to the development of Asian bond markets. Section 5 concludes the paper.

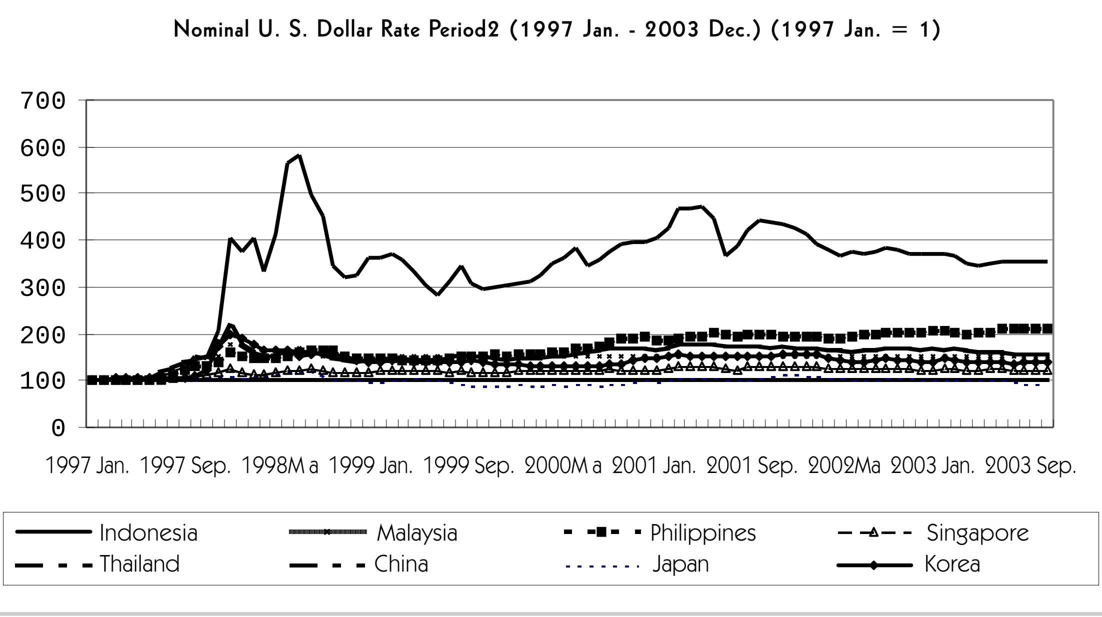
2. The Different Exchange Rate Regimes

Figure 2 shows the fluctuations of exchange rates of Asian+3 currencies, with their 1997 levels set to 100. Table 3 lists the various exchange rate systems in Asia, for 1997 and 2002.

In the following subsections, we summarise the advantages and disadvantages of different currency regimes.

Figure 2: Nominal Exchange Rate of ASEAN+3 currencies against the US dollar (1997=100)

Figure 2: Nominal Exchange Rate of ASEAN+3 currencies against the US dollar (1997=100)



Nominal Dollar Rate (1997 Jan. = 100) except Indonesia

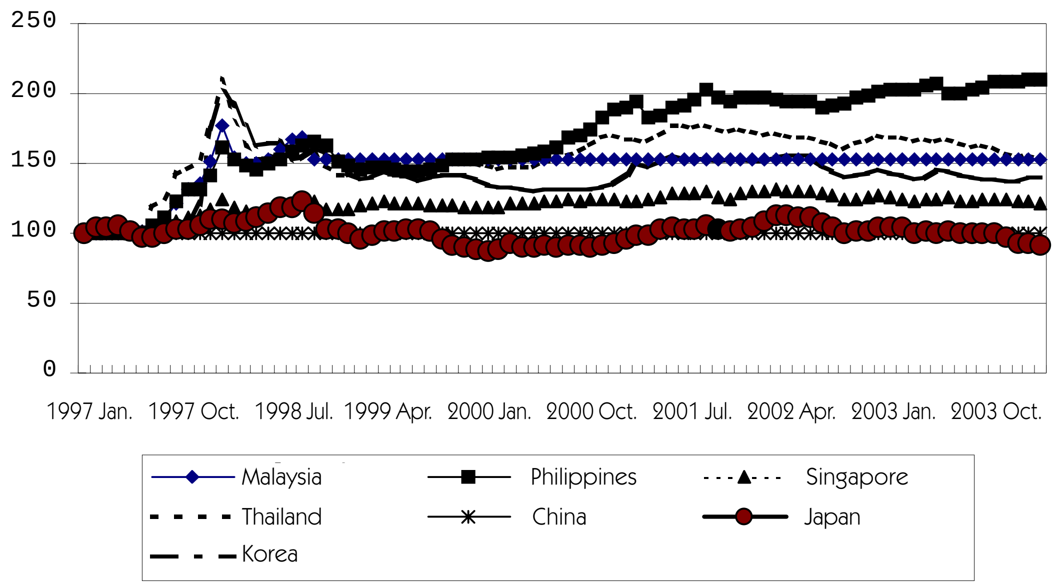


Table 3: Exchange Rate Arrangements in ASEAN+3 1997 and 2002

Exchange Rate Arrangements for 1997

	IND	MAL	PHI	SIN	THA	CHI	JPN	KOR
Pegged					○			
Managed Floating	○	○		○		○		○
Independent Floating			○				○	

Source: MF, Exchange Arrangements and Exchange Restrictions 1997

Exchange Rate Arrangements for 2002

	IND	MAL	PHI	SIN	THA	CHI	JPN	KOR
Exchange Arrangement with no separate legal tender								
Currency Board Arrangement								
Conventional Pegged Arrangement		△				△ *1		
Pegged exchange rate within horizontal bands								
Crawling Peg								
Crawling band								
Managed Floating with no pre-announced path for the exchange rate	○			○	○ *3			
Independently Floating			○				○	○ *2

*1: The indicated country has a de facto regine, which differs from its de jure regime
*2, *3: Two countries adopted inflation targeting following the floating of their currencies
Source: MF, Exchange Arrangements and Exchange Restrictions 1997

2.1. Floating vs. Fixing against the US dollar

Milton Friedman (1953) was one of the first to advocate the adoption of floating exchange rate regimes. He explained that profit-maximizing speculators would buy the currency when its price was low, and sell it when its price was high, thereby stabilizing the exchange rate. Therefore, the exchange rate should be left to be determined by market forces, and monetary policy should aim to control price inflation. By the late 1960s, many had come to expect that floating exchange rates had the following virtues; it would eliminate current account imbalances, and allow monetary policy to be targeted towards stabilising the domestic economy. As it turned out, after the collapse of the Bretton Woods fixed exchange rate system, current account imbalances remained. And hardly any central bank became completely free of the burden of intervention. Furthermore, as is widely recognized today, large volatility of exchange rates during financial crises negatively affects economies to the point of devastation.

Yoshino, Kaji and Ibuka (2004) empirically showed that Malaysia in the late 1990s was indeed a case of an economy negatively affected by exchange rate fluctuations. Malaysia's ratio of exports plus imports to GDP is about 177 per cent (Table 4). Control on capital outflows might discourage capital inflows, and this might harm long-run economic growth. In the short-run however, the effects on external balances of exchange rate gyrations are more serious. In that sense, Malaysia chose the right policy when it fixed the Ringgit exchange rate under capital controls in 1998.

In fact, Robert Mundell has recently used the difficulty of dealing with exchange rate fluctuations as a reason to support fixed exchange rates. We all know that fixing the exchange rate (in general) means losing monetary policy autonomy; we can no longer assign monetary policy to domestic stabilization. Mundell argued that it was domestic inflation, not the exchange rate, which should be allowed to fluctuate freely. Monetary policy should be assigned to exchange rate stability, not inflation stability. Obviously this is a view on the other end of the spectrum from Milton Friedman's. Mundell's reasoning was that we could cope more easily with fluctuations in inflation than with exchange rate gyrations, because wages and salaries adjusted with the rate of inflation. McKinnon and Schnabl (2004) also support the use of a dollar-peg regime in East Asia. Their view is that fear of floating is entirely rational from the perspective of each individual country in this region. A joint pegging of their currencies to the US dollar benefits the area as a whole, although Japan remains an important outlier.

Fixing exchange rates does not ensure stability, however. In different parts of the world, fixed exchange rates have invited financial crises. In the case of the Asian crises of 1997-98, pegging against the US dollar was one of the most important direct causes.

Table 4: Trade (Export plus Import) as percentage of GDP

	2003
Indonesia	53.7
Malaysia	177.2
Philippines	87.7
Singapore	273.7
Thailand	98.1
China, Mainland	49.1
Hong Kong SDR	248.8
Taiwan P.O.C	83.5
Japan	18.9
Korea	65.2

Source: IMF Direction of Trade (2003 November)
IMF International Financial Statistics (2002)

2.2. The Basket-peg Regime

We now turn to the basket-peg regime, a form of fixed exchange rate regime already adopted by some central banks, notably the Monetary Authority of Singapore (MAS). According to MAS (2004), the committed goal of their monetary policy is to stabilize the Nominal Effective Exchange Rate (NEER) of the Singapore dollar. The MAS does not officially announce which currency exchange rates are included in their NEER. Neither do they announce the weights on each exchange rate. Many observers claim that several different currencies are involved.

Theoretically, a basket currency regime can be depicted as a regime that stabilises the β in the following equation:

$$a_1 \times e_1 + a_2 \times e_2 .... + a_n \times e_n = \beta \quad \text{———} \quad (1)$$

where β is a constant. n is the number of currencies in the basket. a_i ($i = 1,2,.....\ n$) is the weight on for each exchange rate and e_i is the exchange rate of the ith currency against some numeraire. One virtue of this regime is the possibility that exchange rate movements might cancel each other out, relieving monetary authorities of the peril of losing foreign exchange reserves due to futile intervention. If the weighted sums of the changes in all the exchange rates in the basket are zero, then β remains constant and authorities do not have to do anything. This was one major reason why many economists called for the adoption of basket-pegs after the 1997-98 crises (as we discuss below).

Yoshino, Kaji and Suzuki (2002, 2004) examined the possible adoption of a basket-peg using Thai data. If the weights in the basket can be used as a policy tool, then a basket-peg can be an optimal exchange rate regime. The main conclusions are:

(i) Trade weights, which are often used as the weights in a currency basket (p.ex. Kwan (1999)), are not optimal. This is because the economy engages not just in trade but also capital inflow and outflows. A sufficient condition for trade weights to be the optimal is for the economy to engage only in trade, for elasticities of export and import with respect to the exchange rate to be identical, and the policy goal to be to stabilize the trade balance.

(ii) The optimal values of weights depend on the policy objective (the loss functions that the policy authorities are minimizing).

(iii) In the case of the period examined for Thailand, the optimal weight on the US dollar was 61 per cent and the Japanese Yen was 39 per cent if the policy objective was to stabilize GDP. This means that the weight on the US dollar was too high when the crisis started in 1997 (as it was set to 1). Tables 5 and 6 summarise the result of Yoshino, Kaji, and Suzuki (2002, 2004).

Table 5: Basket Weights

Policy objective	V
Stabilising GDP	0.61
Stabilising Current account	0.56
Stabilising Baht-dollar exchange rate	1

Source: Yoshino, Kaji, and Suzuki (2002, 2004)

Table 6: Values of the Loss Functions

Floating exchange rates	Floating exchange rates without optimal monetary policy (no)	Dollar Peg	Basket-peg with optimal weights
G D P	$(0.02e^{\$/¥} - 0.35R)^2$ 3.1	$(0.62e^{\$/¥})^2$ 2.16	0
Current account	$(-4.75e^{\$/¥} + 1.10R)^2$ 31.06	$(0.016e^{\$/¥})^2$ 0.0014	0
Bahts - dollar exchange	$(-0.15e^{\$/¥})^2$ 0.13	0	0

Source: Yoshino, Kaji, and Suzuki (2002, 2004)

3. A Common Currency System in Asia?

We have seen in the previous section that all three of the exchange rate systems; floating, dollar-peg and basket-peg, all have costs and benefits. After the financial crisis in 1997-98, many emphasized the costs of the dollar-peg regime and advocated the introduction of a basket-peg in East Asia. In particular, Kuroda (2004), Kawai (2002, 2005), Ito and Park (2004), Ogawa and Ito (2002) and Ito (2005) propose working towards the adoption of a common currency in the Southeast Asian region. Their argument is that financial cooperation and exchange rate cooperation are regional public goods whose supply can be secured by adoption of a common currency.

A common currency means that all countries adopt the same basket, "same" in terms of both composition and weights. This can be suboptimal when there is asymmetry. For instance, if policy goals are different, then the optimal values of the weights in the basket are different from country to country. Similarly, when the structure of each economy is different, so are the optimal values of the weights.

3.1. The suboptimality of a common currency in a two-country model

Yoshino, Kaji and Asonuma (2005a) constructed a two-country model, the two Asian countries being Thailand and Malaysia. Table 7 summarises their results.

Table 7: Basket weight and Loss values

The Value of Loss

Policy Objective	Malaysia-basket peg Thailand-basket peg with both adopting optimal weights	Malaysia-basket peg Thailand-basket peg with both adopting common weights (1)	Malaysia-basket peg Thailand-basket peg with both adopting common weights (2)
G D P	V = 1.02 W = 3.09	V = 1.02 W = 1.02	V = 3.09 W = 3.09
	(M) 0 (T) 0	(M) 0 (T) (0.0786) ^ 2	(M) (0.0078) ^ 2 (T) 0
Price Level	V = 0.23 W = 0.36	V = 0.23 W = 0.23	V = 0.36 W = 0.36
	(M) 0 (T) 0	(M) 0 (T) (0.0616) ^ 2	(M) (0.0003) ^ 2 (T) 0

Source: Yoshino, Kaji, Asonuma (2005 a)

When Malaysia and Thailand adopt the basket with the same weights, the values of their loss functions ($L=(y-\bar{y})^2$ for the case of GDP stability and $L=(p-\bar{p})^2$ for the case of price stability) are not zero. In contrast, by setting their weights to values that are optimal for each of them, each can bring down their losses to zero. The study also confirms that trade weights are not optimal for these policy goals (loss functions). The mathematical expressions for the optimal weights are much more complicated than mere trade weights, reflecting the structure of the economy. Elasticities of demand functions with respect to changes in interest rate, exchange rate etc. affect the performance of each economy and hence the optimal weights.

3-2. The suboptimality of a common currency in a two-country model with Two Exogenous countries

Yoshino, Kaji and Asonuma (2005b) extended their analysis in Yoshino, Kaji and Asonuma (2005a) to build a two-country model with two larger exogenous countries. The two Asian countries are Malaysia and Thailand. The two exogenous countries are USA and Japan.

They sought to find the optimal basket for an East Asian economy when larger countries existed outside the region, in terms of both the composition and the weights on the exchange rates. Three cases were investigated: (A) the basket comprises only the exchange rates for the currencies inside the East Asian region, (B) the basket comprises only the exchange rates for the currencies outside the East Asian region, and (C) the basket comprises all of the exchange rates, for the currencies both outside and inside of the East Asian region.

Two Country with the two exogenous countries Model

Yoshino, Kaji and Asonuma (2005b)

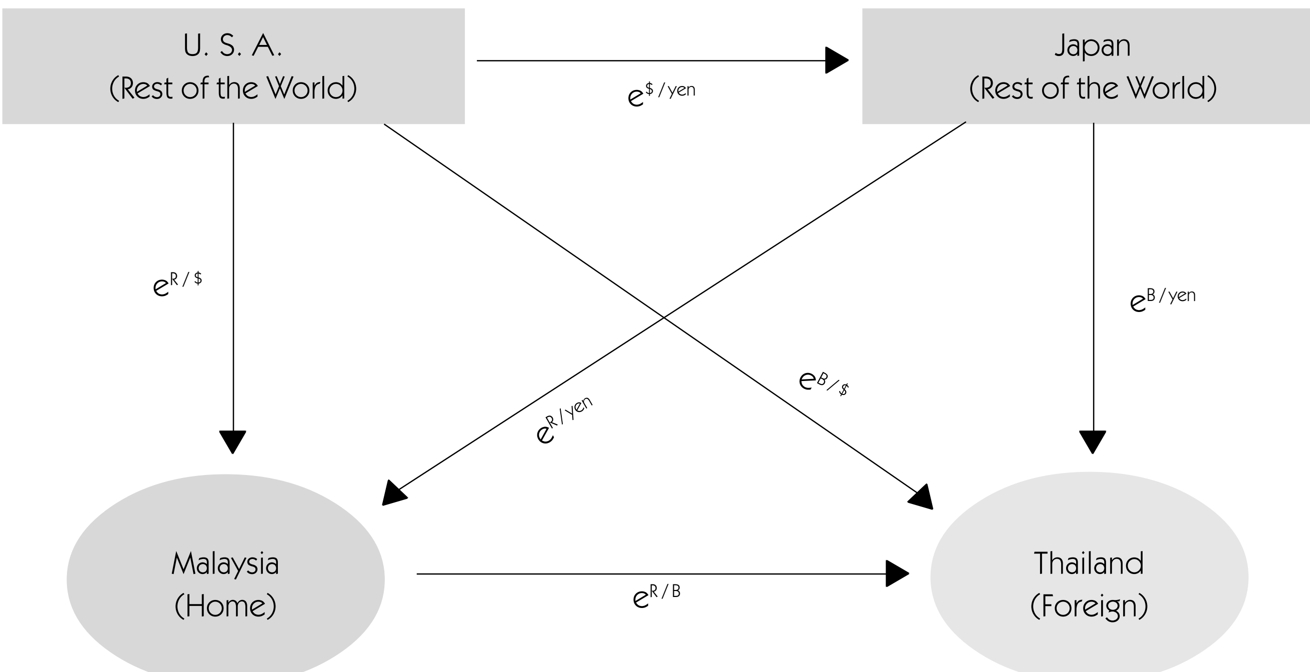


Table 8 shows the values of the loss functions for the home country (Malaysia). One of the major conclusions is that the basket containing only the exchange rates with outside (major) currencies is not optimal for the two East Asian countries; the baskets should contain all currencies.

In case (A) where the basket comprises only Asian currencies, losses are nonzero because outside (major) currencies are actually used by these Asian nations. Volatility in the exchange rates against the US dollar and the yen increases uncertainty and causes the GDP and price levels to diverge from equilibrium levels.

Case (B) is the opposite extreme, where the basket has only the dollar rates and yen rates in it. The values of losses shown in Table 8 may be unexpected. A majority of the external transactions (in goods and services as well as lending and borrowing) are done in the dollar and/or the yen, and countries are as open as they are (shown in Table 4 above). In such a case, one might expect that stabilisation of exchange rates against these currencies should bring about economic stability. Furthermore, as we mention below in section 4, foreign currency market intervention is often conducted using the US dollar. If basket-pegs are for reducing instability arising from foreign transactions, it might seem that the basket needed only to have the exchange rates against outside (major) currencies. But the losses turn out to be greater in this case than in Case (A). This is for the following reason. Every country has a "home bias." For instance, Malaysians prefer to use the ringgit and Thais prefer to use the baht in domestic transactions. Therefore, volatility in

Table 8: The Value of the Loss Functions

Policy Objective	(A) Basket consists only Asian Currencies (ringgit-baht, ringgit-yen	(B) Basket consists only Dollar and yen rates (ringgit-dollar, ringgit-yen	(B) Basket consists both Asian Currencies and Dollar (ringgit-baht, ringgit-dollar and ringgit-yen)
G D P	V1 = 0.65 V2 = 0	V1 = 0 V2 = 0.49	V1 = 0.65 V2 = 0.49
	(M) (-24.246)^2	(M) (1.316)^2	(M) 0
Price Level	V1 = 0.21 V2 = 0	V1 = 0 V2 = -0.10	V1 = 0.21 V2 = -0.10
	(M) (725.824)^2	(M) (2251.843)^2	(M) 0

Source: Yoshino, Kaji, Asonuma (2005 b)

the exchange rate between the ringgit and the baht increases instability, even if it were mainly the US dollar and the yen that were used in foreign transactions by both the private and public sectors.

As we can see from case (C), values of the losses are zero when all exchange rates are included in the basket and the weights are set so that the losses are minimized.

4. Regional Bond Markets

We have argued that even if the introduction of a basket-peg regime in Southeast Asia were optimal, that did not necessarily signify that the peg to a common basket was optimal. This is because countries within the region may have asymmetries in terms of policy objectives and economic structures. Under such asymmetry, the optimal values of weights in the basket currencies differ from one country to another. We also argued that exchange rates of regional currencies need to be included in the basket for the basket-peg to be optimal.

One important reason why basket-pegs were advocated in Asia was the huge loss in foreign exchange reserves and its devastating consequences during the financial crises of 97-98. It would seem appropriate, therefore, to point out one additional benefit of Asian bond markets in terms of foreign exchange reserve stability. Asian bond markets raise the possibility of diversification for regional central banks holding foreign exchange reserves.

Table 9 shows the changes in foreign reserves of selected Asian countries. Japan accumulated 469 billion US dollars, China accumulated 295 billion US dollars and Korea accumulated 121 billion US dollars during the period cited. Save for a few exceptions, the composition of foreign reserves is not disclosed.

Table 9: International Reserves (End of year; US$ Million)

International Reserves (End of year; US$ Million)

	1997	1998	1999	2000	2001	2002	2003
Indonesia	17396.3	23516.5	27257.5	29267.8	28018.4	31577.1	36253.3
Malaysia	20899.2	25675.2	30644.8	29576.0	30525.9	34277.2	44576.0
Philipines	8738.3	10780.6	15011.9	15024.3	15658.6	16180.1	16865.6
Singapore	71288.8	74928.0	76843.2	80132.1	75374.9	82021.1	95746.0
Thailand	26892.5	29536.3	34780.9	32661.3	33040.7	38915.4	42147.7
China	143363.4	149811.7	158335.8	168855.4	218698.1	295201.8	412225.0
Japan	220972.0	215949.0	288080.0	361638.0	401959.0	469728.0	673,520.0
Korea	20404.9	52040.8	74054.4	96198.1	102821.1	121414.0	186278.6

Source: ADB, Key Indicators 2002, MOF Home Page
Data for Japan is from Ministry of Finance Japan, the rest are from ADB Key indicators.

A major part of most Asian foreign reserves are held in of US dollars. This may have serious consequences, should the value of the US dollar tumble. The possibility of such an event has repeatedly been raised, as the US accumulates foreign borrowing. As noted in Chaipravat (2004), the development of bond markets in major Asian countries begins with the issuance of sovereign bonds. If Asian central banks held some of their reserves in Asian sovereign bonds, they would be able to reduce their foreign exchange risk. Therefore, a successful expansion of an Asian bond market can contribute to stability of foreign exchange reserves.

It is worth noting that diversification is not costless, however. The cost of transaction in US dollars is low, because markets for dollar denominated assets are deep and liquid. The US dollar is often involved in foreign exchange market interventions, even when the target is the exchange rate between two other currencies (for instance between the Deutsche Mark and the French franc back in the days when they existed). Diversification is wise in terms of reducing foreign exchange risk. But in terms of holding reserves in a currency with low transaction costs, it would not be advisable to lower too much the proportion of US dollars.

Appendix : Economic interdependence among ASEAN+3

Table A1: Share of export to ASEAN+3

		Export To								
		Indonesia	Malaysia	Philippines	Singapore	Thailand	China	Hong Kong	Japan	Korea
	Indonesia	0.00%	3.55%	1.36%	9.36%	2.15%	5.08%	2.17%	21.08%	7.19%
	Malaysia	1.93%	0.00%	1.43%	17.09%	4.25%	5.63%	5.68%	11.28%	3.36%
	Philippines	0.58%	4.68%	0.00%	7.03%	3.08%	3.85%	6.70%	15.04%	3.81%
Export	Singapore	0.00%	17.43%	0.00%	0.00%	2.43%	5.49%	9.17%	7.14%	4.16%
From	Thailand	2.44%	4.12%	1.85%	8.07%	0.00%	5.16%	5.37%	14.52%	2.03%
	China	1.05%	1.53%	0.63%	2.14%	0.91%	-	18%	14.89%	4.76%
	Hong Kong	0.43%	0.99%	1.15%	2.02%	1.08%	39.33%	-	5.37%	1.95%
	Japan	1.50%	2.64%	2.03%	3.40%	3.17%	9.59%	6.10%	-	6.87%
	Korea	1.95%	1.99%	1.83%	2.61%	1.45%	14.71%	6.28%	9.38%	0.00%

Source: IMF Direction of Trade (2003 November)

Bilateral Trade Share = Export to the partner country / Export to the world

5. Conclusion

Based on empirical analyses using Malaysia and Thailand data, today there seems to be too much asymmetry for a common currency to be optimal in Southeast Asia. Economic welfare in these countries will be higher if they adopted basket currencies with weights that were optimal in light of their own economic structures and policy goals. This means that a common currency advocated by Kuroda (2004), Kawai (2002, 2005), Ito and Park (2004), Ogawa and Ito (2002) and Ito (2005) is a goal to be achieved not in the immediate future. Asymmetries need to be removed first, and that may take time.

As to the composition of the optimal basket currency, this should include exchange rates of regional currencies, not just the "major" currencies. This is due to "home bias" in the use of currencies in domestic transaction.

Asymmetries are likely to become lower as a result of economic integration, through trade liberalisation and financial integration. However, this is not a proven theory. Economic integration has not yet been proved to be the necessary condition for a successful introduction of a common currency. Therefore, the sequencing of events towards the adoption of a common currency may not necessarily be "economic integration first."

What is important is that asymmetries are removed. With more symmetry, there is less loss (in terms of economic welfare) from introducing a common currency.

In terms of the practical application of a basket-peg regime, economic stability will contribute to its smooth functioning. If weights in the basket are to serve as effective policy tools, they need to be adjusted to levels that minimise diversion from policy goals. It is therefore important that symmetry be not only achieved but maintained. In other words, if policymakers in the region keep switching policy goals, or if economic structures (response of economic variables to changes) keep changing, it would be very difficult to maintain the weights at levels even close to optimal. All factors that make it easier for policymakers to maintain optimal weights will contribute. An example might be deregulation and removal of inefficiencies.

Table A2: Share of import of ASEAN+3

		Import From								
		Indonesia	Malaysia	Philippines	Singapore	Thailand	China	Hong Kong	Japan	Korea
	Indonesia	-	3.32%	0.36%	13.10%	3.81%	7.76%	0.77%	14.09%	5.26%
	Malaysia	3.21%	-	3.26%	12.00%	3.97%	7.74%	2.92%	17.82%	5.32%
	Philippines	2.16%	3.63%	0.00%	6.53%	2.97%	3.54%	4.47%	20.43%	7.78%
Import	Singapore	0.00%	18.22%	2.15%	0.00%	4.64%	7.61%	2.44%	12.51%	3.69%
To	Thailand	2.41%	5.62%	1.67%	4.49%	0.00%	7.61%	1.41%	23.03%	3.90%
	China	1.52%	3.15%	1.09%	2.39%	1.89%	-	4%	18.10%	9.67%
	Hong Kong	0.72%	2.45%	1.30%	4.68%	1.83%	44.30%	-	11.30%	4.70%
	Japan	4.20%	3.31%	1.93%	1.48%	3.12%	18.33%	0.42%	-	4.60%
	Korea	3.11%	2.66%	1.23%	2.25%	1.12%	11.44%	1.11%	19.63%	-

Source: IMF Direction of Trade (2003 November)

Bilateral Trade Share = Import from the partner country / Import from the world

Note

[1] An earlier version of this paper was presented at the conference "East Asian Regionalism and its Impact", organized by the Institute of Asia-Pacific Studies (IAPS) and the Chinese Academy of Social Science (CASS), held in Beijin on October 21-22, 2004. The authors thank Yongdig Yu, Min Tang, Honghui Cao, Peter Drysdale and Olarn Chaipravat for valuable remars during the conference. The authors gratefully acknowledge financial support from the 21COE Programme of the Japanese Ministry of Education, Culture, Sports, Science and Technology. iiOnly the authors are responsible for all remaining errors.

[2] Japan also saw a sudden increase in capital inflows in 1997. The Japanese Ministry of Finance intervened in the foreign exchange market to counter the pressure on the Yen to appreciate. Dr Eisuke Sakakibara, Vice Minister of Finance at that time, records his experience in Sakakibara (2000). For an explanation of the Asian financial crisis using fundamental features of exchange rates and financial markets see Kaji (2001).

[3]Malaysia introduced controls on capital outflows. See Yoshino, Kaji and Ibuka (2004) for an analysis of the capital controls introduced by Malaysia during this period.

[4] ASEAN+3 are China, South Korea, Japan and the members of ASEAN (Thailand, Malaysia, Indonesia, Philippines, Singapore, Brunei, Vietnam, Myanmar, Laos and Cambodia).

[5] Reinhart and Rogoff (2004) suggest a new method of classifying and identifying exchange rate systems.

[6] Asian Economic Panel Meeting, held in October 2004 at Columbia University.

[7] Sweden had a basket currency regime from 1977 to 1991. More recently, in July 2005 China announced their intention to shift away from a peg to the US dollar to a peg to a basket of currencies. At the time this paper is being written, it is not entirely clear how this stands together with the fact that only the closing rate against the US dollar will be used as the following day's official rate.

[8] For details regarding conclusions quoted in Sections 2 and 3, see the original papers listed in the Reference of this paper.

[9] In Europe, a common currency made much more economic sense because there were much fewer asymmetries by the time it was introduced, compared to East Asia today. In the Maastricht treaty that established the euro, price stability was explicitly stated as a common goal. And even though Eurozone countries still suffer from the costs of structural asymmetry, the extent is much less than in East Asia. One might add that arguments against the euro based on the fact that the Eurozone was/is not an Optimum Currency Area are out of place. As early as in 1992, the European Commission had admitted that Europe was not an Optimum Currency Area. They had explicitly stated that the single currency was to be introduced for other reasons. See page 46 of Emerson, M., D. Gros, A. Italianer, J. Pisani-Ferry and H. Reichenbach (1992).

[10] The two tables in the Appendix show one indicator of economic interdependence, the share of trade within the ASEAN+3 region.

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Home Managers Successfully Managing Corporate World

Varsha Dixit and Harpreet Kaur

Gender barriers in the workplace are fading out. Women were encircled with traditional prejudice, social expectations and biological compulsions everywhere. Corporate women are no longer the proverbial needles in the haystack. The number of senior women managers is swelling - -thorough bred professionals who palm-pilot their careers with battle plan exactitude, yet the number is still small as compared to the population of country. The authors have highlighted the issues responsible for women withdrawal from work and suggest various tools to increase women's participation in the corporate world.

"Leave your gender at the door if you want to do well at work."

The corporate world is still a man's domain - a lady has to over-achieve in order to excel. Think 'female managers' and enough big names readily roll off the tongue to make a convincing case for the rise and rise of women in the work place; Naina Lal Kidwai, Lalita Gupte, Kiran Majumdar- Shaw, Renu Karnad….

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Nearly 50 per cent of the population comprises of females who are deprived of self-respect and subjugated in to existence at the whim and the mercy of the male. A woman has accepted her role as housewife and mother as well as inferior expendable commodity, whether sold off to strangers or a source of dowry for her husband's family. The spread of education is changing the whole gamut of women roles drastically. With changing time women education has broaden their scopes of working and become independent. It has been proved that women have capacity for deep commitment of preserving and nourishing on one side and bestowed with soft, gentle qualities on the other. The women of today have developed unparallel skills of frugality, economy, resource-management and corporate world. It is believed that women employees are more creative, innovative and ethical.

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A study by Catalyst, a non profit group that studies women in business, found in 2002 that 15.7 per cent of corporate positions at large US companies were held by females, which was 8.7 per cent in 1995. If we look at the statistics from the top 25 companies as per *Business World's* 'Great places to work' survey it was found that less than one per cent women are in senior management levels. WHY?

A study of 35 corporate done by Cerebus consulting for CII in 2002, found that 20-35per cent women are concentrated in Banking, IT, ITES, Media, Advertising, Research, and Travel. 10-20 per cent women are at senior levels. The study also found that 15-20 per cent of female managers leave after getting married. Of the rest, 80-90 per cent exit after they have kids; despite 36 per cent of the companies provide tele-working options for young mothers.

Few of the well-known faces, which are at the tip of the iceberg consisting of extremely capable women who have competence and practice in their own leadership styles by overcoming the hurdles of their life, are among us.

An increasing number of women are proving that when it comes to making the right business moves in the world of high finance, they have more than just a pretty face to show.

In fact, an increasing number of women are proving that when it comes to making the right business moves and keeping their best foot forward in the world of high finance, they have more than just a pretty face to show.

Who are these women? What drives them on— just the will to make big money or are there other motivating factors as well? Is it sheer luck or is it a labour of sweat and tears? In short, what does success mean to them and how did they achieve it?

The answers are as varied as the women themselves. However, one common factor is their passion for work. They are totally committed and it can be safely said that their professional lives and their work are all just an extension of their personalities. The only difference is that each woman has a distinct work identity, a different personality, a different work style, and even a different interpretation of the word success.

Some of home managers as well as corporate leaders are…

Seema Luthra is the newly designated President and Chief Executive Officer of Galileo India, one of the world's leading providers of electronic global distribution services that connects 46,000 travel agencies to 683 airlines and 52,000 hotels.

Ms. Luthra, who is responsible for all aspects of her company's business in India, says her 16 years of airline sales and marketing experience has helped her spearhead Galileo's efforts to drive value in and costs out of the travel distribution business.

How does she feel as a woman heading Galileo India? "Perhaps this question should be asked to men who see me at the helm of Galileo India. I have no gender bias. *I see myself as a responsible leader and stay focused on my task, which is to maximize shareholder value*," says the lady who in her last two assignments has headed the sales and marketing functions for Scandinavian Airline Systems (SAS) and United Airlines respectively.

But she doesn't think being a woman helped tremendously. "I don't know if I would have been more or less successful if I was not a woman," she says.

Lalita Gupte (Joint Managing Director, ICICI Bank)

Today, ICICI bank is a universal bank with global aspirations and it is Gupte who is responsible for the development of this Finance institution. Since November 2003 she has presided over the launch of subsidiaries in UK, Canada, Singapore, Bahrain, Bangladesh, Shanghai, US and UAE. ICICI bank has different representative offices in eight countries and the lady has been involved in the creation of almost all of them. She spends 15 days in a month outside India where she is supported by a cross- cultural team of 70 people from 17 cultural backgrounds. In 1984, Gupte was the first lady to be named in ICICI board. And she has featured in past editions of fortune magazines listing of the most powerful women in business. She is the role model for all the women coming after her in ICICI bank and history will remember Gupte.

Naina Lal Kidwai - (Deputy CEO HSBC)

She is simple and known as country's best investment banker. She has aligned herself pretty much with HSBC's focus on education and environment. To begin with Micro lending to schools adopting villages and promoting water, women-education and empowerment.

Her role at HSBC is to sharpen the investment banking edge and bring in that killer instinct. She made her presence felt by helping out India's biggest corporations like *TATA, RELIANCE, BIRLA etc.*

at the same time she appreciates the safety that comes along with a prudent institution like HSBC.

Kiran Majumdar Shaw - (Chairman & Managing Director, Biocon)

She is often addressed as Biotech's first lady. She has time and again demonstrated the ability to spot an opportunity as it emerges. She had recognized the potential of statins - drugs that reduce cholesterol in early 1990s when traditional Indian pharmaceutical companies had not got on to this. Biocon is the first Indian company to receive US Food and Drug Administration's approval for fermentation derived molecules for pharmaceutical use. She is extremely business-oriented lady. She points out that Biocon is a commercial organization and to become a major player in the global buyer therapeutic segment where its first product recombinant human insulin, will soon compete with offerings from NOVO NORDISK and ELI LILLY. Much of Majumdar's time goes in overseeing the development of a Rs.750 crore manufacturing facility on the outskirts of Bangalore. All these she claims will help Biocon become a company that boasts one billion dollar in revenues.

Zia Mody - (Corporate Lawyer AZP & Partners)

Mody's firm has been involved in most big ticket M&A deals of recent times. Zia Mody is the daughter of India's Attorney General and noted Jurist Soli Sorabjee. Mody has law degrees from Cambridge, England and Harvard. She started her career from New York law firm, Baker and Mc Kinsey. Finally there is her firm's involvement in most cross borders M&A's. For instance AZB & Partners advised TATA Steel on its acquisition of the steel business of Singapore's Nat Steel for $285 million; Rupurt Murdoch's direct T.V. group on the disinvestments of its controlling stake in Hughes SOFTWARE. This lady is also a legal consultant to investment banks such as J.P.Morgan, Merrill Lynch and Goldman Sach advises transnational companies on joint venture strategies in India, and works with foreign institutional investors and venture firms.

Today AZB boasts her presence in three cities Delhi, Mumbai and Bangalore and has over 70 lawyers on its roasters.

Hema Ravichandar - (Sr. Vice President and Group Head HRD, Infosys Technologies)

Ravichandar procesess a million applications last year and hired 10,000 people today, the company employees around 30,000 people; its workforce spans 33 nationalities.

Hema Ravichandar managed the people at Infosys. She took two years off between 1996 and 1998 to spend more time with her children but was back to see the company through a period of accelerating growth. She is responsible for learning and development, compensation, employee relations, recruitment, visas and work permits. Hema believed that if we do the small things consistently right everything else would follow.

Jyoti Mahendru - (Vice President-HR and Training at the Barista Coffee Company Ltd.)

Jyoti Mahendru, Vice President-HR and Training at the Barista Coffee Company Ltd. has also never had to tackle any gender issues. On the contrary, she says, whenever there's a woman leader the team becomes more cohesive and goal-oriented.

"Women have been as successful as men in every field. Today's professional woman is confident and assertive in whatever field she chooses for herself," says Ms. Mahendru who started her career as a Management Trainee with Tata Info media (then called Tata Press). She later moved on to Escorts, then Star India and from there she became a part of the founder team of Barista.

"In the initial phase the key challenge was to put systems and procedures in place, attract talent for a company that was only a concept at that stage. Now the challenge is to train, retain, motivate and develop over 550 employees spread across 22 cities and 130 outlets," she says and adds," Work is no pressure as the organization has literally been created by our own hands."

Dr.Uma Tuli - "As a woman you must clearly know what you can do and most importantly what is the right time to do that."

Dr.Uma Tuli is also a doer in the real sense of the term. Though not in the private sector, she is independent India's first non-IAS person to be appointed as Chief Commissioner—one of the most coveted posts, which is usually reserved for the crème-de-la-crème of the bureaucracy. But in April 2001 the Indian government specially chose Dr.Tuli for the post of Chief Commissioner for Persons with Disabilities.

Dr.Tuli doesn't fuss about being the first non-IAS woman to achieve this feat. "If a man can do the job, so can a woman." She adds that the modern professional woman is more committed; more dedicated and has the required drive for any challenging job she gets into.

And she should know. Dr.Tuli has a three-decade experience of teaching at the Universities of Delhi and Gwalior. She is also the founder of Amarjyoti Charitable Trust, a voluntary organization working for the rehabilitation of orthopaedically handicapped.

As chief commissioner she has taken new initiatives that include promotion of inclusive education, ensuring employment and creating barrier free environment for the disabled.

"As a woman you must clearly know what you can do and most importantly what is the right time to do that," says Dr.Tuli who holds a PhD and has done her Masters in Special Education. This year she has been instrumental in holding the *Abilympics* for the first time in India.

Preetha Reddy - (Managing Director of Apollo Hospitals Group)

She is the first lady of India's organized Healthcare boom. According to Preetha Reddy there is no denying the fact that the lady is a power to reckon within the organized Healthcare business.

Apollo hospitals are India's first real organized healthcare company. Its founder and Dr.Pratap C.Reddy (Preetha's father) joined hands to allow banks to lend to corporate hospitals. Preetha followed his footsteps and is working with JCI, an organization that provided accreditation and consulting services to Healthcare providers all over the world.

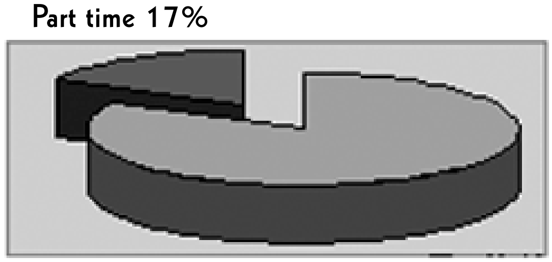
Today, Apollo hospitals that treats ten million patients, boasts presence in nine countries, manages 37 hospitals, 30 health and lifestyle clinics and runs seven nursing colleges. With time they have diversified in to areas such as hospital networking, tele-medicine, BPO, and pharmacies. Ms. Reddy's main responsibility is operations, but she hasn't allowed that to obscure the need to return wealth to shareholders. *Healthcare delivery is their vision.*

These Corporate women are the **Role-models** for the new emerging females. Indeed the millennium has heralded the era of the upwardly mobile women who are occupying top positions. So, how did it all start? Why are more and more women getting into professional colleges and then picking up prized jobs at salaries ordinary mortals can just dream about?

The Mind of the Working Women

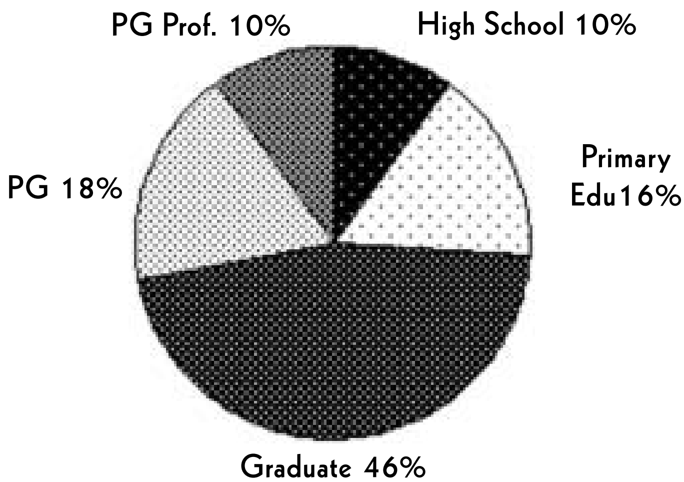
It was OSCAR WILDE who famously said, "*Women are meant to be loved, not understood.*" In India working women account for 15 percent of the total urban female population of 150 million. A survey was conducted by AC Nielsen ORG MARG team on working women in major cities of India (Delhi, Mumbai, Calcutta, Bangalore, Kochi, Kanpur and Indore). It was founded that 83 per cent of the women worked full-time and 17 per cent part time (Fig: 1). Out of the total-working women there lies a big difference in their qualifications. A major part is of graduates (Fig: 2) while very few go for professional degrees. It has been studied that the job profile of most of the ladies is clerical or sales job. Now, the question arises why there is not a more pervasive presence of women in the top ranks of professional management of India. India is a country where a woman prime minister reigned for almost two decades and is acclaimed to be the most ruthless and firm decision maker. What would explain the sprinkled presence of professional women executives in boardrooms and the top scholars of business management? What are the needs and aspiration of the working women?

Distribution showing Women Employment



Source: *Business Today*, September 2004, "25 most powerful women in Indian Business"

Distribution of Females as per Qualification



Source: *Business Today*, September 2004, "25 most powerful women in Indian Business"

The good news is women have more choices. The bad news is, unless that choice is in synchronization with their personality, it will always feel a rotten compromise. A primary career woman faces the question, "Why can't a woman be more like a man?" In order to answer they choose not to marry or have kids. They make this effort because they are extremely passionate about their work.

After marriage they soon have babies and bow out of job to rear their children. It is difficult to identify for an organization and the women to fix up her priorities. The romance of being at home mom mostly is short-lived. Work is life for talented and qualified women just that it is not their entire life. Here, the society needs to support the primary career women to continue their work.

Various Issues Responsible for Women Failure:

1. If the choice were 0 or 1, full-time or not at all, a lady would give her child top priority and quit the job.
2. Another issue is the company may let her go and come back. But when she returns her colleagues must have moved ahead. It is a bitter pill for a fiercely competitive lady to swallow.
3. The unavailability of Day care facility in the premises diverts the attention of working mothers as she feels that she is doing injustice to both the job and her baby.
4. When the debatable issue comes between husband and wife's career it is the woman who sacrifices her career. She is asked to stay back and take care of the kids while the husbands can easily go for International assignments.
5. Most of the women don't achieve the senior-most positions in the corporate world because they quit the workplace altogether to tend to their families. The management views that the women are not serious about working in the first place.
6. The companies are experimenting with flexi time and extended leave options to retain the women but often only half-heartedly. "Given the huge supply of man power in India companies don't really feel the need to fight for talented women.
7. "Today's women are equal to their male counterpart in education, experience and skill but when it is a painful choice between the client crisis and the birthday party, the long road trip and the middle schooled who needs attention, the female employee puts her family over the company.

Create New Roles for Women

A need to create new work environment has emerged that is very favourable to women. Organizations should become more *flexible* and fewer rule-based. *Innovation and Creativity* should have a premium; new ways of doing old things should be searched. *Multiskilling* should be the holy grail of cost reduction. It is the era of knowledge worker finally seeking a proper work-life balance is now not just acceptable. It seems to be essential for full productivity, even for men.

In spite of changing the workplace there is a need felt to change our mental models on gender- friendly solutions. It would make sense for all of us to start from scratch again and explore the question. Some reputed organizations like Lizzat Pappad, ICICI Bank; Biocon etc. have emerged as women friendly organizations. Biocon provides *Crèche facility* free of cost to its employees. The company offers an internal portal called Bio-woman. It has several information costs and discussion boards on issues relating to female health. *Annual Health camps* are organized for the employees. To make the female employees feel special and great a token of love is presented on 8th March-International Women's Day every year. Biocon finds women to be better at Multi-tasking like R&D, testing and Clinical trials.

Three Core Strands Essential to Successful Women of Influence

1. **Understanding Self:** the true basis for personal power and influence is authenticity and this is impossible without a deep understanding of who you are and what is of core importance to you.
2. **Accessing the True Feminine:** we live in a (runaway) masculine world and this is perfectly mirrored in the business environment. This makes it difficult for women to find their natural place and sense of power. This has not always been the case. We will draw on the deepest roots of the feminine to access your natural strength, authority and sustainable motivation
3. **Authentic Influence** - shaping the new way to do business: the old ways of command and control are thankfully numbered and what is emerging is a much more humane way to do business - commonly known as the triple bottom line - People; Planet; Profit. This new type of organizational environment is ideally suited for the natural qualities and skills of the true feminine leader, who influences and inspires through her own power of being.

Transcending Leadership - A Lady who has climbed the staircase of success through empathy.

Jayashree Vaidyanathan - (Head Global Business Consulting, HCL Technologies)

A lady who has changed management values. Her aim is to encourage every woman to enter the non-traditional sector and work her way through the glass ceiling. Jayashree launched HCL's Global Business Consulting division three years back and realized that people management is a hands-on job. It cannot work by remote control.

TODAY, the division boasts of zero attrition rates. She explains, "if your team members need to work 18 hours a day on a project, all you can do for them is to get a cup of coffee, editing or working to help them that shows you care.

The key to her success is that she is adaptable, as in the present scenario customer is in the pilot seat and satisfied customer is the most effective brand ambassador of a company. She believes that this success lies in the Quality of your people, their efficiency and effectiveness.

Vaidyanathan's mantras of management are - maintain balance in any situation; don't be aggressive to lead, if your abilities are empathy and communication then lead with empathy. According to her the most important asset of the management is its credibility and the trust of its associates and employees. She believes in giving independence to her competent and motivated employees. Every one makes mistakes. What's important is what you learn from them and how quickly you rectify them. HCL's Corporate motto - "Freedom based on trust," - is plastered on every employee's wall. "Take care of your people and they will take care of your machines."

"Women as role models serve as catalysts and are an exception rather than the rule." Vaidyanathan was recently awarded the

"Outstanding women manager" of the year award for 2005 by Madras Management Association. She says I have miles to go before I sleep and to be ranked in fortune and Forbes list of corporate women very soon.

Conclusion

Now it's the time for organizations to rethink about human resource composition for excellence. Organizations must design and implement programs so that more and more women take up the challenge and enter the corporate portals. They always had the potential, now they must grab opportunities and come out in flying colors. It is said women are not only more dedicated to work than men but also ethically sound employee and have enormous potential to be ideal workforce. In view to extract more from women employee provide flexi-time, flexi-work, equal wages, same opportunities of development and promotion, senior levels in the management, important assignments and placements, rid of inherent prejudices against women, weed out masculine pressure by establishing positive work attitude and make them less worried and more productive. The developed countries have proved that for upgradation of the national economy, there is a need to give **equal status to working women** and **respect to motherhood**. Even in India, various organizations like *HLL, ACCENTURE, BIOCON, and HDFC etc*. have taken steps in order to support the women for their contributions in the corporate world. One has to be a little more understanding and responsive for the women to grow.

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Work-Family Conflict in India-An Empirical Study

J.Reeves Wesley and P.R.Muthuswamy

This study examines the bi-directional construct of Work-Family conflict in the Indian context. Results show that WFC is more prevalent than FWC. Also it indicates that men and women in dual earner families do not differ in their perception on Work-Family conflict. The results are discussed around the similarities and differences in W-F conflict. Implications and directions for future research have been given.

Over the past few decades major social changes both in the workplace and family have occurred. The rapid break-up of the joint family and the advent of the nuclear family system fuelled by the continuous socio-political changes, increasing modernisation, industrialisation and mechanisation of the production processes are notable. Subsequently, the availability of better educational opportunities and the deep inroads the nuclear family system had made into the Indian traditional values and belief system have led to increase in women participating in work outside home in large numbers, resulting in the emergence of dual earner families. The last one decade of the twentieth century alone has seen a heavy flux of situation with a 40 per cent increase in women in paid labour force (Dutta, & Singh, 2003; Nath, 2000). The trend is upswing as dual earner families are receiving enormous support and encouragement from all walks of life, in particular, from the family within (Ramu, 1987). Simultaneously, organisations also experience rapid changes due to factors such as global competition and technological advances etc.

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Researchers across disciplines like psychology, management, sociology, economics, law and women's studies in the west have found that managing life's two important roles work and family, has become a difficult task for men and women in dual earner families due to incompatibility between the pressures and the demands of the two roles in some respect. This is termed as Work-family conflict (Greenhaus, & Beutell, 1985). Subsequently, they were having an enduring preoccupation with W-F conflict over the past few decades. Of late, it has become a well-defined area of research in its own right.

Studies on W-F conflict are found to be very extensive. Many models have been developed and have amply laid bare the stressfulness of W-F conflict and its fallout. A thorough review of prior stream of research (Ahmad, 1996; Aryee, Fields, & Luk, 1999; Batt, & Valcour, 2003; Bedeian, Burke, & Moffet, 1988; Boyar, Maertz, Pearson, & Keough, 2003; Burke, & Greenglass, 2000; Burley, 1995; Carlson, & Kacmar, 2000; Carlson, & Perrewe, 1999; Frone, Barnes, & Farrell, 1994; Frone, & Rice, 1987; Frone, Russell, & Cooper, 1992; Frone, Russell, & Cooper, 1997; Frone, Yardley, 1996; Fu, & Shaffer, 2000; Grzywacz, & Bass, 2003; Hammer, Bauer, & Grandey, 2003; Herman, & Gyllstrom, 1977; Higgins, & Duxbury, 1992; Kirrane, & Buckley, 2004; Lo, 2003; Major, Klein, & Ehrhart, 2000; Mikkelson, & Burke, 2004; Mishra, 1998; Netemeyer, Boles, & McMurrin, 1996; Noor, 2002; Noor, 2004; Pande, 2000; Parasuraman, & Simmers, 2001; Rajadhyaksha, 1997; Rice, Frone, Russell, & Cooper, 1993; Rotondo, Carlson, & Kincaid, 2003; Shaffer, Harrison, & Gilley, & Luk, 2001; Vallone, & Donaldson, 2001; Wang, Lawler, Walumbwa, 2004; Wesley, & Muthuswamy, 2004; Wesley, Oomen, Sumithra, & Varkey, 2003; Wiley, 1987; Williams, & Alliger, 1994 and Yang, Chen, Choi, & Zou, 2000) however, demonstrates the following gaps.

Firstly, there is no consistency in the use of W-F conflict construct. While many authors have used it as a uni-directional construct, others have shown it as a bi-directional construct. Although of late, there appears to be a near-consensus on the bi-directionality of W-F construct yet, recent researchers (eg., Batt, & Valcour, 2003; Butler, Grzywacz, Bass & Linney, 2005) have continued to use a global measure of W-F conflict rather than measuring work family conflict (WFC) and family work conflict (FWC) separately. This allows the inconsistency to persist.

Secondly, it was conceptualised that men and women differ in their investment of time and energy to the dual demands of work and family roles (Gutek, Searle, & Klepa, 1991; Lobel, 1991; Pleck, 1977; Wesley, Santhosh, Babu, 2004). Studies capturing the likelihood of differences in the W-F conflict experienced by men and women, suggested by gender based beliefs and expectations, are found to be scarce. Further, the composition of the workplace with the historical changes in the rigid traditional sex role divisions at home, the social support and acceptance garnered by women, and the increasing impact of western culture on the Indian society gives much impetus for a gendered approach in understanding W-F conflict.

Thirdly, the construct of W-F conflict is a concept developed in the west. Majority of the studies have been conducted in the west and only few noteworthy studies in the Eastern countries, in particular, Hong Kong are available. Therefore, information concerning the reliability of the W-F conflict construct in countries where family as an institution is very strong and female participation is on the rise, is lacking.

Fourthly, the problem of managing the interdependent domains of work and family is not limited to countries like USA alone (Lewis, Izraeli, & Hootsmans, 1992). Due to the indicated differences in attitudes, values and behaviours between Western employees and people belonging to other countries (Black, & Porter, 1991; Ralston, Gustafon, Cheung, & Terpstra, 1993), a study conducted on W-F conflict beyond the western experience would enable one to see the pattern emerging in an industrialising and urbanising society like India. Moreover, studies on W-F issues in the Indian settings are characterised by a clear and distinct lack of focus (Rajadhyaksha, & Smitha, 2004).

The gaps indicate the imperativeness of a study on W-F conflict. The present study principally seeks to examine W-F conflict as a bi-directional construct and seeks to extend the role of gender in understanding this construct in the Indian setting.

Method

Measures

The data were collected using a questionnaire containing items consistent with past research in this area (Carlson, & Perrewe, 1999). Before administering it to the respondents, the items were validated by a panel of 8 experts. All the items scored more than 0.50 on the content validity ratio index (Lawshe, 1975) and were considered to have adequate validity. The number of items was 5 each for WFC and FWC. The items were made on a 5-point scale anchored by 1 = strongly disagree; 2 = disagree; 3 = neither disagree nor agree; 4 = agree and 5 = strongly agree. Gender was coded 1 for men and 2 for women. Subsequently, a pilot study was conducted and alpha reliability coefficients of the scaled measures were computed to test the reliability of the instrument for use in this study. The reliability coefficient for WFC is 0.80 and FWC is 0.87.

Sample

The data for this study was gathered as part of a doctoral thesis of the first author. Survey data were collected from teaching faculty in Self-financing Engineering colleges in the city of Coimbatore, India. The criteria for inclusion in this study were that the respondents should be married for at least two years and should have been working in the same institution and residing in the present house for not less than one year. This was done to ensure that the respondents would have a perceptible experience of WFC and FWC. Half of the questionnaires were administered in person and the remaining by choosing a contact person for distribution. However, the respondents were either met or contacted over phone later to solicit their kind cooperation in filling up the questionnaire. A thorough follow-up was done to expedite the process of filling up the questionnaire. Out of 403 questionnaires distributed, 230 were usable and complete yielding a response rate of 57.1 per cent.

Data analyses

A principal component factor analysis was conducted to identify the common underlying construct among the scale items. This was done to see the pattern of loading of the items in the respective dimension of the W-F conflict construct. The mean of the items under each dimension was used as a composite measure of the respective dimensions of W-F conflict construct. To assess the main effect of gender on WFC and FWC, multivariate analysis of variance (MANOVA) was performed. The variable gender entered the MANOVA model as a fixed factor and the remaining variables entered as dependent variables.

Results

Table 1 presents the results of the principal component factor analysis. A two-factor solution emerged based on eigenvalue more than 1 with 61.50 per cent of the variances explained. The rotation method was varimax with Kaiser-Meyer Olkin measure of sampling adequacy at 0.85. Bartlett's test of sphericity showed that the factor model is fit with chi-square value = 964.53, significant at 0.05. The items capturing WFC and FWC were loaded on expected lines. The factor 1 captured FWC and factor 2 WFC.

Table 1. Principal Component Factor Analysis of W-F conflict construct

	Factor 1	Factor 2
My superiors and peers dislike my preoccupation with my personal life, while at work	.83	.08
My personal demands are so great that it takes me away from my work	.83	.20
My family life often interferes with my responsibilities at work	.82	.22
My personal life takes up time that I'd like to spend at work	.81	.04
I am often too tired at work because of the things I have to do at home	.71	.22
My work takes up time that I would like to spend with family/friends	.13	.79
My work often interferes with my family responsibilities	.27	.77
On the job I have so much to work that it takes me away from my personal interests	.05	.76
My family/friends dislike how often I am preoccupied with my work while at home	.15	.75
After work, I come home tired to do some of the things I would like to do at home	.10	.57

Table 2 shows the MANOVA results. Hotelling's Trace is considered for examination because the independent variable is formed of only two groups. Examination of the MANOVA results show that gender has no significant main effect across WFC and FWC, Hotelling's Trace = 0.14, $F = 1.59$, $p > 0.05$. The means of the composite measure of WFC is 3.33 for men and 3.32 for women. Similarly, for FWC the mean is 2.17 for men and 2.35 for women. The total mean is 3.33 for WFC and 2.26 for FWC. Since the results of the MANOVA are not significant, the 'Tests of Between Subjects Effects' are not examined.

Table 2. Multivariate Analysis of Variance (MANOVA) between gender and the W-F construct

	Value	F	Sig.
Pillai's Trace	.014	1.59	.21
Wilks' Lambda	.986	1.59	.21
Hotelling's Trace	.014	1.59	.21
Roy's Largest Root	.014	1.59	.21

Discussion

This study assumes significance as it has studied W-F conflict as a bi-directional construct. The validity and the reliability tests indicate that the scales that are developed and used to measure the variables under study in the western countries are generalisable and applicable in the Indian, perhaps, in the global context too. The discussion of the results that follow are predominantly organised around the similarities and differences in W-F conflict.

It has been found that WFC is more prevalent than FWC, suggesting that spillover or permeability of work into family (WFC) is more than that of family into work (FWC). This is consistent with those in the western countries (Boyar *et al.,* 2003; Pleck, 1977; Frone *et al.,* 1992b). The stronger WFC as compared to FWC could be attributed to less control exercised by the respondents over their work role. This is true of the earlier researches (Bolger, DeLongis, Kessler, & Wethington, 1989; Pearlin & Schooler, 1978). As pressures and demands of the work role are those imposed by the organisations in order to meet the challenges of the competitive world and are governed by the employment relationships, exertion of control over it may not be possible. The control could be expressed in terms of the needed flexibility and autonomy to structure their jobs in a way that would reduce the occurrence of WFC. Therefore, the lack of flexible scheduling and/or autonomy makes the respondents unable to spend more time in the family, resulting in stronger WFC.

Further, the relatively lesser prevalence of FWC than WFC could be explained by the compensation theory. In order to meet the high demands and pressures of the work role, employees make compensation in the family role by employing domestic helpers or by mechanizing the household in the family. This could be viewed as an indirect-action coping mechanism involving the individuals' motivated effort toward the resolution of family issues, resulting in lower FWC. Also, the strong family support received could be another reason why the prevalence of FWC is very low.

As opposed to the concept that men and women differ in their investment of time and energy to the dual demands of work and family roles, no significant difference is found between the gender types for FWC and WFC. The insignificant difference for WFC again confirms the inability of men and women to exercise control over the work role. In other words, the work role expectations and pressures are imposed on the respondents without any differentiation of their gender. In addition to this, the expectation on the respondents irrespective of their gender, to be devoted to their work and be available whenever needed to take on additional responsibilities could be another reason for this insignificant difference. Besides this, the characteristics of the chosen sample (holding professional degree and pursuing a career) connote that men and women attach much importance to career development. Hence, they do not spend differential time and energy on the work, but match the requirements for career development thereby producing indifference in WFC between the gender types. However, this does not indicate discarding of family responsibilities over work, but perpetuation of traditional beliefs in the midst of change.

In contrast, the attempt to refocus and rebalance the family affairs using the financial resources to pay for the services that women in Indian household once did and the participation of men at least on ancillary activities at home balance the gender difference for FWC. This also indicate that men and women in India are equally family oriented. This is a deviation from the report of Gordon, & Whelan (1998).

Implication and directions for future research

The study of W-F conflict is an accumulated and ample evidence to show that it is an important and pervasive phenomenon. This study has important implications for both organisations and individuals as it has the potential to benefit both of them.

Firstly, the HR professionals should act as important boundary spanners between the organization, its environment and the workforce understanding and interpreting the information relating to the changes in the demography. This is important in the background of the significant influx of married women into the workforce and the emergence of dual-career families. Secondly, organisations need to examine their work design. The work design shall involve greater autonomy, team collaboration and use of information technology. Thirdly, the superior's increased empathy need to be increased. This may be a major coping mechanism aimed at accommodating employees' dual role pressures and mitigating W-F conflict. It is an inexpensive strategy for easing WFC. Fourthly, organisations should respond to easing out W-F conflict by revisiting their existing HR policies and practices. Given the growing recognition and the role of HR as a source of sustained competitive advantage, organisations ought to be responsive to the multiple roles of men and women within and between the work and family domains (i.e., father/husband/employee and mother/wife/employee) by way of appropriate and workable, however, culturally acceptable policies and procedures. Nevertheless, the women shall be at the focal point while formulating such policies. This would greatly help the organisations to harness this vast pool of talent to obtain competitive advantage by increasing their job involvement. Finally, it could be construed that W-F conflict is a natural but controllable phenomenon. However, a significant responsibility lies with the individuals too, that they should understand the need for balancing between work and family for a better living. Individuals should appropriately plan to reduce the influence of FWC by way of adjustments in the family.

This study is limited to the city of Coimbatore alone. Firstly, taking into consideration the number of Engineering colleges spread over India, this may be a smaller sample. Therefore studies should focus on larger samples across the Engineering colleges in India. This may reveal a better picture on the existence of W-F conflict. Secondly, a study where men and women respondents hail from the same families would engender paired comparison on the existence of W-F conflict within the family domain. Thirdly, the sampling is from the teaching community which limits the generalisability of the findings of the study, given the structural and educational differences in the characteristics of the employment of other non-teaching professions as well as the lack of financial and human capital resources in other lower skilled employees. Hence research should focus on the occupationally heterogeneous sample of individuals in diverse family forms and skills. Fourthly, research shall focus on capturing the cultural and religious beliefs on work and family. Finally, the cause-effect relationship shall be established in the Indian context between the antecedents of W-F conflict and the W-F conflict.

Conclusion

The bi-directional nature of W-F conflict has been studied in the Indian context and this study shows that it is not a western phenomenon but pertains to countries like India too. This study enables to see the pattern that is emerging in an industrializing and urbanizing society like India. This study is one among the pioneer and micro-analytic tests providing insights into the importance of gender in understanding the W-F conflict. To conclude, this study signals the emergence of an egalitarian gender role, at least among the educated, urban families, however, without much negotiation with the culture.

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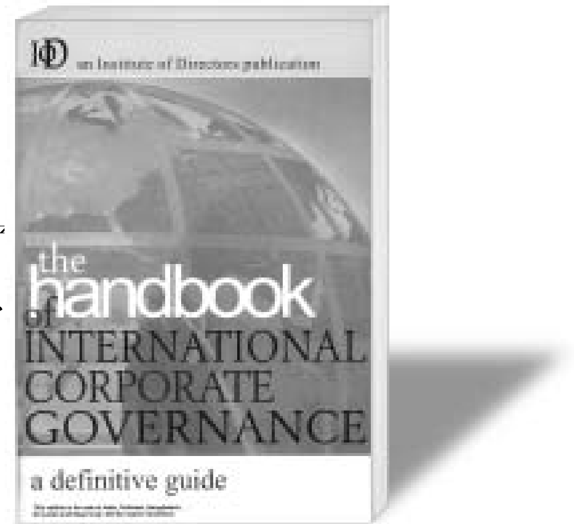
Skimming and Scanning



Title	:	*the handbook of INTERNATIONAL CORPORATE GOVERNANCE: a definitive guide*
Editors	:	**Kerrie Waring and Chris Pierce**
Edition	:	**South Asian Edition (2005)**
ISBN	:	**0-7494-4444-4**
Pages	:	**506**
Original Price	:	**£ 85.00 (Rs.7595)**
Special Indian Price	:	**Rs.695.00**
Publisher	:	**Kogan Page India**

This compendium of International Corporate Governance codes and regulations edited by Kerrie Waring and Chris Pierce of the Institute of Directors (IOD), UK fulfills a much-needed requirement for a single source guide to navigate through the multitude of corporate governance regulations that exist in countries around the world. The book is a collection of articles by over 30 authors who have contributed to the handbook with the objective of explaining the nuances of the various corporate governance codes and regulations in 26 countries. As the spectrum of countries covered includes developed, developing and transition economies, the coverage is well rounded and fairly representative of all regions and countries at various stages of economic development.

The handbook deals with the following aspects of corporate governance among the various countries: (a) corporate structure and ownership (b) legal framework (c) legal, regulatory and institutional bodies (d) board structure (e) codes, standards and good practice guidelines (f) disclosure and transparency (g) shareholder rights and stakeholder relations and (h) director development activity. As the issues dealt with are fairly comprehensive and they span a wide array of topics in the field of corporate governance, the handbook will prove to be a boon for researchers wanting a ready and accessible reference concerning corporate governance practices across the globe. It could also serve as a supplementary text for specialized courses on corporate governance in universities and colleges. Corporate executives, company secretaries, auditors and legal professionals will also find the handbook a useful resource to keep abreast of corporate governance developments in various countries. Each chapter which deals with the corporate governance codes and regulations of a particular country begins with a brief overview of the country's characteristics and ends with a listing of useful contacts pertaining to corporate governance and regulatory institutions. Also included is a valuable list of additional resources which could be consulted for a further investigation of the corporate governance characteristics of the country in question.

However, there are at least two areas where there could be some scope for improvement. Firstly, it would have been useful to provide a tabular comparison of the various aspects of corporate governance which was listed in the previous paragraph. In the absence of the same, the reader is forced to flip through specific sections regarding these 26 countries to arrive at some sense of how the countries differ along the various corporate governance parameters. Secondly, while there is a helpful forward by Anne Simpson of the World Bank, it would have further enlightened the reader if an introductory chapter had provided a framework or a classification on the various dimensions along with these 26 countries could be clustered together with regard to corporate governances codes and regulations. In addition, some discussion on the antecedents and the evolution of the corporate governance movements among these countries would have been beneficial to enable the reader to develop a superior understanding of the trends of corporate governance practices globally.

Despite these shortcomings, Kerrie Waring and Chris Pierce deserve to be commended for their efforts in co-ordinating the work of a large body of individuals and collating material regarding this vibrant area from all over the world. It is hoped that future editions will attempt to address some of the concerns expressed earlier and widen the coverage of countries even further, thereby fulfilling the handbook's objective of being 'the definite guide' on the subject in full measure.

About the Editors:

Ms.Kerrie Waring is the International Professional Development Manager at the Institute of Directors (IoD), U.K. At IoD she is responsible for building and promoting IoD's work in director and board effectiveness through publications, training programs and lectures.

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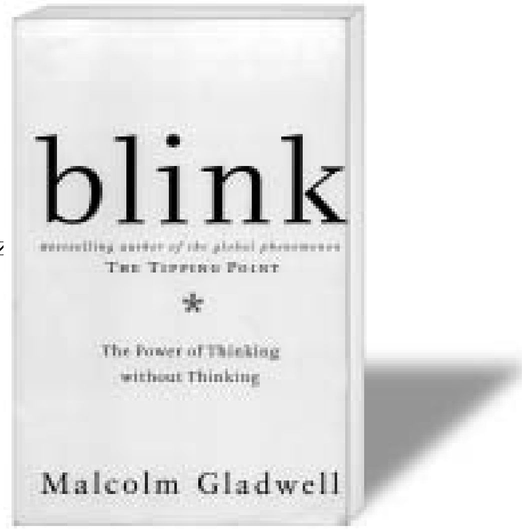
Skimming and Scanning



Book Name	:	***blink***
Author	:	**Malcolm Gladwell**
Publisher	:	**Allen Lane / Penguin**
Pages	:	**277**
ISBN	:	**0316057908**
Price	:	**Rs.220/-**

This is the second book by Malcolm Gladwell after his bestseller "The Tipping point." *blink* is the book that speaks about the power of thinking without thinking: a topic that is intriguing and interesting. This book can be placed in between the subjects like Cognitive Psychology and Self-Management.

The author takes pain in explaining his theory citing researches in Psychology and elaborates with lot of cases. The book starts with the case of "The statue that didn't look right" explains Gladwell's theory that decisions made very quickly can be every bit as good as decisions made cautiously and deliberately. He also says "our snap judgments and the first impressions can be educated and controlled."

The book then explains the rationale and the process of developing this power to make snap judgments correctly. The chapter on "The theory of thin slices: How little bit of knowledge goes a long way" talks about the concept of "Thin-Slicing." It is *listening to that feeling*, which is making sense of something quickly. The author explains the importance of this "thin- slicing" in our various facets of our life as a patient, as a manager, as a coach and how developing this art can bring unprecedented results.

The latter part of the book is more of the explanation of these concepts drawing parallels with intuition and mind reading. The author uses numerous examples and research studies to prove the existence of this undefined power, which now has the new name blink.

This is not a book that offers sure shot tips to enhance the power of the unconscious. Rather, this is a book that convincingly explains the existence of the power of the unconscious, which could be used in our daily life. It is an eye opener to an unknown world within us that makes it a compulsive reading.

The relevance of blink to the Managers is that the book opens up the possibility of developing the skill or rather becoming aware of a skill of making accurate snap judgements. Since managers have to go through a lot of data that too in a small time frame to make a decision, such a possibility of 'Thin slicing' can go a long way in making effective decisions. When most of the managerial decisions are made on that 'gut feeling' the book "blink" makes sense.

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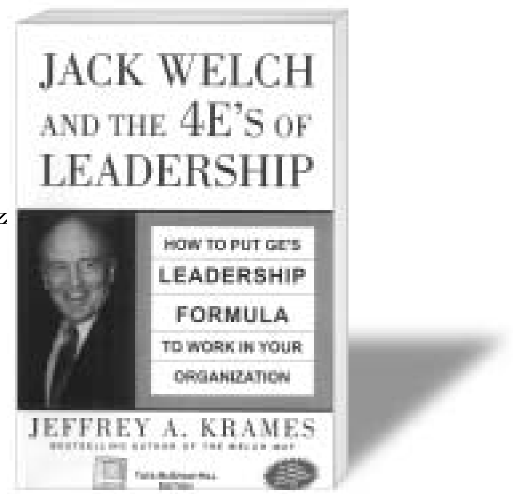

Title : ***JACK WELCH AND THE 4E's OF LEADERSHIP***
Author : **Jeffrey A. Krames**
Publisher : **Tata McGraw-Hill**
Pages : **250**
Price : **Rs.275**

Jack Welch, the man, the leader and the organization he led (GE) are all familiar to any modern manager. How he made an already successful and reputed but beset with a giant company mindset which made it vulnerable to one of the highly performing and vibrant by creating a small company mindset is history today. And one aspect of the many which he thoroughly understood and implemented as one of the essential parameters a small company mindset was the creation of an altogether new paradigm of leadership. He along with his trusted top management created and implemented a new leadership model. To Welch, the *manager* was associated with controlling,the essential job of a bureaucrat. He wanted all bureaucracy to be eradicated from GE. That is the reason he called *managers* by the term *leaders*. According to him, leaders always hated bureaucracy and saw changes as opportunities rather than threats. Welch went on to identify the key requirements of a leader- *energy*, ability to *energize* others, excels in *execution*, and shows *edge*.

According to Welch, individuals with energy will always be 'on the go.' They get up every morning itching to attack the job at hand. They are the people who move at 95 miles per hour in a 55 mile-an-hour world. Energizers know how to spark others to perform. They are selfless in giving others the credit when things go right and quick to accept responsibility when things go awry- because they know that sharing credit and owning blame energize their colleagues. Leaders have to produce measurable results, otherwise they are of little use to the organization. People who execute effectively understand that activity and productivity are not the same. Leaders should also show courage to take tough yes or no decisions what Drucker calls the "life and death " decisions in hiring , promoting and firing. Welch calls such competitive people as ones having *edge*. Of course, to these for Es, Welch added one more dimension, *Passion* and thus evolved the famous GE 4E's+P leadership model. The author, Jeffrey Krames, an accomplished GE and Welch observer, in his imitable style describes what it means to have the 4Es with leadership lessons from a sample of "4E All –Stars" like Jeff Immelt, Jim McNerney, Larry Bossidy and Robert Nardelli. The book gives us a wonderful insight into why GE is called the finishing school for managers in America.

Jeffrey A.Krames is the author of *the best-sellers: The Welch Way, The Jack Welch Lexicon of Leadership* and *What the Best CEOs Know* and *The Rumsfield Way*. He regularly contributes to *The Wall Street Journal, The New York Times* etc.

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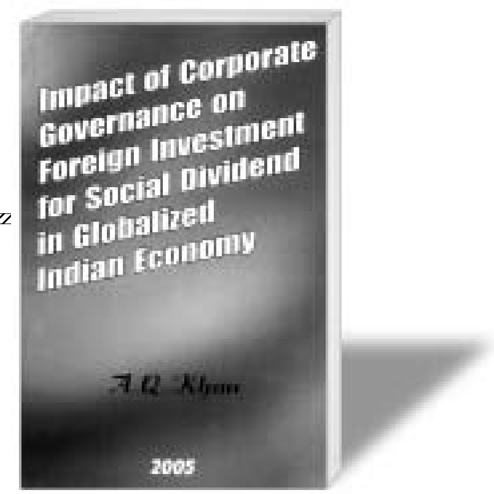

Title	:	***Impact of Corporate Governance on Foreign Investment for Social Dividend in Globalized Indian Economy***
Author	:	**A.Q.Khan**
Publisher	:	**AMU Press**
Pages	:	**118**
Price	:	**Rs.250**

The Corporate Governance ensures proper utilisation of scares resources and builds confidence of all the stakeholders such as owners, lenders, suppliers and customers to name a few. Proper governance will encourage the investing community and the flow of foreign investment in the economy will increase. Both of them are needed for upward movement of the economy and increasing the standard of living of the common man of the country. Rich dividend will be expected by all constituents from the corporate sector and the true benefit of globalisation can be attained.

The book under review discusses the three important constituents namely, corporate governance, foreign investment and social dividend in the present Indian Economy. In the first part he as explained the concept of corporate governance and allocation of rights and responsibilities among different participants in the corporation such as Board of Directors, Managers, Shareholders and other stakeholders. He has outlined the corporate governance philosophy based on principles. A theoretical review has been presented in this chapter where he has touched the separation of management form ownership, promoters position as dominant shareholders and their role in corporate governance, and agency system of management and its cost. A brief explanation of the need felt for proper corporate governance after Harshad Mehta episode has been presented.

The second part explains globalisation and corporate governance in India. He has listed the different committees/ commissions set up after liberalisation and explained the mechanism to improvise the corporate governance. The constituent wise analysis of corporate governance is nice piece of work which ranges from the composition, size of the board of directors, position of chief executive, ceiling on individual director's membership, remuneration, liability etc. The audit report has got a special place in this discussion where the informational content, audit committee, under listing agreement, creditor's right of reporting and disclosure, protection of shareholders, rules and regulations related with company law have been mentioned.

Part third of the book deals with the foreign investment and corporate governance where the main highlights are on inside trading, issues related with merger, competing ventures by MNC, policy of foreign investment, changes brought in India towards the need of foreign investment, setting up of Free Economic Zones and opening up of Insurance and other sectors, approval and disclosure, social welfare inter-nation financial and codes. Tabulation has been to present for equity limit and entry routes for different sectors.

Part of the book rightly explains impact of corporate governance on foreign investment that is the main stay of the book. With the help o various tables the present position of FDI in Asian countries during last five years have been explained. State wise and sector wise approval and inflow of foreign direct investment have been depicted. The basic purpose of highlighting is to explain and reiterate that the presence of FII in the economy indicates the existence of strong corporate governance system in the country. The data have been presented in logical sequence and an effort has been made to present the table in such a manner that should support the idea of proper corporate governance.

Part five explains the corporate governance for social dividend and he opined that the substantial contribution to the GNP is the proof of social dividend for re-investment to enhance the social content of economic advancement. Macro social dividend is the goal for the society as a whole. Maximisation of wealth is individualistic. It would become collective before distribution takes place among various participants in economic development. Community is concerned with the collective dividend.

In the concluding chapter he has re-emphasised that corporate governance is key to efficiency in a competitive environment. It is not merely desirable but essential for survival and growth. He has pertinently deliberated that the corporate governance in its present form is concerned with owners and least bothered about collective social dividend.

The author has rightly observed that creation, allocation and distribution of collective dividend are the complex problem and they should be addressed by the corporate governance wherein the role of state and regulatory authorities become dominant.

The title of the book seems difficult to relate the three but when the reader passes through the chapters of the book he is convinced that there exists a linkage among the corporate governance, Foreign investment and the social dividend. The book has been written in lucid manner. Technical terms have been explained in simple language, which makes the reading interesting. The only thing, which always haunts the reader, is that the book does not explain at any place the direction and the quantity of corporate governance on foreign investment and social dividend. The study of impact needs the segregation of other factors, which are influencing the foreign investment and social dividend like government policy and its stability, attitude of people towards foreign capital etc.

The book has been published by AMU Press, which definitely will not adopt any promotional measure and so its readership will be considerably restricted. The book is of much use for academic purpose the researchers would find a good amount of information in simple and understandable form. In short it can be sad that it a nice piece of work worth reading. Price is also reasonable considering the cost of material and composing and printing charges.

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Aims and Scope

The *SCMS Journal of Indian Management* is a peer-reviewed Journal. The Journal deems it its mission to submit to the readers fresh fruit of management thoughts and rich cream of current innovative research. The format of the Journal is designed reader-friendly. The academia and the corporates have an easy access to the Journal.

The Journal looks for articles conceptually sound, at once methodologically rigorous. The Journal loves to deal knowledge in management theory and practice individually and in unison. We wish our effort would bear fruit. We hope the Journal will have a long life in the shelves catering to the needs of b-students and b-faculty.

§ Proposals for articles that demonstrate clear and bold thinking, fresh and useful ideas, accessible and jargon-free expression, and unambiguous authority are invited. The following may be noted while articles are prepared.

§ What is the central message of the article you propose to write? Moreover, what is new, useful, counterintuitive, or important about your idea?

§ What are the real-world implications of the proposed article? Can the central message be applied in businesses today, and if so, how?

§ Who is the audience for your article? Why should a busy manager stop and read it?

§ What kind of research have you conducted to support the argument or logic in your article?

§ What academic, professional, or personal experience will you draw on to make the argument convincing? In other words, what is the source of your authority?

§ The manuscript of reasonable length shall be sent to the Editor—*SCMS Journal of India Management* (Both for postal and electronic submission details are given here under).

The manuscript should accompany the following separately:

§ An abstract (about 100 words), a brief biographical sketch of above 100 words for authors describing designation, affiliation, specialization, number of books and articles published in the referee journals, membership on editorial boards and companies etc.

§ The declaration to the effect that the work is original and it has not been published earlier shall be sent.

§ Tables, charts and graphs should be typed in separate sheets. They should be numbered as Table 1, Graph 1 etc.

§ References used should be listed at the end of the text.

§ Editors reserve the right to modify and improve the manuscripts to meet the Journal's standards of presentation and style.

§ Editors have full right to accept or reject an article for publication. Editorial decisions will be communicated with in a period of four weeks of the receipt of the manuscripts.

§ All footnotes will be appended at the end of the article as a separate page. The typo script should use smaller size fonts.

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