

**Allied Academies
International Conference**

**Tunica, MS
April 2-4, 2008**

**Academy for Studies in
International Business**

PROCEEDINGS

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COMPARING TWO EXCHANGE RATE REGIMES UNDER PURCHASING POWER PARITY AND DISPARITY

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INTRODUCTION

Since the collapse of Breton Wood system, policy makers have been searching for such a stable international monetary system that could promote international trade and encourage long term investment. As a working solution to this issue managed exchange rate system allowing deviations within a very narrow band have been adopted. One of the outcomes of such an attempt was the initiation of European Monetary System wherein the member countries were allowed to manage their currencies depending on economic fundamentals and shocks within a band around the current value called target zones (Krugman, 1991). The presumed benefit is that exchange rate stability is supposed to bring about price stability, which enhances trade and consequently economic prosperity. Implicit in this idea is the assumption that the purchasing power parity (PPP) always holds. If PPP holds, we have $P = P^*E$, where, P is the domestic price, P* is the foreign (world) price, and E is the exchange rate. Thus stability in E translates into stability in P.

Similarly, fixed exchange rate is also viewed as the measure to equalize interest rates across borders as shown by the interest rate parity equation:

$$R = R^* + \frac{E^e - E}{E}, \text{ where, } R \text{ and } R^* \text{ are domestic and foreign rates of interest respectively, } E \text{ is}$$

the current exchange rate, and E^e is the expected exchange rate. As a fixed exchange rate eliminates the differential between the current and expected exchange rates, it equalizes the interest rates across the trading countries. Since economic fundamentals do not change as rapidly as people's expectation, such exchange rate system, can ensure price stability, smooth flow of international trade and capital.

Obstfeld (1996) argues that, the economic agents' expectation is influenced by government's resources rather than its current action or commitment. Government's possible future action depends on relative size of losses under different policy regimes. He argues that, although a fixed exchange rate system can bring about price stability, the flexible exchange rate system is a more attractive alternative as long as the cost of the exchange rate adjustments is not very high. This argument depend on two assumptions: (i) PPP holds, and (ii) a fixed exchange rate system can successfully limit people's expectation. The PPP condition can, however, fail due to several reasons, such as deviations from the Law of One Price (LOP), the presence of non-traded goods, and the terms of trade effects of home bias in consumption.

A pertinent question, therefore, is to ask what happens if these assumptions do not hold. Can a target zone system still sustain or does it need a continuous realignment, which is clearly a failure

of the target zone system? It is pertinent to ask, "Is a flexible exchange rate system between two currencies always better even if purchasing power parity does not hold between the two countries?" The relevant theoretical literature does not fully answer these questions whereas the empirical researches have provided mixed results.

Obstfeld (1996) has shown that flexible exchange rates are optimal whether deviations from PPP are due to deviations from the LOP or due to the presence of non-traded goods, In contrast Devereux and Engel (2003), have shown that, if PPP fails because of deviations from the LOP arising from sticky prices in local currency, then fixed exchange rates are optimal, even in the presence of country-specific shocks. These studies do not establish the superiority of one exchange rate regime over the other when PPP condition does not hold and output target and real exchange rate deviate from their long-run equilibrium values. Therefore, this paper has devoted itself to analyzing the effect of the violation of PPP along with the deviation of output target and real exchange rate from their long-run equilibrium values on government's decision domain, which we call government's loss function, .

THE MODEL

The model assumes a typical government loss function following Barrow and Gordon (1983) with some modifications. The loss function is of the following form:

$$L = (Y - KY^*)^2 + \beta (\Pi^2) + c(\epsilon), \quad (1)$$

where, Y is the output level, Y^* is the targeted output level, π is the rate of inflation, $c(\epsilon)$ is the cost of changing the exchange rate, ϵ is the exchange rate, and K and β are assigned weights. The first squared term in the loss function is the quadratic approximation of the welfare loss of being away from targeted output level. Therefore, the output deviation enters the government loss function, because it causes unnecessary economizing on real balance, which generates costs of price change and even increases endogenous relative price uncertainty (Benabou, 1988). The second term in the equation is the rate of inflation. An unanticipated inflation is costly and socially undesirable because it increases relative price variability (CuKiermann, 1984). The third term is the cost of changing exchange rate. Excessive short-run fluctuations in exchange rates under a flexible exchange rate system may be costly in terms of higher frictional unemployment if they lead to over-frequent attempts at reallocating domestic resources among the various sectors of the economy.

The output function is represented by the augmented Phillips curve as follows:

$$Y_t = \bar{Y} + \alpha (\Pi_t - \Pi_t^e) + u_t, \quad (2)$$

where, Y_t is the output level, \bar{Y} is the long-run output level, t and t^e are actual and expected inflation rates respectively, and u_t is the output shock. Other assumptions of this model are as the following:

Assumptions:

$$\text{Purchasing power parity condition: } e_t - p_t + p_t^* = q_t \quad (3)$$

$$\text{Movement of real exchange rate: } q_t - q_{t-1} = \lambda (\zeta - q_{t-1}) + v_t \quad (4)$$

$$\text{Aggregate demand function: } m_t - p_t = h y_t - \gamma i_t + \mu_t \quad (5)$$

$$\text{Uncovered interest parity condition: } i_t = i_t^* + (e_{t-1}^e - e_t) \quad (6)$$

$$\text{where, } v_t \sim N(0, \sigma_v^2)$$

$$u_t \sim N(0, \sigma_u^2)$$

$$\mu_t \sim N(0, \sigma_\mu^2)$$

$$\varepsilon_t = e_t - e_{t-1} \sim N(0, \sigma_\varepsilon^2)$$

$$K, \beta, \alpha, \lambda, h, \gamma > 0$$

The variables p_t and p_t^* are domestic and foreign price levels respectively; q_t is the real exchange rate; m_t is the nominal money supply; i_t and i_t^* are domestic and foreign interest rates respectively; and u_t , v_t , and μ_t are output, real exchange rate and demand shocks respectively. Similarly, ζ is long-run equilibrium exchange rate. Based on the above assumptions, we derive respective loss functions under flexible and fixed exchange rate systems. The complete derivation is given in the appendix.

The Loss Functions:

$$\begin{aligned} & \frac{\beta}{\alpha^2 + \beta} (\bar{Y} - KY^* - \alpha \varepsilon_t^e + u_t + \alpha \lambda (\zeta - q_{t-1}))^2 \end{aligned} \quad (7)$$

$$= \{ \bar{Y} - KY^* - \alpha \varepsilon_t^e + u_t - \alpha v_t \}^2 + \beta \{ \lambda (\zeta + q_{t-1}) + v_t \}^2 \quad (8)$$

Taking unconditional expectation yields,

$$\begin{aligned} E(L^{Flex}) &= \frac{\beta}{\alpha^2 + \beta} (\bar{Y} - KY^* - \alpha \varepsilon_t^e)^2 + \frac{\beta \alpha^2}{\alpha^2 + \beta} \lambda^2 (\zeta - q_{t-1})^2 + \\ & \frac{2\beta \alpha}{\alpha^2 + \beta} \lambda (\zeta - q_{t-1}) (\bar{Y} - KY^* - \alpha \varepsilon_t^e) \end{aligned} \quad (9)$$

$$E(L^{Fix}) = (\bar{Y} - KY^* - \alpha \varepsilon_t^e)^2 + \sigma_u^2 + \alpha^2 \sigma_v^2 + \beta \lambda^2 (\zeta + q_{t-1})^2 + \beta \quad (10)$$

The term $c(\varepsilon) = c(\varepsilon_t - \varepsilon_{t-1})$ is the cost due to the change in exchange rate. This cost enters only into the loss function under flexible exchange rate system because excessive short-run fluctuations may lead to higher frictional unemployment caused by over-frequent reallocation of domestic resources. In this set up, the monetary authority will be tempted to take resort to the flexible exchange rate system when the effect of u_t (output shock) and/or v_t (real exchange rate shock) is so high that $E(L^{\text{Flex}}) + \bar{c}(\varepsilon) > E(L^{\text{Fix}})$ or so low that $E(L^{\text{Flex}}) + \underline{c}(\varepsilon) < E(L^{\text{Fix}})$, where $\bar{c}(\varepsilon)$ is the highest value and $\underline{c}(\varepsilon)$ is the lowest value of $c(\varepsilon)$. Suppose, $c^*(\varepsilon)$ is such that,

$$E(L^{\text{Flex}}) + c^*(\varepsilon) = E(L^{\text{Fix}}) \quad (11)$$

Substituting equation (9) and (10) into (11) yields,

$$\begin{aligned} & \frac{\beta\alpha^2}{(\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon)^2 + \alpha^2 + \beta} \lambda^2(\zeta - q_{t-1})^2 + \frac{\beta}{\alpha^2 + \beta} \\ & + \frac{2\beta\alpha}{\alpha^2 + \beta} \lambda(\zeta - q_{t-1})(\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon) + c^*(\varepsilon) \\ = & (\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon)^2 + \sigma_u^2 + \alpha^2 \sigma_v^2 + \beta\lambda^2(\zeta + q_{t-1})^2 + \beta \sigma_v^2 \\ & - \frac{\alpha^2}{\alpha^2 + \beta} (\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon)^2 - \frac{\beta^2}{\alpha^2 + \beta} \lambda^2(\zeta - q_{t-1})^2 - \frac{\alpha^2}{\alpha^2 + \beta} \\ & + \frac{2\beta\alpha}{\alpha^2 + \beta} \lambda(\zeta - q_{t-1})(\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon) + c^*(\varepsilon) = (\alpha^2 + \beta) \sigma_v^2 \\ & = - \frac{\alpha^2}{(\alpha^2 + \beta)^2} (\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon)^2 - \frac{\beta^2}{(\alpha^2 + \beta)^2} \lambda^2(\zeta - q_{t-1})^2 \\ & - \frac{\alpha^2}{(\alpha^2 + \beta)^2} \sigma_u^2 + \frac{2\beta\alpha}{(\alpha^2 + \beta)^2} \lambda(\zeta - q_{t-1})(\bar{Y} - KY^* - \alpha\varepsilon_t^\varepsilon) + \frac{c^*(\varepsilon)}{\alpha^2 + \beta} \quad (12) \end{aligned}$$

Rearranging equation (12) yields,

$$c^*(\varepsilon) = \frac{\alpha^2}{\alpha^2 + \beta} (\bar{Y} - KY^* - \alpha\varepsilon_t)^2 + \frac{\beta^2}{\alpha^2 + \beta} \lambda^2(\zeta - q_{t-1})^2 + \frac{\alpha^2}{\alpha^2 + \beta} - \frac{2\beta\alpha}{\alpha^2 + \beta} \lambda(\zeta - q_{t-1})(\bar{Y} - KY^* - \alpha\varepsilon_t) + (\alpha^2 + \beta) \sigma_v^2 \quad (13)$$

Since $c^*(\varepsilon)$ is the critical value which equalizes $E(L^{\text{Flex}})$ and $E(L^{\text{Fix}})$, $c^*(\varepsilon) > 0$ implies $E(L^{\text{Flex}}) < E(L^{\text{Fix}})$, while $c^*(\varepsilon) < 0$ implies $E(L^{\text{Flex}}) > E(L^{\text{Fix}})$. Dynamic consistency requires that the government change the exchange rate whenever $c^*(\varepsilon) > 0$. That is, the fixed exchange rate system is sustainable as long as $c^*(\varepsilon) \leq 0$.

From equations (9) and (10), it is clear that the expected loss in both regimes is an increasing function of real exchange rate deviation i.e. $(\zeta - q_{t-1})$. However, the real exchange rate deviation may cause more or less loss in flexible exchange rate system compared to that in fixed exchange rate system. Under PPP, the loss function under both regimes remains unaffected by real exchange rate deviation. So, if the cost of exchange rate change is negligible, the loss under flexible exchange rate system will be less than that under fixed exchange rate system. However, this is no longer valid when PPP does not hold. To show this, we subtract equation (9) from (10), which yields,

$$E(L^{\text{Fix}}) - E(L^{\text{Flex}}) = \frac{\alpha^2}{\alpha^2 + \beta} (\bar{Y} - KY^* - \alpha\varepsilon_t)^2 + \frac{\beta^2}{\alpha^2 + \beta} \lambda^2(\zeta - q_{t-1})^2 + \frac{\alpha^2}{\alpha^2 + \beta} - \frac{2\beta\alpha}{\alpha^2 + \beta} \lambda(\zeta - q_{t-1})(\bar{Y} - KY^* - \alpha\varepsilon_t) + (\alpha^2 + \beta) \sigma_v^2, \quad (14)$$

assuming the cost of exchange rate change to be negligible (i.e. $c(\varepsilon) = 0$). From the observation of equation (14), it is obvious that there is no guarantee that $E(L^{\text{Fix}}) - E(L^{\text{Flex}}) > 0$, even if we assume that the cost of exchange rate change is zero unless two additional conditions are met. If output target is fully adjusted to the long run equilibrium output level i.e. $\bar{Y} = KY^*$, and the real exchange rate is lower than its long-run equilibrium value i.e. $q_{t-1} < \zeta$, then, from equation (14), it is clear that $E(L^{\text{Fix}}) > E(L^{\text{Flex}})$. That is the expected loss under a fixed exchange rate system outweighs the expected loss under a flexible exchange rate system if these two conditions are met.

If PPP holds, then $q_{t-1} = 0$ and, therefore, $\zeta = 0$. Thus, the negative term on the right hand side of equation (14) drops out, and we have $E(L^{\text{Fix}}) > E(L^{\text{Flex}})$. Thus the expected loss under a fixed

exchange rate system is always greater than that under a flexible exchange rate system when PPP holds. These results can be summarized in the form of the following propositions:

Proposition-1:

Under purchasing power parity, a flexible exchange rate system always performs better.

Proposition-2:

Under purchasing power disparity, a flexible exchange rate system performs better only if output target is adjusted to its long-run equilibrium value and the real exchange rate is lower than its long-run value. If these conditions do not hold under purchasing power disparity, then the superiority of a flexible exchange rate system cannot be claimed.

CONCLUSION

Since price stability has been viewed as favorable to the long-term prosperity of an economy, it has received high importance in recent studies on macro-economic policy. Obstfeld (1996) argued that, no matter what the government's current action is, the economic agents' decision or expectation is influenced by government's resources rather than its current action or commitment. Government's possible future action depends on relative size of losses under different policy regimes. He further argues that, although a fixed exchange rate system can bring about price stability, the government always has incentive to go for the flexible exchange rate system as long as the cost of changing the exchange rate is not high.

We have, however, shown that this assertion is valid only under purchasing power parity condition. The implication drawn by Obstfeld may not be true, even if the cost of exchange rate change is zero, if purchasing power parity doesn't hold. Under purchasing power disparity, flexible exchange rate system can be assured to do better, only if output target is fully adjusted to its long-run equilibrium value and long-run real exchange rate is lower than its long-run equilibrium value.

A NEW TWIST ON E-COMMERCE – EDUCATIONAL TUTORING ORIGINATING IN INDIA

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ABSTRACT

The public educational system in the United States is the target of many criticisms. Since 1965 there have been numerous attempts to address the problems that are attributed to the primary and secondary educational systems. These attempts began with programs such as Head Start, focusing on deeply imbedded family and societal pressures that influence the potential for success of individual students. There have been attempts to "semi-privatize" the public schools through contracting with management groups that promise to bring proven business and educational management practices to the arena and implement them within troubled schools. However, problems remain, in spite of decades of innovative societal and legislative approaches aimed at addressing the root issues. American students continue to lag seriously behind contemporaries in many developed nations.

Awareness of the problems faced by the basic educational system in the United States and the resultant mandate for change led to the No Child Left Behind Act of 2001. The Act requires a serious focus on the outcomes of the educational process, through testing and measurement of achievement. Schools are evaluated based on the performance of their students on these standardized tests. Provision of supplementary educational services is proposed as a solution to low performance by schools under the NCLB Act. This has led to a new and very lucrative market, funded largely by the federal government, for tutoring companies. This has also led to the creation of a new business model: e-tutoring, or online tutoring. These online tutoring services are often being provided by offshore vendors at competitive rates, employing tutors from various parts of the globe. These tutors reside in lower wage countries, such as India, presenting an opportunity to provide online tutoring services at a far lower cost than companies which use tutors based in the United States. These new business models present potential impacts that raise questions to be addressed as the American basic educational system experiences unforeseen vulnerabilities resulting from reliance and dependence on online tutors from very different social and educational contexts.

This paper discusses the history behind the development of an e-commerce market for offshore tutoring companies. Questions are raised regarding the potential impacts on the public education systems in the United States resulting from student dependence on online tutoring originating in other countries. Recommendations include addressing the root causes of low performing schools.

DOES THE PUNISHMENT FIT THE CRIME?

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ABSTRACT

In the past decade, the United States news channels have been flooded with corporate scandals and wrongdoings. After these scandals came trials and sentencing. Convicted corporate CEOs in the United States expect to spend some time in jail; however, some Americans argue that the punishment handed down to corporate criminals does not fit the crime. In countries such as the U.K, Japan, and North Korea, punishment is much harsher than in the U.S. Though U.S. corporate crimes may result in jail time, some countries punish corporate criminals by hanging or other means of the death penalty. Many people in the United States believe that corporate criminals should face tougher sentencing. This research attempts to compare both sides of the argument of corporate crime and punishment. Any changes in the punishment associated with corporate crimes will have a significant impact on the willingness and ability of future leaders to step up into the lead CEO positions. Stricter punishment may lead to a reduction in corporate crimes in the U.S. However, it may also reduce the willingness of key leaders to step up and take responsibility for the actions of their company.

AN ANALYSIS ON INTERNATIONALIZATION PROCESS OF KOREAN NEW VENTURE FIRMS

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ABSTRACT

The purpose of this paper is to find out whether traditional internationalization theory, especially Uppsala Internationalization Process (UIP) perspective, can be applicable to analyze new international phenomena of small and medium sized enterprises, such as International New Venture (INV). Several propositions are tested by empirical data from Korean new venture firms. The main findings of this research are: First, the period of starting internationalization from establishment of Korean new venture firms' is very short, as INV perspective suggested; Secondly, when Korean new venture firms select foreign market entry modes, most of them select 'export' as a first foreign market entry mode; Finally, Korean new venture firms seem to select their target market by market situation, as INV perspective suggested. Some managerial and theoretical implications are also suggested. It is our conclusion that the development of a new theory is necessary to explain and analyze new internationalization phenomena, such as INV, Born-global. We want to define this very fast and simultaneous internationalization process of Korean new venture SMEs as 'Condensed Internationalization'.

INTRODUCTION

Internationalization of firm has been a critical factor for companies in the era of global business and paid attention to small and medium sized enterprises (SMEs) as well as multinational enterprises (MNEs). Recently, the ratio of small and medium sized firms' in international foreign direct investment (FDI) has been very rapidly increasing (Kirby & Kaiser, 2005). Energetic business activities of SMEs in the global market have mainly focused on the internationalization process of SMEs (Zhu, Hitt & Tihanyi, 2006/2007). However, most of prior studies conducted a comparative analysis with MNEs. They focused on internationalization process of SMEs in terms of traditional theories.

Traditional internationalization theories are about multinational companies in advanced countries mainly focusing on competitive capabilities to successfully get in foreign markets (Dunning, 1988; Hymer, 1976; Vernon, 1966). The most popular traditional theory for internationalization of SMEs is the Uppsala Internationalization Process (UIP) model (Johanson & Vahlne, 1977).

The main research issue of this paper is, therefore, whether we should establish a new theoretical perspective to explain new internationalization phenomena of small and medium sized

firms or not. In this study, traditional perspective on internationalization of SMEs is compared with new theoretical discussions on International New Venture, High Technology Start-Ups, and Born-Global. International New Venture (INV) is used as a representative concept of new internationalization phenomena of SMEs in recent years. Then, several propositions, which are related to the difference between traditional internationalization and INV's internationalization, are elicited. These propositions are tested by empirical data from South Korean new ventures in high technology-based industry with a total sample size of 131.

RESEARCH PROPOSITIONS

There are several important issues in characterizing the internationalization of INV: the interval between establishment of the firm and starting international business, selecting an entry mode and a market in its internationalization process.

In traditional perspective, the interval between establishment of the firm and starting international business was not an issue because most people perceived that it needed a time for firms to start their international business. Uncertainty and lack of information and knowledge were critical obstacles to entering foreign market. So, firms need certain level of period to become familiar.

However, it is reported that new ventures in recent years start their international business very fast. Thus, the period of INV internationalization from its establishment is proposed as below.

Proposition 1: INV will start its international business in a very short time from its establishment (within 2-3 years).

With regard to the issue on the selection of foreign market entry mode, The incremental perspective insists that a firm has to select low commitment level of entry mode, such as export in the early stage of business operation, because the firm has to reduce risks caused by lack of information and business practices in a foreign local market.

However, theorists in the INV perspective insist that INV does not follow incremental stage model any more. Thus, we can assume that INV will choose a foreign market entry mode, not related to the level of commitment to the foreign market.

Proposition 2: In selection of a foreign market entry mode, INV must not choose low commitment level of entry mode (e.g. export) before high commitment level of entry mode (e.g. FDI).

With regard to the market selection, the UIP-perspective assumed and showed that firms choose target market, which is familiar with and is close with geographically.

In the INV perspective, firms are eager to find out foreign market opportunities and thus distance with domestic market is regarded as not important. SMEs identify, create, and exploit opportunities in foreign markets by leveraging resources to develop their competitive advantages (Peng, Lee & Wang, 2005).

Proposition 3: INV will choose a market based on the amount of business opportunities rather than psychic distance.

EMPIRICAL ANALYSIS

For an empirical analysis in this study, a mail survey with a questionnaire was performed under the title of 'Internationalization of International New Venture', which focused on investigation of characteristics of Korean international new venture firms. The sample for this survey was small and medium sized firms and the questionnaire was sent to either the CEO or the director of international business division.

Questionnaires were sent to firms, which were classified with high technology industry, such as computer science, IT, environment technology, bio, semi-conductor, pharmacy, etc. Firms in the sample are also restricted to firms that are implementing international business activities. Firms for the survey were selected from the list of Korean venture firm in the Small and Medium Business Administration and the firms that participated 'Seoul Venture Exhibition in 2003'. 590 questionnaires were sent by post and respondent could choose replying method between postal mail and E-mail. The response rate is 22.2%, resulting in valid sample of 131.

PERIOD OF STARTING INTERNATIONALIZATION

Table 5 indicates that Korean new ventures start their foreign business quite early. The average interval between the firm's establishment and starting international business is 2.37 years. It shows that early internationalization phenomenon, such as Born-Global, happens also in Korean firms. Thus, the proposition 1 is accepted.

Period (Year)	Under 1	1	2	3	4	5	6	Over 7	Total
Number of firms	6	35	41	26	10	6	3	4	131
Ratio (%)	4.6	26.7	31.3	19.8	7.6	4.6	2.3	3.1	100

ENTRY MODE SELECTION

Table 6 shows foreign market entry mode and current main business mode of Korean venture firms in foreign local market. However, most of Korean INV (91.6%) choose export as a first foreign market entry mode. Through this result we could not say that Korean INV shows 'leap-frogging' phenomenon in its internationalization process, as INV perspective insisted. In the INV perspective, they assumed that INV would prefer manageable mode, such as Joint-venture (McDougall, Shane & Oviatt, 1994).

An in-depth survey result shows that Korean INV is in the beginning stage of international involvements and if opportunities are found, the INV is going to jump on the necessary stage. Despite this, we could not accept the proposition 2.

	export	Marketing & subsidiary	Technology transfer	OEM	Strategic alliance	Joint venture	W-O subsidiary
Entry mode	120 -91.60%	3 -2.3	6 -4.6	- -	- -	1 -0.8	1 -0.8
Current main mode	96 -73.30%	9 -6.8	10 -7.6	3 -2.3	6 -4.7	4 -3.1	3 -2.3

MARKET SELECTION

Through Table 7, we found that first selected market by Korean INV are scattered. They choose USA, Europe, Japan, and China indiscriminately, because these markets are the biggest market in the world. This phenomenon happens also in terms of industry. The first selected market is different by industry. It means that Korean INV choose its target market by its own criteria, such as market size, possibility of technology acquisition, etc.

So, we imagine that Korean INV choose target market by business opportunity rather than familiarity. Proposition 3 is accepted.

	USA	Japan	China	Europe	East-South Aia	Oceania	Etc.	Total
Total	33 (25.2)	27 (20.6)	22 (16.8)	30 (22.9)	16 (12.2)	1 (0.8)	2 (1.5)	131 (100)
IT industry	12 (42.9)	5 (17.9)	6 (21.4)	3 (10.7)	2 (7.1)	-	-	28 (100)
Software industry	3 (11.5)	9 (34.6)	3 (11.5)	5 (19.2)	5 (19.2)	1 (3.8)	-	26 (100)
Bio industry	-	2 (20.0)	-	8 (80.0)	-	-	-	10 (100)
High-tech manufacturing industry	8 (47.1)	2 (11.8)	1 (5.9)	3 (17.6)	3 (17.6)	-	-	17 (100)

CONCLUSION

It is our conclusion that the development of a new theory is necessary to explain and analyze new internationalization phenomena, such as INV, Born-global. Although there were some phenomena which showed not fundamentally different from the traditional theory, just caused by business environmental change (Knudsen, Madsen, Rasmussen & Servais, 2002), the Korean INVs were energetically looking for market opportunities around world and willingly ready to take them regardless of internationalization process. The Korean new venture firms still experience incremental internationalization process. Instead of experiencing step by step, they experience it very fast and simultaneously. We want to define this very fast and simultaneous internationalization process of Korean new venture SMEs as 'Condensed Internationalization'.

CORRELATION OF INTERNATIONAL BANK RATES: 1999-2007

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ABSTRACT

This study examines relationships between the changes in the Federal Funds Rate and target rates of other central banks. Using monthly data for the 1990 - 2007 time period, correlation models are developed between U.S. rate actions and rate changes by the European Central Bank, the Bank of England, and the Bank of Japan. The level of economic globalization is determined by examining general correlations between these rates, and responses to monetary policy actions. The possibility of lagged reactions is also examined in the study.

CULTURAL MODERATORS IN THE INTERNATIONAL DIFFUSION OF MANUFACTURING PRACTICES

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ABSTRACT

This research develops measures of organizational culture based on elements of national culture derived from Hofstede's indexes. A collective measure of the national cultures of a firm's employees is believed to moderate firm actions via altering its organizational culture following Adler and Jelinek's (1986) remarks. Based on the literature on organizational culture and technology diffusion, these variables are related to the implementation of the manufacturing practices of ISO 9000 and JMP (a sum of TQM, employee involvement, and JIT). Hypotheses are developed, based on the premise that practices are embedded in their culture of origin and diffuse most easily in organizations with similar cultural compositions.

The Ecological Model and Organizational Practices

Fields of inquiry in scientific research are largely determined by how researchers designate the boundaries between organizations and the relevant environment. Thorelli (1995) designates organization, auto-setting, task environment, macro-environment, and extra-environment as important categories in organizational ecology. Organization is a term that can include anything from the local association to the United Nations. The 'auto-setting' environment is the organization, just above the unit under study. The macro-environment is represented by what can be called climatic conditions. It includes the general social, economic, political, and technological climate in which the organization finds itself.

The Diffusion of Country Based Managerial Practices

Nelson and Winter (1982) proposed that technology accumulates at the firm level, and through a series of incremental choices a technological trajectory is pursued by adopting changes related to their competence. Firms may encounter a superior practice but uncertainty of its benefits and institutional inertia cause firms to continue along the same path of competence building and not recognizing that a discontinuity in best practice exists [Arthur, 1989 #463]. Based on the success of an innovation, it is selected out or expanded on based on its superior practices.

Best Practices in Manufacturing

The terminology 'best practice' was used to link this work to a larger body of historical work on the diffusion of technology and organizing practices. The first practice discussed is ISO 9000. ISO 9000 certification evolved through U.S., then Britain, and was later developed with guidance from approximately 100 nations. A group of practices labeled as Japanese manufacturing practices [De Meyer, 1998 #369] are discussed. This group consists of TQM, EI, and JIT management systems.

ISO 9000

The International Organization for Standardization (ISO), founded in 1946 in Geneva, develops a common set of standards for the manufacturing, trade, and communications industries [Docking, 1999 #371]. The organization comprises the national standards institutes of over 100 countries, including that of the U.S. Certification to the ISO 9000 standards provides quality assurances to external parties. ISO 9001, 9002, and 9003 are contractual quality standards.

Japanese Manufacturing Practices

De Meyer (1998) states that, since the 1980's European manufacturing has been dominated by the implementation of Japanese manufacturing techniques. De Meyer presents Japanese manufacturing techniques in four categories: 1) Intolerance for variability in the production process; 2) Continuous improvement and constant learning; 3) Human resources are the most important asset of the company; and 4) Time and speed are highly valuable resources. In the following reviews the attributes of EI, JIT, and TQM are intertwined. For example, EI and TQM may be presented as subcomponents of a JIT management system (Davy, 1992), or EI and JIT as subcomponents of TQM (Powell, 1995).

Total Quality Management, Employee Involvement and Just-in-time Production

Saraph et al (1989) outlined eight critical factors of quality management from published literature, and defined success factors as "critical areas of managerial planning and action that must be practiced to achieve effective quality management in a business unit" [Saraph et al, 1989 #384]. One goal of Saraph's et al. (1989) original work was to develop a generic instrument capable of measuring quality practices in many organizations.

Organizational Structural and Cultural Orientation	Internal Organizational Management (Process and Production)	External Organizational Management
Corporate Quality Culture 1. Top Management Commitment 2. Top Management Leadership 3. Strategic Quality Management 4. Role of the Quality Department	Process Management 1. Operational Quality Planning 2. Benchmarking 3. SPC Usage 4. Quality Improvement Measurement Systems 5. Internal Quality Information Usage 6. Quality Data & Reporting 7. Communication of Improvement 8. Flexible Manufacturing	External Interface Management Customer Focus 1. Customer Satisfaction 2. People and Customer Management
Quality Structure 1. Reduced Hierarchy 2. Teamwork Structures 3. Employee Empowerment 4. Employee Involvement 5. Employee Training 6. Employee Relations	Products 1. Product Quality 2. Product Service Design 3. Design Quality Management	Supplier Management 1. Supplier Partnerships 2. Supplier Quality Management 3. Supplier Performance

Easily noted in Table 1 is the importance placed on HR development in TQM implementation and exploitation. Specific success factors mentioned are employee involvement, employee relations, employee training, and employee empowerment. These support De Meyer's (1998) observation of the importance placed on human resource (HR) practices in the implementation of Japanese manufacturing practices.

Literature on Culture and Values

Hofstede (1980) was able to develop four measures of work related values. These corresponded closely to the dimensions identified earlier [Inkeles, 1969 #317], and were labeled power/distance, individualism/collectivism, masculinity/femininity, and uncertainty/avoidance. These measures (Hofstede 1980; 1991) are the most established in international business literature and their reliability has been demonstrated through replication [Shackleton, 1990 #194; Chow, 1991 #237].

Organizational Values and Japanese Manufacturing Practices

A firm's structure is an outward manifestation of their values. The most well known of these are the control-flexibility [Zammuto, 1991 #349] dimension of organizational culture and the organic-mechanistic dimension of organizational structure [Burns, 1961 #156]. Organizations with organic structures, exhibit lower levels of control but demonstrate an organizational culture that adapts to changes in the environment. As organizational value systems, and organizational processes

and structures move toward flexibility, subordinates have more discretion over activities and more information with which to make decisions. Authority and responsibility are delegated to teams of 'involved' employees to specific activity under Japanese practices.

Power Distance

Japan is a higher than normal power distance country (54), but still within a medium level value of power distance. The following hypothesis is made:

H1: The extent of implementation of Japanese manufacturing practices is associated with medium levels of power distance in European manufacturing firms.

Power distance describes the degree to which a society accepts an unequal distribution of power. Those cultures that exhibit high power distance values have individuals who are willing to follow the directives of superiors with little questioning of authority. Cultures with high power distance measures are typified by bureaucracy and greater top management control over subordinates [Katz, 1998 #210]. TQM has been shown to fit well into a high power distance environment [Scully, 1996 #215]. TQM has also been shown to be more successfully implemented in organizations where subordinates willingly accept the directives of management [Masters, 1996 #218].

Individualism / Collectivism

Japan (46) ranks below average on Hofstede's measure of individualism/ collectivism but in a range that may be label as a medium level. The following hypothesis is made:

H2: The extent of implementation of Japanese manufacturing practices is associated with medium levels of individualism/ collectivism in European manufacturing firms.

Individualism is a cultural dimension that describes a culture's orientation to provide for themselves and their immediate families. Values at the lower end of the scale represent the tendency of members who belong to collectives, and provide for members in exchange for loyalty. In highly individualistic cultures tasks have priority over relationships and the orientation of personal identity is individually based rather than deriving from group membership [Hofstede, 1980 #167]. Individualism has been shown to be predictive of organizational equity, [Bond, 1982 #200; Hui, 1991 #197], social loafing [Earley, 1989 #221], executive adherence to existing strategies [Geletkanycz, 1997 #224; Shane, 1996 #271] and inventiveness [Shane, 1992 #222].

Masculinity/ Femininity

Japan ranks (95) highest of all countries on Hofstede's measure of masculinity/ femininity. The following hypothesis is made:

H3: The extent of implementation of Japanese manufacturing practices is positively related to masculinity in European manufacturing firms.

Societies scoring high in masculinity typically expect males to focus efforts on acquiring material possessions, accomplishing goals, competing with others, and in more traditional societies, hunting and fighting. Males are to be assertive and competitive, while material growth is in the

forefront. Females are to be more modest, tender, and concerned with quality of life. Societies at the opposite end of this dimension emphasize quality of life and caring for both genders [Hofstede, 1980 #167]. TQM, JIT, and EI demand group decision-making, and cooperation across the firm, these aspects of Japanese practices can be easily attributed to cultures low on the masculinity index.

Uncertainty Avoidance

Japan (92) ranks very high on Hofstede's measure of uncertainty avoidance, making the following hypothesis:

H4: The extent of implementation of Japanese manufacturing practices is positively associated with uncertainty avoidance in European manufacturing firms.

Uncertainty avoidance is the dimension created by Hofstede (1980) to describe the degree to which individuals in a society feel threatened by ambiguous situations. Uncertainty avoidance (UA) requires a bit more clarification than some of the other dimensions. UA is not to be confused with risk avoidance. Uncertainty has no probability associated with it, as risk does. When uncertainty is expressed as risk, it is no longer a source of anxiety for cultures ranking high in UA [Hofstede, 1991 #168]. Individuals in high UA cultures look for structure in relationships in order to bring clarity and resolution to situations. Individuals in high UA cultures are prone to engage in risky behavior to reduce ambiguity.

Cultural Distance and Cultural Learning

Cultural distance and cultural learning are dimensions of international business research that have received attention in recent years [Gomez-Mejia, 1997 #208; Kogut, 1988 #214; Barkema, 1996 #304]. Cultural distance is a term used to describe the cultural diversity of an international firm. Firms operating beyond their own borders encounter other cultures. The Uppsala model stipulates that organizations learn to manage foreign operations incrementally by gradually increasing their commitment of assets to foreign operations while incrementally gaining country and culture specific knowledge [Johanson, 1975 #326; Johanson, 1977 #325]. Gomez-Mejia and Palich (1997) did not consider learning effects in their analysis of cultural distance, which may offset the negative effects associated with cultural distance. Barkema, et al (1996) found a measure derived from a non-Hofstedian measure of cultural distance combined with an estimate of learning was predictive of inter-cultural success between firms.

H5: the extent of implementation of Japanese manufacturing practices is negatively associated with cultural distance.

H6: The extent of implementation of Japanese manufacturing practices is positively associated with cultural learning.

Expected Contributions

This research makes a contribution, whether or not a significant relationship is discovered. If such a relationship is found a direct contribution to the literature on organizational culture is

made, since national culture measures have been shown to be quite reliable [Sondergaard, 1994]. The ability to extract this portion of organizational culture from other assessments may improve the reliability of those other measures. The development of such a measure would provide a good complement to the more extensively used measures of cultural distance [Kogut & Singh, 1988]. The measure developed here, would evaluate an organization as the cultural sum of its operational parts, rather than the cultural (after squaring) of the differences between its HQs and its operational parts.

REAL ESTATE MARKETING IN RUSSIA AND UKRAINE CONTRASTED WITH AMERICAN PRACTICE: AN UPDATE FROM THE EARLY POST-SOVIET PERIOD

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ABSTRACT

This paper provides a historical update of real estate marketing practices in two of the biggest constituent parts of the former Soviet Union, Russia and Ukraine, from 1991 to 2007 and compares and contrasts them to practices in the United States. The research question proposed is: "Is real estate marketing in Russia and Ukraine currently inferior to that practiced in the USA?"

The question is addressed in two ways: First, by development of a 16 variable test of respective web sites sophistication used as proxies for the level of information conveyed in their listings and the ease that internet savvy clients can search listings to satisfy property needs information gathering; second, by comparing the Russian and Ukrainian listings in Moscow and Kiev respectively with American real estate companies in Philadelphia. The evidence suggests that real estate marketing continues to lag the USA norm, particularly in the number of listings available at each agency.

INTRODUCTION

Twelve years ago a survey of comparative property values and real estate marketing techniques in the United States and Ukraine was published (Marshall, et. al., 1996). This 1995 study focused on the embryonic real estate market that was passing from state ownership to private parties during the first years after the 1991 collapse of the USSR and how sales techniques had evolved by 1995. Shortly thereafter the study was expanded to include Moscow, Russia (Marshall, et. al., 1999) with data from the same time period and in the same format, supplied by the Institute of Housing Research at the Russian Academy of Science.

Both earlier works gave anecdotes and stories of just how real estate was exchanged in soviet times and compared how marketing had evolved by the time of the earlier studies. Predictions were also made about future real estate prices, the development of property management services and sources of mortgage financing in the former Soviet Union (FSU).

In a seminal piece of real estate research on the region (Kyj and Pal, 2001) studied how real estate differed in Kiev compared to Western countries. Some aspects of the operation of local real estate companies were included in that work. At that time there were also substantial differences in how real estate was marketed. One major difference was that the address of properties were either

disguised or not disclosed to potential buyer. The agents' fear was that unscrupulous sellers could make a deal with potential buyers to the disadvantage of the agent. Obviously this secrecy complicated real estate transactions, reducing efficiency and was in some ways a measure of the cost imposed on society for not having well established rules-of-law. Also, as far as we can tell, this paper made the first mention of the use of the internet in marketing real estate in the FSU, though it appeared to the authors only to be oriented towards Western buyers.

A review of real estate marketing developments in the same area after another dozen years sheds light on the recovery of Russia and Ukraine toward Western practice standards in many areas, not just in real estate. Much has happened in both the East and the West since the fall of the USSR. As expected, change is more dramatic in the East than in the Western countries. During soviet times most people rode the bus or metro or walked. Traffic now clogs the streets of Kiev and Moscow and much of it consists of German luxury cars. The oil boom has dramatically lifted conditions in central Moscow, and to a degree has trickled down throughout the country. In Moscow most everything has been painted and repaired; even the grass is being cut regularly. Kiev's "Orange Revolution" ushered in a much more cosmopolitan and westward looking flavor to that city. Average income has exploded. Just after the fall of the USSR average personal income was about \$30 a month. The most recently available estimate of Russian per capita GDP for 2007 (World Bank, 2008) is \$14,600 and for Ukraine \$6,900. High petroleum prices have accounted for the surge in Russia's GDP.

During this period the internet has come of age in both East and West, particularly so in the domain of real estate marketing and sales. The two earlier papers did not even consider the internet revolution as a potential factor. Lastly, Philadelphia and much of the USA, has experienced a booming real estate market over most of the intervening period fueled by cheap financing in the sub-prime sector. In many respects booms in the real estate sector in Moscow and Kiev have been much more spectacular than our American comparison city Philadelphia. Quantitative comparisons of residential real estate rents and values then to now show substantial change.

The structure of this paper is as follows:

First, we review how real estate was exchanged (not sold, since private property was obviously not permitted under communism) during the soviet era.

Next, we review the progress made in marketing real estate and disseminating real estate information in Russia and Ukraine from soviet times until the 1995-1996 period of the earlier papers.

Finally, we present current best practices in Moscow and Kiev and compare and contrast that with real estate marketing in the USA, as the foundation for addressing the research question posed.

REAL ESTATE "EXCHANGES" IN THE USSR

The real estate market in both modern Russia and Ukraine (about 80% of the FSU) has been shaped by unusual political, economic and demographic forces. During the 20th century they were engulfed and almost destroyed by both World Wars and suffered the effects of a communist revolution that maintained center stage for more than seventy years. This contributed to both an aggressive

anti-market political ideology and a dramatic urbanization of the population. Private property, particularly land and associated housing, was nationalized and its distribution put under bureaucratic authority. While war and the soviet mindset has left an indelible imprint at least on the older generation, urbanization continues into modern times and overcrowding an substandard housing is just beginning to be offset by new construction. To demonstrate the problem, consider that at the beginning of the last century only 20% of Ukraine's population lived in what was classified as urban areas; the rest lived in rural villages. Conditions were similar throughout the USSR. By the fall of communism those percentages had been reversed (Dovydyuk, 1991).

Most of the housing in the USSR was part of the "State Housing Fund." This included housing under control of the city councils and of various state enterprises and organizations. Mammoth industrial complexes, such as Stan-Kiev, a major lathe manufacturer for the entire USSR in Kiev, included not only office and industrial buildings, but also housing for many of its workers. Likewise, literary organizations, like the Association of Ukrainian Writers also in Kiev, administered their own housing units for their members. Without access to a similar type industrial companies, cultural organizations or unions, obtaining new housing or changing housing arrangements usually meant years on an official waiting list.

Housing during the USSR was governed by rules and procedures that strike Westerners as peculiar. First each citizen over the age of sixteen had to be in possession of an internal passport assigning him / her to a particular city (the "propiska") to even qualify for housing. Violators (like those wishing to live in Moscow illegally) were subject to arrest and expulsion. Twenty-one square meters were the norm for each occupant of a residential apartment, but there was not enough housing space for everyone under that restriction. In practice, this meant that if a young recently married couple, with both holding valid propiskas, moved into a twenty-one square meter apartment, the official registry for that apartment could only list one party as the official occupant. The apartment would have needed to be forty-two square meters before both could be officially registered as tenants. Of course, this meant that the person to whom the apartment was officially registered had significant advantages, for example in a subsequent divorce.

How was real estate exchanged in the anti-market environment of the USSR? If a person needed or wanted to move, for whatever reason, the normal procedure was to try to exchange the current apartment with someone who had parallel but reverse needs and to illegally adjust any mutually agreed discrepancies in size, location or amenities with a cash payment to the other party.

During soviet times most people new to the need for housing, such as the newly married young, faced the long waiting list for housing or the prospect of living, possibly even in the same room, with close relatives in their apartment. Given that alternative housing seekers were very likely to accept whatever housing was offered by the state, even if it was far from work and / or family and even if it failed to include the desired amenities. The hope was to make a successful exchange eventually. Rejecting housing offered by the state meant a return to the end of the housing queue, usually an unacceptable choice since no guarantee could be had that the next apartment offered would be better than the last.

Of course it was difficult to find someone with an empty apartment or someone with parallel but reverse needs, particularly in a society without good advertising opportunities. Additional problems were coming up with a likely substantial cash adjustment without access to mortgage based borrowing and the potential of being accused of flouting the law against "selling" state

property. People attempted to solve these problems by borrowing money from relatives or friends and furtively posting simple advertisements (really just short, hand-written notes) in metro stations, at bus stops and in outdoor markets. Police tended to look the other way as the state offered no real solution to these housing problems.

Interestingly, outbound migration during the 1980s did help relieve some of the strain of inadequate housing. Continuous pressure from the West finally forced the soviets to relax immigration rules and allow Jews to apply for authority to leave, mostly to Israel or the USA. This freed up space was now available but required a rather large (by soviet standards) payment to those departing.

REAL ESTATE ISSUES IN THE INITIAL POST-SOVIET PHASE

Major changes occurred in the year following the collapse of the USSR. For instance, after Ukraine's declaration of independence on August 24, 1991, suddenly Kiev was transformed from being the principal city of a soviet republic to the capital city of a nation of 52 million. Kiev had to make room not only for new embassies, but also for Western businesses looking for retail, commercial and residential space. The demise of communism precipitated a stampede of Western companies looking to do business in the FSU. Clearly Moscow was the preferred headquarters site, but many companies elected to have a separate headquarters in Ukraine as well. To handle this new problem, government needed to establish rules for foreigners wishing to purchase real estate.

To further complicate orderly and timely changes in the laws encompassing real estate ownership, ongoing political conflicts often caused uneven results. For example, in Ukraine almost open warfare between the President and the Parliament left most of the 25 oblasts (administrative regions most closely related to USA states) operating without central control or direction for the first time ever. The Presidentially appointed Oblast leaders tended to run their territory as personal fiefdoms. For example, the Kiev Oblast leadership saw an economic advantage to allow foreigners to take legal title to property with only minor bureaucratic encumbrances. In contrast, in the western Ukrainian city of Lviv, foreigners were forbidden to buy real estate. Even with the support of Lviv city council no change could be made since council had no authority to pass the necessary ordinances without Oblast approval. For reasons that remain somewhat unclear, such changes were not on the Oblast leader's agenda. This is politically surprising since Lviv was not under soviet control until the outbreak of World War II in 1939, and had long been a hotbed of Ukrainian nationalism. It should have seemingly been more receptive to embrace free-market practices because of its long hostility to communist ideology.

During late 1992 conditions began to normalize as central control was re-established. In fact housing reform was the first step for privatization of the Ukrainian economy based on a market mechanism. On June 19, 1992 Parliament passed the law entitled, "The Privatization of the State Housing Fund." On October 18th of the same year the Cabinet of Ministers approved the necessary documents to implement the law. (SCUHCE, 1993.) Now everyone, including foreigners, had the right to buy, sell and rent real estate.

With the laws (at least nominally in place) necessary to allow privately owned property now in place, the real estate market entered a new era. It was now legal to own real estate and to buy and sell it freely, but the infrastructure common in the West did not yet exist. The soviet era practice of

posting advertisements for exchanges grew and expanded in variety. Some clients were still looking to exchange similar types of apartments. Other ads offered to exchange a large apartment for two smaller ones, or an apartment for a free standing house. There were even listings for inter-city exchanges. This continued reliance on bartering of housing demonstrated the difficulty the FSU had in transforming its economy to one that responds to the market rather than to some central bureaucracy.

By 1995 an identifiable group of real estate agents emerged, though by Western standards, their modus operandi was primitive. The earliest agents simply maintained updated lists of properties for sale or rent. The client now had the choice of scanning written real estate notices at bus stops or consulting with the agent, for a fee, the real estate brokerage charge paid for by the buyer. The advantage of using the agent was to make a quicker, more complete assessment of what properties were currently available that met client criteria. The agents' services were not commission based and were not paid for by the seller.

Later agents contracted with sellers to list their property in specialized real estate newspapers. An early example (Yanos, 1994), where in addition to detailed descriptions, agents including diagrams of the floor plans of various properties and classified properties according to rentals, purchases or exchanges. Yanos also provided short articles in each issue dealing with real estate issues and developments. Amazingly, at this time Yanos published a new edition of the newspaper every two months.

It seemed clear at that time that the presence of publications such as Yanos could be expected to make real estate shopping more efficient and permit better comparisons between competing properties as time went on. The FSU had clearly taken the first steps toward a modern real estate marketing system.

CURRENT STATUS IN AMERICA CONTRASTED WITH RUSSIA AND UKRAINE

What has happened to real estate marketing in the past decade? In the USA the answer is technology—the internet, e-mail and cell phones. Use of the internet is ubiquitous, at least for buyers or renters seeking an overview of what is available and at what price. Certainly the internet is also crucial for sellers to better understand their competition which sets real value in the marketplace. It is estimated (California Association of Realtors, 2007) that up to 72% of buyers search for housing on-line. E-mail and cell phone dramatically improve communications between the client and his agent, reducing cost as well as frustration.

Earlier papers referred to here used information from weekly printed "books" published by the Philadelphia Board of Realtors (1995) for central Philadelphia downtown properties and the Tri-County Multiple Listing Service (1996) for suburban Philadelphia properties. In the Philadelphia region and generally throughout the US, paper based real estate listings have now disappeared as sources of market information...

The full paper is available upon request from the authors

IMPORTED VS. DOMESTIC PERFUME IN A LOW CETSCALE ENVIRONMENT

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ABSTRACT

The global marketplace and diffusion of exports and imports has lead to high amounts of product availability and acceptance without consideration of national origin. There has been an abundance of research in high-CETSCALE environments with high levels of attachment to, and identity with particular products. Subsequently, there has been relatively little research in low-CETSCALE environments. This research was conducted in the State of Mississippi, as a study of females and their consumer ethnocentric tendencies both in general and toward perfume. This research shows that personal choice overrides consumer ethnocentrism in a low CETSCALE environment.

Global business depends upon consumer acceptance of imports; products and services originating outside of the nation or region are commonly among the choices available to consumers. The majority of consumer ethnocentric research has been conducted in high CETSCALE environments, in which clearly-defined nationalistic, patriotic and cultural influences impact the success of imports. This research examines the product perfume among females exclusively in the State of Mississippi in the United States. The researchers cannot identify any predominance by U.S. brand names in the perfume market that could be said to have captured large swaths of the perfume business. Thus, the cultural identity may exist with other consumer products or services may not exist with perfume. Indeed, the use of chic or classy names for perfume products, even the use of languages other than English on perfume containers has nothing to do with product origin. Thus, at least within this market, for this product, are consumer ethnocentric issues an impediment to imports, or instead, is this an easy market to penetrate?

The literature for ethnocentrism, consumer ethnocentrism, culture, psychology, philosophy and business all indicate that the global marketplace largely must contend with nativist, nationalistic, and patriotic psychosocial tendencies among consumers. When international businesses find markets that have low amounts of consumer ethnocentrism, there is generally lowered resistance to imports. This manuscript examines the literature, presents hypotheses, then analyzes and discusses the data.

WORKING CAPITAL MANAGEMENT IN A GLOBAL ENVIRONMENT

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ABSTRACT

Managing working capital internationally is increasingly significant as geographic boundaries diminish in significance. A formal analytical process of maximizing cash flow and capital is crucial to the development of multinational corporations. With secure Internet resources, decisions and changes can now literally be accomplished 24/7 with no regard for time zone differences. The advantages and disadvantages of shared service centers and outsourcing will be discussed. A strong emphasis on working relationships with service providers to benefit from global network banks is recommended. The multinational corporation must establish a plan to achieve maximum corporate treasury international cash management.

COMPARISON OF THE BACK PROPAGATION NEURAL NETWORK MODEL, BAYESIAN CHIAO'S MODEL AND SARIMA MODEL IN FORECASTING KOREAN STOCK PRICE INDEX (KOSPI)

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ABSTRACT

The purpose of this study is to compare the forecasting performance of back-propagation neural network model (BPNN), a Bayesian Chiao's model (BC), and a seasonal autoregressive integrated moving average model (SARIMA) in forecasting Korean Stock Price Index. Forecasting performance is measured by the forecast accuracy metrics such as absolute forecasting errors and square forecasting errors of each model.

KOSPI data over the 390 week (89 month) period extending from January 1999 to May 2006 are analyzed. The findings are as follows: regarding weekly forecasting of KOSPI, the SARIMA performs best among the three models tested for mid term and long term forecasting, while BC performs best for the short term forecasting. Between BPNN and BC, BPNN performs better than BC for mid term and long term forecasting, while insignificant difference in forecasting ability exists between the two models for the short term forecasting. Regarding monthly forecasting of KOSPI, SARIMA performs best, BPNN the second, and BC performs worst for all forecasting horizons.

THE CHANGING OF HERITAGE PRIDE AND ADVERTISING EFFECTIVENESS: A MEXICAN COMPARISON

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ABSTRACT

Contemporary immigration, especially from Asia and Latin America, is a social phenomenon that is creating big ethnic groups in the USA. Hispanics are the largest minority with more than 37 million people. Furthermore, among them, almost 67% are of Mexican origin.

Heritage Pride is the sense of worth and dignity that people feel for what was inherited as members of a community. Heritage Pride has two sub domains: National Heritage Pride (NHP) is the feeling toward what people have for their national roots (i.e. the national flag or national historic monuments), and Cultural Heritage Pride (CHP) is the feeling toward the elements people inherited for belonging to a specific national culture (i.e. traditions or religion).

This paper has three purposes. First, to define the concept of Heritage Pride and to create a valid and reliable measurement instrument. Second, to identify if there are differences between Mexican nationals that live (while studying) in the USA and Mexican nationals that live in Mexico in the way Heritage Pride is perceived. Finally, to compare advertising effectiveness between these two groups, when national and/or cultural elements are present in TV ads.

Results show that indeed there are differences in the way Cultural Heritage Pride is perceived. Moreover, ads containing cultural elements are more effective for Mexicans living in the USA. Findings give evidence that cultural elements in TV ads have significant effects on people that live away from their home country.

RESIDENTIAL REAL ESTATE RENTS AND VALUES IN MOSCOW VS. PHILADELPHIA – AN HISTORICAL PERSPECTIVE

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ABSTRACT

The purpose of this paper is to provide information on real estate rents and values in the City of Moscow and the Philadelphia metropolitan area, at the top of the US real estate valuation boom and to compare that data to similar data collected essentially a decade earlier. Asking price data was collected from the web sites of leading real estate companies in Moscow and Philadelphia and structured to match as well as possible data from earlier published work.

Quantitative results indicate that Moscow continued to be more expensive in both asking prices and rents compared to Philadelphia, particularly so in suburban areas. Both cities have seen large increases in prices and more modest increases in rents during the decade beginning in 1995. Much has been made of the rapid rise of residential real estate values in the US. This paper provides data on two very different cities in very different countries. The research shows that either the experiences in this time period were similar in both cities or there are reasonable explanations of the differences

INTRODUCTION

Just before the millennium a paper was published using slightly earlier data that compared real estate in both Moscow and Philadelphia. That paper (Marshall, Belkina and Kyj, 1999) showed, among other things, residential real estate prices and rents per unit of space, absolute dollar-based rent and prices, the average size of condominium apartments (or the former Soviet equivalent) along with the associated gross income multipliers and other measures of the financial attractiveness of real estate investment.

We think an update to what has happened in real estate rents and values in the interim might be very interesting! Particularly so if we eliminate any distortions caused by the decline in US real estate since the top in 2005-2006. During at least part of the period since the US real estate "top", the Moscow market has continued to inflate. It is reported (Kishkovsky, 2007) that from early 2006 to early 2007 Moscow real estate prices doubled. During that period and depending how measured, US real estate prices were flat to slightly down. We are concerned that the continuation of the Moscow real estate bubble's growth might distort the conclusions reached here. We think it best to stop the clock before the Russian insanity really set in.

We are fortunate that data from exactly that period, the "top" of the US real estate market, was collected at that time (late 2005 - early 2006) and saved for future use in the same format as the earlier paper's 1995 data. We propose to use this data now to look at a ten-year perspective on what has happened to real estate rents and values in these cities from 1995 up to the US top. Data available for current values and rents might be used in a future paper to compare how each city fared during the US real estate decline, perhaps when such a decline reaches its bottom.

METHODOLOGY

As in any real estate market, location is a prime determinant of rents and values. To reflect important differences in location, we have elected to duplicate the prior paper and create two subsets for each city: central and suburban. In Moscow, central includes everything within the "Garden Ring", a main circumferential boulevard approximately 1½ miles (2½ km) from the Kremlin. This region makes up only perhaps 7% of the total area of Moscow, but it is very favored by Muscovites for residences.

Suburban is defined as all the rest of the City of Moscow. In Moscow, as in many European cities, "suburban" is a bit of a misnomer by the US definition. You will find very few four bedrooms, three bath, and two-car garage, colonials on ½ acre lots in what we define as suburban Moscow! You will find hundreds of new 20-30 story modern apartment blocks and thousands of five to 15-story left over and run down Soviet apartment houses. To a large extent development stops at the city limits.

Central Philadelphia includes roughly everything from the Delaware River to the Schuylkill River between South Street and Vine Street, an area of about 3 miles by 1½ miles (5 km x 2 ½ km). For those wishing a more detailed list of neighborhoods as shown on Prudential Fox & Roach (2006) website, included are: Art Museum, Center City, Fidler Square, Graduate Hospital, Logan Square, Society Hill, Washington Square and Washington Square West. Their current web site (Prudential Fox & Roach, 2008) has the same "Philly neighborhoods."

Dealing with the outlying districts of Philadelphia is somewhat more problematical in that we wish to retain the texture of Moscow's suburban districts with its Philadelphia counterpart. While we include all of Moscow's outlying districts, the data source is more limited in Philadelphia. To be consistent with prior work only Delaware County is included in our suburban Philadelphia region.

The study is limited to two bedroom apartments / condos. That form of housing is the market preference in Philadelphia, for apartments at least, and is reasonably common, though better than average, in Moscow. The most common apartment in Moscow has two rooms (one bedroom) even for families. The second room (the living room) is made up for sleeping each evening if necessary. In fact one-room apartments (the equivalent of the U.S. "studio" apartment) are also very common in Moscow as were "communalkas", one private room with a shared (with other families!) toilet and a shared kitchen. Naturally, no new communalkas are being built under the free market. Communal toilets and kitchens are certainly not favored in the free market.

Limiting the study to two bedroom apartments in this paper somewhat limits the comparability of this paper to the earlier paper's results since that paper combined all kinds and sizes of properties for rent and sale. A positive benefit and the reason we have elected to study only two

bedroom apartments is that the current comparison of rents and values in Philadelphia and Moscow will be much improved vs. prior work. The accuracy of the comparison is also likely much higher than the earlier work due to dramatically improved data sources in Moscow. Now information is readily available on-line. In 1995 data was the best available through the Housing Research Centre of the Russian Academy of Science (Belkina, 1999), but the completeness of such data is suspect.

Since Soviet policy discouraged single-family homes, particularly in the cities, we are limited in our analysis to apartments in Moscow and condominiums in the Philadelphia market. We realize that this may tend to skew results somewhat. Only in central Philadelphia are condominiums important. Condominiums are only a minor component of residential properties in total Philadelphia market, particularly so in the suburban areas. But no other valid comparisons can be made, considering that the housing stock in Moscow is mostly the equivalent of US condominiums.

Data sources include the Prudential Fox and Roach website for all Philadelphia data plus Allan Domb Realty data for central Philadelphia condos. This Realtor specializes in such condos and is both a major force in the market and does not offer his listings to other Realtors through broker cooperation and listing in TReND.

Sometimes manual adjustments to search results were necessary. For example, only 5+ story condominium buildings in central Philadelphia were included in the study to best match conditions in Moscow. Also a few apartment rental listings in the economically depressed areas of Chester, Delaware County were excluded because they are not representative of Delaware County. Otherwise, all properties on the Prudential and Allan Domb websites in the areas under study are included.

In Moscow we elected to use data available from the Penny Lane Realty and Evans Property Services websites. Interestingly, many properties are for rent as furnished apartments in Moscow. The current residents are often well prepared to move out in favor of renters, so they might dramatically increase their income, even if they then must share space with friends or more likely relatives. Data was collected by region and restricted to unfurnished properties only, with at least reasonable renovation standards. Those renovation categories include "designer," "premium western," "western" and "semi-western renovation" and exclude "shell and core," "needs renovation" and "Russian style" renovation categories. Otherwise all suitable properties were included.

The goal of the next two sections is to compare both relatively and absolutely residential real estate rents and values in Moscow and Philadelphia first in the 2005 market, then in comparison to the situation in 1995.

DATA ANALYSIS – THE MARKET AT THE "TOP"

The 2005 Moscow real estate market was substantially more expensive than in the Philadelphia market, particularly in the Central cities. The price per square meter in central Moscow was about 44% higher than in Philadelphia. Even though Moscow apartments were then about 20% smaller, the mean asking price was \$827,600 in Moscow vs. \$743,200 in Philadelphia. In central Philadelphia, properties for sale had less variability in price than did similar properties in central Moscow with a coefficient of variation on price per square meter of 0.41 vs. 0.61. At first glance it seems strange that America, the land of choice, would have lower variability vs. the former capital of the command economy. But, things have changed far and fast in Moscow since the communist

meltdown and that change includes premium housing, thus creating substantial price variability. Anything and everything is now available. Standardization has withered.

Such variation in price was particularly amazing since central Philadelphia was then in the early stages of a massive expansion of luxury condos destined to triple their number over ten years, according to Stains (2005). Early evidence of this increased variability in central Philadelphia, i.e., old vs. luxury vs. new, super-luxury, etc. is to compare the C.V. of central Philadelphia (0.41) with its suburban area (0.19, shown in Table II). We believe that the expanded center city demand is demographically related as aging "boomers" leave the suburbs for the "excitement" of the city. It is also tax subsidized since the City of Philadelphia has initiated 10-year property tax abatement on new construction.

Compared to Philadelphia, the rental market in central Moscow was crazy – with rent per square meter approaching the highest anywhere in the world. Rents were almost \$37 / m², about 90% higher than in central Philadelphia and comparable to the most expensive cities in the world. Apartment size was about 40% smaller in Moscow than in Philadelphia so monthly rents were only 10% more, \$3712 in central Moscow vs. \$3377 in central Philadelphia. As with properties for sale, rental properties in central Philadelphia had lower variability in rent per square meter (C.V. = 0.31) than in Moscow (C.V. = 0.39) but the difference was far less than for sale properties. Most condos for rent in Philadelphia are held as investments and they tend to be older properties, not in super luxury buildings or locations. These properties tend to be more homogenous.

In suburban Moscow, price per square meter was about 35% higher than in suburban Philadelphia and essentially equal to central Philadelphia. Apartment size at 153 m² is much larger than in suburban Philadelphia, and approaches the size of condos offered for sale in central Philadelphia (166m²). These factors combine into an average price of \$657,700 in Moscow, more than three times the \$208,700 average price in suburban Philadelphia. These differences suggest big differences between suburban areas in Philadelphia and Moscow.

Except for a very few U.S. city centers such as New York, Philadelphia, Boston, Chicago, San Francisco, and perhaps a few others, most Americans strongly prefer suburban living to central city life. Two bedroom condos in suburban America are far from luxury residences and most often are the lowest cost option to entry into real estate ownership. Suburban Moscow provides few of the lifestyle amenities of suburban America, and is therefore far less attractive to Russians than their city center. Our data from Moscow was from real estate companies providing services to foreigners and rich Russians. The average Russian family, living on about \$300 a month in 2005 (Bigg, 2005), cannot afford to buy or rent any of the Moscow properties discussed in this paper. What we have shown for Moscow is really real estate available to at most the top 10% of Moscow society. These rich Russians demand a very different suburban apartment than do the normally young and far from rich Americans considering buying a suburban two bedroom condo. Moscow suburban apartments are very much like their central city apartments except that they are both a little cheaper (\$657,700 vs. \$827,600) and a little bigger (153 m² vs. 133 m²) probably mostly due to lower cost land and lower demand.

Much the same can be said about suburban rental apartments. Moscow's were \$31.81/m² a month, almost twice the rent in Philadelphia. Strangely for space starved Muscovites the average apartment size in suburban Moscow was 104 m², 60% bigger than in Philadelphia. Clearly the Moscow properties discussed are not the 21 m² per person apartments common under communism,

but a combination of new, world-class residences being built for rich Russian and conversions of two or three apartments into one grand one in the central city. Rents averaged \$3385 a month, almost three times the rent in suburban Philadelphia, and almost exactly the average rent in central Philadelphia.

DATA ANALYSIS – 1995 VS. 2005 COMPARISONS

The other main focus of this paper is to look back to the earlier work on real estate rents and values in these cities and compare that 1995 data to the data available at the US market top in 2005, a decade later. In the earlier work, data quality problems were mentioned, such as data from all sized apartments and perhaps the completeness of data provided by the Russian Academy of Science. Therefore, it seems prudent to only draw generalities about changes over the ensuing decade and to avoid relying on very specific numerical differences.

Central city apartment/condo prices have exploded in both cities over the decade 1995-2005—far ahead of inflation. Surprisingly the differences in growth rates are not large. Moscow's mean price per square meter grew 10.5% according to our data, a little less than the 13.9% experienced in central Philadelphia. But, the average price for a central Moscow apartment grew 17.4% vs. 16.9% in Philadelphia, as the size of Moscow apartments grew substantially. All percentage changes reported are annual compound rates of change. The variability of price as measured by C.V. grew over the decade in both cities. In central Philadelphia, luxury residences became "trendy" for the first time in almost a century. In Moscow the rapid rise of a rich class of "New Russians," some would say financed mostly by high oil prices and corruption, created a demand for luxury apartments, which set off a building and renovation boom never seen before.

In contrast rents per square meter did not change much during that period – up 1.4% a year in central Philadelphia vs. flat to slightly down in Moscow. Combined with size changes, mean rents in Philadelphia grew slightly faster than inflation (5.6%) vs. roughly at the dollar based inflation rate in Moscow. Rents were probably depressed in Philadelphia since low interest rates allowed many renters to become buyers, thus reducing demand. And, the dramatic increase in luxury apartment construction has increased the supply. In central Moscow, the building boom has had the same effect, but we also now suspect that the rental rate quoted in 1995 may have been slightly too high.

The story on sale properties is quite different in suburban regions. Philadelphia prices grew a little faster than inflation (10% a year) buoyed by the US real estate boom. Price variability was little changed. The suburban Moscow mean price exploded by almost 30% a year roughly evenly divided between increasing cost per square meter and apartment size expansion. Ten years ago there were few if any luxury apartments available in suburban Moscow. Today there are hundreds if not a thousand of such buildings with dozens and sometimes hundreds of apartments in each building. (The paper continues.)

LEADERSHIP IN THE CITY OF GOLD: AN ARABIAN ADVENTURE OF MODERN MANAGEMENT CAPABILITIES IN THE 21ST CENTURY

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ABSTRACT

This paper marks the beginning of a series of four that examine the leadership of Dubai, one of the fastest growing cities in the Middle East and the world. This study examines the leadership capabilities of Dubai Municipality as evidenced by the leadership survey results of a group of 200+ mid and upper level-managers. The individuals were participating in the creation of the five year strategic plan for the organization. The purpose of this survey plus others were essential in the creation of relevant goals and objectives for the strategic plan.

INTRODUCTION

The desire to assess the leadership capabilities in Dubai Municipality was the primary objective of the study. The overriding objective for this study and other related studies was the development of a five year strategic plan for the organization.

The population that was examined was referred to as the Leadership Group and consisted of individuals from the middle and upper-levels of management. The sample consisted of 227 respondents from thirty various departments and centers in the organization. At the time, over 17,000 people were employed. This was the single largest employer in Dubai. The executive level consisted of the Director General, two Associate Director Generals, and ten Assistant Director Generals. These individuals were not part of the study sample.

The leadership survey was 15 items, with a 1 to 5 response scale. One was never and five was always. The questions were designed so a high score represents high performance and a low score represents. The surveys were answered as part of a three day workshop on leadership for the Leadership Group.

The results from the answers provided by the leadership are as follows:

Current Performance Satisfaction: Dissatisfaction with current performance standards and an accompanying desire to change them is typical in dynamic organizations that are involved in continuous quality improvement. Organizations that are responsive to constantly changing environments require leaders that are not satisfied with the status quo. They are constantly seeking to enhance performance. This question seeks to find the level of dissatisfaction with current standards. The mean score for this question is 3.3524 on a scale of 1 to 5 with 5 being always, 4 being usually, 3 being sometimes, 2 being rarely, and 1 being never. This result suggests that a significant majority of the respondents are upset only some of the time or less with the current performance standards. Out of the 226 responses, 135 were rated at 3 or below and 92 responses were 4 or 5.

Communicated Vision: Effective leaders have a clear and definitive vision as to what performance ought to be and how it can be enhanced to reach that target. This vision has to be communicated to the personnel to help them achieve success. The mean score on this question is 3.7566 out of a 1 to 5 scale suggesting that the respondents feel that they usually communicate the vision for performance to their subordinates. This question had the highest positive response with 152 responses replying usually or always. Only 76 responses were sometimes or less.

Subordinate Competencies: It is important that leaders have a clear understanding as to what is required to do the tasks at hand. Leaders must know what competencies and qualifications are required for the task. They must also know the capabilities of their subordinates in order to provide additional resources if there is a gap between the two. This must not be based on simple intuition or feelings. It should be clearly stated, in writing, as to what is needed and what is available in order to make effective human resource decisions. The mean score on this question is 3.5419 out of a 1 to 5 scale indicating that the majority of the respondents do feel knowledgeable about what is required and what is available to reach the targeted successes. The most positive responses were 129 while 98 indicated little emphasis on competencies, qualifications, and capabilities.

Targets: Good leaders establish targeted goals that are clear, written, and measurable. This is communicated to the subordinates and the expected performance targets and responsibilities are clearly defined. People can achieve what is expected of them if they know what it is. Targeted goals that are vague and ill-defined offer little or no guidance to subordinates. The mean score on this question was 3.4273 on a scale of 1 to 5 and was one of the higher rated questions. However, more than half of the respondents stated that they established targeted goals only sometimes or less. Out of the 227 responses, 115 responded sometimes or less, and 112 responded usually or always.

Challenging Team Objectives: This question builds upon the previous question yet places it in the perspective of teams. Does the leader set ambitious objectives of the team members? A standard for of goal-setting is the MBO (Management by Objectives) approach that allows superiors and subordinates to jointly set objectives for the year. The key to success here is to be sure that the objectives are challenging. Objectives that can be reached with no effort, are not truly objectives. The mean score for this question was 3.3673 on a scale of 1 to 5. This corresponded very similarly to the earlier question. The divide was slightly further apart, however, on the negative side. 120 respondents indicated that they set challenging team objectives sometimes or less frequently, and 106 respondents indicated this was a usual or constant practice.

Direct Performance Appraisal: This is a straightforward question that asks if the leader does face-to-face interviews for the purpose of performance appraisal and records the session. This is an opportunity for the leader to assess the work of the subordinate and provide positive feedback to improve the future performance. It also is an opportunity for a leader to provide inspiration and motivation for the individual by praise and support. Unfortunately, for the majority of the leaders it is a missed opportunity. The mean for this question was 3.2920 on a scale of 1 to 5. 125 of the respondents indicated that they only sometimes or less provided the direct performance appraisal for subordinates, while 102 usually or always did this.

Team Leadership: Providing leadership for teams deliberating strategy and objectives is extremely important. This provides an important focal point for subordinates to see that the leader is committed to the organizational strategy and objectives. By the leader not chairing team meetings, can send a message of a lack of commitment on the leader's part. The mean for this

question was 3.0661 on a scale of 1 to 5. This was one of the three lowest-ranked questions in the survey. 137 respondents indicated that chairing committees dealing with strategy and objectives was not something they usually did. 90 respondents indicated that this was something they did usually or always.

Praise: Good leaders praise the excellent work of their subordinates. They are recognizing the contributions made by the subordinate to the improved performance of the organization. It was clear that the majority of the respondents are involved in praising their subordinates. The mean for this question was 3.4643 on a scale of 1 to 5. 123 respondents indicated they usually or always praised their excellent subordinates, whereas only 101 indicated this was something they did only sometimes or less.

Communication: A good leader is a good communicator. Leaders, more often than not, are gauged by how well they communicate with not only subordinates, but stakeholders as well. Leaders must be tactful so as not to insult others but must be inspirational so to motivate those who follow. The mean for this question was 3.5067 on a scale of 1 to 5. The majority of the respondents, 119, felt as if they were usually or always good communicators. A minority of the respondents, 106, felt as if they were good communicators only sometimes or less.

Outside Assessment of the Team: This question explores whether or not outside assessment of the team is allowed and whether suggestions which are made are actually considered. By allowing individuals outside of the team to routinely examine the performance provides the opportunity for validity for the results obtained. In most large organizations, this is an established procedure that is done routinely. The mean for this question was 3.6171 on a scale of 1 to 5. The majority of the respondents, 135, indicated this was routinely done. Only 87 indicated that this was something less than routine.

Stakeholder Relations: This question asks the leaders about their involvement with customers; specifically, how much time is spent each week meeting with customers and staff. The importance of the customer stakeholder group cannot be emphasized enough. Organizations that fail to realize the value of customer input face many difficulties in today's competitive world, even for municipalities. One must listen to customers to find out what their needs are and how to fulfill them. The mean for this question was 2.9686 on a scale of 1 to 5. This was the lowest rated question on the survey. The vast majority of the respondents, 155, indicated that 3 hours or less a day were spent in customer stakeholder relations. Only 68 indicated a higher level of involvement.

Personal Leadership Development: Good leadership skills are planned and developed. They do not just happen. Excellent organizations have long recognized the importance of developing their leadership. Numerous efforts at training and education directed at developing leaders within the organization are constantly being done. This question is directed at the individual asking if there is a plan in place and is it checked routinely to determine if the plan is being followed. The mean on this question was 3.0578 on a scale of 1 to 5. This was the second-lowest-rated question. A disappointing majority of 158 respondents indicated little planning being done regarding their personal leadership development. Only 77 respondents indicated that this was something that was done on a regular basis.

Organizational Transformation: Transformation of organizations from their present state to a desired future state of being is commonplace today. Transformational leadership has been recognized as being instrumental in bringing about the desired change. This transformational

leadership involves more than just the head of the organization. Individual leaders within the organization must assume the role of transformational leader. This question asks the respondent as to how they view themselves as being involved in that transformational process. The mean score on this question was 3.2063 on a scale of 1 to 5. Only 93 respondents saw themselves as actively involved in the transformational process, while 130 saw themselves as sporadically involved in it.

Outside Assessment of Self: This question relates to an earlier one about outside assessment of the team, only this time it addresses the individual. Due to the nature of the organization of Dubai Municipality, the strong Human Resource Department would have standards established for outside-appraisal of individuals. The mean for this question was 3.5619 on a scale of 1 to 5. 130 respondents said it was customary for outsiders to review them. Only 96 respondents indicated that this was an infrequent occurrence. Both the earlier question and this one were had virtually the same mean score.

Prioritizing Organizational Goals: Leaders in organizations provide examples of behavior for others in the organization. If the leaders do not seem to value an organizational objective, how can they expect the subordinates to do so. Leaders must not only give verbal support for the organizational objectives but they must provide clear, observable support in their day to day activities. This question asks whether or not the respondent does "walk the walk" not just "talk the talk" The mean score for this question was 3.6923 on a scale of 1 to 5. The majority of respondents replied that leaders did provide an example by putting the organizational goals at the top of the list with 132 responses of usually or always. A minority of 89 did not feel as if they did this on a regular basis.

The Leadership Questionnaire reveals a somewhat mixed picture regarding the functioning of the respondents. In general, responses to this survey indicate that the municipality managers only sometimes engage in those behaviors characteristic of top leaders.

The mean scores for the 15 behaviors examined range between a high of 3.76 for having and communicating the vision to subordinates to a low of 2.97 for conducting site visits to enhance communication.

For all 15 of the items combined, the average score is 3.4. This means that only sometimes are the desirable traits outlined in the survey displayed. The highest performing organizations would expect to see scores somewhere between 4 and 5 for the vast majority of the questions. This means that the municipality could expect to see performance gains by working on almost any of the 15 behaviors explored in the survey.

While the mean scores suggest multiple areas for improvement, one of the key weaknesses of municipality teams is revealed through analyzing this data using a Factor Analysis procedure. The varimax rotation was chosen and convergence was achieved. In this procedure, items that are answered similarly are grouped. This grouping is then further analyzed to determine if there is an underlying construct that is represented.

In the case of the Leadership Questionnaire three factors emerge. Items 6, 7, and 13 represent the first factor, 34% of the variance ascertained. They seem to represent a core concept which focuses on the ability of the respondent to assume a dominant leadership position. This is seen as the ability to assume the mantle of leader, be it in employee appraisals, team meetings or transformational leadership. On average, respondents indicated they do these things only sometimes (average score of 3.19). The second factor consists of items 10, 14, and 15, 16% of the variance

ascertained. These seem to represent a core concept of formalized authority of the leader. The factor reflects outside review and support of organizational objectives. On average, the respondents indicated they do these things slightly less than usually (average score of 3.62) The final factor consists of items 8 and 9, 9% of the variance ascertained. This factor could be called a communication core concept. Many of the respondents felt as if they were effective communicators in their position (average score of 3.48).

What is more troubling is information from the survey which tends to indicate that many of the respondents are quite satisfied with the status quo regarding performance. They do not perceive problems with current performance standards within the municipality. Additionally, they suffer in the area of customer stakeholders relations, this having received the lowest score of all questions. Finally, the respondents indicated that they do not have a personal plan for the development of their leadership skills.

In summary, the majority of the respondents utilize the formal structure of the organization on which to base their leadership. They avoid difficult and stressful situations in which they might have to make un-favorable decisions. They perceive themselves as good communicators and supporters of the organization. Yet, they minimize their customer interactions. Finally, most do not involve themselves in development of their leadership skills.

CONCLUSION

The results of this survey does not point a picture of what one expect from the leadership within a government organization in a municipality that is considered a marvel of the 21st century. The media has portrayed Dubai as the City of Gold, the new Paris of the Middle East and the Cosmopolitan Center of the Arab World. Yet when one considers Where Dubai Municipality as an organization started and moved to, it is not surprising. It is in the Arab culture which helps define the characteristics of members of the organization (power distance, collectivity, individualism, etc.), the age of the organization and its gigantic size for the region. These all impact the organization. As we look to this ity of Gold as it sits upon the desert sands from the eyes a leadership researcher, it does seem to shimmer like gold or perhaps a mirage.

TEAMWORK IN THE CITY OF GOLD: AN ARABIAN ADVENTURE OF MODERN MANAGEMENT CAPABILITIES IN THE 21ST CENTURY CONTINUES

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ABSTRACT

This paper marks the second of a series of four that examine the leadership of Dubai, one of the fastest growing cities in the Middle East and the world. This study examines the teamwork capabilities of the leadership of Dubai Municipality as evidenced by the teamwork survey results of the Leadership Group, 200+ mid and upper level-managers. The individuals were participating in the creation of the five year strategic plan for the organization. The purpose of this survey plus others were essential in the creation of relevant goals and objectives for the strategic plan. The results of this survey offers a unique look at leadership in this Arabian city of gold by providing a closer look at the realities of Dubai Municipality.

INTRODUCTION

The desire to assess the teamwork capabilities of the leadership in Dubai Municipality was the primary objective of the study. The overriding objective for this study and other related studies was the development of a five year strategic plan for the organization.

The population that was examined was referred to as the Leadership Group and consisted of individuals from the middle and upper-levels of management. The sample consisted of 227 respondents from thirty various departments and centers in the organization. At the time, over 17,000 people were employed. This was the single largest employer in Dubai. The executive level consisted of the Director General, two Associate Director Generals, and ten Assistant Director Generals. These individuals were not part of the study sample.

The teamwork survey was 12 items. The instrument asks respondents to rate teamwork on a scale of 1 to 5. A score of 1 means that they strongly disagree with the statement, while a score of 5 means that they strongly agree with the statement. The neutral position is represented by a score of 3. were answered as part of a three day workshop on leadership for the Leadership Group.

Question 1: Clear Purpose: Teams that have a clear purpose are more effective than those that do not. A clear purpose allows a team to take coordinated action that takes advantage of individual skills. When teams have no such purpose, they frequently find that individual efforts do not complement each other or, worse, actually work at cross purposes to each other. This question measures whether the team has a well defined vision, mission, goal or task that is accepted by all members of the team. The mean score for this question is 3.7124 on a scale of 1 to 5 with 5 being strongly agree and 1 being strongly disagree. This result suggests that most team members would largely agree that the team has a clear purpose: Out of 226 responses, only 12 team members disagreed with this statement.

Question 2: Informality: Many successful teams cultivate a climate of informality. In such a setting, team members are comfortable to carry out the assigned tasks. This question investigates the degree of formality in a team's climate. It asks whether the environment is informal, comfortable, and relaxed and if there are no obvious signs of tension or boredom. The mean score on this question is 3.9335 on a 1 to 5 scale suggesting that informal relations are the modus operandi of most teams in the Municipality. Again, only a very low number would take issue with this statement (14 out of 226). One caution may be in order here. Relaxed and informal environments do not always translate into high performance. Research indicates that some degree of stress in the team environment is useful in cultivating high performance. While too much stress damages a team, too little has a similar effect.

Question 3: Participation: The real value of a team, aside from completing tasks too big for any one individual, is its ability to bring together diverse sources of information and effort to make good decisions and to implement them. As a result, the best teams encourage the participation from all members. This question measures the degree of discussion and participation that occurs in the Municipality teams. The results show that team members feel that there is a high degree of participation within their teams. The mean score on this question is 4.0133 on a 1 to 5 scale. This is the second highest score on the team maturity health check 217 out of 226 respondents either agreeing with the stated question or being neutral. According to the employees surveyed, participation does seem to be strongly encouraged throughout the Municipality.

Question 4: Listening: Active or empathic listening is one of the hallmarks of an effective leader/team member. Without such skills, teams quickly sink into a quagmire of talking past one another without ever really communicating. Active listening, however, allows diverse views to be heard while also generating a cooperative climate within the team. Again, survey participants felt that the employees of the Municipality do a good job of listening to one another. On average, they gave this question a score of 3.9027. Only 12 people felt that listening was not strong.

Question 5: Civilized Disagreement: Top teams develop a healthy ability to disagree with one another. Research shows that those teams that do not develop some degree of conflict within the team perform poorly. They often fall prey to group think wherein a poor course of action supported by only one or, even, no team members becomes the implemented program. The ability to disagree with one another is key in avoiding group think and in assuring that the best options are selected. Of course, it is important that this disagreement center on ideas rather than people. If the source of the conflict becomes personal, performance declines. This question measures the extent to which civilized disagreement occurs within teams. The average response to this question is 3.7743 suggesting that a healthy level of civilized disagreement exists within the Municipality teams. A relatively small number of respondents, 22 out of 226, would disagree with this characterization.

Question 6: Consensus Decisions: Solid decision making is one of the key aspects of team performance. It should be the goal of all teams, where possible, to reach consensus before implementing a decision. This leads to a more efficient implementation process as team members are united in their support of the idea and work hard to see it succeed. Of course, consensus is not always possible given the diverse views that team members hold. In such cases it may be important to strive for consensus but proceed based on an agreement that may not necessarily be unanimous. To wait for unanimity in such cases many lead to analysis paralysis where no action occurs because

the team never brings its analysis stage to a close. This question measures the extent to which consensus decision making is the goal with the Municipality and is facilitated by open discussion, avoidance of formal voting, and/or easy compromise. The mean response to this question is 3.8 again indicating that the Municipality is seen as doing a good job of striving for consensus decisions. In this case, 17 out of 226 would disagree with this result.

Question 7: Open Communication: Strong teams work hard to open the channels of communication both within formal settings and outside of them. Team members should feel free to express their views on both the task that the team has undertaken as well as the team process. This avoids some of the problem of hidden agendas and allows the team to move forward without too much concern over political maneuvering. This question seeks to identify the extent to which individuals feel free to express their feelings within team meetings as well as outside of those meetings. The mean response on this item is 3.9204 showing that open communication is a trait demonstrated and valued within the Municipality. Only 17 respondents out of 226 felt otherwise.

Question 8: Clear Roles and Work Assignments: Role clarity and a fair distribution of the workload are hallmarks of effective teams. Such characteristics avoid unnecessary and unhealthy conflict and allow employees to focus on the task at hand. This question analyzes the extent to which there are clear expectations about the roles played by each team member and assigned tasks. It also measures whether the workload distribution is perceived as being equitable. While respondents generally agree that clarity and equity do exist, the mean score for this item is one of the lower ones among this set of twelve questions. The score is 3.6547. Again, this suggests that clarity and equity do generally exist but that there are some who are less sure about the degree to which this quality is part of the Municipality teams.

Question 9: Shared Leadership: One of the key aspects of leadership is to develop the future leaders with whom one works. One of the ways that strong managers do this is to rotate leadership tasks according to both the skills and development needs of their subordinates. This question measures the extent to which the rotation of leadership tasks occurs within the Municipality teams. The data reveal that this is perceived to be a strength at the Municipality with a mean score of 4.0448. This is the highest rated item among the 12 considered in this team maturity health check. Some 77.6 percent (173 out of 223) agreed that this is normal behavior while 22.4 percent (50 out of 223) did not.

Question 10: External Relations: Within teamwork, especially within a municipal government setting, it is important to realize that the team does not operate as a stand alone unit. Rather, each team is part of a larger system composed of other Municipality teams working together to serve the needs of their stakeholders. These other teams provide inputs and receive outputs from one's own team. Healthy working relationships are, therefore, paramount in assuring timely and sufficient supplies of inputs from these other teams as well as in assuring one's own ability to meet their needs. This question asks whether the team spends time developing these key relationships and building credibility with other important players in the organization. Respondents showed fairly high agreement with this statement, rating it at 3.6486, slightly to the high side of the neutral point. It should be noted, however, that this is among the lower scores for this particular survey suggesting that greater attention could be paid to developing relationships with other teams and players within the Municipality.

Question 11: Style Diversity: All teams have two important functions. One of these functions is to complete a specific task. The other function is to build the ability of the team to perform in the future by paying attention to team processes. Most teams do a fairly good job of focusing on task but it is only the best teams that are able to complete tasks while also building future capacity through improving team processes. This item indicates the extent to which a team has a broad set of skills embodied in team members including those that help to complete the task at hand as well as those that focus on team processes. Again, the mean score for this item suggests that there may be room for improvement in this area. On average respondents gave this item a 3.6143 making it the second lowest scored item of the twelve. Very few people (23 out of 223) strongly agreed with a positive characterization of their team on this element. Most people either agreed weakly or were neutral.

Question 12: Self-Assessment: Building on the last item, this question seeks to further understand how well the Municipality teams do in periodically stopping to examine its functioning to see what may be interfering with their effectiveness. It specifically examines the non-task side of team functioning to see if a team is actively evaluating its own processes with the intent of improving future task performance. It is notable that respondents rated this item significantly lower than any other item in the survey with a mean response of 3.2703. Fully 61 percent of respondents responded either neutrally or negatively to this question. Such a result is not unusual as most teams even in healthy organizations tend to spend very little time examining their own processes. It is important, however, not to minimize the impact that such self-assessment can have on building powerful teams within an organization. The very highest performing teams have learned to periodically examine their own processes and make performance enhancing improvements. For the Municipality to reach its goals of excellence it will be important to train individual members in the skills of team analysis and to reward those teams that demonstrate consistent and significant improvement in the areas of team assessment.

The teamwork survey results paint a relatively strong picture of the Leadership Group. In general, almost all questions received positive support from respondents, indicating that the Leadership Group is doing a good job with those things that make for strong team performance.

In areas, such as fostering team member participation, creating an informal environment, employing active listening techniques, promoting open communication, and modeling appropriate leader behaviors, The Leadership Group scores over a 4 or just slightly below a 4. This means that most respondents are in general agreement with the positively stated characterization of teams.

There exist, however, some questions in which the results are less compelling. Of particular note is the final question dealing with the ability and commitment of teams to engage in self-assessment with the goal of improving performance. In this case, the mean score was 3.2, suggesting a high degree of ambivalence on this item.

Other questions which did not rate highly (most in the 3.6 range) included clarity of work roles and assignments, distribution of work load, cultivating external relationships with other teams in the Municipality, and focusing on task, goal setting, and team processes.

One of the great strengths of the Municipality teams is revealed through analyzing this data using a factor analysis procedure. The varimax rotation was used with one factor that emerged, answering 47% of the variance. In the teamwork survey, items 2, 3, 4, 5, 6, 7, and 9 seem to represent a core concept that we term Participatory Management. According to respondents, the

teams are strong in promoting the active participation of all team members rather than relying on more authoritarian modes of team management. This is shown through a high degree of informality, strong communication, consensual decision making that includes participation and disagreement, and leadership by example. Such teamwork is considered by many to be important in benefiting from the experience and diversity of thinking of team members. Participatory Management will only become more important over the next several years as Dubai continues its rapid growth.

CONCLUSION

In summary, then, the leadership of the Dubai Municipality should ensure that Participatory Management continues to characterize its teams. This is an identified strength that should be cultivated. Dubai Municipality should also seek to improve its teams' ability to engage in self-assessment so as to foster continuous improvement as well as work harder to assure role-and work-assignment clarity and equity. Further, additional attention should be paid to developing key relationships with stakeholders both outside and inside the organization.

EXPORT BARRIERS AND PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES

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ABSTRACT

Using a sample drawn from exporting firms from the Eastern Townships of Canada, this study explores the barriers facing small and medium size enterprises. Using factor analysis this research has identified four constructs to explain barriers facing SME in export operations. These constructs include firm's specific barriers, institutional barriers, foreign market industry barriers, and lack of government support. Foreign market industry barriers and lack of home government support were seen as major factors distinguishing between successful and unsuccessful exporting firms.

INTRODUCTION

Although the past two decades has seen a rapid growth on the SME literature, most of the literature on SME internationalisation has concentrated within international market entry, very little has dealt with the cost or processes of developing a foreign market for small businesses (Evangelista, 2005). The existing literature in this area is fragmented and does not provide a comprehensive approach to address the barriers to exporting (Leonidou, 2004). A detailed survey of studies addressing export barriers, has been well addressed by Leonidou (2004) and Tesfom and Lutz (2006). Most of these studies have been theoretical. The present study intends to contribute towards filling in this gap by investigating the barriers associated with building export markets by SMEs located in the Eastern Township and the factors influencing their successful export market development. More specifically this study intends to address the following research questions: What are the barriers constraining their export market development? What barriers can be attributed to the performance of exporting firms?

METHOD

Data was collected through a survey of exporting small and medium size firms located in the Eastern Townships. The study sample was drawn from a list of registered exporters from the Eastern Townships. From this list Only exporting firms with less than 500 employees were included in the contact list. A contact list of 275 SME exporters located in the Eastern Townships was identified where all 275 SMEs were first contacted by phone and later a questionnaire was sent to all respondent who accepted to take part in this survey. Out of that list, ninety respondents refused to participate in this study for various reasons leaving a list of 188 firms from which constant contacts were made to encourage their response. Finally, after all the measures were exhausted only 71 positively responded to the questionnaire. However, after scrutiny of the responses only 64 cases were found eligible for analysis. This final number of cases used in this study represents a response

rate of 23 percent of the original targeted population. Thirty eight percent of the firms in the sample were in the manufacturing of industrial goods while 25 percent were in the consumer durable industries and the rest were in the manufacturing of non-durables including health care and pharmaceuticals. The survey's main source of data was through a structured interview. Measures used in this study have been drawn from similar empirical studies on SME internationalisation. The measures are as shown in the attached questionnaire in the Appendix. To ensure adequate cooperation and accuracy of the data the questionnaires were first prepared in English then translated into French and from French into English again using independent translators. A bilingual approach was used to contact the respondents, respondents who preferred English were provided with an English questionnaire and those that preferred French received a French questionnaire. To analyse the barriers facing exporters, respondents were asked to measure the extent to which they experience problems regarding the variables listed in Table 3 below. These constraints have been drawn from the most frequently referred list of constraints (see Leonidou, 2004). As Table 3 illustrates

	Mean	Std. Deviation	Analysis N
Excessive Transport/Insurance Costs	5.77	3.112	62
Currency Risks	5.71	3.266	62
Difficulty in Matching Competitor's Prices	5.21	3.036	62
Lack of Managerial Time to deal with Exports	4.85	2.985	62
Lack of Home Government Assistance	4.73	4.913	62
Limited Information on Foreign Markets	4.56	2.526	62
Inadequate personnel for exporting	4.55	2.768	62
Strict Foreign Rules & Reg.	4.55	2.665	62
Adjusting export promo activities	4.50	2.844	62
Complexity of Foreign Dist. Channels	4.34	2.953	62
Access to Foreign Dist. Channels	4.34	2.746	62
Unfavorable Home Rules & Regulations	4.19	2.924	62
Unfamiliar Foreign Business practices	4.10	3.135	62
Politically Instable Foreign Markets	4.10	2.952	62
Shortage of Working Capital	3.85	2.833	62
Meeting Export Product Quality Standards	3.61	2.742	62
Maintaining Control over Foreign Middlemen	3.31	2.695	62

As illustrated in Table 1, the main barriers that highly affected SME in their export transactions were those related to marketing costs which include high transport and insurance costs, currency risks and the difficulty in matching competitor prices. The least problem concern for most firms were problems related to control over foreign middlemen, meeting quality standards and shortage of working capital. To determine the underlying factors all variables indicating export market barriers were then subjected to factor analysis using principal component analysis and varimax rotation. Result of the factor analysis is as shown in Table 2 below. Four factors emerged with eigen values greater than one. The four factors explained more than 70 percent of the total variance and all the variables had communalities greater than 0.5. The KMO measure for sampling adequacy was very good at 0.79. The Cronbach alpha test was used to test the reliability of factor measures. All the four factors had reliability alpha of more than 0.78.

	Communalities	Eigenvalues	% of Variance	Cumulative %
Limited Information on Foreign Markets	.699	7.853	46.196	46.196
Difficulty in Matching Competitor's Prices	.817	1.942	11.421	57.617
Excessive Transport/Insurance Costs	.796	1.205	7.090	64.708
Politically Instable Foreign Markets	.540	1.127	6.630	71.338
Access to Foreign Dist. Channels	.727	.828	4.871	
Unfavorable Home Rules & Regulations	.777	.630	3.703	
Currency Risks	.756	.534	3.143	
Strict Foreign Rules & Reg.	.680	.475	2.794	
Lack of Managerial Time to deal with Exports	.804	.432	2.543	
Inadequate personnel for exporting	.733	.399	2.349	
Shortage of Working Capital	.658	.319	1.874	
Complexity of Foreign Dist. Channels	.700	.268	1.579	

	Communalities	Eigenvalues	% of Variance	Cumulative %
Adjusting export promo activities	.668	.264	1.552	
Lack of Home Government Assistance	.749	.225	1.325	
Unfamiliar Foreign Business practices	.784	.213	1.255	
Meeting Export Product Quality Standards	.592	.154	.904	
Maintaining Control over Foreign Middlemen	.648	.131	.769	

	Firm Specific Barriers	Institutional Barriers	Foreign Industry Barriers	Govt Support
Lack of managerial time to deal with exports	.869			
Inadequate personnel for exporting	.843			
Adjusting export promotional activities	.626			
Shortage of working capital	.617			
Meeting export product quality standards	.595			
Complexity of foreign distribution channels	.582			
Unfavorable home rules & regulations		.848		
Access to foreign distribution channels		.683		
Politically instable foreign markets		.671		

	Firm Specific Barriers	Institutional Barriers	Foreign Industry Barriers	Govt Support
Strict foreign rules & regulations		.636		
Difficulty in matching competitor's prices			.899	
Excessive transport/Insurance costs			.848	
Currency risks			.600	
Limited information on markets			.533	
Lack of home government assistance				.821
Unfamiliar foreign business practices				.548
Maintaining control over foreign Middlemen				.491
Cronbach Alpha	.891	.812	.797	.787

Using the above same procedure, measures for SME performance were subject to factor analysis and the results are as seen in Tables 6 and Table 7. Two factors emerged with eigen values greater than one. These factors explained 80 percent of the total variance.

	Communalities	Eigen Values	% of Variance	Cumulative %
Sales Level	.887	4.163	59.471	59.471
Sales Growth Rate	.879	1.419	20.274	79.745
Cash Flow	.515			
Gross Profit	.847			
Net Profit from Operations	.823			
Return on Investment	.841			
Ability to Fund Business Growth from Profits	.790			

Based on the composition of variables in each factor we can confidently suggest that the first factor measures the firm's profitability while the second factor measures the firm's sales performance.

	Profitability	Sales
Ability to Fund Business Growth from Profits	.876	.152
Return on Investment	.869	.293
Gross Profit	.851	.351
Net Profit from Operations	.832	.360
Cash Flow	.705	-.136
Level of Sales	.159	.928
Sales Growth Rate	.157	.924
Cronbach Alpha	.905	.902

To determine the relationship between export barriers and firm performance the four measures for export barriers and the measure for sales performance were subject to a two cluster solution. The cluster solution emerged with two clusters with one cluster having 35 cases and the second cluster having 24 cases see (Table below).

	Successful	Unsuccessful	Significance
Performance in sales	.30255	-.40923	.007
Firm specific barriers	-.04282	.14829	.477
Institutional barriers	.16369	-.21459	.141
Foreign market industry barriers	.62753	-.83127	.000
Lack of home govt assistance	.01671	-.37079	.014
Number of cases	35	24	

From the distribution of final cluster value it is clear that the first cluster is the group of successful firms as measured in sales performance. The analysis shows successful firms to be highly influenced by foreign market industry barriers and government assistance. However, there was no significant relationship between firm performance and firm specific barriers or institutional barriers. These

findings suggest that firms are likely to succeed in the government is involved in easing the company's foreign industry market barriers.

CONCLUSION

Using a sample drawn from exporting firms from the Eastern Townships of Canada, this study has identified four constructs to depict barriers facing SME in export operations. These constructs include firms specific barriers, institutional barriers, foreign market industry specific barriers, and lack of government support. Foreign industry barriers and lack of home government support were seen as major factors distinguishing between successful and unsuccessful firms. The increasing value of the Canadian Dollar as well as the increasing rises in oil prices may have contributed greatly to affecting the competitiveness of Canadian exporters. To overcome these constraints policy makers may have to find measures that would assist SMEs with emphasis in mitigating these constraints. Future research can build upon the constructs emerging in this study to a different sample.

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A CROSS-CULTURAL ANALYSIS OF UNIONIZATION TRENDS AND VARIATION IN COLLECTIVE BARGAINING

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ABSTRACT

The present study takes a comparative approach to identify and address some current trends in unionization and variation in collective bargaining systems in across borders, with special attention to major socioeconomic changes in different societies and their impacts on the union density rates, societal norms about organized labor, and emerging shifts in collective bargaining coverage and tactics. Key issues examined include cultural values, different concepts and ideologies about the labor movement, and unions' responses to globalization, deregulation, and market liberalization, which tend to undermine their bargaining power and recruitment. International labor statistics indicate that trade unions have been declining in most industrial societies with a few exceptions like Finland and Sweden, largely due to the economic shifts from traditionally unionized manufacturing to mostly non-unionized service sectors, and the relocation of many blue-collar jobs to overseas operations. Union density rates have remained high in the public sectors and there has been an upward trend of female unionization among the industrial nations. In contrast, globalization and rapid industrialization have led to the growth of trade unions in some Asian societies, particularly expanding into the private and foreign owned sectors. Unions' adaptation in the fast growing emerging economies such as China presents an unprecedented opportunity to establish collective bargaining as an effective tool of labor market governance. However, there is still considerable deficiency in the knowledge base about labors' rights, collective bargaining tactics, objectives and coverage, and their social and economic impacts. Cross-cultural industrial relations present a key strategic issue to both management and labor. Implications for future research are discussed and suggestions for effective conflict resolution provided.

AN INTERNATIONAL STUDY OF THE RELATION BETWEEN BOOK-TAX CONFORMITY AND THE VALUE RELEVANCE OF EARNINGS COMPONENTS

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ABSTRACT

This paper examines how book-tax conformity affects the value relevance of the components of earnings across countries. Since the primary objective of tax rules is different from the goal of financial reporting, accounting information is less likely to reflect underlying economic events in countries with strong links between tax and financial accounting. Using a binary variable of book-tax conformity developed in prior research, I find evidence that sales, depreciation, and tax components, measured by regression coefficients, are more value relevant in countries with low book-tax conformity. When the value relevance of earnings and earnings components are measured in terms of explanatory powers of regression models, the changes in earnings and sales are valued more in countries with weak book-tax alignment than in countries with strong book-tax alignment. I also find evidence that, for firms with high effective tax rates, changes in tax expenses is more value relevant in countries with high book-tax conformity.

INTRODUCTION

Prior research suggests that the value relevance of a country's financial reporting may be affected by various accounting practices and tax rules because each country has different political, social, and economic systems. Since the primary objective of tax rules is not to satisfy the information needs of capital market participants, the value relevance of financial reports in countries with high tax-book conformity may be compromised. Additionally, because firms have competing incentives between tax planning and financial reporting, accounting information in countries with a strong link between tax and financial accounting may be less value relevant. Hence, financial accounting information may be less likely to reflect underlying economic events when firms attempt to minimize taxes. Requiring book-tax conformity provides incentives to reduce taxes by reporting systemically lower profits, thereby undermining the value relevance of financial reporting. (Ali and Hwang, 2000). If financial statements are to provide a true and fair view of performance, financial accounting should not be influenced by tax considerations. Hence, if a country's financial accounting principles are strongly aligned with tax rules, its financial accounting information is likely to be less value relevant.

Many prior studies (e.g., Alford et al. 1993; Ali and Hwang 2000; Guenther and Young 2000; Young and Guenther 2003) have found that the degree of book-tax conformity is negatively associated with the value relevance of a firm's earnings for financial reporting. However, Hung

(2001) does not find evidence to support a relation between book-tax conformity and value relevance of earnings, which is contrary to the findings of Ali and Hwang (2000) and Young and Guenther (2003). Given these contrary findings, the relation between book-tax conformity and the value relevance of earnings remains unresolved. This study adds to existing literature by providing evidence regarding the relation between book-tax conformity and the value relevance of earnings across countries. It is not clear why book-tax conformity is related to value relevance of accounting earnings. The reason may be either that high book-tax conformity causes earnings to be less value relevant or that high book-tax conformity is related to an information and regulation environment that results in limited association between accounting information and stock price. One way to address this issue is to examine the value relevance of earnings components. Prior research (e.g., Lipe 1986; Ohlson and Penman 1992; Lev and Thiagarajan 1993; Abarbanell and Bushee 1997) indicates that earnings components contain useful information in the U.S. market; however, to-date there has been little to no investigation of the relation between the value relevance of earnings components and country-specific factors. This study extends prior research by examining whether earnings components in countries with high book-tax conformity are valued differently than in countries with low book-tax conformity, focusing on changes in three earnings components: sales, depreciation, and tax expense.

BOOK-TAX CONFORMITY AND THE VALUE RELEVANCE OF EARNINGS COMPONENTS

In countries with high book-tax conformity, some portion of sales revenue is likely to be recognized on a cash basis in firms' books since tax rules in many countries still follow the cash basis instead of the accrual basis. Because accrual accounting is likely to provide better information that reflects underlying economic substance than cash based accounting, the information in sales components based on accrual accounting is likely to be more relevant. Similar to the value relevance of aggregated earnings, I expect the value relevance of firms' sales component to be lesser in countries with a high level of conformity between financial and tax accounting. Hence, Hypothesis 1 is:

H1: Changes in the sales component of net income are valued more in countries with low book-tax conformity than in countries with high book-tax conformity.

I also investigate whether the depreciation component are more value relevant in countries with low book-tax conformity than in countries with high book-tax conformity. Firms are generally required to use depreciation methods and useful lives as dictated by each country's tax authorities. Thus, tax depreciation leaves less discretion to the company because the tax rules are generally intended to lead to more uniform application of the tax system. However, because tax rules do not necessarily represent underlying economic events, depreciation methods and useful lives prescribed by the country's tax authorities are less likely to reflect various firms' activities related to the use of depreciable assets. Therefore, I expect information in the depreciation component to be less value relevant in countries with high book-tax conformity. My second hypothesis is;

H2: Changes in the depreciation component of net income are valued more in countries with low book-tax conformity than in countries with high book-tax conformity.

If accounting earnings are more value-relevant in countries with low book-tax conformity than in those with high book-tax conformity, tax expense, which is based on accounting earnings, should also be more value-relevant in countries with low book-tax conformity than in those with high book-tax conformity. Hence, another hypothesis is:

H3a: Changes in the tax component of earnings are valued more in countries with low book-tax conformity than in countries with high book-tax conformity.

However, when firms confront high effective tax rates, they face stronger incentives to minimize their taxable income. In general, firms with higher effective tax rates pay taxes at higher marginal tax rates and are more likely to attempt to reduce their tax expenses, as compared to firms with low effective tax rates. In countries with low book-tax conformity, firms with high effective tax rates are more likely to minimize taxable income while maximizing their reported income using accruals. For example, some of the largest and most profitable US firms did not pay taxes for several years in the 1990s due to excessive use of option-based compensation.

Moreover, as Dhaliwal et al. (2004) argue, tax expense can be used as a tool for earnings management. Under U.S. GAAP, firms may be able to reduce tax expenses using permanent differences between financial and taxable income, income from foreign sources taxed at different rates, tax credits, and net operating loss carry forwards. U.S. firms can reduce tax expense when non-tax sources of earnings management are insufficient. Therefore, if a country's book-tax conformity is high, room for reducing tax expense will be lower and the value relevance of tax components of earnings may be higher. According to recent research by Schmidt (2006) that supports the results of Dhaliwal et al. (2004), an initial tax change component is more persistent for future tax changes than a revised tax change component. In addition, Guenther and Jones (2003) found that unexpected income resulting from a change in tax component is value relevant, but less value relevant than other unexpected earnings. I examine whether tax components of earnings are more value relevant in countries with high book-tax conformity than in countries with low book-tax conformity, when firms have high effective tax rates. My hypothesis is:

H3b: For firms with high effective tax rates, changes in the tax component of earnings are valued more in countries with high book-tax conformity than in countries with low book-tax conformity.

DATA AND MEASUREMENT OF VARIABLES

All data are from the Compustat Global Vantage database from 1995 through 2003. Accounting information data are from the Global Industrial/Commercial files and stock price data are from the Global Issue files. I have imposed data restrictions on the sample, such as the availability of accounting variables and market price variables. I have also limited the sample to firms from countries with book-tax conformity indices derived in prior research. The book-tax conformity index is mainly developed by Hung (2001) and the index for Korea by Young and Guenther (2003). To control for potential outliers, observations in the highest 1% or the lowest 1% values of all the continuous variables were excluded. The sample selection procedures yielded 57,554 firm-year observations from 1995 to 2003 for twenty-two countries. Total firm-year observations for the sample countries range from 35 (South Africa) to 22,488 (United States).

To show how book-tax conformity is related to the value relevance of accounting earnings, I examine the relation between the value relevance of earnings components and book-tax conformity. I evaluate the value relevance of changes in sales, depreciation, tax expense, and other earnings components. I use the following procedure to calculate the value relevance of earnings components from the stock return–earnings components regressions for each country. The changes in earnings are decomposed as follows:

$$\Delta EARN_{it} = \Delta SALES_{it} - \Delta DEP_{it} - \Delta TAX_{it} - \Delta OTHER_{it} \quad (1)$$

RESULTS

Table 1 compares the value relevance of earnings components between countries with high book-tax conformity and countries with low book-tax conformity. As predicted in Hypothesis 1, the coefficient of changes in sales and explanatory power of the regression are higher in countries with low book-tax conformity. The explanatory powers of regression models for depreciation and tax expenses are also higher in countries with weak alignment of book-tax conformity. Coefficient of the changes in depreciation is negatively related to stock return perhaps because expenses reduce net earnings. However, the coefficient of changes in depreciation is less negative in countries low book-tax conformity perhaps because the negative effect of book expense on stock returns may be mitigated by tax savings from depreciation due to accelerated depreciation and shorter useful life used in computing tax depreciation in countries with weak alignment between tax and financial reporting.

TABLE 1. Value relevance of earnings components in countries with low book-tax conformity and countries with high book-tax conformity									
Dependent Variable = 15 months compound market-adjusted return (CAR)									
	Predicted sign	Low B-T Conformity Countries				High B-T Conformity Countries			
Intercept	?	0.03902	0.04522	0.04275	0.03473	0.12571	0.13004	0.12492	0.12416
		(<0.0001)	(<0.0001)	(<0.0001)	(<0.0001)	(<0.0001)	(<0.0001)	(<0.0001)	(<0.0001)
SALES	(+)	0.64695			0.5482	0.51871			0.44663
		(<0.0001)			(<0.0001)	(<0.0001)			(<0.0001)
DEP	(-)		-0.02597		-0.44209		-0.8346		-1.28566
			(<0.0001)		(<0.0001)		(<0.0001)		(<0.0001)
TAX	(+)			0.74396	0.56645			0.21425	0.19001
				(<0.0001)	(<0.0001)			(<0.0001)	(<0.0001)
OTHERS	(-)	-0.58967				-0.48981			
		(<0.0001)				(<0.0001)			
OTHERD	(+)		0.6446				0.51464		
			(<0.0001)				(<0.0001)		
PTI	(+)			0.51123				0.44202	
				(<0.0001)				(<0.0001)	
OTHER	(-)				-0.50576				-0.4065
					(<0.0001)				(<0.0001)
Adjusted -R2		0.0576	0.0512	0.0615	0.0662	0.045	0.0421	0.0473	0.0553
Fixed Effects		None	None	None	None	None	None	None	None
Number of Observations		38,200	38,200	38,200	38,200	19,354	19,354	19,354	19,354

Because firms with higher effective tax rates pay taxes at higher marginal tax rates and are more likely to attempt to reduce their tax expenses, as compared to firms with low effective tax rates, I test whether the changes in tax expenses of the firms with high effective tax rates are more value relevant in countries with strong book-tax conformity than in countries with weak conformity.

TABLE 2. Value relevance of earnings components for the firms with high ETRs in countries with low book-tax conformity and countries with high book-tax conformity							
Dependent Variable = 15 months compound market-adjusted return (CAR)							
	Predicted sign	Low B-T Conformity Countries			High B-T Conformity Countries		
Intercept	?	0.02724	0.00964	0.01683	0.12621	0.11255	0.11551
		-0.0045	-0.3285	-0.0846	(<.0001)	(<.0001)	(<.0001)
EARN	(+)	0.77378			0.51582		
		(<.0001)			(<.0001)		
SALES	(+)		0.64912			0.1794	
			(<.0001)			(<.0001)	
DEP	(-)		-0.72188			-1.06819	
			-0.0003			(<.0001)	
TAX	(+)		0.29927	1.57988		1.06976	1.43237
			-0.0878	(<.0001)		(<.0001)	(<.0001)
OTHER	(-)		-0.60874			-0.14796	
			(<.0001)			-0.0016	
Adjusted-R2		0.05	0.0689	0.0368	0.0207	0.0512	0.0438
Number of Observations		3,656	3,656	3,656	7,852	7,852	7,852

Table 2 compares value relevance of changes in earnings and changes in tax expenses for the firms with high effective tax rates between countries with weak book-tax alignment and those with strong book-tax alignment. Similar to the results from the total firm-year sample, explanatory power of stock returns-earnings regression is higher in countries with low book-tax conformity. However, explanatory power of stock returns-tax expenses regression is higher in countries with high book-tax conformity, which supports Hypothesis 3b.

CONCLUSIONS

This study examines how book-tax conformity affects the value relevance of earnings components across countries. Empirical test results reveal that sales, depreciation, and tax expenses components, measured by regression coefficients, are more value relevant in countries with low book-tax conformity. Tax expenses of the firms with high effective tax rates are more value relevant

in countries with high book-tax conformity. One possible explanation of this result is that firms with higher effective tax rates are more likely to attempt to reduce their tax expenses in countries with weak book-tax conformity, resulting in less value-relevant information reflecting in stock returns

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