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Sam Houston State University

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San Diego State University - Imperial Valley Campus

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LETTER FROM THE EDITORS

We are extremely pleased to present the *Journal of International Business Research*, an official journal of the Academy of International Business Research. The AIBR is an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The *JIBR* is a principal vehicle for achieving the objectives of the organization. The editorial mission of this journal is to advance the knowledge and understanding of international business throughout the world. To that end, the journal publishes high quality, theoretical and empirical manuscripts which advance the discipline.

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NEW MODEL OF SELECTING A CORPORATE MANAGER FOR STATE-OWNED ENTERPRISES

Zhao Xian, Inner Mongolia University of Science and Technology
Kuan-Chou Chen, Purdue University Calumet

ABSTRACT

Entrepreneurship as a critical human resource is a driving force to create value for enterprises. Therefore, selecting the best manager for state-owned enterprises becomes the important agenda in re-engineering state-owned enterprises in China. Yet there is no quantitative method for selecting the best manager for them. This article uses the Analytic Hierarchy Process (AHP) in selecting the best manager for state-owned enterprises and provides state-reformers a method or model to select the best possible candidate for the leading positions at an enterprise.

INTRODUCTION

As the leader of an enterprise, a manager plays a very important role in the innovation activities in the enterprise. Currently, managers in Chinese state-owned enterprises are nominated by the central or local governments. This administrative nomination system has been used for more than fifty years. With deepening of enterprise reform, the joint-stock system is introduced and the central government or local governments become a major stockholder in the enterprises. They no longer play managerial role. Instead they need to have some delegates in the board of directors. They desperately need professional managers to deal with routine managerial work. With reforms in labor market, manager market starts to emerge. However, as the major stakeholders in the enterprises, the governments do not have any quantitative method to select the best candidate for their firms. All criteria used for selecting manager are subjective and the decisions are made by higher officials in the governments. China needs to establish an effective manager market system in order to meet growing needs from the state-owned enterprises.

FUNCTIONAL ANALYSIS OF ENTREPRENEURSHIP AND THE MAKINGS OF MANAGERS' HUMAN CAPITAL

When trying to understand a manager, many people have studied his/her personal traits and thinking styles. Personality is an abstraction for those enduring characteristics of a person that are significant to his/her behavior over time (Lanyon and Goodstein 1982). One conclusion that can be drawn from over 30 years of research on the entrepreneurial personality is that there is not one all-

encompassing personality profile. Different types of manager can be identified (Miner, 1996). Thus, rather than a single set of attitudes and traits that define a manager, a range of characteristics are associated with entrepreneurial personality (John, 1991). And yet, certain characteristics are consistently found in successful managers, even if to varying degrees, while other characteristics are not consistently found. Three of the most consistent characteristics are the tendency for a manager to be fairly tolerant of ambiguity, the tendency to have a locus of control that is more internal, and the tendency to be willing to take risks that are relatively calculated. Alternatively, such characteristics as creativity, desire for independence, persuasiveness, and being well organized are found with less consistency. However, these characteristics make up a system and they are interrelated and integrated. We analyze functions of the manager as follows:

A manager is a marketer

Marketing function of a manager is to identify market opportunities, to create new markets, and to develop existing markets. An emphasis on unmet wants, new market segments, new technologies, and continuous innovation in the marketing mix.

A manager is an innovator

Modern growth theories suggested that innovation is a crucial determinant of growth. Schumpeter was among the first group of people to emphasize the role of innovation in the entrepreneurial process (Schumpeter, 1934; Schumpeter, 1942; Lumpkin and Dess, 1996). Innovativeness became an important factor to characterize entrepreneurship (Lumpkin and Dess, 1996). The innovativeness of the managers is of great importance in the development of their enterprises. The correct innovation strategy, innovation cultivation, innovation management, and innovation capability will always supply the enterprises with effective tools to obtain competitive advantages that push their enterprises going forward.

A manager creates entrepreneurial economy

Managers are vital to economic growth and, consequently, to higher living standards. Thus, legislators and other leaders who make economic policies should strive to encourage the innovation and risk taking by entrepreneurs. Policies such as enforcing property rights through contract, patent and copyright laws, encouraging competition through free trade, deregulation and antitrust legislation, and promoting a healthy economic climate empower managers to be creative and to take risks.

A manager is a risk-taker

Knight argues that the unique role of a manager is risk-taking. He argues that many individuals are aware of potentially profitable market opportunities, but that in each case the profits that may be realized cannot be known with certainty. Not only are true profits randomly distributed, but many of the parameters of the distribution are unknown. Such opportunities are risky. In Knight's view, managers take well-known but risky ventures, and realize profits if they are in some sense lucky (Knight, 1921). Du and Huang (2003) used five major elements such as financial achievement, managerial ability, work attitude, team spirit, and creativity to build a model for evaluating the human capital value of managers. Bai and Chen (2002) stated that the value of managers should be evaluated based on their knowledge, experiences, capability and achievements. Through our long time research, we think there are four major elements: decision-making, creativity, management, and risk-taking, which make up entrepreneurship. Managers' capabilities are based on their knowledge level, culture, psychological maturity, and personal characteristics.

ANALYTIC HIERARCHY PROCESS (AHP)

The Analytic Hierarchy Process (AHP) is a powerful and flexible decision making process to help people set priorities and make the best decision when both qualitative and quantitative aspects of a decision need to be considered. By reducing complex decisions to a series of one-on-one comparisons and synthesizing the results, AHP helps decision makers arrive at the optimal decision. So we use AHP in our decision making process of selecting the best managers for the best possible positions at the state-owned corporations. Specifically, the AHP implications are addressed as follows:

The first step is to decompose the goal into its constituent parts, progressing from the general to the specific. In its simplest form, this structure comprises a goal, criteria and alternative levels. Each set of alternatives would then be further divided into an appropriate level of detail, recognizing that the more criteria included, the less important each individual criterion may become.

Next, assign a relative weight to each one. Each criterion has a local (immediate) and global priority. The sum of all the criteria beneath a given parent criterion in each tier of the model must equal one. Its global priority shows its relative importance within the overall model.

Finally, after the criteria are weighted and the information is collected, put the information into the model. Scoring is on a relative basis, not an absolute basis, comparing one choice to another. Relative scores for each choice are computed within each leaf of the hierarchy. Scores are then synthesized through the model, yielding a composite score for each choice at every tier, as well as an overall score.

The following section demonstrates the detail procedure using AHP for selection corporate managers.

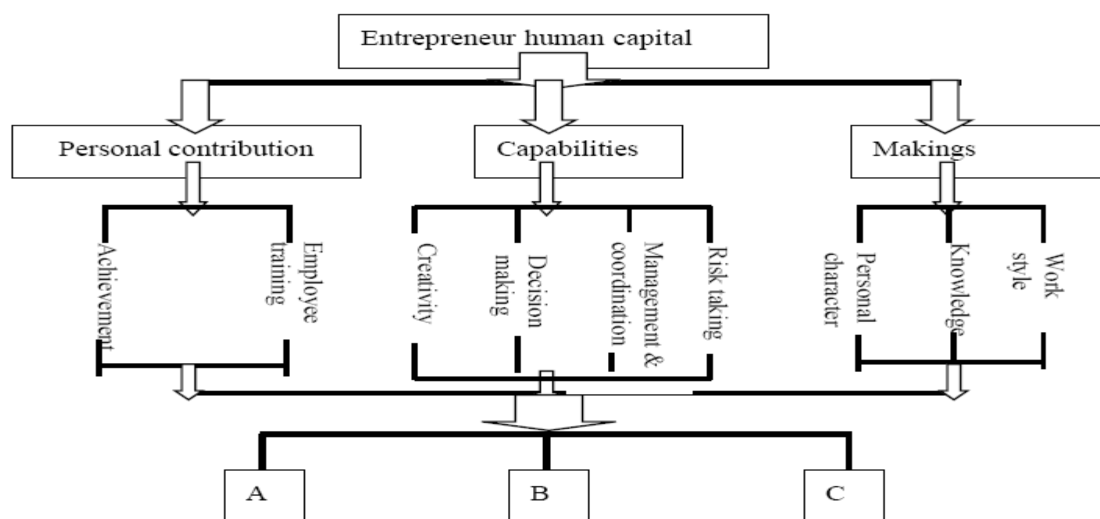
BUILDING A MODEL FOR SELECTING CORPORATE MANAGERS

Setting up Indices

Prior to data collection, a specific survey workshop was organized for all the managers involved to explain the methodological approach of organizing all criteria and sub-criteria into a chain of hierarchy in the proposed AHP model. Overall feedback from those managers about the proposed AHP model was very positive. Some suggestions by those managers were even adopted in the research, such as: we select capability, personal contributions, and basic making of a potential candidate as the first level indices. Creativity, decision-making, management and coordination, and risk-taking are chosen as the second level indices. A manager is an explorer and an innovator. The most important function of a manager is to manage and to make decisions. Decision-making is a process of exploring, analyzing, and solving a problem. Entrepreneurial ability to manage and coordinate is the general expression of planning, controlling, leading, and communicating abilities of managers. A manager also needs to have an ability to recognize risks and to find ways to avoid or minimize the risks.

Managerial goals of managers are to increase corporate profits, to increase productivity, and to train and nurture corporate citizens. So in order to measure personal contribution, we select personal achievement and employee training as the second-level indices. Managers have to have certain level of makings that are combinations of born characteristics and environmental/educational training. In order to measure makings of managers, we select personal quality, knowledge level, and personal style as the second level indices. The following figure shows structures of all indices:

Figure 1: Structure of Manager Human Capital Indices



Calculating the Weights for All the Indices

All indices are summarized into one survey that is sent to 30 scholars who have excellent achievements in the corporate management field. Data analysis and matrix calculation are conducted by a mathematical software specialized in matrix computation, called Yaahp. The software package of the AHP - Yaahp is certainly recommended for larger real world problems. For each criterion, the decision maker evaluates all alternatives pairwise. For each criterion, every possible combination of two alternatives is judged in the following four tables. The other criteria or characteristics of an alternative should not be considered in making the pairwise comparisons with respect to one particular criterion.

Table 1: Overall Relative Priority Weights of Four Criteria

Entrepreneurial human capital	Standard			
	Personal contribution	Capabilities	Makings	Weight index
Personal contribution	1	3/4	4/5	0.279
Capabilities		1	8/7	0.38
Makings			1	0.341

Table 2: Relative priority weights of criterion A: Personal contribution

Personal contribution	Achievement	Employee training	weight index
Achievement	1	6/7	0.462
Employee training		1	0.538

Table 3: Relative priority weights of criterion B: Capabilities

Capabilities	Creativity	Decision making	Management & coordination	Risk taking	Weight index
Creativity	1	3/4	6/7	9/8	0.229
Decision making		1	9/8	7/6	0.286
Management & coordination			1	8/7	0.26
Risk taking				1	0.225

Table 4: Relative priority weights of criterion C: Makings				
Makings	Personal character	Knowledge	Work style	Weight index
Personal character	1	7/6	8/7	0.366
Knowledge		1	8/9	0.304
Work style			1	0.331

Preprocessing

Three major performance criteria – Personal contribution, Capabilities, and Makings are selected in this case study - applying the AHP model in evaluating the long-term overall performance. Those three criteria were selected by a group of top managers within the company - based on a newly developed company's 5-year strategic plan (at the time). Each criterion is then disaggregated into two or more sub criteria. The three major criteria and their 9 sub criteria are then structured into a three-level hierarchy, as shown in Table 5.

Table 5: Key Performance Criteria and Subcriteria				
Candidates	Years of experience	High achievement measurement	High capabilities measurement	High level of making measurement
A	20	Work achievement	Decision-making, creativity, and risk-taking	Knowledge and personal makings
B	18	Employee training	Management & coordination and decision-making	Work-style and personal makings
C	21	Employee training	Management & coordination, creativity, and risk-taking	Work-style and knowledge

For level 3, appraisers compared three candidates one on one and decided the significance of each index. A professional software package was used to calculate the weights of each index. Level 3 indices of the AHP model were summarized and each index was averaged. The appraised value of each index is shown in Table 6:

Based on the data in Table6, we can calculate the integrated appraisal of three candidates, which are given separately:

$$A = 0.13\times0.413 + 0.15\times0.232 + \ldots + 0.11\times0.194 = 0.296$$
$$B = 0.13\times0.317 + 0.15\times0.499 + \ldots + 0.11\times0.509 = 0.412$$
$$C = 0.13\times0.270 + 0.15\times0.269 + \ldots + 0.11\times0.297 = 0.292$$

Note that B has the highest score

The above result shows that manager C has the highest point, the manager A the second, and the manager B the third. So manager C should be selected.

Table6: Overall Performance Comparison

Index for appraisal	Relative appraisal value of each index for manager			
	Index weight	A	B	C
Work achievement	0.13	0.413	0.317	0.27
Employee training	0.15	0.232	0.499	0.269
Creativity	0.09	0.380	0.234	0.385
Decision making	0.11	0.285	0.498	0.217
Management & coordination	0.10	0.163	0.540	0.297
Risk taking	0.09	0.326	0.250	0.425
Personal character	0.12	0.285	0.498	0.297
Knowledge	0.10	0.413	0.266	0.321
Work style	0.11	0.194	0.509	0.297

CONCLUSION ON SELECTING THE BEST MANAGER FOR STATE-OWNED ENTERPRISES

Application of any method and model is limited by the environment and conditions. Our model can be used as a selection tool for all state-owned enterprises when the following conditions are satisfied:

1. To set up the free market for managers to select or eliminate enterprises
2. The government should loosen controls over state-owned enterprises and select the best manager as the sole agent for the government
3. To build uninterrupted information channel between managers and enterprises
4. To set up a healthy social welfare system to support the free market
5. To set up a reasonable and effective performance appraisal system
6. To consummate the current promotional and control system

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COUNTRY RISKS AND FDI: EMPIRICAL EVIDENCE FROM LATIN AMERICAN COUNTRIES

Alejandro Palacios, Nova Southeastern University
Thomas Griffin, Nova Southeastern University

ABSTRACT

This research paper shows the differences in correlations between the various types of country risks and inward foreign direct investment (FDI) flow using aggregate data from six Latin American countries as a proxy for the Region. The countries considered are Argentina, Brazil, Chile, Colombia, Mexico and Venezuela due to the size of their economy and the availability of sufficient data to run a series of multiple linear regressions. The main finding of this paper is that understanding the differences in the correlations between different types of country risks and inward FDI flows can serve as a proxy for determining the motivators of Multinational Enterprises (MNE) that seek to invest in a specific region or country. The resulting empirical results provide a simple and powerful decision tool for the allocation of limited FDI resources to countries or regions based on their risk profile.

KEYWORDS: Country risk, Foreign Direct Investment, Inward FDI, Multinational Enterprises, Latin America

INTRODUCTION

With sustained news about the slow down in the US economy driven by a multitude of colliding factors, it is increasingly clear that the weakening of the largest economy in the world will be here for some years to come. Global Insight's global overview states that the world economy is enduring the deepest and longest recession of the postwar era, and that the U.S. economy will stabilize in late 2009 and only begin to recover in 2010 (Global Insight, March 2009). Based on this, one cannot help but think that when the United Stated gets the flu, Latin America gets pneumonia; and that a weak economy in the US could mean a reduced outflow of capital through various forms of Foreign Direct Investment (FDI). Since it can be argued that Latin American countries benefit greatly from inward FDI, as noted by the Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the use of FDI is the only way the region could close its economic gap with the rest of the world (ECLAC, 2003). Furthermore, competition for FDI has become fierce among countries that have an explicit interest to be targets for multinational enterprises (MNEs) that seek to diversify their asset base as shown

by Doukas and Travlos (1988). This is an attractive proposition for shareholders and supports the theory of corporate multinationalism, especially in the case of US firms expanding into new industry and geographic markets from under-developed countries.

Based on this, it is reasonable to affirm that Latin American Economies are in great peril of seeing sharp decreases in FDI; and gradually become an after-though for North America, and other MNEs that seek to survive the economic downturn. This warning should serve as an early wake up call to Latin American countries to focus on better understanding the motivations of MNEs for distributing their FDI outflows; in concrete terms, what are the factors that drive MNEs to invest into Latin America?

Finding a simple and valid approach to determine the major motivators for FDI is one of the first steps to providing guidance as to what levers need to be pulled in order to make Latin American countries more attractive for capital inflows. This is especially true in a Region where so many variables are constantly in flux; therefore attempting to understand, assess, quantify and compare each country's complexities becomes an extenuating task.

This study aims to propose a simple tool to show the differences in the correlations between various types of country risk and FDI inflow; which would serve as a proxy for determining the drivers of MNEs to invest into a specific region or country. Six Latin American countries are viewed as a single cluster, which provides an aggregate risk profile with data from eight years for all dependent, independent and control variables. All hypotheses proposed were confirmed, providing empirical proof that the overall country risk is negatively correlated to Inward FDI into Latin America. Additionally, each type of country risk tracked by the Economist Intelligence Unit also has a negative correlation to Inward FDI into Latin America; and there are differences in the degree of impact of types of Country Risk on Inward FDI to Latin America.

This study will start by presenting a literature review to outline the main findings regarding both FDI and FDI inflows into Latin America. The hypotheses will then be presented, followed by an outline of the data and method utilized, the empirical results, a short discussion on strategic and policy recommendations and overall conclusions.

LITERATURE REVIEW

Maniam (2007) evaluates the FDI inflows into Latin America; this was done by replicating the Maniam (2005) empirical analysis that was conducted for Asian countries; and explores factors that include incentives and regulations. The results of the study are enhanced by a discussion regarding the contribution of FDI to the region's development. The author argues that countries should put in place mechanisms to ensure that FDI has long lasting economic and societal role beyond just an injection of capital.

Mallet (2000) explains how South Africa has grave competitive disadvantages in comparison to Latin America and Asia when it comes to attracting FDI. Some of these shortfalls have to do with

their geographic location and the geological turmoil of their neighboring countries; these factors are not in the control of the South African government; and efforts to modernizing their financial and legal systems do not seem to be enough to compete for FDI inflows with other developing nations.

Cuervo-Cazurra (2006) examines the impact of corruption on FDI, findings are two fold; first the expected conclusion is that corruption results in a reduction in FDI and that it changes the composition of the outflows of capital of the country of origin. More interesting is the second finding that corruption will also result in a higher FDI from countries that also have high levels of corruption.

Cuevas, Messmacher and Werner (2005) assess the effect of free-trade agreements on flows of FDI between the United States and Mexico since the approval of the North America Free Trade Agreement (NAFTA). The findings from a cross-country panel analysis are that free trade agreements have a higher positive impact for the smaller country in the agreement (in this case higher positive effect on FDI inflows from the United States into Mexico than the other way around). Furthermore, a country that has signed a free-trade agreement would gradually develop domestic characteristics such as a more open economy and better legal regulations; which would in term make it more attractive for FDI from other countries outside of the agreement.

The study of FDI and exchange rates is very prevalent in academic research. Froot and Stein (1991) analyze this relationship as it arises from globally integrated capital markets that are subject to informational imperfections; they find that a depreciation of the domestic currency can lead to foreign acquisition of certain assets. As a follow up to Froot and Stein (1991), Dewenter (1995) uses transaction specific data to study the relationship between the value of the US dollar and the flow and prices of cross-border acquisition. Other papers such as Blonigen (1997), Kosteletou (2000) and Schiavo (2007) present the benefits of adoption a single currency as opposed to only focusing on eliminating exchange rate volatility. Also, Dennis, Laincz and Zhu (2008); Xing and Wan (2006) analyze the role of exchange rates on the distribution of FDI outflows from the same countries; present a very complete picture of this relationship.

Xing and Wan (2006) also explain how Asian countries consciously compete for inward FDI, and how certain changes in exchange rate policies would cause shifts in both the volume of FDI and target industries. This is in fact a very important argument for this article; since we propose a tool that would enable Latin American countries to understand better the drivers for FDI inflows; in order for them to focus on the right strategies to gain competitive advantages.

The current literature on FDI inflows into Latin America is regrettably not as rich as it is for Asian Countries, where larger inflows of capital draw the attention of many academic researchers and MNEs. Additionally, FDI literature in general skews towards the negative correlation with exchange rates; and tends to take a case-by-case perspective that entails deep-dives into countries and industries in order to gain in significance. Although the case for the importance of FDI for a developing country’s sustained growth is often made, there is no simple analysis that can guide a country or region to better understand the existing differences with any other country or region.

Being able to see a snapshot of all the major FDI drivers and being able to compare that analysis, functions as an equalizer that allows comparing different country risk profiles, highlight differences and gaps that may be hindering a country's attractiveness for FDI inflows.

Ultimately, this paper provides a simple tool to bring visibility to country risk profiles. Latin America was chosen as an example because of its needs to increase its knowledge of drivers for inward FDI, and counter-balance the aggressive steps that other countries, especially in Asia, are taking to become attractive destination for foreign capital investments. Furthermore, by understanding their country risk profile, Latin American countries can identify opportunities to become more attractive themselves.

HYPOTHESES

The hypotheses were developed keeping in mind that this study aims at developing a simple tool to allow countries to better understand the motivators for FDI inflows. Based on this, the first goal is to confirm via empirical evidence that overall country risk is negatively correlated to FDI into Latin America; since the data utilized is from Latin American countries. Having said that, future studies can be conducted in the same way using data from any country or region. The first sub-hypothesis, simply brakes down the negative correlation of FDI and country risk into the thirteen types of country risk tracked by the Economist Intelligence Unit; this will validate the country risk profile that is presented as a part of the results of this study. Finally, the second hypothesis, aims to confirm that each of the thirteen types of country risk individually contribute in a higher or lesser degree to explain fluctuations in inward FDI. As a whole, confirming these three hypotheses would validate the utilization of the proposed linear regression model as a tool to understand better the motivations for inward FDI.

H1: *Overall Country Risk is negatively correlated to Inward FDI into Latin America.*

H2: *Banking overall risk, Currency overall risk, Financial risk, Infrastructure risk, Labor market risk, Legal & regulatory risk, Macroeconomic risk, Political efficacy risk, Foreign trade & payments risk, Political stability risk, Sovereign overall risk, Security risk, Tax policy risk each individually, have a negative correlation to Inward FDI to Latin America.*

H3: *There are differences in the degree of impact of types of Country Risk on Inward FDI to Latin America.*

DATA AND METHOD

The main proposition of this research paper is that an understanding of the differences in the correlations between different types of country risk and FDI inflow can serve as a proxy for determining the drivers of MNEs to invest into a specific region or country. In this case, six Latin

American countries are viewed as a single cluster, which would provide an aggregate risk profile that would serve to isolate the main drivers for MNE FDI.

This research uses Latin American Country risk data from The Economist Intelligence Unit, WorldData - Annual Time Series for the six largest economies of Latin America: Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. These countries were selected, because their aggregate size is considered sufficient to draw conclusions that are applicable to the vast majority of the FDI that flows into the region. In fact, the ECLAC Foreign Investment in Latin America and the Caribbean 2007 report states that Brazil, Mexico, Chile and Colombia were the largest recipients of FDI that year; the list of the top countries is completed by Argentina and Venezuela, with a slower growth pace.

Variables

The dependent variable is Inward FDI, defined as the net flows of direct investment capital by non-residents into the country (EIU).

The Independent Variables are the overall risk indicator and thirteen risk indicators as defined by Economist Intelligence Unit as:

Overall risk score = Overall risk assessment of the political and macroeconomic environment within the country

Currency overall risk = Currency overall risk examines the risks that stem from the changes in price of one currency against another

Financial risk = Financial risk examines the risks to financing and access to capital markets

Infrastructure risk = Infrastructure risk examines the risk that infrastructure deficiencies may cause a loss of business income.

Labor market risk = Labor market risk examines the labor market factors likely to disrupt business operations

Legal & regulatory risk = Legal & regulatory risk examines the legal system's ability to safeguard investment

Macroeconomic risk = Macroeconomic risk examines if the economy is stable and predictable not to disrupt business operating conditions

Political efficacy risk = Political inefficacy risk examines if the political cultural fosters the ability of business to operate effectively

Foreign trade & payments risk	=	Foreign trade and payments risk examines the risks to businesses in getting inputs/money into or out of the country
Political stability risk	=	Political instability risk examines if political institutions are sufficiently stable not to disrupt business operating conditions
Sovereign risk	=	Sovereign risk examines the risks that a foreign central bank will alter its foreign-exchange regulations thereby affecting the value of foreign-exchange contracts
Security risk	=	Security risk examines if the physical environment is sufficiently secure not to disrupt business operating conditions
Tax policy risk	=	Tax policy risk examines if taxes are low, predictable and transparent

The control predictors chosen are:

Nominal GDP (US$)	=	Gross Domestic Product figure not adjusted for inflation (also known as Current Dollar GDP)
GDPG (% real change pa)	=	Percentage change in real GDP over previous year; which can be either positive or negative
Exchange rate LCU:US$ (av)	=	National currency per US$, period average

The detail of the data source and definitions of the dependent and independent variables for each of the six countries is further explained in Appendixes I, II and III.

EMPIRICAL RESULTS

A series of multiple linear regressions were applied to measure the correlation between the thirteen different types of country risk and FDI. The results of this empirical analysis are shown on Table 1, where we can observe that all thirteen linear regressions are significant; therefore, each type of country risk taken individually does contribute in a higher or lesser degree to explain fluctuations in inward FDI.

The data sample spans seven years from 2002 to 2008, where 2002 is the first year with complete information available for all six countries, and 2008 shows projected figures as of July of that year.

Table 1: Descriptive Statistics of all variables					
	N	Minimum	Maximum	Mean	Standard Deviation
LnOverallRisk	42	3.135	4.263	3.759	0.315
LnBanking_Overall risk	42	3.178	4.331	3.828	0.328
LnCurrency_Overall risk	42	3.135	4.159	3.698	0.286
LnFinancial risk	42	2.565	4.369	3.801	0.495
LnInfrastructure risk	42	3.332	4.143	3.865	0.269
LnLabor market risk	42	3.367	4.220	3.898	0.250
LnLegal _regulatory risk	42	2.708	4.477	3.763	0.536
LnMacroeconomic risk	42	3.219	4.605	3.895	0.350
LnPolitical efficacy risk	42	2.890	4.564	3.992	0.517
LnForeign trade _payments risk	42	1.946	4.407	3.466	0.674
LnPolitical stability risk	42	2.996	4.382	3.662	0.438
LnSovereign Overall risk	42	3.091	4.290	3.740	0.346
LnSecurity risk	42	2.890	4.489	3.781	0.459
LnTax policy risk	42	3.219	4.477	3.894	0.413
GDPGrowth	42	-10.895	18.287	4.440	4.988
LnER (Exchange Rate)	42	0.149	7.965	3.180	2.866
LnGDP (Gross Domestic Product)	42	4.212	7.418	5.531	0.935
LnFDI (Inward Foreign Direct Investment)	41	6.397	10.451	8.774	1.102

Table 1 illustrates the correlation between the thirteen different types of country risks and FDI. Overall Risk is calculated separately as an assessment of the political and macroeconomic environment within the country. FDI (inward foreign direct investment) is the dependent variable; and LnGDP, GDPG and LnER are the three control predictors. The data sample spans seven years from 2002 to 2008, where 2002 is the first year with complete information available for all six countries, and 2008 shows projected figures as of July of that year. N indicates the sample size, which combines data from all six Latin American countries used for this study. The first two columns, Minimum and Maximum, indicate the lowest and highest values for each type of risk; and the last two show the Mean and Standard Deviation of the data sampled.

The results of this empirical analysis are shown on Tables 2 and 3, where we can observe that all thirteen linear regressions are significant, showing that each type of country risk taken individually does contribute in a higher or lesser degree to explain fluctuations in inward FDI.

Table 2: Regression Analysis of Risk Indicators and FDI in Latin America from 2002 to 2008, part one								
Overall Risk Indicators	Coef.	M1	M2	M3	M4	M5	M6	M7
Overall risk	Uβ	-0.990**						
	t	(-2.553)						
Banking risk	Uβ		-.994***					
	t		(-2.736)					
Currency risk	Uβ			-1.264***				
	t			(-3.093)				
Financial risk	Uβ				-.612***			
	t				(-2.841)			
Infrastructure risk	Uβ					-.987***		
	t					(-2.846)		
Labor market risk	Uβ						-1.551***	
	t						(-3.606)	
Legal & regulatory risk	Uβ							-.715***
	t							(-3.549)
Control Predictors								
LnGDP (Gross Domestic Product)	Uβ	.974***	.969***	.938***	1.092***	1.144***	1.216***	1.036***
	t	(7.556)	(7.647)	(7.452)	(9.839)	(10.423)	(11.441)	(9.555)
GDPG (Gross Domestic Product Growth)	Uβ	-.004	-.005	-.002	-.008	-.004	-.014	.001
	t	(-.204)	(-.255)	(-.137)	-.435	(-.198	(-837)	(.042)
LnER (Exchange Rate)	Uβ	.107**	.106**	.097**	.126***	.164***	.125***	.098**
	t	(2.169)	(2.207)	(2.069)	(2.957)	(4.401)	(3.221)	(2.266)
$AdjR^2$		.727	.733	.745	.736	.736	.763	.761

The data sample spans seven years from 2002 to 2008; where 2002 is the first year with complete information available for all six countries, and 2008 shows projected figures as of July of that year.

Tables 2 and 3 illustrate the empirical results of the correlation between thirteen tyoes of country risks, plus Overall risk, and FDI (inward foreign direct investment). Overall Risk is calculated separately as an assessment of the political and macroeconomic environment within the country. FDI is the dependent variable; and LnGDP, GDPG and LnER are the three control predictors. M1 through M7 in Table 2, and M8 through M14 in Table 3, show the different correlation analyses that pair up the different types of country risk and FDI. Degrees of significance

are shown as *p*<.01 ***, *p*<.05 **, and *p*<.10 *; Uβ = Unstandardized Beta and AdjR² = Adjusted R^2

Table 3: Regression Analysis of Risk Indicators and FDI in Latin America from 2002 to 2008, part two								
Overall Risk Indicators	Coef.	M8	M9	M10	M11	M12	M13	M14
Macroeconomic risk	Uβ	-.886**						
	t	(-2.416)						
Political efficacy risk	Uβ		-.696***					
	t		(-3.597)					
Foreign trade & payments risk	Uβ			-.634***				
	t			(-3.618)				
Political stability risk	Uβ				-.851***			
	t				(-3.651)			
Sovereign risk	Uβ					-.683*		
	t					(-1.897)		
Security risk	Uβ						-.679***	
	t						(-3.704)	
Tax policy risk	Uβ							-.654**
	t							(-2.579)
Control Predictors								
LnGDP (Gross Domestic Product)	Uβ	.958***	1.156***	.952***	.910***	1.026***	1.168***	1.023***
	t	(7.080)	(11.085)	(8.206)	(7.509)	(7.895)	(11.270)	(8.505)
GDPG (Gross Domestic Product Growth)	Uβ	-.020	-.006	.001	-.005	-.005	-.010	.004
	t	(-1.018)	(-3.78)	(.059)	(-.270)	(-.240)	(-.564)	(.208)
LnER (Exchange Rate)	Uβ	.109**	.127***	.072	.123***	.127**	.191***	.143***
	t	(2.173)	(3.294)	(1.531)	(3.162)	(2.517)	(5.605)	(3.485)
AdjR²		.722	.763	.763	.764	.707	.766	.728

Tables 2 and 3 results show that all the country risk variables are negatively correlated with the inbound FDI into Latin America. All thirteen country risks are negatively correlated with FDI, and eleven of the country risks show results that are statistically significant at 1 percent level *p*<.01; while macroeconomic risk is statistically significant at 5 percent level *p*<.05; and sovereign risk is statistically significant at 10 percent level *p*<.10. Meanwhile, the overall risk measurement has a significance of *p*<.05 which shows that the analysis of individual risks will lead to more accurate explanations of motivations for inward FDI than the overall measurement. Interestingly enough, this

finding is complimentary to that of Dennis, Laincz and Zhu (2008) who broke down data on Japan FDI flows into Asian Countries into industry-specific data in order to reduce the impact of fluctuations on an aggregate measure of FDI; their data shows significant differences in the inflows going into the electrical, chemical, services and textiles industries.

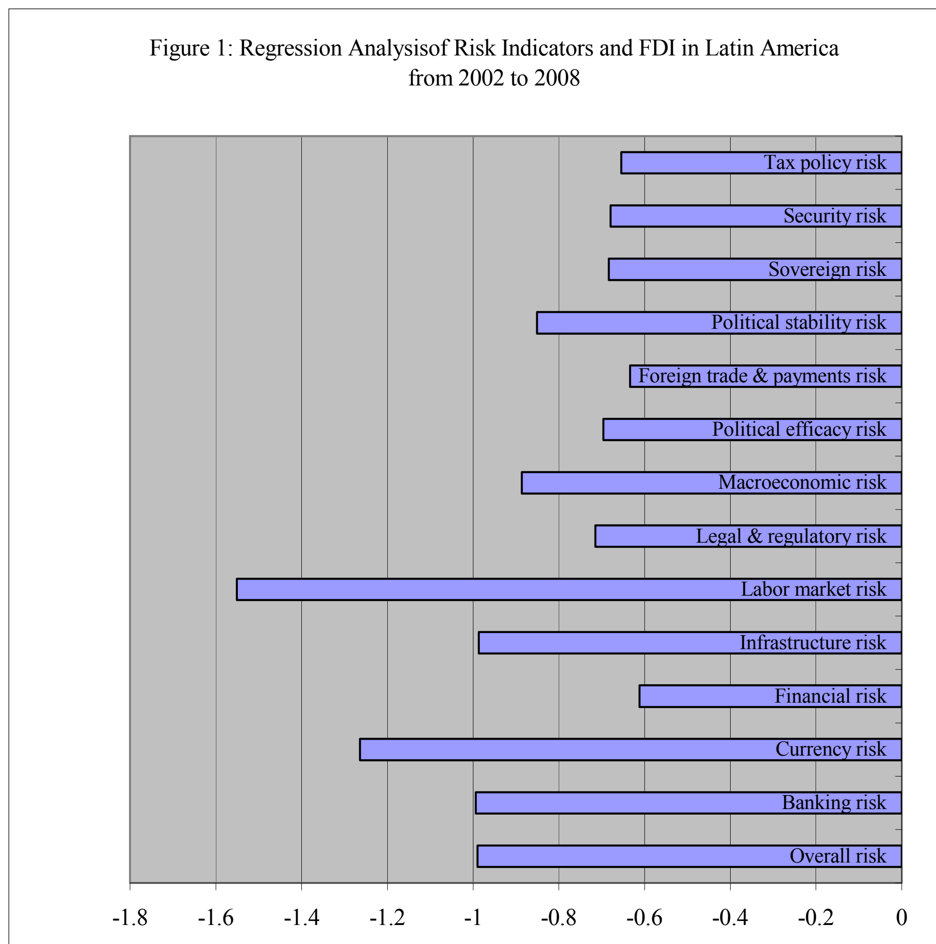
Similarly, Figure 1 is a graphic illustration of the different correlations between thirteen types of country risks, plus Overall risk, and FDI (inward foreign direct investment)

In the case of Latin American countries, the country risks that have the highest correlation to inward FDI are Labor Market risk and Currency risk; which is consistent with the traditional motivations for MNE investments in Latin America. This means a comparatively cheaper labor and benefits drawn from exchange rate differential to stronger currencies such as the US Dollar and the Euro. As second tiers of risks includes Banking risks, and infrastructure risks; interestingly enough this is also consistent with the recent shift in FDI into the region. As explained in the ECLAC (2007) annual report on FDI, there is a strong interest in FDI into Latin America and the Caribbean driven by efficiency-seeking investments in manufacturing, and exploitation of natural resources; and also new capital coming into to banking sector mainly driven by Canadian capital. On a trend basis, in the coming years, Banking and Infrastructure risks are therefore expected to have a stronger correlation to DFI inflows, which would demonstrate that the trend of investment diversification is being sustained.

Figure 1 is a graphic illustration of the different correlations between thirteen types of country risks, plus Overall risk, and FDI (inward foreign direct investment). Overall Risk is calculated separately as an assessment of the political and macroeconomic environment within the country. The X axis shows the Unstandardized Beta (Uβ) value for each country risk to FDI correlation; each type of country risk is shown on the Y axis.

Finally, other risks that show a significant correlation but with a lower un-standardized Beta score, such as Financial Risk, Security Risk, Sovereign Risk, Foreign Trade & Payments Risk, Political Efficacy Risk, Legal & Regulatory Risk, and Financial Risk; are probably expected to remain less important. This is not because these are not issues in Latin America, but rather because they are endemic problems in the region. The rationale being that MNEs will eventually learn how to maneuver the political webs, and factor-in certain risks when investing so that it is just a cost of doing business. Cuervo-Cazurra (2006) suggests that investors that have experience in dealing with corruption in their home country would seek countries where corruption is prevalent because they would know how to facilitate transactions and mitigate those risks. Furthermore, because of the importance of increasing the attractiveness of developing countries for FDI, Latin American governments typically seek to provide facilities and assurances to foreign investors, and maintain a direct channel of communications with high-ranking political officials.

Having said that, radical socio-political changes could alter this status quo, which in turn would be reflected in a gradual increase in the beta coefficients of other risk variables.



STRATEGIC & POLICY RECOMMENDATIONS

This empirical model presents a simple and straightforward tool to identify the main motivators for inward FDI; it also helps observe and understand the fluctuations of these motivators over time; as they are driven by exogenous or endogenous factors. The later are worth further discussion since they are the ones that a receiving country has direct influence over.

Consistent with the findings, conclusions and recommendations of the ECLAC (2007) annual report on FDI, Latin American countries need to address the challenge of improving the quantity and quality of investment inflows and harness the benefits of FDI for their own internal development. As also argued by Maniam (2007), just more volume of FDI is not a sufficient answer to ensure long-term benefits for the receiving country. Latin American countries have therefore a dual challenge; first, to create and maintain internal conditions that present an attractive value proposition in comparison to developing countries in other regions; and to setup an environment where they

would receive economic, social and competitive benefits from these investments. If the inbound FDI is solely focused on the exploitation of resources and beneficial macro-economic conditions, and on taking advantage of weak regulatory environments and high levels of corruption; it is clear that the host country only has an illusion of benefit, but no lasting improvements in quality of life, competitive edge and infrastructure to show for.

Governments and local corporations should focus on improving the internal political and legal environment to allow for knowledge transfer, diversification of types of FDI, partnerships that cover the entire production cycle (from research, to production, to commercialization), infrastructure improvements and environmental protection as pre-conditions for welcoming FDI inflows.

CONCLUSIONS

This study proposed a tool that shows the differences in the correlations between various types of country risk and FDI inflow, and serves as a proxy for determining the drivers of MNEs to invest into a specific region or country. By confirming all hypotheses we have provided empirical proof that both the overall country risk and each of the thirteen individual types of country risk tracked by the Economist Intelligence Unit are negatively correlated to Inward FDI into Latin America. Additionally, it is also evident that there are differences in the degree of impact of types of Country Risk on Inward FDI to Latin America; which can be read as a country or region FDI-Country Risk correlation profiles as prioritized by MNEs.

Since FDI flows are defined by a complex combination of factors, as explained by Maniam (2007) who grouped them into national policies, corporate strategies and international environments; MNEs are increasingly looking for low risk and high yield investments; thus avoiding levels of uncertainty that may have been acceptable in the past. Based on this, in today's world, where a reduced amount of depreciated US Dollars have to be divided among an increased number of emerging markets in Western Europe, the Middle East, North Africa, Latin America and Asia, developing countries have the complicated challenge to present highly competitive risk profiles. This means overall low risk factors in comparison to other regions or countries.

Specifically, the challenge for Latin American Countries is to improve their capacity to attract FDI capital, becoming a preferred choice over all the other developing markets that are out there seeking the same goal.

The model that has been presented constitutes a useful tool not only to understand the motivations of foreign MNEs, but also to identify the differences between the FDI-Country Risk correlation profiles of different countries and regions. Furthermore, acknowledging those differences could help drive inter-regional agreements aiming at increasing the transparency in the rules of engagement for inbound FDI; and help setup strategies for intra-regional FDI exchanges.

Future research could use the regression analysis of country risk indicators and FDI to compare regions and countries and to develop a better understanding of the types of risk that are

limiting FDI inflows into certain areas of the world. Governments could use this information to drive legislation and investments to improve their competitive positions as it pertains to specific types of country risk.

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APPENDIX I

The Economist Intelligence Unit (EIU), July 20th, 2008
WorldData - Annual Time Series

Country Risk Indicators		
Risk	Definition	Note
Overall risk score (100=high)	Overall risk assessment of the political and macroeconomic environment within the country	Overall scores are awarded in one-point increments, and can range from 1 to a maximum of 5 points for the highest- risk countries.
Currency: Overall risk score (100=high)	Currency overall risk examines the risks that stem from the changes in price of one currency against another.	Overall scores are awarded in one-point increments, and can range from 0 to a maximum of 100 points for the highest-risk countries.
Financial risk (100=high)	Financial risk examines the risks to financing and access to capital markets	The factors considered include the risk of devaluation, access to local markets, banking sector health and the liquidity of the stock market
Infrastructure risk (100=high)	Infrastructure risk examines the risk that infrastructure deficiencies may cause a loss of business income	The factors considered include the physical infrastructure, retail and distribution and IT networks
Labor market risk (100=high)	Labor market risk examines the labor market factors likely to disrupt business operations	The factors considered include the power of trade unions, skilled and specialized labor and collective wage bargaining
Legal & regulatory risk (100=high)	Legal & regulatory risk examines the legal system's ability to safeguard investment	The factors considered include fairness of the judicial process, unfair competitive practices, price controls and the integrity of accounting practices
Macroeconomic risk (100=high)	Macroeconomic risk examines if the economy is stable and predictable not to disrupt business-operating conditions	The factors considered include exchange rate and interest rate volatility, risk of recession and crowding out
Political efficacy risk (100=high)	Political inefficacy risk examines if the political cultural fosters the ability of business to operate effectively	The factors considered include quality of the bureaucracy, pervasiveness of red tape, corruption and human rights
Foreign trade & payments risk (100=high)	Foreign trade and payments risk examines the risks to businesses in getting inputs/money into or out of the country	The factors considered include tariffs, capital controls and trade embargoes
Political stability risk (100=high)	Political instability risk examines if political institutions are sufficiently stable not to disrupt business-operating conditions	The factors considered include social unrest, the orderly transfer of power and international tensions
Sovereign: Overall risk score (100=high)	Sovereign risk examines the risks that a foreign central bank will alter its foreign-exchange regulations	The factors in this category relate to both political instability and political inefficacy
Security risk (100=high)	Security risk examines if the physical environment is sufficiently secure not to disrupt business operating conditions	The factors considered include armed conflict, violent demonstrations and organized crime
Tax policy risk (100=high)	Tax policy risk examines if taxes are low, predictable and transparent	The factors considered include the transparency of the tax regime, level of corporation tax and the likelihood of retroactive taxation

APPENDIX II

The Economist Intelligence Unit (EIU), July 20th, 2008
WorldData - Annual Time Series

GDP (% real change pa), Exchange rate LCU: US$ (av) & GDP (% real change pa)

Indicator	Definition
GDP (% real change pa)	Percentage change in real GDP, over previous year
Exchange rate LCU: US$ (av)	Local currency unit per US$, period average
Nominal GDP (US$)	Gross Domestic Product figure not adjusted for inflation (also known as Current Dollar GDP).

Country/Region	Series Title	Source
Argentina	GDP (% real change pa)	Derived from Ministerio de Economia y Produccion
Argentina	Exchange rate LCU:US$ (av)	IMF, International Financial Statistics
Argentina	Nominal GDP (US$)	Derived from Ministerio de Economia y Produccion
Brazil	GDP (% real change pa)	Derived from FundatGo Instituto Brasileiro de Geografia e Estatistica; EIU Calculation
Brazil	Exchange rate LCU:US$ (av)	IMF, International Financial Statistics
Brazil	Nominal GDP (US$)	Derived from IMF, International Financial Statistics; FundatGo Instituto Brasileiro de Geografia e Estatistica, Banco Central do Brasil.
Chile	GDP (% real change pa)	Derived From Banco Central de Chile; EIU Calculation
Chile	Exchange rate LCU:US$ (av)	IMF, International Financial Statistics
Chile	Nominal GDP (US$)	Derived From Banco Central de Chile; IMF, International Financial Statistics
Colombia	GDP (% real change pa)	Derived from Departamento Administrativo Nacional de Estadisticas; EIU Calculation
Colombia	Exchange rate LCU:US$ (av)	Banco de la Republica
Colombia	Nominal GDP (US$)	Departamento Administrativo Nacional de Estadisticas
Mexico	GDP (% real change pa)	Derived from Instituto Nacional de Estadistica Geografia e Informatica
Mexico	Exchange rate LCU:US$ (av)	Banco de Mexico
Mexico	Nominal GDP (US$)	Derived from Instituto Nacional de Estadistica Geografia e Informatica; Banco de Mexico.
Venezuela	GDP (% real change pa)	Banco Central de Venezuela
Venezuela	Exchange rate LCU:US$ (av)	IMF, International Financial Statistics
Venezuela	Nominal GDP (US$)	Derived from IMF, International Financial Statistics

APPENDIX III

The Economist Intelligence Unit (EIU), July 20th, 2008
World Data - Annual Time Series

Definition of Inward Foreign Direct Investment:
Net flows of direct investment capital by non-residents into the country.

Country/Region	Source
Argentina	IMF, International Financial Statistics
Brazil	Banco Central do Brasil, Boletim
Chile	IMF, International Financial Statistics
Colombia	IMF, International Financial Statistics
Mexico	IMF, International Financial Statistics
Venezuela	IMF, International Financial Statistics

AUTHORS' NOTE

Alejandro Palacios, is Vice President of Strategy and GoGreen for DHL Global Forwarding Americas. He is a doctoral candidate in international business administration and has an MBA from the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University. He also holds additional degrees in Business Administration and Psychology.

Contact: 1570 Jardin Court, Weston FL, 33327; phone: 954-326-6513; e-mail: alejovirtual@msn.com

Dr. Thomas Griffin is Professor of Decision Sciences at the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University. He teaches master level and doctoral level courses including strategy, statistics, operation management and finance.

Contact: Nova Southeastern University, 3301 College Avenue, Fort Lauderdale, FL 33314; phone: 954-262-5165; e-mail: tegriffi@huizenga.nov

IS RELIGIOUS CULTURE A FACTOR IN NEGOTIATION: A CROSS-CULTURAL COMPARISON OF IRAN, TAIWAN AND THE UNITED STATES

Farideh A. Farazmand, Lynn University
Yu-Te Tu, Chungyu Institute of Technology
Hasan Daneefard, Tarbiat Modares University

ABSTRACT

Globalization and economic openness have contributed to increased international negotiations in the 21st century. Despite the enthusiasm for increased global interaction and economic exchange, many people have found that cultural differences have hindered their ability to efficiently conduct business or negotiations due to their lack of understanding of the cultural differences. This paper explores the impact of religious culture on negotiations. Specifically, we compare and contrast the effects of religious orientation on the negotiating styles of Iranians, Taiwanese, and North Americans. The research aims to investigate the role of religious culture in shaping the negotiation styles of people with different religious beliefs. Casse and Deols' model of four negotiation styles and Hofstede's model of Collectivism characteristics are utilized in the research. The research found that there are different negotiation styles among the three countries which vary to significant degrees based upon the religious cultures within Iran, Taiwan and the U.S.A. These differences have imbued each country with a specific set of values and attitudes relating to their cultures. This study may help people develop more successful negotiation skills by giving them insight into the nuances of negotiations, and by identifying implications for negotiations and areas for future scholarly inquiry.

INTRODUCTION

Globalization and economic openness have contributed to increased international engagement of countries in negotiations in the 21st century. According to Taiwan's Ministry of Economic Affairs (MOEA), that country's major national trading partners include the United States and Iran. In 2008, Taiwan traded with the U.S. $61.8 billion worth of goods and services (representing about 11.6 percent, ranking the U.S. as Taiwan's third largest trading partner) with the United States; and Taiwan's trade with Iran total U.S. $6 billion (representing about 1 percent, and ranking Iran as the 20th largest trading partner.

The relationship between Iran and the United States has been tense since the 1980s (Sadjadpour, 2008; ustreas.gov, 2009). Following breaking the diplomatic relationship with Iran in 1980 the U.S. government imposed a trade embargo on Iran in 1987 (Sadjadpour, 2008; treas.gov, 2009; News Journal, 2009). This trade embargo has been continued for the subsequent years and the political relationship has not been normal (Sadjadpour, 2008).

However, U.S. invasion of Afghanistan and Iraq and its military and security problems in those countries, neighboring to Iran laid the ground for low level talks between the two countries since 2001 (News Journal, 2009; The Independent, 2009). More recently, President Obama has acknowledged U.S. willingness for having dialogue with Iran (The Independent, 2009). As Sadjadpour (2008) states it, "The relevant question is not whether to talk to Iran but how."Understanding the significant role of Islamic culture (Haynes, 2007) on negotiation styles could ease the obstacles in talking to the Iranians.

Gulbro and Herbig (1994) indicated that different cultures can generate distinct negotiation styles. This paper examines negotiation styles of people from three distinct cultures, those of Iran, Taiwan and the United States – in terms of the impact on these cultures by the dominant religious traditions in each -- Islam, Buddhism and Christianity respectively. Knowledge about the impact of culture and religion on negotiation styles is an advantage for anyone involved in negotiations (Chang, 2003).

Cultural negotiation literature is limited, particularly with respect to religious factors in general and to the effect of these factors on Iranian, Taiwanese and U.S. negotiation styles. The research aims to investigate the role of religious culture as a factor in shaping negotiation style of people with different religious beliefs. The negotiation styles of Muslim Iranians, Buddhist Taiwanese and Christian Americans will be examined and compared.

REVIEW OF THE LITERATURE

Culture is commonly defined as "a set of shared values and beliefs that characterize national, ethnic, moral and other group behavior "(Faure and Sjostedt, 1993; Craig and Douglas, 2006; Adapa, 2008). Culture also refers to individual cultures revealed through the food, songs, and stories that are exchanged with people outside of that region (Parra, 2001). One further definition of culture is a pattern of shared basic assumptions that a group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid, and therefore to be taught to new members as the appropriate ways to perceive, think, and feel with relation to those problems (Schein, 1997). Simintiras and Thomas (1998) defined culture as "accepted values and norms that influence the way in which people think, feel, and behave." Barbash and Taylor (1997) indicated that culture includes religion, gender, language, class, ethnicity, and sexual orientation. Since sub-cultures, cultures and super-cultures merge and evolve, while being less bounded than before; the idea of culture is more porous and varied than before

(Barbash and Taylor, 1997). Lee and Trim (2008) indicated that a shared organizational culture can help with the management of an international partnership arrangement, and senior managers will need to possess knowledge of the national cultural value traits of the people concerned.

Wheeler (2006) indicated that in the real world, negotiations are far more challenging, especially in their substantive and emotional aspects. In the broadest sense, negotiation is a process of communicating back-and-forth to discuss the issues to reach an agreement that is satisfactory to the parties involved (Gulbro and Herbig, 1994; Foroughi, 1998). Negotiation is a kind of social interaction with the goal of reaching an agreement between two or more parties, usually with different objectives or interests that they think are important (Fraser and Zarkada-Fraser, 2002; Manning and Robertson, 2003; Wheeler, 2004a). Each negotiator’s individual culture determines his or her epistemology, values, norms and behaviors (Simintiras and Thomas, 1998; Hung, 1998; Woo and Pru’homme, 1999; Chang, 2003).

Gulbro and Herbig (1994) indicated that different cultures can generate distinct negotiation styles. Differences in negotiating styles originate from the fact that every society places different degrees of importance on “relationship development, negotiating strategies, decision making methods, spatial and temporal orientations, contracting practices, and illicit behaviors such as bribery” (Acuff, 1997: 19). These different styles in negotiation are the result of differences in communication, protocols, persuasion strategies, and personal characteristics, including accommodation, determination, flexibility, and adaptation (Hung, 1998). Those specializing in negotiation need to be aware of and understand the negotiation styles of other people who live in different countries by studying their cultural beliefs and norms (Chang, 2003).

Cross-cultural negotiations are more complex due to cultural factors, environments, languages, ideologies, and customs (Mintu-Wimsatt and Gassenheimer, 2000; Hoffmann, 2001). Because many negotiators may lack understanding of these cross cultural differences, they are often unsuccessful at reaching an agreement. Cultural aspects can be more of an obstacle than economic or legal factors (Gulbro and Herbig, 1995). Every culture develops a unique negotiation style to handle conflicts that arise between those within and outside of that culture. Strategic alliances and multilateral negotiations have become essential to successful international relations. When conducting international business (Graham, Mintu and Rodgers, 1994). Gulbro and Herbig (1998) indicated that for achieving successful agreements, negotiations are important in order to eliminate conflicting points of view between the representatives. A successful cross-cultural negotiation requires the skill of selecting the appropriate communication strategy and tactics. Successful negotiation requires not only acquiring technical communicative abilities, but also an understanding of the context of the negotiation by both parties (Korobkin, 2000).

Upon completing the negotiations, the parties enter into a formal agreement. An agreement is the exchange of conditional promises, in which both parties agree to act in accordance with their promises (Martin, 1997). Different cultures use different negotiation styles, and a party’s styles in negotiating directly impact the terms of the final agreement. It is important to understand the

various negotiation styles and the cultural issues that influence behavior during negotiation. There are numerous factors that can affect the results of the negotiating process. Among these are culture, personality, gender, experience, knowledge, and education of the parties involved in the negotiation process (Gulbro and Herbig, 1994; Barbash and Taylor, 1997; Simintiras and Thomas, 1998; Hung, 1998; Woo and Pru'homme, 1999; Chang, 2003).

Numerous studies have shown that culture is one of most important factors in cross-country negotiations (Salacuse, 2005). An understanding of the differences and similarities of each culture by the negotiators is beneficial in facilitating communication and success in negotiation (Gannon, 2001). When attempting cross-culture negotiations, the representatives need to be aware of and familiar with the different behaviors of representatives from other countries (Gulbro and Herbig, 1999). During these negotiations, both parties must often change their tactics to meet the other party's style. Gulbro and Herbig (1995: 3) also indicated "when negotiating internationally, this translates into anticipating culturally related ideas that are most likely to be understood by a person of a given culture".

To have a successful cross-cultural negotiation process it is necessary to fully understand the cultural values and assumptions of both parties. Additionally, the negotiators must see through the eyes of the other party's representatives to understand their goals (Fisher, 1983). Wheeler (2004b) indicated that if the parties have not established shared definitions of why they are meeting and what they are negotiating, it will be more difficult to reach goals.

With the goal of helping individuals distinguish the various cultural differences of countries, Hofstede (1980) introduced his seminal theory of four cultural dimensions based on his earlier qualitative, phenomenological studies. This theory identifies four major cultural differences: power, uncertainty/avoidance, Collectivism characteristics, and masculinity/femininity (Hofstede, 1980 and 1994). Hofstede's major proposition is that cultural differences impact business conduct, decision making and communication. Therefore, increased cultural awareness is important for international managers (Chang 2003). Hofstede and Bond (1988) added a fifth dimension to the cultural dimension model, which they identified as "Confucian dynamism," to distinguish between Chinese and Western cultural values. The five cultural dimensions were defined by Barry (2001, p. 35) as:

Power difference is the perceived degree of inequality among people. Uncertainty avoidance is the extent to which a society feels threatened by uncertain situations and avoids these situations by providing stable systems with formal rules. Collectivism characteristics are a social fabric in which each individual takes care of himself or herself in contrast with collectivism in which groups take care of the individual. Masculinity-Femininity reflects on whether the dominant values that are associated with the collection of money and things (masculinity) as contrasted with values associated with caring for others and quality of life (femininity). Confucian dynamism reflects whether the members of a society are short-term or long-term oriented in outlook.

Osman-Gani and Tan (2002) conducted an exploratory, quantitative study of cross-cultural impacts on negotiation styles of Chinese, Malay, and Indian managers living in Singapore. The four negotiation styles were developed by Casse and Deol (1985). These negotiation styles were more recently defined by Osman-Gani and Tan (2002, p. 825) as:

A factual style identifies facts in an unemotional manner, pays attention to details and all statements made during a negotiation, and places much importance on proof and facts as related to experience. An intuitive person is warm and animated when making statements, flexible and creative during negotiations, fluid and able to adapt to changing subjects and situations, and imaginative in projecting into the future. A normal person considers and weights facts according to a set of personal values; this person uses all the tools at his or her disposal, such as emotions, status, authority, and rewards, to come up with the best bargain. The analytical negotiator is strongly logical, tries to find cause-and-effect in all issues, and likes to weigh pros and cons thoroughly.

Based on the purpose of the study and the literature review described above, the research question of this study is: Do cultural characteristics, religious beliefs and individualistic-collectivist attitude of Iranian, Taiwanese and North American negotiators affect their negotiation styles?

DATA AND METHODOLOGY

This research is a causal comparative and explanatory study, and intended to examine, describe, and explore the differences and similarities of various negotiation styles in relation to the cultural differences in the three distinct countries, Iran, Taiwan and the United States.

The primary purpose of the study is to provide a more comprehensive understanding of the differences and similarities between culture and negotiation style among negotiators from Iran, Taiwan and the United States.

Our research sample consists of students enrolled in the Management Department at Tarbiat Modares University in Tehran, Iran; enrolled in the Department of Business Administration at Chungyu Institute of Technology in Keelung Taiwan; and students enrolled in the College of Business and Management at Lynn University in Boca Raton, Florida in the United States. This is a convenience sample, selected from the departments where the researchers teach.

A three-part questionnaire was developed by the researchers to measure variables related to negotiation styles, demographic background, collectivist attitude and religious affiliation. First, one of the models employed in this research examines the influence of culture on negotiation styles and was developed by Casse and Deol (1985). They developed a multidimensional model to measure four different negotiation styles (factual, intuitive, normative, and analytical negotiation styles). In our research model, these four negotiation styles become our dependent variables.

Six of the items on our questionnaire are designed to examine each style (factual, intuitive, normative, and analytical negotiation styles) of negotiation that were measured on the five-point

Likert scale. There were five options for each statement: 5. "Always" (around 100% of the time); 4. "Often" (around 75% of the time); 3. "Occasionally" (around 50% of the time); 2. "Seldom" (around 25% of the time); 1. "Never" (around 0% of the time). In total, there were 24 questions for the four negotiation styles.

Hofstede (1980) noted that one unique negotiation style is to share disparate cultural values, such as Collectivism-Individualism characteristics. Among Hofstede's cultural dimensions, Collectivism-Individualism characteristics are most frequently applied in the study of cross-cultural negotiation (Bazerman et al, 2000). Third, religion is also a cultural element reflecting the group behavior (Barbash and Taylor, 1997).

The religious and collectivist characteristics reflecting cultural differences are the independent variables of our research model. 8 questions are designed to examine the Collectivism of an individual. (utilizing a five-point Likert scale. (5 = "Always" (100% of the time); 4 = "Often" (75% of the time); 3 = "Occasionally" (50% of the time); 2. ="Seldom" (25% of the time); and 1 = "Never" (0% of the time). In addition, respondents designated religion by responding to the item as follows: 1= Christian; 2= Muslim; 3= Buddhist; 4= Other.

The model includes socio-demographic characteristic for the participants including educational level, gender, age and work experience (as these indicate additional explanatory predictors). For the data collection of demographic variables, the participants provided self-reported responses. These socio-demographic items and the coding schemes included education level: (1= Associate's degree, 2=Bachelor degree, 3: Graduate degree program.); Gender: 1=Males, 2=Females; Age: 1= under 18, 2= 18-28, 3= over 28. Work experience: 1= 0, 2= 1-3, 3= more than 3.)

The three-part questionnaire was adapted from Tu (2007) and Tu and Farazmand (2007). The first part of the questionnaire is the Socio-Demographic Profile. The second part addresses Collectivism and the third part addresses negotiation styles. The data were collected from university students in the classroom in Iran, Taiwan and the United States by the researchers.

RESEARCH QUESTION AND HYPOTHESIS

The existing literature on the impact of culture on negotiation styles does not address the impact of religious belief on negotiation styles. Since the negotiation styles and cultures of these three countries have not been compared and comprehensively examined, this research provides a greater understanding by comparing the culture and negotiation styles of Iran, Taiwan and the United States. The research utilizes a survey questionnaire developed by the researchers based on Casse and Deol model (1985) and Hofstede's theory of cultural dimensions (1980 and 1994) to answer the research question and test the research hypotheses.

The research question focuses on the impact of culture, more specifically the religious culture on negotiation styles. The research aims to provide an answer to the following question: Do

cultural characteristics, religious beliefs, and individualistic-collectivist attitude of Iranian, Taiwanese and North American negotiators affect their negotiation styles?

Therefore, the hypothesis is: religious beliefs and collectivist characteristics of Iranian, Taiwanese and North American negotiators have significant effects on negotiation styles employed. Second, demographic characteristics, level of education, age, gender and years of work experience of Iranian, Taiwanese and North American negotiators have significant effects on negotiation styles employed.

The regression equations below indicate what variables are going to be tested:

To test dimension of Factual style:

$$NSFS = a + b1R + b2I/C + b3SD$$

To test dimension of Intuitive style:

$$NSIS = a + b1R + b2I/C + b3SD$$

To test dimension of Normative style:

$$NSNS = a + b1R + b2I/C + b3SD$$

To test dimension of Analytical style:

$$NSAS = a + b1R + b2I/C + b3SD$$

Where:

NSFS=Negotiation Style Factual style
NSIS=Negotiation Style Intuitive style
NSNS=Negotiation Style Normative style
NSAS=Negotiation Style Analytical style
R=Religion
I/C= Degree of Collectivism
SD=Socio-Demographic Characteristics

The research objectives are as follows:

- To provide a more comprehensive understanding of the differences and similarities between culture, and negotiation styles among negotiators from Iran, Taiwan, and the United states.
- To investigate the relationship between cultural characteristics including religious beliefs, and collectivist attitude and their perceived differences in negotiation styles of Iranians, Taiwanese, and the North Americans.

- To explore whether there are significant relationships between level of education, gender, age, and work experience and negotiation styles of Iranians, Taiwanese, and the North Americans.
- This research will examine whether cultural factors and socio-demographic characteristics have an impact on the frequency of employment of a factual style, intuitive style, normative style, or analytical style of negotiation by Iranians, Taiwanese, and the North Americans.

RESULTS

This research examined the impact of cultural factors (independent variables) on negotiation styles (dependent variables). The research used a respondent self-reported survey questionnaire to collect the data and to test the relationship between dependent and independent variables, and the results are presented from the statistical analysis that was used to analyze the four negotiation styles, religion, collectivist and socio-demographic characteristics.

The internal consistency reliability was measured by using Cronbach's coefficient *a* according to the mean average correlation of each item with every other item. The internal consistency reliability of the original individualist/collectivist characteristics and four negotiation styles questionnaires (Tu 2007) were: 1) collectivist characteristics (10 items); Cranach's α=0.77; 2) analytical negotiation styles (10 items): Cronbach's α=0.82; 3) normative negotiation styles (10 items): Cronbach α=0.75; 4) factual negotiation styles (10 items): Cranach's α=0.81; and 5) intuitive negotiation styles (10 items): Cronbach's α=0.79.

Nunnally (1978) recommend that Cranach's *a* value should be above 0.70, but Bowman and Ambrosini (1997) states that Cronbach's *a* value in basic research should be at least 0.80. For higher internal consistency reliability, two questions were removed from Tu's (2007) questionnaire of individualist/collectivist characteristics; the Cronbach's *a* value became 0.81. Four questions were removed from the questionnaire of each negotiation style. The Cronbach's *a* value of analytical negotiation style became 0.87; normative negotiation style became 0.83; factual negotiation style became 0.85; and intuitive negotiation style became 0.82. Therefore, all Cronbach's alpha values in this study were above 0.80. The internal consistency reliability of instruments of this study was therefore considered sufficient for social science research. The results are shown in Table 1.

Table 1. Reliability Statistics of Collectivism Characteristics and Negotiation Styles		
Variables	Items	Cronbach's α Coefficient
Collectivism	8	0.81
Analytical Negotiation Style	6	0.87
Normative Negotiation Style	6	0.83
Factual Negotiation Style	6	0.85
Intuitive Negotiation Style	6	0.82

Table 2. Frequency Distribution of Socio-Demographic Characteristics			
Socio-Demographic Characteristics		Frequency	Percent
Gender	Male	85	53.8
	Female	73	46.2
Last Degree Completed	Associate Degree	12	7.6
	Bachelor Degree	102	64.6
	Graduate Degree	44	27.8
Religious Affiliation	Christian	33	20.9
	Muslim	50	31.6
	Buddhist	37	23.4
	Other	38	24.1
Regions of Birth	America	52	32.9
	Iran	50	31.6
	Taiwan	56	35.4
Business Experience	0	18	11.4
	1-3	35	22.2
	More than 3	105	66.5
Age	Under 18	1	0.6
	18-28	98	62.0
	Above 28	59	37.3

Table 2 shows that among the 158 respondents, 85 (53.8%) were male and 73 (46.2%) were female. In this study, 12 respondents (7.6%) were students of an associate degree program, 102 respondents (64.6%) in a four year college or university program, and 44 respondents (27.8%) in graduate degree program. In terms of religion, 33 (20.9%) were Christian, 50 (31.6%) Muslim, 37 respondents (23.4%) Buddhist, and 38 (24.1%) were Others. The largest number, nearly a third, 52

(32.9%) of respondents were from Iran, 50 (31.6%) from the United States; and 56 (35.4%) from Taiwan. Among the respondents, 18 (11.4%) had no business experience, 35 (22.2%) from 1 to 3 years, and 105 (66.5%) more than 3 years of business experience. There were 1 (0.6 %) respondents under 18 years old, 98 (62.0 %) between 18 and 28 years old, and 59 (37.3 %) older than 28. The frequency distribution of respondents' characteristics is shown in Table 2.

The hypothesis is that religious beliefs, collectivist characteristics, and socio-demographic characteristics significantly affect negotiation styles between people from Iran, Taiwan and the United States. Hence, the independent variables for multiple regression analysis were religious beliefs, collectivist attitudes, level of education, gender, age and work experience. The dependent variables were the four negotiation styles of factual, intuitive, normative, and analytical.
First, a Pearson correlation coefficient was performed for the independent variable of collectivism and the dependent variables of factual, intuitive, normative, and analytical negotiation styles. As shown in Table 3 all the results are below the acceptance levels of correlation between the collectivism variable and the 4 negotiation styles.

Table 3. Collectivism Pearson Correlation for Negotiation Styles

Correlation Coefficient	Collectivism	Analytical Negotiation	Normative Negotiation	Factual Negotiation	Intuitive negotiation
Collectivism	1				
Analytical Negotiation	-0.133	1			
Normative Negotiation	0.013	0.854	1		
Factual Negotiation	0.010	0.855	0.891	1	
Intuitive negotiation	0.004	0.764	0.838	0.797	1

Table 4. Religion Chi- Square Correlation for Negotiation Styles

Elements/Dimensions	Religion	Asymp. Sig. (2 sided)
Religion	1	
Analytical Negotiation	80.090	.000
Normative Negotiation	73.518	.000
Factual Negotiation	87.404	.000
Intuitive Negotiation	68.851	.000

Second, for the independent variable of the religion and the four dependent variables of analytical, normative, factual and intuitive negotiation styles a Pearson Chi Square was performed because of religion being measured with a nominal discrete scale. For running Pearson Chi Square for religion and the negotiation styles, each negotiation style was divided to two groups by median

to become discrete variables like the religion variable. Table 4 shows the results of Pearson Chi Square for religion and the four negotiation styles.

As shown in Table 4 all the results are above the acceptance levels indicating a significant correlation between the religion and the 4 negotiation styles.

The 6 independent variables, religion, collectivism, education, age, gender and work experience and 4 dependent variables of factual, intuitive, normative, and analytical negotiation styles were further tested using several stepwise regression analyses.

As shown in Equations 1, 2, 3 and 4 and Tables 5, 6, 7 and 8, the results of stepwise regression equations indicated a significant negative relationship between religious belief and the negotiation style.

For the relationship between analytical negotiation style and religious belief (equation 1 and table 5) the value of $\beta 1$=-1.861; $\beta 2$=-0.362 and R^2=.704 indicate a significant negative relationship. For the relationship between normative negotiation style and religious belief (equation 2 and table 6) the value of $\beta 1$=-1.819 and R^2 =.824 shows a significant negative relationship. For the relationship between factual negotiation style and religious belief (equation 3 and table 7) the value of $\beta 1$=-1.928 and R^2 =.803 also indicate a significant negative relationship. Finally, for the relationship between intuitive negotiation style and religious belief (equation 4 and table 8) the value of$\beta 1$=-1.746; $\beta 2$=-0.373 and R^2 =.699 indicate a significant negative relationship too. The results of all the four multiple regression equations indicate a statistically significant relationship between negotiation style and religious belief.

The results of stepwise regression equations did not report age, gender and work experience as significant variables affecting the negotiation styles.

Table 5. Stepwise Regression Models for Analytical Styles					
R^2 = 0.704 Adjusted R^2 = 0.694 Standard Error = 0.509 F = 68.506 Significant F = 0.000					
	α	β	Std. Er.	Std. β	t
(Constant)	4.344		0.258		16.850***
r1		-1.861	0.129	-1.002	-14.472***
r2		-0.362	0.135	-0.182	-2.680***
graduate		0.298	0.125	0.151	2.376**
Collectivism		-0.205	0.101	-0.114	-2.031*
*_p_=<.05; ** _p_=<.01; *** _p_=<.001					

Equation 1: Analytical negotiation style = 4.344 – 1.861 (R1) – 0.362 (R2) + 0.298 (graduate) – 0.205 (Collectivism)

Table 6. Stepwise Regression Models for Normative Styles					
R^2 = 0.824 Adjusted R^2 = 0.821 Standard Error = 0.402 F = 273.797 Significant F = 0.000					
	α	β	Std. Er.	Std. β	t
(Constant)	4.000		0.082		49.078***
r1		-1.819	0.083	-0.948	-21.839***
bachelor		-0.191	0.084	-0.099	-2.282*
p*=<.05; ** *p*=<.01; * *p*=<.001					

Equation 2: Normative negotiation style = 4.000 – 1.819 (R1) – 0.191 (bachelor)

Table 7. Stepwise Regression Models for Factual Styles					
R^2 = 0.803 Adjusted R^2 = 0.801 Standard Error = 0.475 F = 480.015 Significant F = 0.000					
	α	β	Std. Er.	Std. β	t
(Constant)	4.038		0.057		71.086***
r1		-1.928	0.088	-0.896	-21.909***
p*=<.05; ** *p*=<.01; * *p*=<.001					

Equation 3: Factual negotiation style = 4.038 – 1.928 (R1)

Table 8. Stepwise Regression Models for Intuitive Styles					
R^2 = 0.699 Adjusted R^2 = 0.693 Standard Error = 0.517 F = 135.588 Significant F = 0.000					
	α	B	Std. Er.	Std. β	t
(Constant)	3.949		0.090		43.905***
r1		-1.746	0.116	-0.926	-15.066***
r2		-0.373	0.124	-0.185	-3.014**
p*=<.05; ** *p*=<.01; * *p*=<.001					

Equation 4: Intuitive negotiation style = 3.949 – 1.746 (R1) – 0.373 (R2)

Table 9 presents the mean difference of the Post Hoc Test of the Christian, Muslim and Buddhist groups. The results indicate the Christian group had a higher significant value than Muslim and Buddhist groups for all four negotiation styles. In other words, the Christian group prefers to employ all four negotiation styles more than Muslim and Buddhist groups. On the other hand, the mean difference of the Post Hoc Test of the three groups showed that the Muslim group had the

smallest significant value for all the negotiation styles. For the research question, Table 9 supports the hypothesis that religious beliefs of Iranian, Taiwanese and North Americans affect their negotiation styles.

Table 9. Multiple Comparisons of Post Hoc Tests on Negotiation Style for Religious Believes						
Variables	Religion	N	Mean	*F*	*P*	Post Hoc Test
Analytical	Christian	33	3.910	123.709	0.000	Christian> Buddhist> Muslim
	Muslim	50	2.156			
	Buddhist	37	3.384			
Normative	Christian	33	3.929	266.087	0.000	Christian = Buddhist > Muslim
	Muslim	50	2.117			
	Buddhist	37	3.779			
Factual	Christian	33	4.106	241.216	0.000	Christian = Buddhist > Muslim
	Muslim	50	2.110			
	Buddhist	37	3.978			
Intuitive	Christian	33	3.950	135.588	0.000	Christian> Buddhist> Muslim
	Muslim	50	2.203			
	Buddhist	37	3.577			
*p=<.05; ** p=<.01; *** p=<.001						

DISCUSSION AND CONCLUSION

This section presents a discussion of the results, presented with an interpretation of findings and the practical implications pertaining to Iran, Taiwan and the United States negotiators. The next section reviews this study and provides certain limitations, recommendations for future studies, and the conclusions.

Kerlinger and Haward (2000) indicated that if the R^2 value is greater than .49, the strength of relationship is considered very strong; if the R^2 value is between .26 and .49, the strength of relationship is considered strong; if the R^2 value is between .13 and .26, the strength of relationship is considered medium and if the R^2 value is between .02 and .13, the strength of relationship is considered weak In the study, the value of R^2 square varied from 0.69 to 0.802 and indicating that the variances could be validly predicted from the combination of included independent variables. The negative sign of the coefficient of the religion variable (βs) in Equations 1, 2, 3 and 4; and Table 4, 5, 6, 7 and 8 indicate an inverse relationship between religious belief and the analytical, normative, factual and intuitive negotiation styles. This could be due to a lack of a fifth negotiation style not included in Casse and Deol (1985) model. A fifth negotiation style representing belief and

devotion might have correlated positively with religious belief, the fifth negotiation style might have corresponded to a strong affiliation of a negotiator to an ideology or school of thought which is beyond just cultural norms of a society. An addition to Casse and Deol (1985) negotiation styles, there is the ideological negotiation style which has its roots in a negotiator's strong ideological levels of devotion and belief. The strong correlation between negotiation style and religious belief points to the importance of considerations for and awareness of the negotiators' ideological or religious beliefs and levels of devotion. Knowledge about and respect for the religion of the negotiators could develop trust and mutual respect . This, in turn, could result in a higher probability of successful agreements.

The lower mean difference of the Post Hoc Test of the Muslim group (Table 9) could be an indication of devotion to religious rules that is more prevalent among Muslims than among Christian and Buddhist groups. However, religious devotion does not rule out analytical, normative, factual and intuitive considerations. It is just an indication of stronger devotion to religious rules. For the sample of Muslim Iranian students, the above applies. However, it does not mean that any Muslim negotiator might rely more on religious rules and beliefs than on analytical, normative, factual or intuitive negotiation styles. It depends on the degree of a negotiator's religious devotion. Iranian students might have a stronger religious affiliation than Taiwanese and American students considering the religious environment of the country and Islamic Republic system of government in Iran.

The findings of this study are limited to college students in Iran, Taiwan and the United States. This study was constrained by limited human resources, financial resources, and time; therefore, the study only adopted a quantitative research method and employed a self-reporting questionnaire to conduct the survey. This study was based on Casse and Deols' (1985) model of four negotiation styles, and Hofstede's model of Collectivism. Although Hofstede's model has been widely utilized to examine cultural issues, only one factor was examined in this study. Some important factors that were not identified in this study (such as power, uncertainty/avoidance, and masculinity/femininity) may also influence negotiation styles.

Future studies could compare the differences and similarities of negotiation styles among several countries and/or could include more than three religions and sets of related ideological beliefs. This study employed a quantitative approach to explore the relationship between culture and negotiation styles. Future studies could employ a qualitative method to enhance the findings of the quantitative method. Future studies should include larger and random samples to increase the ability to generalize the findings from the samples to the larger populations they represent. . .

Osman-Gani and Tan (2002) indicated that subtle differences and nuances could make all the difference in cross-cultural negotiations, and Casse (1981, p. 152) stated, "the parties involved belong to different cultures, and therefore, do not share the same ways of thinking, feeling, and behaving". The objective of this study was to identify the critical influences on cross-cultural negotiation styles, and the results of this study indicate that all of the contexts in Iran, Taiwan and

the US are important for negotiation. The findings of this study not only expand the current knowledge of negotiation styles among Iran, Taiwan and U.S., but also may provide reference to people who want to conduct negotiation in these three countries. The researchers hope that this study will improve the general understanding of Iran, Taiwan and the United States negotiation styles and help people develop better strategies in negotiation.

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TOP 250 GLOBAL RETAILERS: ON-LINE FEATURES OF RETAILER WEBSITES

Ismet Anitsal, Tennessee Tech University
M. Meral Anitsal, Tennessee Tech University
Tulay Girard, Penn State Altoona

ABSTRACT

This study investigates which of the online features of the top 250 global retailers' web sites significantly contribute to their retail sales as well as income/ loss. The web site features are analyzed and classified into product, place, promotion, price, company, and customer service categories. The top 250 global retailers were dichotomously coded based on whether or not they provided each of the online features on their web sites. The performance data of the top 250 retailers included their 2006 revenues, income and losses, number of store formats, and number of countries they operate in. The analysis involved mean comparisons of the sales revenues; income/ loss, number of store formats, and number of countries the retailers operate in based on whether or not they offer the features on their web sites.

The findings indicate that the top global retailers' performance features such as number of formats, number of countries the retailers operate in were significantly associated with product, place, promotion, price, and company related aspects of marketing, including learning center, return and order cancelling policy, interactive shopping aid, gift cards, company credit card, rebates, price information, online credit application, investor, subsidiary and supplier information, and international web sites.

INTRODUCTION

As the number of Internet users reached almost 194 million in the U.S. (eMarketer 2009) and 1.6 billion in the world by the end of 2008 (Internet World Stats 2009), online retailers seek to offer new features on their web sites to attract and serve online shoppers better and compete effectively. Increased access by Internet users does not necessarily mean increased acceptance of visual displays (St. Amant, 2005) or use of web sites. According to St Amant (2005, p. 77), "the presence or absence of a single design feature can be enough to affect the credibility of an image or of an overall web site." Therefore, an analytical framework that suggests a systematic approach to analyzing global web sites could increase both the acceptance and use of the retailers' web sites. One particular tool that can serve as a useful framework is the online components of the marketing mix, the company and its customer service (Girard, Anitsal and Anitsal 2008).

This study examines and analyzes the web sites of the top 250 global retailers and tests which features significantly contribute to company's sales revenues and earnings, number of store formats, and number of countries they operate in. The web site features are classified into product, place, promotion, price, company, and customer service groups to provide a framework to serve as a design checklist to create an effective commercial web site (Table 1). Next, relevant literature on effective web design features under each group is presented followed by methodology, results, discussions, and suggestions for future research.

Table 1: Online Feature Categories on the Top Global Retailers' Web Sites

Product	Distribution	Promotion
Search Product Description Learning Center Wish List Gift Registry Matching/Alternative Products	Shopping Cart Encryption Return Policy Delivery Time Order Tracking Cancel Order Free Shipping Interactive Shopping Aid Alternative Order Methods	Gift Cards Company Credit Card Coupons Special Offers Store Card Rebates
Price	**Company**	**Customer Service**
Price of Products Shipping Cost Price Bundles Online Credit Application	Investor Information Supplier Information Subsidiaries Affiliate Programs International Websites	Email Signup Customer Service Information Login 1-800 Number Register Customer Accounts Customer Feedback Newsletter Shopping Tips FAQ

LITERATURE REVIEW

Product

According to Adam et al. (2002), a web site should match the organization's objectives with regard to offering its products and services. Girard, Anitsal and Anitsal (2008) also confirmed that a web site should meet the strategic objectives of a company with regard to its marketing mix (i.e., product, place, promotion, and price) and product positioning. Huarng and Christopher (2003) emphasized the importance of information search in a commercial web site design and supported

that web sites should contain a site map, a product index, and a product search function. In a similar study, Taylor and England (2006) concluded that the more accessible the content relating to products and services on a company web site, the more likely the products and services will be purchased. Such product and service related content includes product and service description, gift registry, wish list, learning center in which educational information with regard to the use of the product and service is provided (e.g., recipes, articles, demonstrations), and matching or suggesting alternative products function by the web site's interactive shopping aid (Table 2). A study by Forrester Research found that 54 percent of U.S. online shoppers notice product recommendations on web sites, and 34 percent make purchases based on these recommendations (Internet Retailer 2009).

Table 2: Websites of Top Global Retailers by Language		
Retailer's Website	Frequency	Percent
English Site Available	157	62.8
English Site Not Available	64	25.6
Only Corporate Site in English	29	11.6
Total	250	100.0

Distribution

Another important component of the marketing mix, distribution or place, may involve physical distribution of the product or service from one supplier to another supplier or customer, and the distribution of product related information. On a web site, a shopping cart is usually the function that starts the actual purchase transaction. Order fulfillment refers to the delivery of a product or service initiated by an order placed by a customer and an essential step in the transaction process (Bart et al. 2005). An online purchase transaction also involves providing information on a web site that consumers would seek such as return policy, delivery time, order tracking, option to cancel an order, shipping cost/free shipping, alternative order delivery methods, and interactive shopping aid or advice feature such as AJAX, tagging, and other forms of instantaneous customer feedback (Fry 2006; Girard, Anitsal and Anitsal 2008) that informs and guides a user toward solutions related to problems and issues the user encounters on a web site (Bart et al. 2005).

Promotion

As e-commerce has emerged as one of the most cost effective ways of doing business in today's unstable global marketplace, online promotions have gained much attention. As part of their strategy, some of the online promotions that companies usually offer include gift cards, a company credit card and/or store card, coupons, special offers and discounts, and rebates. An increasing

number of retailers are selling prepaid gift cards online to be spent on products and services they offer or anywhere the card is accepted. Furthermore, partnering with Visa or Mastercard, retailers widely have signed on to offer store cards that can also be used elsewhere (Business Wire 2009). For example starting summer 2009, Marriott International Inc. offered a $20 Visa Gift card when a guest booked a weekend stay with Courtyard between certain dates using a promotional code (Marriott 2009). TowerGroup, a global research and consulting firm, "estimates that by 2010, prepaid and gift card usage will be $75 billion, a 600% increase over 2005; and 375 million cards will be in circulation, a 1,000 percent increase" (CoreCard Software 2009). The Mercator Advisory Group in the United States claims that "the open-loop, branded prepaid market will see an annual market spend of $28 billion, and the closed-loop, private label prepaid market $171 billion between 2006 and 2009" (CoreCard Software 2009). In 2009 Cabela's Incorporated announced that it now offers its own branded Club Visa credit card and plans to introduce Club Visa Signature card by New Year. This new loyalty program offers benefits and opportunities to earn more free merchandise at Cabela's. The Club Visa Signature card will offer cash rebate of 5 percent in Cabela's Club points for purchases from Cabela's and 1 percent for all other purchases (Business Wire 2009). Domino's Pizza displays another example of the promotional online features that have been successfully used. Domino's market share jumped to a 28 percent in 2009 from an 11 percent 24 months ago due to the efficiency of its ordering process, the deals offered in the coupon section, and the rich data feedback of the baking and delivery process (Marketing Business Weekly 2009).

Price

In order to create value and compete with physical stores, e-tailers not only offer specials and discounts but also competitive prices on their web site. Retailers like Amazon.com compete by offering free shipping depending on the purchase amount, or different shipping options and costs, price bundles, and online credit card application. Koyuncu and Bhattacharya (2004) found that better prices available on the Internet and time saving feature of the Internet lead the consumers to shop more online. Arora (2008) studied the effect of price bundling on consumer attitudes, intentions, and beliefs toward a teeth-whitening product. They found that the effect of price bundling was not significant on attitudes but significant on intentions. However, the interaction effects of pricing and framing were found significant on both attitudes as well as intentions in their study. Besides price bundling, e-tailers offer their own store cards as incentive that takes percents off the purchase.

Company

While most web sites provide the ability to customers make purchase transactions, they also provide company related information for their various stakeholders to maintain a long-lasting relationship. For example, companies provide investor information where current and potential

investors can view annual reports and proxy materials (Thompson 2008), or information for a franchise investment. In addition, information on suppliers, subsidiaries, and affiliate programs are among the features that most retailers provide on their web sites to build trust, enhance the brands' image, and educate customers. For example, Office Depot has a Business Resource Center on its web site that provides these types of sources of networks to other businesses (Grewal and Levy 2010). Global retailers also build different versions of their web sites in different languages to serve customers from different countries.

Customer Service

Retailers provide a contact us feature for shoppers to reach a sales representative via email, chat, or sometimes webcam. According to a late 2008 cross-industry survey study by Forrester Research Inc., 84 percent of web sites offered email and according to another study by E-tailing Group Inc. 54 percent of the sites of the 100 largest online retailers offered Live chat as a way to contact customer support (Internet Retailer 2009). Amazon.com Inc. recently adopted the technology that let shoppers send a product picture to a customer service representative who can search the retailer's web site for an identical or similar product (Demery 2009). To make it faster and more efficient, Wal-Mart categorizes the topics for the shoppers before they send their requests via email. In the customer service information feature, retailers provide a 1-800 toll free number, a store locator feature to provide a local phone number when a customer enters a zip code, and/or the address and business hours for the local stores. For first time users of a web site, most web sites provide a register feature. For the repeat customers, they offer a sign-in and customer account features that store information about the customer and past purchases. According to a late 2007 survey study by Jupiter Research, 42 percent of online shoppers indicated that they had contacted a retailer about an online purchase in the past six months (Internet Retailer 2009). Other customer service type features that are offered include newsletters, shopping tips, customer feedback, and frequently asked questions.

METHOD

The list of top 250 global retailers was obtained from National Retail Federation's study of 2008 Global Powers of Retailing (NRF 2008). The data included 2006 sales revenues and net income/loss, number of formats, and number of countries these companies operate in. Number of formats indicates the number of different store types a company operates. For example, Wal-Mart has different types of store formats such as discount stores, super centers, and neighborhood stores. The information available on the web is increasingly multilingual (Blanco and Lioma 2009). For this reason, the researchers of this study began with visiting every web site of the 250 top global retailers and identifying those that have English web sites available, and not available, and those with only

corporate site available in English. The frequencies and percents are presented in Table 2. Only those that use English content on their web site were included in the analyses. The analysis involved mean comparisons to see if performance data significantly differ between the retailers that do versus do not have certain website features. In doing so, independent sample t-tests were conducted.

RESULTS AND DISCUSSION

The most common and uncommon website features found on the top 250 global retailer websites are presented in Table 3. From the highest to lowest, the top 10 most common features offered on the web sites are: (1) learning center, (2) customer service information, (3) product description, (4) special offers, (5) email signup, (6) search, (7) matching/ alternative products, (8) 1-800 number, (9) investor information and (10) FAQ (frequently asked questions). Common characteristics of these features concentrate on providing product related information including product description, showing matching/alternative products, promotions, and company related information such as investor information. The top global retailers also offer means to customers to reach the customer service representatives via email and a toll-free number and to find answers through FAQ.

The top 10 most uncommon features of the top 250 global retailer websites include: (1) rebates, (2) price bundles, (3) interactive shopping aid, (4) gift registry, (5) coupons, (6) affiliate programs, (7) free shipping, (8) cancel order, (9) online credit application and (10) company credit card. In this list, common characteristics of those uncommon features mostly concentrate on price/ financing and promotion related aspects. Interestingly, interactive shopping aid feature is still somewhat limited for the majority of the top 250 global retailers

The statistical results of the product related website features are presented in Table 4. The number of store formats for global retailers that offer learning center feature (2.21) on their websites is significantly more than those of the retailers that do not offer this feature (1.00) on their web sites at $p=0.001$ level. The performance results, number of store formats and number of countries in operation of the top global retailers that do and do not carry the other website features including search, product description, wish list, gift registry and matching/ alternative products were similar. Even though learning center was the most common feature among global retailers (Table 3); those that have more number of store formats include the learning center feature on their web sites significantly more than those with smaller number of store formats that do not include the learning center feature on their web site. Those that offer it may be more experienced in offering educational product/service usage information to promote customer relationships. Product recommendations through the learning center feature on their sites may also contribute to their higher level of aggregate retail sales ($16.5 vs. $5.2 billion) and aggregate income ($756 vs. $12 million).

Table 3: Most Common and Uncommon Website Features on the Top 250 Global Retailer Websites					
Most Common Features			**Most Uncommon Features**		
Features on Retailer's Web Site	**Exists %**	**Does not Exist %**	**Features on Retailer's Web Site**	**Exists %**	**Does not Exist %**
Learning Center	97.5	2.5	Rebates	12.7	87.3
Customer Service Information	93.6	6.4	Price Bundles	17.2	82.8
Product Description	87.3	12.7	Interactive Shopping Aid	17.8	82.2
Special Offer	85.4	14.6	Gift Registry	19.4	80.6
Email Signup	85.4	14.6	Coupons	28.0	72.0
Search	83.4	16.6	Affiliate Programs	33.1	66.9
Matching/Alternative Products	82.2	17.8	Free Shipping	35.0	65.0
1-800 Number	80.9	19.1	Cancel Order	35.9	64.1
Investor Information	80.9	19.1	Online Credit Application	36.3	63.7
FAQ	80.3	19.7	Company Credit Card	38.2	61.8
Customer Accounts	78.8	21.2	Alternative Order Methods	41.7	58.3
Price of Products	78.3	21.7	International websites	43.3	56.7
Login	76.8	23.2	Supplier Information	43.9	56.1
Return Policy	73.9	26.1	Wish List	47.7	52.3
Shopping Cart	70.7	29.3	Newsletter	47.8	52.2
Register	70.1	29.9	Customer Feedback	47.8	52.2
Gift Cards	69.4	30.6	Store Card	52.9	47.1
Encryption	67.9	32.1	Subsidiaries	53.5	46.5
Delivery Time	67.5	32.5	Order Tracking	53.5	46.5
Shipping Cost	64.3	35.7	Shopping Tips	56.4	43.6

The statistical results of place related website features are presented in Table 5. The number of countries in operation for the global retailers that offer a return policy (9.34) is significantly more than that of the retailers that do not offer a return policy (4.32) on their web sites at p=0.001 level. The global retailers with a greater number of store formats seem to offer the website features such as interactive shopping aid (p=0.001) and cancel order (p=0.05) significantly less than those with a lesser number of store formats. The retailers that have more store formats seem to guide the customers to cancel their orders and interact with a sales-associate in their stores rather than online. This may be because when customers are in the store, sales associates can interact and offer a better solution to the customer in order not to lose the sale or even the customer. The top retailers that have operations in more countries seem to significantly provide their return policy on their web sites than

those that have operations in smaller number of countries. This may be because the retailers that operate in more countries are more established with and experienced in their logistics in place.

Product	2006 Retail Sales (US$ mil)		2006 Group Income or Loss (US$ mil)		# of Store Formats		# of Countries in Operation	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Search	17,037	12,185	772	535	2.19	2.14	8.25	7.73
Product Description	16,325	16,217	795	448	2.07	2.90	8.64	5.20
Learning Center	16,542	5,224	756	12	**2.21**[a]	**1.00**[a]	8.31	1.33
Wish List	19,344	13,393	917	561	2.08	2.28	7.54	8.34
Gift Registry	27,258	13,623	1,237	584	2.07	2.22	5.62	8.66
Matching/Alternative Products	15,313	20,552	807	492	2.08	2.61	8.60	6.36

Table 4: Product Related Online Features on Global Retailer Websites

[a] p<0.01

Table 6 presents the statistical results of promotion related website features. The global retailers operate in a higher number of countries seem to offer a company credit card on their web sites (10.19) significantly less than those of the retailers that operate in smaller number of countries (4.89) at p=0.001 level. Similarly, this was also true for gift cards (7.20 vs. 10.51) at p=0.05 level. In terms of rebates, both the number of countries in operation and the number of store formats were statistically significant at p=0.05 level. Specifically, global retailers operating in limited number of countries (5.05 vs. 8.63) with less store formats (1.53 vs. 2.28) provide rebates feature on their websites less than those operating in more countries and more store formats. The reason for this consistent pattern may be that use of more complex promotions like gift cards, company credit cards, and rebates may not be feasible for the retailers that operate in greater number of countries and greater number of store formats. It may be more manageable for those retailers that have a less complex structure to offer these features on their web sites. Once these retailers become more experienced in such promotions, they may offer them in multi-country settings. Also, differing exchange rates, laws and regulations of various countries may have a hindering effect on the use of rebates, gift cards, and company credit cards.

The statistical results of price related website features are presented in Table 7. The global retailers that operate in a greater number of countries offer price of products (9.10) on their web sites significantly more than those that do not operate in as many countries (4.84) at p=0.05 level. However, an inverse relationship was found for the online credit application feature. The global retailers that operate in a greater number of countries offer online credit application (9.88) on their

web sites significantly less than those that operate in a limited number of countries (5.13) at p=0.05 level. Interestingly, retailers with a greater number of multi-country operations include price of products more often on their web sites, but they shy away from offering online credit applications. This may be because of conflicting credit application and approval rules and regulations of various countries. The commonly seen online credit card application fraud in less developed countries may be another reason.

Table 5: Place Related Online Features on Global Retailer Websites

Place (Distribution)	2006 Retail Sales (US$ mil)		2006 Group Income or Loss (US$ mil)		# of Store Formats		# of Countries in Operation	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Shopping Cart	18,046	11,972	827	499	1.19	2.17	8.70	6.83
Encryption	17,330	14,181	809	581	2.13	2.33	8.51	7.56
Return Policy	17,878	11,813	822	462	2.12	2.37	**9.34**[a]	**4.32**[a]
Delivery Time	17,196	14,426	837	514	2.10	2.36	8.65	7.15
Order Tracking	17,467	14,811	*887*	*515*	2.02	2.39	9.01	7.08
Cancel Order	21,179	13,377	994	559	**1.85**[b]	**2.40**[b]	7.89	8.42
Free Shipping	18,677	15,015	898	649	2.02	2.27	8.42	8.03
Interactive Shopping Aid	26,853	13,830	1,401	568	**1.68**[a]	**2.30**[a]	9.79	7.79
Alternative Order Methods	20,073	13,596	1,019	515	2.08	2.25	7.85	7.93

[a] $p<0.01$; [b] $p<0.05$

Table 6: Promotion Related Online Features on Global Retailer Websites

Promotion	2006 Retail Sales (US$ mil)		2006 Group Income or Loss (US$ mil)		# of Store Formats		# of Countries in Operation	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Gift Cards	15,883	17,344	737	757	1.96	2.72	**7.20**[b]	**10.51**[b]
Company Credit Card	18,957	14,682	942	609	2.02	2.29	**4.89**[a]	**10.19**[a]
Coupons	14,484	17,017	707	756	1.83	2.32	6.24	8.92
Special Offers	18,858	12,547	782	506	2.15	2.36	7.83	10.09
Store Card	19,719	12,663	955	516	2.09	2.28	7.08	9.34
Rebates	19,581	15,825	932	712	**1.53**[b]	**2.28**[b]	**5.05**[b]	**8.63**[b]

[a] $p<0.01$; [b] $p<0.05$

Table 7:price Related Online Features on Global Retailer Websites								
Price	**2006 Retail Sales (US$ mil)**		**2006 Group Income or Loss (US$ mil)**		**# of Store Formats**		**# of Countries in Operation**	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Price of Products	17,812	10,916	832	372	2.18	2.19	**9.10**[b]	**4.84**[b]
Shipping Cost	17,767	13,485	853	495	2.01	2.52	8.73	7.08
Price Bundles	30,528	13,112	1,311	592	1.93	2.24	6.78	8.48
Online Credit Application	19,832	14,325	957	614	2.08	2.24	**5.13**[b]	**9.88**[b]
[b] $p<0.05$								

Table 8 presents the statistical results of company related website features. The global retailers with a greater number of store formats offer subsidiaries information (2.87) on their websites significantly more than those with a limited number of store formats (1.41) at p=0.001 level. Offering international websites had a significant positive association with the group income/loss, number of store formats and number of countries in operation at p=0.001 level. Specifically, global retailers with higher group income (1,079 vs. 451), number of store formats (2.83 vs. 1.67) and number of countries in operation (13.0 vs. 4.34) are those that had significantly more international websites than their counterparts.

Table 8: Company Related Online Features on Global Retailer Websites								
Company	**2006 Retail Sales (US$ mil)**		**2006 Group Income or Loss (US$ mil)**		**# of Store Formats**		**# of Countries in Operation**	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Investor Information	**17,830**[b]	**8,896**[b]	753	227	2.25	1.73	8.17	8.16
Supplier Information	**23,840**[b]	**10,505**[b]	1,061	520	2.48	1.95	6.25	9.65
Subsidiaries	17,844	14,577	771	711	**2.87**[a]	**1.41**[a]	8.99	7.25
Affiliate Programs	23,048	12,838	951	622	2.18	2.19	9.92	7.27
International Websites	22,492	11,411	**1,079**[a]	**451**[a]	**2.83**[a]	**1.67**[a]	**13.00**[a]	**4.34**[a]
[a] $p<0.01$; [b] $p<0.05$								

Global retailers with higher retail sales had also investor information ($17.8 vs. $8.9 billion) and supplier information ($23.8 vs. $10.5 billion) features on their websites. Company related

aspects of the web sites had the most number of positive associations with the performance measures that differentiate successful and not-so-successful global retail operations. Companies with more store formats and multi-country operations have used more links to their international sites and provided information about their subsidiaries. As retailers grow they implement more store formats and open more locations of operations. This, in turn, speeds up their further growth as evident in the higher level of retail sales of the companies that include investor and supplier information on their web sites.

Table 9:customer Service Related Online Features On Global Retailer Websites

Customer Service	**2006 Retail Sales (US$ mil)**		**2006 Group Income or Loss (US$ mil)**		**# of Store Formats**		**# of Countries in Operation**	
Feature	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist	Exists	Does Not Exist
Email Signup	16,695	13,868	776	467	2.09	2.75	8.12	8.50
Customer Service Info.	15,417	30,015	739	814	2.09	3.56	7.91	12.22
Login	16,066	17,840	781	639	2.13	2.34	8.35	7,75
1-800 Number	17,139	12,938	758	672	2.25	1.90	7.44	11.14
Register	16,970	14,605	801	558	2.13	2.32	8.48	7.34
Customer Accounts	16,440	15,956	783	579	2.15	2.17	8.42	7.41
Customer Feedback	17,102	15,530	903	589	1.93	2.43	7.51	8.82
Newsletter	19,738	13,020	930	563	2.25	2.12	8.44	7.91
Shopping Tips	16,607	15,997	885	576	2.04	2.32	8.35	8.05
FAQ	16,229	16,656	777	561	2.18	2.21	8.53	6.64

Table 9 presents the results of customer service related website features. None of the performance measures were significantly different between the retailers that have and do not have these online features. That is, all of the website features including email signup, customer service information, login, 1-800 number, register, customer accounts, customer feedback, newsletter, shopping tips, and FAQ were similar with regard to sales, income/ loss, number of store formats and number of countries the retailers operate in. That may be because most of the customer related aspects are offered both online and offline, and customers have many different ways to reach retailers. That is why no single feature contributes statistically to higher performance between the retailers that offer and do not offer these features on their web sites.

CONCLUSION

This study of online features of 250 global retailers' web sites found that performance factors such as number of store formats, number of countries the retailers operate in as well as retail sales were key factors that associated with product, place, promotion, price, and company aspects of the marketing mix. The most common features that were provided by 80 percent or more of the web sites

of the top global retailers were learning center, customer service information, product description, special offers, e-mail sign up, search, matching/ alternative products, 1-800 number, investor information, and FAQ. On the contrary, rebates, price bundles, interactive shopping aids, and gift registry were only provided by 20 percent or less web sites of top global retailers.

Notably, customer service related online features that were common among the top global retailers no longer provide strategic differentiation because they provide customers with various online and offline means (e.g., email, 1-800, FAQ, customer feedback, in-store sales associate) to reach their customer service. Investor, supplier, and subsidiary information as well as the presence of international web site links were significantly and positively associated with performance factors such as retail sales, group income or loss, number of store formats and number of countries the retailers operate in. These online features (investor, supplier, and subsidiary information, and international web sites) may function as tools to attract more investors, suppliers, and customers; therefore, they lead to more growth.

This study shows that marketing mix components—product, place, promotion including the company, and price—are what make the retailers stand out if they provide the related features of the marketing mix on their web sites. The more retailers fine-tune their overall offerings to global markets, the more successful they become. Hindering factors in this scenario may be differences in rules, regulations, and laws of individual countries and markets. Future research streams are necessary to understand features such as gift cards, company credit cards, rebates, online credit offerings, credit history regulations, and their impact on retailers' performances in multi-country and multi-format operations.

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DOES INSTITUTIONAL THEORY EXPLAIN FOREIGN LOCATION CHOICES IN FRAGMENTED INDUSTRIES?

Richard S. Brown, Temple University

ABSTRACT

Fragmented industries are fundamentally different in terms of their structure and competitive landscape yet these industries have been neglected by much of the existing literature. In a sample of 90 countries and using the fragmented real estate industry, I empirically test Institutional Theory using Probit Regression in the context of international location choice and find that Institutional Theory is supported in this context. Three variables—GDP, Uncertainty Avoidance and Regulatory Quality—are found to be most significant. Additionally, a key finding is that firms in fragmented industries help to legitimatize countries in addition to other competing firms.

Keywords: Location Choice, Institutional Theory, Fragmented Industries

INTRODUCTION

There has been a comprehensive review in the International Business (IB) literature on the behavior of firms in concentrated industries and their expansion across national borders. Beginning with the Harvard Multinational Project in the 1960s, IB scholars such as Raymond Vernon and Frank Knickerbocker posited that oligopolistic industries were prone to make aggressive-defensive moves in order to maintain the equilibrium in the subject industry. As such, and because these firms had a valuable position to protect, the decision for foreign direct investment (FDI) was reactionary for many firms. The focus of these studies was not only industries that had oligopolistic tendencies but that were also involved in manufacturing. This combination of highly concentrated, or oligopolistic, industries and manufacturing concerns was logical for the time since most data that was available to academics were of this sort.

One problem with the study of that type of industry makeup is that it represents only a fraction of businesses that operate in the United States. As manufacturing has been displaced overseas, the U.S. economy has become ever more service oriented (Department of State Website 2006). Scholars, however, have not moved with the changing economy as many current studies are interested in diminishing industry structures. Certainly I am not arguing that these industries are irrelevant; instead, the point is that IB needs to incorporate more diverse sets of industry populations even if data collection and theory building is more difficult in this environment.

The central question of this study, as it pertains to international business scholarship, is why do firms that are in fragmented industries compete away from their home country? In other words, it can be completely understood why firms in highly concentrated industries move overseas as they must compete with their few major competitors. However, it is not so evident why firms in fragmented industries would do so. Theoretically, fragmented industries have numerous small sellers who, in many cases, do not compete directly for the same buyer's business. Following on this point, tit for tat moves are not common in highly fragmented space yet many of these firms still operate on the worldwide stage.

This study will focus on the Real Estate industry as a test case for fragmented industries for several reasons.. First, real estate is a highly fragmented industry (U.S. Census Bureau 2008; Ahluwalia and Chapman 2000; Forgey et. al. 1996; Frey 1996; Mahajan 2006; Porter 2003) nearing perfect competition. Even in sub-industries within this broad category (i.e. operative homebuilders, brokerage firms, construction, hotels, etc), one cannot find highly concentrated activity. Secondly, the real estate industry, being in the service sector, can give academics and practitioners a new angle on FDI. With these points in mind, I will focus on real estate firms that are based in the United States and have expanded internationally in order to discern what country characteristics are present for fragmented industry participants to enter. Therefore, in additional to fragmentation as a key topic, location choice will be the outcome studied.

I argue that the current literature neglects industries that do not have consolidated structures and that this neglect may be caused by several factors. First, the study of concentrated industries is facilitated by a greater amount of data. Secondly, by their nature, concentrated industries have less actors to follow which makes this type of study more feasible. Thirdly, many scholars discount industry structure. In other words, in the IB literature, there tends to be an ever increasing focus on entry mode, technology and knowledge transfer, and the like but industry structure is held constant. In other words, if entry mode is the focus of a study, either industry structure is lost because it is not explained or it is lost because fragmented industries are not included. The contribution of this paper is to focus on a fragmented industry in the context of foreign location choice.

THEORY

Institutional Theory may help to explain many of the activities of Multinational Enterprises (MNE) in both the motivations to move across boundaries and the resultant behaviors once those boundaries are crossed. Following the variation of Institutional Theory proposed by Meyer and Rowan (1977) and developed by DiMaggio and Powell (1983) as well as Scott and Meyer (1983), institutions are considered to be both formal and informal and, as such, can have a profound effect on those individuals or firms that must interact with them. In the context of location choice for U.S. based firms, informal and formal institutions are government structures. This point needs to be expanded. Governments and their agencies are both formal structures in that they operate and create

laws and informal in that individuals that have power in the formal structures often create informal entities within government. An important trait of this line of theory is that environments can have multiple institutional setting which help in defining legitimacy in the system (Scott 1987).

An example of the dichotomous (i.e. Formal and Informal) relationship within government structures is that of a regulatory body. Although national or local governments may set forth the legal structure of how industries and firms are regulated, subsystems within the regulatory body can have a persuasive influence on the regulatory outcome (Fineman 1998). If there is an asymmetry between the *de jure* law and the *de facto* law, one can argue that this is a lack of regulatory quality. Additionally, some subsystems in weak governmental structures become corrupt. In a corrupt system, meritorious work is considered inferior to both connections and bribes. All of these traits create informal institutions within formal institutions which effect not only firms that are based in those countries but also the location choices made by firms based in other countries.

Two other concepts that are brought to the fields of Strategy and IB through the Sociology literature are that of mimetic isomorphism and legitimacy. Although these concepts are intertwined at some level, they are treated here as separate and stand alone concepts.

Mimetic Isomorphism deals with behaviors of actors in the social structure that act to duplicate or mimic other actors (DiMaggio and Powell 1983; Lai et. al. 2006; Scott 1987). In IB, mimetic behaviors encompass a "follow the leader" mentality and can be seen in many instances in the marketplace. However, mimetic behavior need not be done based on an industry leader; one firms can mimic an industry equal or even a firm considered inferior. Examples of industry-based mimetic isomorphism are seen in cost cutting schemes, corporate structure, and executive pay. As a strategy, mimicry enables firms to reduce risk by following methods and processes that are successful or, at least, appear to be. As such, firms need to be either innovators or imitators in their decision to become international concerns.

In manufacturing, internationalization can be accomplished through export, licensing, joint venture or foreign direct investment. This is not the case with service industries where no concrete product is in question. First, export is not applicable. Secondly, while feasible, joint venture may be less valuable for a service firm because there are limited advantages when production is absent from the equation. Thirdly, licensing and franchising is appropriate for some service-oriented firms such as hotels yet not for others such as homebuilders. FDI can give service firms the quickest access to foreign markets in that there are lower set-up costs relative to manufacturing firms.

Reverting back to mimetic isomorphism and legitimacy, theory indirectly states that firms in fragmented industries should be less prone to imitation. This could be true for two major reasons. First, firms who participate in perfect competition environments have less at stake to protect. In an oligopolistic structure, if a firm does not protect its share, then its competition will move to capture it. However, industries that are fragmented create an environment that is less about protection because both the input markets and output markets tend to be fragmented (Briesmeister and Fisher 1998; Caves and Porter 1978; Dess 1987; Dollinger 1990). Secondly, fragmented industry actors

may not know what their competition is doing because information tends to also be fragmented and asymmetrical. Taking this a step further, firms may not completely understand who their competition is or which firm is a market leader.

If this is the case, then how does a firm gain legitimacy? Legitimacy (Von Bertalannfy 1975; Terreberry 1971; Scott 1987) can be earned by a firm by numerous societal stakeholders namely customers, suppliers, competitors, trade groups, and the like. In an international setting, host governments and local social structures are also a source of legitimacy and, as such, can have a significant influence on entry choice by firms. Conversely, governments can be legitimatized by entrants. Although the literature covers firm legitimacy, I argue that legitimacy goes both ways. In countries where firms aggregate, these firms act to legitimatize doing business in that country. Additionally, fragmented industry firms legitimize to a greater extent than do concentrated industry firms because, theoretically, fragmented industries should be less prone to follow the leader or competitors.

Firms in concentrated space follow the leader because they have to maintain legitimacy. The only way to do this is through mimetic isomorphism and, along the way, to gain a competitive advantage through small asymmetries in their own structure and resources (Barney 1991). Simply put, there is just not enough difference in rigid industries that have only a few major players to set firms apart from each other. However, if one looks at the opposite structure, one would expect to find the opposite. That is, fragmented industries should have a wider number of influential societal stakeholders that give their firms legitimacy. This may mean that each influential stakeholder's power is diluted in its effect on the subject firm.

LITERATURE REVIEW

The literature concerning international location choice is extensive yet multi-directional. To make a case for the theory, variables, industry and industry structure chosen for this study, I break down the literature review into three sections.

Theory

Institutional theory has had a limited exposure in the context of International Business studies. However, a number of studies have utilized it including Brouthers (2002) which combines Institutional Theory and Transaction Cost Economics; Oliver (1997) uses broad influences such as government and society in the context of firm competitive advantage; Aguila et. al. (2004) in explaining the international technology management of information systems; and Lai et. al. (2006) who describe the theory in the context of global supply chains.

Variables

The variable types included in this study can be classified as related to cultural distance, corruption, economic freedom, and institutional quality. Several empirical works in the IB literature have focused on cultural factors including Benito and Gripsrud (1991); Brouthers (2002); Brouthers and Brouthers (2001); Kogut and Singh (1988); Rivoli and Salorio (1996); Loree and Guisinger (1994); and Shenkar (2001). Additionally, Tihyani, Griffith and Russell (2005) created a meta-analysis of cultural distance in entry mode and diversification.

Other studies which have focused on different variables of interest are Habib and Zurawicki (2002) who studied the impact of corruption on FDI; Lorree and Guisinger (1994) who examined policy variables including political stability and infrastructure; and Globerman and Shapiro (2002) who examined the statistical importance of governance attributes such as legislation, regulation and legal systems.

Therefore, there are many works that give the variables in this work precedent to be used in regard to FDI and location choice. The extant literature which incorporates cultural distance includes measures both from Hofstede (2004) and Kogut and Singh (1988). Additionally, the work by Rioli and Salorio (1996) deals with uncertainty and its relationship with FDI.

Industry and Industry Structure

Although the inclusion of the real estate industry in the IB literature is infrequent, there are several studies that incorporate it. Ball (2007) writes on the dichotomy between localization and globalization in the real estate services industry while Gotham (2006) stresses the regulatory structure of the state in the context of the U.S. real estate industry restructuring.

In terms of industry structure, there are relatively few works that handle industry structure that is highly fragmented. Early works as well as some recent ones deal with the exact opposite—oligopolistic industries. These include Vernon (1974, 1979), Knickerbocker (1973), Yu and Ito (1988), Ito and Rose (2002) amongst many others. As described earlier, much of the data compiled from the 1960s onward was that of manufacturing industries that had very high concentration. Therefore, the academic literature was skewed toward the study of such industries because researchers could only empirically test the data that was available.

Finally, as discussed in the opening section, service industries have received more attention in the past decade of research but still not enough in proportionality to the real world. Nig, Cho and Krishnan (1986) as well as Miller and Parkhe (1998) study the international expansion and entry mode of banking firms.

INDUSTRY

Real Estate and Real Estate-Related

The real estate industry including hotels[1] includes all firms that work primarily with real property. Major sub-groups are operative builders, general contractors, real estate brokerages, title insurance companies, real estate lessors, and hotels. This industry was chosen because it characterizes one that has been neglected in the Strategy and IB literature except for a few instances. Additionally, real estate is an interaction of two industry types which have not been prevalent in location studies. This interaction includes service industries which are also highly fragmented. Why is this interaction important to the literature?

The short answer is that fragmented service industries have not received the attention that they deserve. Concentrated industries consumed the early IB literature for good reason. First, data sets compiled in the 1960s and 1970s were of concentrated, and often oligopolistic, industries because it was much easier to collect data in this space. Secondly, many early studies were interested in manufacturing concerns which tended to be oligopolistic. However, the composition of the U.S. economy has changed in the past fifty years. The majority of U.S. business revenues are now derived from the service sector yet the academic literature has not kept up proportionately (Department of State Website 2006).

Another reason that this industry type is important is that, by its nature, it is filled with anomalies. A fragmented industry has low barriers to entry which leads to numerous small entrants. Some of these entrants remain alive for a long period of time (i.e. Holiday Inn, Centex Homes) while some enter and exit with great frequency. Therefore, the composition of the industry and, derivatively, the composition of international entry are dynamic in nature.

The real estate industry has some attributes worth discussing which may be considered anomalies. First, since much of the industry is land-based, location choice is important. Although the macro choice of which country to locate is important, some countries have complex local legal and regulatory structures that either are in addition to or replace the national ones. Secondly, property rights are inherently important. In an extreme environment, property rights are either *de facto* or *de jure* absent. However, even in more liberalized regions, property rights' law can be ambiguous and difficult to fully protect. This protection, therefore, is a transaction cost borne by firms which is meant to counteract value dissipation (Foss and Foss 2005) by local forces. Thirdly, many of the sub-groups in certain real estate industry expand their influence through different mechanisms. While export is irrelevant, licensing is sparse and used mainly for branding. An important governance mechanism is that of franchising. Real estate brokerages and hotels, for the most part, expand and govern through this structure. However, it tends to be the parent company (Franchisor) which chooses the location of expansion.

Characteristics of Fragmented Industries

Fragmented industries have several common characteristics that are present albeit to different extents. Porter (1980) describes fragmented industries as those that contain all or some of the following:

- ♦ Low Entry Barriers
- ♦ Lack of Power Advantages with Buyers
- ♦ Lack of Power Advantages with Suppliers
- ♦ Lack of Economies of Scale
- ♦ Lack of Economies of Scope
- ♦ Regional Issues such as High Transport Costs
- ♦ Regulation

All points have merit but three are key. First, low entry barriers are a given when discussing fragmentation because ease of entry disallows large firms to set the tone. Simply put, the lack of high entry barriers is an open invitation for more small companies to join the industry. One finds that in fragmented industries a plethora of small firms, many privately held operating alongside large, publicly traded corporations (Wright et al. 2004). The second common trait is a lack of power advantages with buyers in fragmented industries as buyers often are equally fragmented. Because buyer consolidation, usually through multiple distribution levels, is absent in these industries, power is absorbed in demand as opposed to supply (Briesemeister and Fisher 1998). This tends to lead to a greater variance in pricing than if buyers were a more solid cohort. The third aspect is low economies of scale which contribute to industry fragmentation as sparse resource origins supply different industry actors but in a non-unified way. As will be seen, low economies of scale in fragmented industries are not in all inputs but often in a few important ones.

Porter's definition concentrates on industries that tend to produce something. However, in the new economy, many firms that are service oriented tend to be in fragmented space. With the advance of technology, especially the internet, firm entry in the service sphere has become increasingly more tenable. This study combines the interaction between the service sector and fragmented structure.

Measurement of Fragmentation

Fragmentation measures typically have two variants. First, there are Concentration Ratios (CR) which measure a certain number of industry leaders. CR_4 and CR_8 levels are most common in the academic literature and they measure the top four or eight industry leaders, respectively, by market share. Mathematically, these levels are represented by:

$$\sum_{i=1}^{n} MSi$$

In this case, the summation of market shares (MS) of N market participants are simply calculated to derive at a number. In a highly concentrated industry, a CR_4 level is greater than 40 percent and often above 60 percent (Caves and Porter 1978). In a fragmented industry, these levels may fall to below 20 percent. The closer an industry approaches perfect competition, the closer the CR_4 level approaches zero.

Another measure of industry concentration is the Herfindahl-Hirshman Index (HHI). This differs from the previous equation in that the market shares are squared as shown by the equation:

$$\sum_{i=1}^{n} (MSi)^2$$

The major difference is that the HHI (Federal Reserve Bank of Atlanta 1993) accounts for large industry players by squaring the market shares. The index has values that range from perfect competition (0) to pure monopoly (10,000). As a mental exercise, think of two industries. One has market leaders with respective market shares of 50 percent, 10 percent, 10 percent, and 10 percent while the other has a split of four leaders with 20 percent per firm. In each case, the CR4 level equates to 80 and this industry would be considered oligopolistic (CR4>60). However, if the market shares are squared to derive at an HHI value, Industry 1 has HHI=2,800 while Industry 2 has HHI=1,600.[2] These two values are significantly different because the HHI accounts for firms with very large market shares exponentially while the CR levels are a simple summation.

However, in a fragmented industry, the effect is reversed. Imagine an industry where there are 10 players with an average of four percent of market share and then a number of tiny firms each with less than one percent of the market share. The HHI would equate to $10*(4^2)$ or 160 plus the aggregated amount of the small firms. However, since the square of a market share under one produces a smaller value, even if there were hundreds of small firms, the aggregated figure would not have a significant influence on the HHI. In this case, squaring small values keeps the HHI low.

STUDY

This study will attempt to find empirical evidence to support or refute Institutional Theory in general and both mimetic isomorphism and legitimacy in particular. Additionally, through a simple cluster analysis, I attempt to find out if characteristics of certain countries can be proxies for legitimatization between firms in the real estate industry and those countries.

The study is designed as follows. First, samples of leading firms in the real estate industry were chosen. Leading firms were chosen because there is much more detailed information about their previous international entry choice than smaller, private firms. Secondly, a count was tabulated as to which countries these firms chose to locate. This second point also entails that countries were noted where no companies chose to locate. Thirdly, the country sample was divided into two. The first sample is comprised of 68 countries that were entered and the second is comprised of 22 countries which were entered from zero to one percent relative to the total amount of entries. Fourth, a probit regression was utilized to model the propensity of firms to choose the first set of countries over the second set. The binary dependent variable (1=High Entry, 0=No Entry) was regressed on country data which will be described in the Data Section.

The specific hypotheses to be tested include:

H1: Firms that are located in fragmented industries will tend not to mimic competitors in their choice on international entry.

H2: Nations that are perceived to have high corruption are less likely to attract firms in fragmented industries.

H3: Nations that have higher economic freedom are more likely to attract firms in fragmented industries.

H4: Nations that have a high power distance are more likely to attract firms in fragmented industries.

H5: Nations that have low individualism/high collectivism are more likely to attract firms in fragmented industries.

H6: Nations that have high uncertainty avoidance are more likely to attract firms in fragmented industries.

H7: Nations that are politically stable, have an effective government, have high regulative quality and a strong rule of law will tend to attract fragmented industry firms

Data

Data for this analysis was retrieved using multiple sources. First, a comprehensive list of real estate firms was found in Hoover's Directory. Of these firms, a sample was selected of leading firms

in four industry subgroups—Commercial Brokerage, Residential Brokerage, Property Managers, and Hotels. Some subgroups, such as operative homebuilders, were intentionally not selected because they almost never directly compete internationally.

Secondly, country data were derived from several sources:

1. Data concerning cultural issues were taken from the Geert Hofstede Cultural Dimensions website.
2. Corruption Perceptions Index values come from Transparency International.
3. An Index of Economic Freedoms was compiled from the Heritage Foundation.
4. Data concerning Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and the Control of Corruption were taken from the Kaufman et al. survey (2006)
5. Finally, economic variables of interest were found at the World Development Indicator Database.

It is important to reiterate the unit of analysis. This study is based on a country or country by industry unit of analysis evidenced by the documentation of entry into countries by firms in the real estate industry. The dependent variable is based on a count of entries into the 90 countries in question. The model, which will explained below, is based on the number of times a country was entered by firms in the real estate industry. Additionally, all independent variables are based on country data which supports the unit of analysis for the study.

Methodology

Probit Regression is the technique used in this analysis. Probit analysis is relevant when the response variable has a binary value (Johnston, 2007; Tabacknick and Fidell 2007). In this case, the Dependent Variable is Entry or No Entry and, therefore, a link function of the Generalized Linear Model (GLM) is appropriate. Typical linear regressions require that the dependent variable is continuous and not either binary (Bounded between 0 and 1) or discrete (Bounded between 0 and ∞) More specifically, the probit regression to be modeled:

$$\boldsymbol{P(Y = 1 \; given \; that \; X = x) = \emptyset(X'\beta)} \tag{1}$$

Manipulating both sides yields:

$$\boldsymbol{\emptyset^{-1} P(Y = 1 \; given \; that \; X = x) = (X'\beta)} \tag{2}$$

In this case, I am modeling the propensity, or probability, that the dependent variable (Y) is equal to 1 (1=Entry), given that we have certain independent variables (X). Additionally, probit analysis is based on the central density function ($\emptyset$) which is shown in Equation (2). $(X'\beta)$ represents a vector of both independent variables and Beta coefficients which will be described in

detail in another section of this analysis. The cumulative central density function (CDF) is represented by:

$$\int_{-\infty}^{Z} \frac{1}{\sqrt{2\pi}} \exp(-\frac{1}{2} Z^2) d z$$

Therefore, I am modeling the propensity that a firm will enter those countries that have had the highest density of previous entry (Y=Entry=1) based on the explanatory variables listed in Section 6.2 below.

Dependent Variable

Dependent Variable

As discussed previously, the response variable is a binary dependent variable with takes the value of 1 for Entry and a value of 0 for No Entry. In this study, it is important to note the mechanism for calculating this. 90 countries were included in the study of which 68 were included in the category of Entry and 22 were included in the category of No Entry. No entry, in the case of this study, was defined as countries that were entered from zero to three times in total. In the 90 country sample, there were a total of 509 entries with the range, per country, of zero to 19. A country was labeled as No Entry if it had between zero and one percent of total entries.

Independent Variables

Gross Domestic Product (Ln_GDP).

Gross Domestic Product is utilized as an independent variable by taking its natural log. GDP is important as it can explain how a nation's economic size influences firms to enter. Using the natuaral log of GDP is useful in that it narrows the large range of data values that occurs when using the actual GDP.

Hofstede Power Distance (Hof_PDI).

The Power Distance of a nation is the degree to which individuals in that culture accept the difference between those that have power and those that do not. For this study, Power Distance is used to measure a nation's tolerance for the powerful to run the institutions, both formal and informal, in the country. For this study, PDI is expected to have a negative association with the propensity of a firm to enter.

Hofstede Individualism (Hof_Ind).

Individualism measures the "extent that individuals are integrated into groups (Hofstede 2004)." In other words, does a culture nurture the individual or does it value being part of some bigger unit of analysis. The higher the Individualism score, the more the culture in question values individual efforts.

Hofstede Masculinity (Hof_Mas).

Masculinity measures the gender roles in a culture. Higher masculinity scores means that the culture is more assertive while lower masculinity scores can be interpreted as being more caring.

Hofstede Uncertainty Avoidance (Hof_UAI).

Uncertainty avoidance measures the collective degree to which cultures or nations avoid uncertain situations both in business settings as well as other types of settings. Hofstede states that it is the extent to which "…a culture programs its members to feel either uncomfortable or comfortable in unstructured situations."(Hofstede 1980). UAI is important as a variable because as a nation's uncertainty scores rise, it can be stated that this nation has more rules and attempts to control outcomes more frequently.

Corruption Perceptions Index (CPI).

The Corruptions Perception Index is produced by Transparency International and is a perceived score of corruption by experts surveyed by the organization. A higher score (Close to 10) is indicative of a nation that is free of corruption whereas a score closer to zero represents a highly corrupt society. The CPI is used in the model because corruption of institutions of government can affect the decision of firms to enter these countries. In other words, the more corrupt a country is perceived to be, the more its institutions, both formal and informal, are not aligned to merit.

Index of Economic Freedoms (IEF).

The Index of Economic Freedoms measures the extent to which a nation has a free atmosphere to conduct economic activity. It can be argued to be, in the case of a low score, a measure of a nation's propensity to have non-market institutions control a greater degree of the economy.

Kauffman Survey Variables.

The Kaufman Survey rates nations on six important variables on a standardized scale with a zero mean. Four of the six variables are important for this study and include:

1. Political Stability (Pol_St)
2. Government Effectiveness (Gov_Eff)
3. Regulatory Quality (Reg_Qlt)
4. Rule of Law (Rule_Law)

These variables are directly relevant for the study because institutional theory, as asserted by Scott (1995), deals with institutions which are "…social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative and regulative elements…" As government effectiveness, political stability, regulatory quality and rule of low dissipate at the national level, firms should reject these nations. These variables are important for the institutional legitimacy of the nation in question because institutional stability should be paramount to FDI.

RESULTS AND DISCUSSION

Table 1 includes the results of several models of the Probit Regression. The full model (Model 1) tested all variables simultaneously. Model 1 corresponds with Hypothesis 1 which is a test of Institutional Theory. H1 is rejected and, therefore, mimetic isomorphism and legitimacy factors do contribute to fragmented industry. Support for the alternative hypothesis, in this case, is support for Institutional Theory within industry structures that should not portray such behaviors. Predictors that were significant in Model 1 include the Ln of GDP, Hofstede's Uncertainty Avoidance and Regulatory Quality.

Model 2 tests all variables except for Hofstede's Individualism and Masculinity variables which were both insignificant in all iterations of the probit analysis. Although the same three predictors were found to be significant in this model as in the previous one, the AIC value improved (Smaller is better) from 62.25 to 59.24.

Model 3 discriminated against all non-significant predictors and included just those independent variables that held highly significant in Models 1 and 2. This model was both the most significant and parsimonious of all iterations with just an intercept and three predictors. The AIC dropped to 53.21 and the model p-value was <0.0001. Furthermore, the intercept, which was insignificant previously, became highly significant along with the three predictors. Model 3 can be written as:

$$P(Y=1) = -14.97 + .549(LN_GDP) + .029(Hof_UAI) + 1.038\,(Reg_Qlt)$$

Table 1—Probit Regression Results				
	Model 1	**Model 2**	**Model 3**	**Model 4**
Model Significance	0.001*	0.001*	0.001*	0.001*
AIC Value	62.25	59.24	53.21	62.11
Intercept	-8.308	-9.389	-14.97	-20.406
	p=(.328)	p=(.230)	p=(.000)*	p=(.000)*
LN_GDP	0.677	0.674	0.549	0.779
	p=(.012)*	p=(.007)*	p=(.000)*	p=(.000)*
Hof_PDI	-0.027	-0.017		-0.01
	p=(.303)	p=(.334)		p=(.601)
Hof_IDV	-0.007			0.007
	p=(.770)			p=(.713)
Hof_MAS	0.026			0.01
	p=(.332)			p=(.623)
Hof_UAI	0.035	0.033	0.029	0.036
	p=(.017)*	p=(.024)*	p=(.017)*	p=(.005)*
CPI	-0.769	-0.801		-0.831
	p=(.130)	p=(.113)		p=(.061)
IEF	-0.101	-0.073		0.047
	p=(.191)	p=(.291)		p=(.265)
Pol_St	0.148	0.171		
	p=(.766)	p=(.705)		
Gov_Eff	-0.168	0.283		
	p=(.919)	p=(.855)		
Reg_Qlt	3.653	3.109	1.038	
	p=(.026)*	p=(.031)*	p=(.000)*	
Rule_Law	0.425	0.123		
	p=(.701)	p=(.900)		
Aggregat				0.569
				p=(.021)*
*** Significant at .05**				

Model 3 states that the propensity of a country to be entered by a highly fragmented firm is positively related to the country's GDP, Uncertainty Avoidance, and Regulatory Quality. In other words, if a country had LN_GDP of $30.00, an Uncertainty Avoidance value of 46 and a Regulatory Quality score of 1.5, then the probability that this country would be entered calculates to standardized z-score of +4.39. These figures just discussed are those of the United States and these results make sense. Although the probability value of z=4.39 is not valid because the Probit results are of firms that are based in the United States, it makes sense that a country such as the United States would have a probability approaching one of being entered.

Likewise, and conversely, if a country had LN_GDP of $20.00, an Uncertainty Avoidance value of 54 and a Regulatory Quality score of -1.2, then the probability of this country to be entered is -3.62. These values come from the African nation of Liberia which is at the other end of the spectrum from the U.S. on many of the economic and regulatory issues in question. With a z-score of -3.62, only 1 in approximately 6,800 firms in fragmented industries would enter Liberia. These predictive results using Probit Analysis in Model 3 seem to offer a model that has statistical significance as well as real-world intuitiveness.

One more model shall be discussed where I aggregated the four Kaufmann variables into one variable: Aggregat. These four variables measure governance structures both formal and informal. In order to capture the four together, I tested the Probit analysis using all predictors. While the model is highly significant, the AIC score was no better than Model 1. However, the Intercept value is significant in Model 4 as well as the new aggregated value (p=.021).

What do these results have to say about the stated hypotheses? Hypothesis 1, which was rejected, confirms Institutional Theory in the context of fragmentation. In my opinion, since fragmented industry firms should be the least likely to group together and be effected by institutions in their location choice, this is very strong support for the theory and the two features of mimetic isomorphism and legitimacy. Simply put, leading firms in fragmented industries follow each other when the country's attributes work toward their favor. In addition, they legitimatize each other in that they mimic the other's location choices. More importantly, country's are legitimatized or de-legitimatized through the entries or lack thereof.

Hypothesis 2 is not supported although the predictor CPI is somewhat significant. In Model 4, the p value for CPI was 0.06 which is very close to the significance level. Additionally, the CPI consistently had the most significant value of the insignificant predictors. However, the sign is the opposite of that expected. I hypothesized that as nations become more corrupt (Lower CPI score), the propensity for that nation to be entered would diminish but the opposite is true. As the CPI score rises (This means less corrupt), the probability that the country is entered diminishes.

Hypothesis 3 was not supported in any of the models as the Index of Economic Freedom (IEF) score had no significance. The same was true for Hypothesis 4 and 5 which dealt with Hofstede's Power Distance (Hof_PDI) and Individualism (Hof_IND) respectively. Hypothesis 6 received high support and the Uncertainty Avoidance measure was significant in all iterations. The

coefficient was positive in all models denoting that as uncertainty avoidance increases so does the propensity for the subject country to be entered. I argue that this is also support for Institutional Theory because countries that are less comfortable in uncertain situations tend to fall back on the institutions, both formal and informal, that make up society. Therefore, since countries that have higher uncertainty avoidance also have a higher entry propensity, this is in line with Institutional Theory.

Finally, Hypothesis 7 was supported. When all four variables—Political Stability, Government Effectiveness, Regulatory Quality, and Rule of Law—were tested, only Regulatory Quality was significant. However, this predictor was the most significant of any original independent variable in all models in terms of consistency. This is an extremely important point in testing Institutional Theory because, as explained earlier in this paper, the regulatory environment of a country is an important attribute when evaluating to enter it or not. Also, regulatory structures encompass both formal (legal) and informal (societal, corruption, etc) aspects of a country's institutional makeup. Furthermore, when the four variables were aggregated, this combined score was significant adding that the combination of good government, a strong rule of law and political stability were important in the legitimization of those countries.

To summarize, I argued that according to Institutional Theory, firms in fragmented space would not mimic their competitors. If this statement stood, it would have undermined the theory. However, this statement was rejected. I also argued that legitimacy which is written in the literature was not always firm to firm but can be from firm to country. The results of this study confirm that a nation, through its various institutional factors, is legitimatized or not by firms in fragmented industries. As would be expected, the relative size of the country mattered. All models had a significant and positive coefficient for LN_GDP which ranged from 0.549 to 0.779 meaning that as the natural logarithm of GDP rose so did the propensity of firms to enter. This makes common sense since there are more opportunities in countries with higher GDP.

However, one point should be made which is not seen in the statistical results. Although it seems like the firms in this highly fragmented industry mimicked and legitimatized each other, there were dispersions. I expected that in fragmented industries which do not have clear and large leaders that firms may choose to enter countries that have less overall entry because this would be opportunistic. Although this does not show up in the mathematical figures, counties such as Lebanon had about as much entry as did Denmark. Anomalies such as this are difficult to bring out in testing but, qualitatively, they are important in studying differing industry structures.

CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH

The main contribution of this paper was to test the validity of an existing theory in the context of industry structure. As stated in the Results, institutional aspects of nations and cultures such as uncertainty avoidance and regulatory quality are important to attract firms. Firms, on the other hand,

legitimatize these countries while also mimicking and legitimatize each other. Another contribution of this paper is adding work on fragmented industries to the literature which is much needed. Finally, scholars have slowly begun to work on building research on the service sector in recent years. This paper adds to that growing literature.

This study had several limitations. First, the study was done using one industry and, therefore, the results can be generalized narrowly. I believe that the results can be generalized beyond the real estate industry to other highly fragmented space. However, the results cannot be generalized to industries as a whole because I was interested in testing a certain type of structure. A second limitation is that that there is no differencing between industry structures. The propensities of fragmented firms to enter countries are measured here but what is not measured is how much more or less probable it is for those countries to be entered by a highly concentrated industry. The third limitation is that the sample is comprised of leading real estate firms and, therefore, may not be representative of all real estate firms. One problem in performing research on fragmented industries is that, since they are a compilation of hundreds or even thousands of firms, information is nearly impossible to obtain on tiny firms.

Future research should start with the second limitation. A study comparing the same countries and variables but a different industry structure would result in the difference for Country X to be entered due to Variable Y between fragmented space and concentrated space. Secondly, a qualitative study of the aspects of Institutional Theory—mimetic isomorphism and legitimacy—would be important to find out how fragmented firms copy and legitimate competitors. There are many works concerning these aspects in business research that focus on either all industries or concentrated industries.

ENDNOTES

[1] For this study, hotels are considered real estate related because of their reliance on land and construction although some consider it solely a tourism and hospitality type.

[2] For this simple example, the other 20 percent of the market share is assumed to be the same between the two industries.

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EPS AS A MEASURE OF INTERCOMPANY PERFORMANCE: PHILIPPINE EVIDENCE

Cynthia P. Cudia, De La Salle University
Gina T. Manaligod, De La Salle University

ABSTRACT

The objective of financial reporting is to provide information that is useful to a wide range of users. Investors, for instance, gauge company's performance by evaluating its profitability. The analysis of the financial performance becomes more meaningful when profit is scaled against acceptable measures of firm size such as total assets and sales. Ratios such as return on assets (ROA) and return on sales (ROS) are commonly used. Another popular ratio of income performance is earnings per share (EPS). In this tool, the number of ordinary shares is proposed as a measure of firm size.

Based on the observations of 233 companies in the Philippines, statistical tools were employed to assess if outstanding ordinary shares can be used a legitimate measure of firm size and to determine the strength of relation between ordinary shares to total assets and sales.

The results revealed that EPS cannot be used in making inter company comparisons among corporations in the Philippines. The number of outstanding ordinary shares has no strong relationship with the other common measures of firm size such as total assets and sales. This study concludes that the number of shares is a weak predictor of firm size. It is not a viable measure that can be used in comparing profit performance among corporations. For academic purposes, especially in the Philippines, accounting professors should teach EPS with an emphatic statement that it cannot be used for inter company comparisons.

INTRODUCTION

International Accounting Standards (IAS) 1 states that the objective of financial reporting is to provide information that is useful to a wide range of users. Stice, Stice and Skousen (2007) explain that an investor uses this financial information in making credit and investment decisions. Investors gauge how well a company performs in comparison with other companies. Profitability is one of the basic indicators of the soundness of a business entity. However, it is not enough to know whether net income is increasing or decreasing. Investors are concerned with how income is changing relative to certain factors such as firm size.

The analysis of the financial performance of a business becomes more meaningful when profit is scaled against acceptable measures of firm size such as total assets and sales. Ratios such

as return on assets (ROA) and return on sales (ROS) are commonly used to evaluate the results of business operations. Another popular measure of income performance is Earnings per Share (EPS). It is a ratio which incorporates both net income and outstanding ordinary shares in the measurement of profit performance. In this tool, the number of ordinary shares is proposed as a measure of firm size. This financial ratio is very important to most users, particularly the ordinary shareholders because EPS information is helpful to them in evaluating the return of their investment and risk of a corporation (Nikolai and Bazley, 2003).

Questions now arise. Can EPS be used in making comparisons across companies? Can outstanding ordinary shares be used as a measure of firm size? To help illustrate this concern is the case of two local companies in the Philippines, namely, Pilipinas Shell Petroleum Corporation and TI Inc. These are two large corporations with similar asset size. Both companies have total assets of approximately P59 billion as of December 31, 2007. For the year ending 2007, Pilipinas Shell and TI Inc. posted net income of P 6.4 million and P5 million respectively. Given this information, the net income of Pilipinas Shell exceeded the net income of TI Inc. by P1 million. Scaling these profit figures by total assets resulted in Pilipinas Shell and TI Inc. providing returns on asset investment of 10.61% and 8.55%, respectively. These percentages reinforce the early observation that Pilipinas Shell is more profitable than TI Inc. But in terms of EPS, Pilipinas Shell registered EPS of P9.19 while TC Inc. posted an EPS of P524.64. This contradicts the previous analysis that Pilipinas Shell performed better than TI Inc. It can be seen therefore that when EPS is used as a measure of financial performance, the landscape of the profitability picture changes. This change can be attributed to the number of outstanding ordinary shares which is the measure of firm size used in the EPS ratio. In this particular case, Pilipinas Shell has 68 times more outstanding ordinary shares than TI Inc.

The analysis of the income performance of these two corporations reveals the possible drawbacks of comparing profitability among firms using EPS. The landscape of a firm's profit picture changes when the number of ordinary shares is taken into consideration. It is in this light that this research paper is undertaken. This study determined if the number of ordinary shares is an acceptable measure of firm size that can be used in evaluating the reasonableness of using EPS as a tool of measuring financial performance across corporations in the Philippines.

BACKGROUND LITERATURE

International Accounting Standards (IAS) 33 defines EPS as the amount of net income attributable to every outstanding ordinary share during a period of time. The standard states that the purpose of presenting EPS is to provide financial statement users with information on the performance of a single entity. Creditors and investors find this measurement tool as an effective way of evaluating the income performance of each outstanding ordinary share. This is the only

financial indicator that incorporates both net income and share investment in the computation making EPS a significant measure of financial performance.

Jordan, Stanley and Robert (2007) of the University of Southern Missouri studied if the number of ordinary shares outstanding represents a reasonable measure of company size and a legitimate way to scale earnings. Data was collected on 300 publicly traded companies. From each size group based on market capitalization, 100 companies were randomly selected. The study showed that EPS comparisons among large publicly traded companies may be appropriate. However, it should not be made among small publicly traded firms because the number of ordinary shares outstanding represents a poor scaling measure for entity size. The researchers concluded that accounting professors should refrain from teaching EPS as a tool for making inter company performance comparisons.

Lie and Lie (2002) evaluated multiples that are used to estimate company value. They found that asset multiple generally generates more precise and less biased estimates than sales and earnings multiples. The research showed that the accuracy and bias of value estimates as well as the relative performance of the multiples vary greatly by company size, profitability and intangible value in the company.

De Berg and Murdoch (1994) conducted an empirical investigation of the usefulness of earnings per shares disclosures. The study examined whether both primary earnings per share and diluted earnings per share have the potential to provide financial statement users with information that is useful. The research concluded that primary and diluted earnings per share contain essentially the same information. Because of this, the study further concluded that it was quite improbable these data could be utilized as separate independent variables in a predictive decision model.

An examination was made by Graham and King (2000) regarding the relation between stock prices and accounting earnings and book values in Indonesia, Korea, Malaysia, Philippines, Taiwan and Thailand. They found differences across the six countries in the explanatory power of book value per share and EPS for firm values. Explanatory power for Taiwan and Malaysia was relatively low while that for Korea and the Philippines was relatively high.

Hodgson and Stevenson-Clark (2000) used Australian data to determine whether stock returns, earnings and cash flows are important in addressing the issue of whether accounting data provide value relevant information. They observed that a non linear functional relation provides greater explanatory power for both earnings and cash flow. This result was consistent for smaller firms but contrary for larger firms.

Huff and Harper (1999) concluded that there are systematic differences among liquidity and solvency measures for small companies versus large companies. The means of both the current ratio and the debt ratio were large for the small companies. There was evidence indicating the wide variability of values for both current ratios and debt ratios among small companies compared to large companies. In all cases, the variances were much larger for small companies, which suggests more comparability among large companies than small companies.

Ten popular local and financial accounting textbooks are reviewed as part of the related literature of this study. Valix and Peralta (2009) gives a thorough discussion of IAS 33 but it fails to mention if this ratio can be used in making inter firm comparisons. Robles and Empleo (2006) indicate that the objective of EPS information is to improve historical comparisons among different enterprises in the same period and among different accounting periods for the same enterprise. Padilla and Flores (2006) simply is silent regarding the reasonableness of using EPS in making comparisons across companies. Chalmers, Mitrione, Fyfe, Weygandt, Kieso and Kimmel (2007) indicate in their book that the only meaningful EPS comparison is an intra-entity trend comparison stating that inter company comparisons are not meaningful because of wide variations in the number of issued shares among companies. Spiceland, Sepe, Tomassini (2001) writes that summarizing performance in a way that permits comparisons is difficult. Deegan (2007) stresses that care must be taken when comparing various entities' basic and diluted EPS because calculations accounting profits are heavily dependent upon professional judgment. Stice, Stice and Skousen (2007), Dyckman and Davis (2001), Nikolai and Bazley (2003) and Kieso, Weygandt and Warfield (2008) fail to mention if EPS can be used in making inter company comparisons. Only one out of the ten books reviewed made a clear statement that EPS comparison is meaningful only when it is intra-entity.

HYPOTHESES

This study validates Jordan, Stanley and Robert (2007) using Philippine data. This paper attempts to find out whether EPS can be taught as a means of comparing inter company performance in the Philippines. The studies of Lie and Lie (2002), Graham and King (2000) and Hodgson and Stevenson-Clark (2000) establish that there are relationships among asset values, stock prices, earnings and cash flows. Hence, the variables used in this study include alternative measures of company size such as total assets, sales, net income and shares outstanding.

Deberg and Murdoch (1994) showed that primary or basic EPS is essentially the same as diluted EPS. As such, this study uses basic EPS. Finally, Huff and Harper (1999) proved that there are differences in liquidity and solvency ratios based on company size. Hence, this study divides the sample-companies between small and big companies to test the following hypotheses:

1. *There is a significant difference between ROS of big firms and small firms in the Philippines.*
2. *There is a significant difference between EPS of big firms and small firms in the Philippines.*
3. *The number of ordinary shares is a legitimate measure of firm size in the Philippines.*
4. *There is a strong linear relationship between outstanding ordinary shares and two other measures of firm size, namely, total assets and sales, of firms in the Philippines.*

METHODOLOGY

This study utilized data collected from the 2007 financial statements of 233 companies belonging to the top 300 corporations in the Philippines by gross revenues. The companies belong to the large category as defined by the Philippine government. Under the Small and Medium Enterprise Development (SMED) Council Resolution No. 01 Series of 2003 issued by the Department of Trade and Industry, a large enterprise is defined as a business whose total assets must have a value of above P100 million. The largest asset size in the sample-companies is P 1,083, 005 million while the smallest asset size is P489 million. The sample-companies are divided into two groups using the median of total assets. All companies with asset values of P6,981 million and above are referred to as Group 1 or Big Firms while all those corporations with asset values below P6,981 million are referred to as Group 2 or Small Firms. There are 117 companies in Group 1 and 116 firms in Group 2.

T-test was performed on the means of EPS and Return on Sales (ROS) of the two sample groups to determine whether these are statistically different from one another. Return on sales is computed by getting the quotient of net income over sales. ROS is used as a basis of comparing EPS because ROS is a common measure of income performance. Furthermore, statistical tools such as correlation analysis, regression and ANOVA were employed to determine if the number of ordinary shares is a legitimate measure of firm size, and to examine the strength of relation between outstanding ordinary shares to total assets and sales.

RESULTS AND DISCUSSION

Using the methodology described in the previous section of this paper, the following discussion of data analysis is presented:

Table 1 provides summary measures for ROS and EPS for the big firms and the small firms. In terms of ROS, the group of big firms registered a mean ROS of 24.14% while the small firms posted a mean ROS of 3.68% only. This indicates that the big firms performed better than the small firms. The ROS mean difference between the two sample groups of .20461 is statistically significant, with a p-value of 2.98E-09 at an α level of .05.

However, the mean analysis of EPS is not consistent with the results of the ROS mean analysis. EPS analysis showed that the mean EPS for big and small firms are P196.20 and P198.55 respectively. These figures show that small firms fared slightly better than the big firms. Table 1 shows that the EPS mean difference between the two groups at α level of .05 produced a p-value of .9798, which indicates that the EPS mean difference between the two sample groups is not statistically significant.

If EPS is an acceptable alternate measure of earnings scaled based on company size, then the comparison of EPS between the big and small firms should have followed a pattern similar to the

comparison of ROS means for the two sample groups. However, results of this study showed otherwise. The analysis of mean ROS indicates that there is a large difference in profitability between the big and small firms. Whereas, the analysis of mean EPS suggests that there is only a slight difference in profitability between the two sample groups. This finding already proves that the use of EPS in making inter company comparisons may not yield the same results if ROS is used.

Table 1: Return on Sales (ROS) and Earnings Per Share (EPS) for Big and Small Firms				
	Return on Sales (ROS - %)		Earnings Per Share (EPS – ₱)	
	Big	Small	Big	Small
Mean	24.14%	3.68%	₱196.20	₱198.55
Sample Variance	11.86	.90	618,589.70	382,931.50
Standard Deviation	34.43	9.47	786.50	618.81
N	117	116	117	116
df	231		231	
Mean difference	.20461		-2.34922	
t-statistic	6.17		-0.03	
p-value (two-tailed)	2.98E-09		.9798	

To determine whether the number of outstanding ordinary shares is a suitable measure of firm size, the strength of relation between the number of shares and other accepted measures of firm size such as total assets and sales is tested using correlation analysis.

Table 2: Correlation Matrix – Big Firms			
VARIABLE	TOTAL ASSETS	SALES	SHARES
Total Assets	1.000		
Sales	.378	1.000	
Shares	.008	-0.014	1
Sample size		117	
Critical value .05 (two-tail)		± .182	
Critical value .01 (two-tail)		±.237	

For the big firms, the more traditional measurement of firm size like total assets and sales exhibited weak relationship with a correlation coefficient of .378. Similarly, the relationship between total assets and shares has a computed correlation coefficient of .008 showing very weak

relationship between them. On the other hand, sales and shares are negatively correlated with a correlation coefficient of -.014.

Table 3: Correlation Matrix – Small Firms			
VARIABLE	TOTAL ASSETS	SALES	SHARES
Total Assets	1.000		
Sales	.321	1.000	
Shares	.373	.103	1.000
Sample size		116	
Critical value .05 (two-tail)		± .182	
Critical value .01 (two-tail)		±.238	

For the small firms, measures of firm size like total assets, sales and shares showed weak relationships with correlation coefficients of .321 and .373. Moreover, there is weak correlation between sales and shares with a coefficient of .103 only.

Table 4: Correlation Matrix – All Firms			
VARIABLE	TOTAL ASSETS	SALES	SHARES
Total Assets	1		
Sales	0.433	1	
Shares	0.099	0.076	1
Sample size		233	
Critical value .05 (two-tail)		±.129	
Critical value .01 (two-tail)		±.168	

From an overall perspective with all the firms taken into consideration, the total of assets is weakly correlated with sales having a correlation coefficient of .433. With a coefficient correlation of .099 and .076 respectively, there are also weak relationships between total assets and shares and between sales and shares.

If the number of shares is a reliable proxy of firm size, then it must have a strong relationship with the other common measures of size. Correlation analysis shows that the number of shares has a weak relationship with total assets and sales regardless of category. Therefore, using outstanding ordinary shares as an acceptable measure of firm size is not established in this research.

In addition to the correlation matrix, regression and ANOVA is done to determine the strength of the statistical relationships between the number of shares and the other measures of entity size such as total assets and sales.

Table 5: Regression and ANOVA – Big Firms

Regression Analysis -- All Possible Regressions
117 observations
G1 Shares is the dependent variable

G1 TA	G1 Sales	s	Adj R^2	R^2	Cp	p-value
	0.8835	3654759674.48	0	0	1.022	0.8835
0.935		3654996528.73	0	0	1.037	0.935
0.8828	.8486	3670403115.880	.000	.000	3.000	0.9786

Regression Analysis

R^2	0		
Adjusted R^2	0	n	117
R	0.019	k	2
Std. Error	3670403115.88	Dep.Var.	G1 Shares

ANOVA Table

Source	SS	df	MS	F	Pvalue
Regression	582254009026347100	2	291127004513174050	0.02	0.9786
Residual	1535791929769240500000	114	13471859033063502000		
Total	1536374183778270500000	116			

Regression Output

Variables	Coefficients	Std. error	t (df=114)	p-value
Intercept	1807248525.23	409402080.676	4.414	0
G1 TA	397.6991	2692.4781	0.148	0.8828
G1 Sales	-1891.7865	9888.9572	-0.191	0.8486

Tables 5 and 6 presents ANOVA regression models with the number of shares regressed on each of the other measures of firm size to wit, total assets and sales.

For big firms, overall test of significance yielded p-value of .9786, which implies that there is no linear relationship between shares and the two variables. The results of ANOVA test are confirmed by the regression output. Taken individually, the variable total assets with a coefficient of 397.70 and p-value of .8828 indicate that there is no linear relationship between number of shares

and total assets. Likewise, the variable sales, with coefficient of -1891.79 and .8486 p-value, indicates no linear relationship between sales and number of shares.

Table 6: Regression and ANOVA – Small Firms						
Regression Analysis -- All Possible Regressions						
116 observations						
G2 Shares is the dependent variable						
G2 TA	G2 Sales	s	Adj R^2	R^2	Cp	p-value
0		370897330.132	0.132	0.139	1.042	0
0.0001	0.8375	372465206.73	0.124	0.14	3	0.0002
	.2714	397640072.232	.002	.011	17.931	0.2714

Regression Analysis			
R^2	0.14		
Adjusted R^2	0.124	n	116
R	0.374	k	2
Std. Error	372465206.73	Dep.Var.	G2 Shares

ANOVA Table					
Source	SS	df	MS	F	Pvalue
Regression	2542025461915590500	2	1271012730957790200	9.16	0
Residual	15676527315330405000	113	138730330224163000		
Total	18218552777246005000	115			

Regression output				
Variables	Coefficients	Std. error	t (df=114)	p-value
Intercept	-107437393.536	90727191.4125	-1.184	0.2388
G2 TA	91538.0367	22246.2436	4.115	0.0001
G2 Sales	Variables	10376.1477	-0.206	0.8375

For small firms, overall test of significance yielded p-value of .0002, which implies that there is a linear relationship between shares and the two variables. Likewise, the ANOVA test was performed to confirm the regression output. The variable total assets with a coefficient of 91,538 and a p-value of .0001 suggest that there is a linear relationship between the number of shares and total assets. However, the variable sales with a coefficient of -2,133 and a .8375 p-value mean that there is no linear relationship between number of shares and sales.

The regression analysis computed R^2 of 0.000 and 0.140 for big and small firms, respectively. For both sample groups, the model showed no predictive power.

CONCLUSIONS

Based on the analysis, the mean ROS of the big firms is statistically different from the mean ROS of the small firms. On the other hand, the mean EPS of the big firms is not statistically different from the mean EPS of the small firms. Since no pattern is established between ROS and EPS, then it is concluded that EPS is not an acceptable tool in making inter company comparisons of profitability.

The correlation matrices indicate that, in general, the number of outstanding ordinary shares has no strong relationship with the other common measure of firm size such as total assets and sales. This conclusion is true for big firms, small firms and when all the firms are taken as one single group. It is therefore concluded that the number of shares is a weak predictor of firm size.

Statistical tests using ANOVA and regression analysis revealed that the number of shares of the big firms does not show a linear relationship with their total assets and sales. This might imply that any change in total assets or sales would not result to a corresponding level of change in number of shares. Assets and sales are not predictors of the change in number of shares for the group of big firms.

On the other hand, ANOVA table for the small firms showed that there is a linear relationship between the number of shares and the two variables, total assets and sales. Moreover, results of the regression analysis concerning the small firms differ from those of the big firms. For the group of small firms, regression results revealed that there is a linear relationship between number of shares and total assets. The very small p-value of .0001 of total assets was offset by the high 0.8375 p-value of sales. This leads to the conclusion that there is no linear relationship between number of shares and sales. This further indicates that a change in total assets signals either an increase or decrease in the number of shares. However, change in sales for small firms does not predict a level of change in the number of shares.

IMPLICATIONS AND RECOMMENDATIONS

The objective of International Accounting Standards (IAS) 1 is to provide guidance on the preparation of general purpose financial statements to allow comparability of reports both across time and across companies. IAS 33 is silent regarding the use of EPS in making comparisons among business entities. Many financial accounting textbook authors, both foreign and local, fail to mention if EPS can be used in making inter company comparisons. There is no warning to readers regarding the possible pitfalls of comparing EPS among firms. The results of this study showed that the number of shares does not proxy for firm size for both the big and small firms. It is therefore not a viable measure for comparing performance among corporations. For academic purposes especially in the Philippines, accounting professors should teach EPS with an emphatic statement that such tool cannot be used for inter company comparisons. It is recommended that EPS not be presented to

students as an appropriate tool of evaluating inter-company profit performance. Or at the very least, students should be made aware of the pitfalls of using EPS in making comparisons across companies.

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THE SUCCESS OF IRELAND'S FOREIGN INVESTMENT PROMOTION STRATEGY: A RECONSIDERATION

William L. Casey, Jr., Babson College

ABSTRACT

The image of the Republic of Ireland's principal investment promotion agency (IDA Ireland), has been tarnished by the recent global recession and its aftermath. Questions have risen about the wisdom of using foreign direct investment (FDI) to fuel domestic growth and prosperity. It is the position of this paper that the overall historical strategy of IDA Ireland remains viable but that changes in the policy approach are needed. Ireland should (1) continue to seek inward FDI but should reduce the degree of dependency on inflows from the U.S., (2) should maintain a policy of investment selectivity but should change the mix, (3) should prioritize the creation of vertical linkages in the supply chain in FDI recruitment, (4) should consolidate the activities of IDA Ireland and Enterprise Ireland, (5) should de-emphasize the government's social contract with Irish labor, and (6) should negotiate aggressively to remain exempt from the EU's "principle of conversion" in the area of taxation.

INTRODUCTION

One of the most remarkable developments in the global economy over the past two decades has been the success of Republic of Ireland in translating heavy infusions of foreign direct investment (particularly from the U.S.) into rapid internal economic growth and development. Observers in the commercial press and in the economic literature until very recently have lavished praise on Irish industrial and promotion policy referring to the experience as the "Irish miracle" and to the country as the "Celtic Tiger".

Unfortunately, recent deterioration in the Irish economy during the current global recession has cast doubt about the sustainability of the Irish miracle and has produced derisive comments about the "Celtic Tiger" becoming the "Celtic Kitten".

Defenders of Irish foreign investment promotion strategy argue, of course, that the current economic malaise in the country is traceable to unwise housing speculative and irresponsible banking practices and not to flaws in the country's FDI promotion policy. However, there is an opposing point of view arguing that FDI fueled growth and development are not sustainable and that the country's policy driven appetite for FDI has been excessive.

As an example of this latter position, Dr. Robert Shapiro, a senior advisor to Barack Obama, argued at a recent conference at a Dublin university that "Ireland must wean itself from dependence on FDI" (Finfacts Ireland, 2009). This is particularly interesting in light of the fact that Ireland over the past two decades has been a favored venue for USFDI and that the Irish government's foreign investment promotion strategy has been established as a model for other countries to follow in seeking FDI fueled economic development.

The purpose of this paper is to examine the Irish miracle of recent memory and to reexamine the viability of the country's FDI promotion policy in light of new economic realities. The following key questions will be addressed. Was Irish promotion policy flawed? If so, in which specific areas? Are FDI fueled growth and development sustainable? If so, what new government policy initiates or policies might promote the same?

The Celtic Tiger: The Genesis

The evidence clearly indicates that the Republic of Ireland over an extended period of time (early 1970s-mid 2000s) enjoyed both heavy inflows of foreign direct investment and rapid real economic growth. The decade of the 1990s witnessed the heaviest infusion of growth fueled FDI. During this decade, Irish growth, which was particularly impressive on a per capita basis, exceeded the performance of the other EU countries and actually ranked at the top of the 29 OECD member states.

Table 1: Real GDP Growth in Major Industrial Countries and Ireland, 1996-2000

Country	1996	1997	1998	1999	2000
United Kingdom	2.6	3.5	2.7	0.8	1.5
Germany	1.3	2.2	2.5	2.2	2.5
France	1.6	3.0	3.1	2.4	2.6
Italy	2.6	3.5	2.7	0.8	1.5
Ireland	7.4	9.8	9.1	8.3	7.3
Total EU	1.8	2.7	2.8	2.2	2.5
United States	3.4	3.9	3.5	1.5	2.2
Japan	3.9	0.8	-2.6	0.2	0.7
Total OECD	2.0	2.5	2.5	1.7	2.3

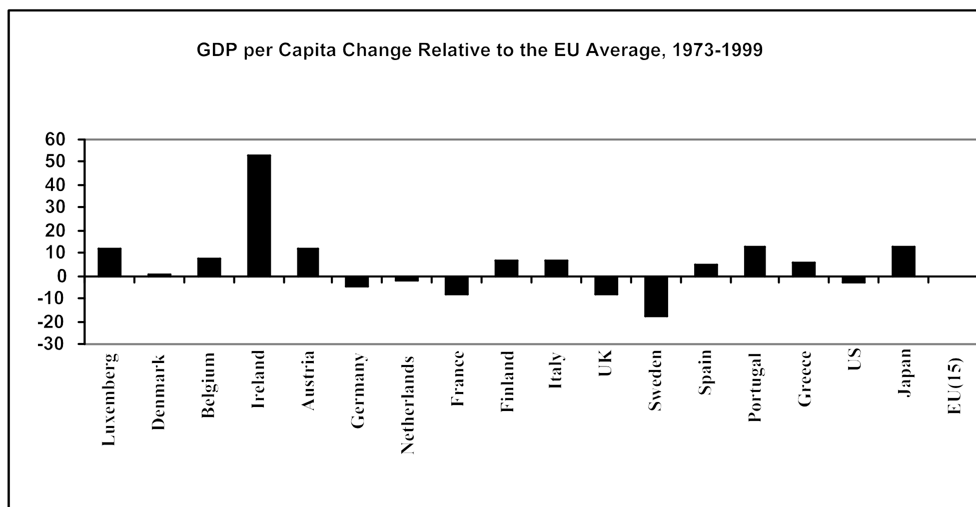
Sources: OECD. 1998. *Review and Outlook.*

Figure 1 below reveals some interesting per capita growth rate differentials over the past three decades. The so-called Irish "miracle" is clearly visible in the comparisons.

Beyond Europe, it is also true that Irish economic growth during the 1990s exceeded that of the so-called Asian Tigers, even before the currency crisis of 1997/98. Table 2 reveals the extent to which the "Celtic Tiger" outgrew the "Asian Tiger" during the mid and late 1990s.

Table 2: Real Growth Rate Differentials The Celtic Tiger vs. the Asian Tigers					
Country	1995	1996	1997	1998	1999
Ireland	11.1	7.4	9.8	9.1	8.3
South Korea	8.9	7.1	5.5	-5.7	0.5
Singapore	8.8	7.1	5.5	-0.8	0.5
Hong Kong	4.6	4.7	5.3	-5.7	1.5
Taiwan	5.9	5.7	6.0	3.7	3.7
Source: Sweeney, (1999, p.15).					

Figure 1



Source: Sweeney, 1999, p.56

Rapid real economic growth in Ireland coincided with heavy infusions of inward FDI during this period. Inward FDI spurred growth which, in turn, made the country more attractive to foreign multinationals. Table 3 reveals the extent to which inward FDI in Ireland accelerated during the 1990s and early 2000s as Irish economic growth exploded.

Of course, the single market in Europe served as a stimulant for inward FDI, but Ireland in the 1990s received a disproportionate share of FDI capital flowing into the EU, certainly on a per capita basis. Even in absolute numbers, Ireland was successful in bidding FDI away from its European partners. For example, between 1992 and 1996, Ireland attracted 37% of all U.S. FDI in the EU and 31% of all UK investments. (European Union, 1997). By 1995, Ireland had surpassed the U.K. as the favorable site in Europe for U.S. electronic hardware overseas FDI, securing 30% of new projects in Europe. By the end of the millennium, Ireland enjoyed remarkable success in outbidding other EU host countries for inward FDI in the areas of pharmaceuticals, software services and teleservices as well as electronics (Sweeney, 1999, p. 89).

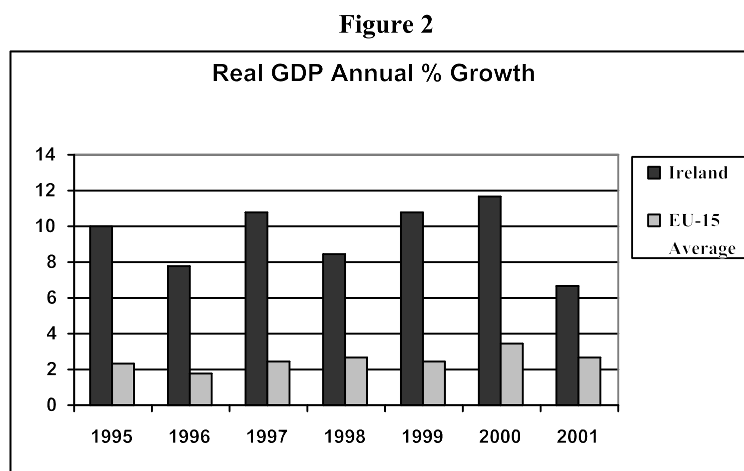
Table 3: Foreign Direct Investment: Ireland

Year	Inward FDI (Millions of U.S. Dollars)
1980	286
1981	203
1982	242
1983	170
1984	121
1985	164
1986	-43
1987	89
1988	92
1989	85
1990	627
1991	1357
1992	1442
1993	1121
1994	838
1995	1447
1996	2618
1997	2743
1998	11035
1999	18615
2000	22778
2001	9865
2002	29477
2003	22411
2004	-10994

Table 3: Foreign Direct Investment: Ireland	
Year	Inward FDI (Millions of U.S. Dollars)
2005	-30334
2006	-882
2007	26085
2008	-11779
Source: IMF *International Financial Statistics*, various issues and Economist Intelligence Unit, *Country Report:* Ireland, various issues.	

The heavy infusion of inward FDI witnessed in the 1990s and early 2000s was accompanied by an impressive growth performance of real GDP in the Irish economy. The growth rate performance was impressive not only in the absolute but also in relation to E.U. averages. (Figure 2)

Figure 2



Source: Eurostat and Department of Finance.

The Celtic Tiger Weakened

Although Ireland has continued to attract inward FDI throughout the decade of the 2000s, albeit at an uneven pace, the economic meltdown of 2008-2009 had raised serious concerns about the long term viability of FDI-fueled growth and development. In recent years, disinvestments have occasionally exceeded new investments, producing a negative net inflow effect (Table 3). Also, if measured as a percentage of GDP, FDI stocks in Ireland have diminished in recent years as well (Table 4).

It is certainly true that Ireland is at the top of the list of countries suffering from the effects of recent global recession. Table 5 compares Irish growth rates to those of its major trading and investment partners from 1999 to the current period with projections through 2010. It is clear that the Irish real GDP growth rate during the early and mid 2000s exceeded those of the other countries cited in Table 5, but subsequently it has suffered more severe growth erosion with projections call for more of the same in the future (Economist Intelligence Unit, 2009, Tully, 2009).

Can the Irish growth strategy based on FDI promotion be blamed for the "Celtic Tiger" becoming the "Celtic Kitten"? Some indirect linkages certainly can be made. The recruitment of predominately USFDI certainly made Ireland vulnerable to the importation of U.S. recessionary conditions. Also, the rapid growth of the Irish economy, fueled by inward FDI, did lead to destabilizing speculative bubbles in both the Irish financial and housing (construction) sectors.

Table 4: Foreign Direct Investment stocks as % of GDP

Countries	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
European Union (25 countries)	:	:	:	:	:	13.6	12.8	14.8	15.3	16.7	17.3	18.8
Czech Republic	:	15.0	22.6	31.7	38.6	47.4	45.0	43.5	47.6	51.3	53.4	58.8
Denmark	12.3	:	17.2	25.1	41.3	42.5	38.1	37.3	43.4	47.6	46.8	47.4
Germany	7.8	9.1	11.2	14.8	24.5	22.8	23.9	25.1	24.2	24.2	25.3	28.1
Ireland	:	:	113.4	99.7	123.7	130.0	134.0	126.5	102.3	85.5	67.0	68.9
Spain	17.4	18.0	18.9	21.5	26.7	29.5	33.6	34.3	34.6	35.9	35.8	39
France	12.9	14.2	16.0	17.8	19.4	22.4	23.7	26.7	29.2	32.4	34.4	38.9
Italy	5.8	7.0	8.3	9.3	10.2	9.8	9.3	10.7	11.6	13.3	15.1	16
Netherlands	31.8	33.8	40.2	49.5	62.7	71.7	71.7	70.8	71.3	74.5	72.2	86.7
Austria	7.8	8.7	10.6	11.8	15.8	18.3	19.0	19.1	:	24.1	32.8	:
United Kingdom	19.0	19.1	20.5	27.2	29.4	34.9	29.2	29.3	29.1	38.9	44.6	42
United States	7.8	8.4	8.6	10.9	12.7	13.5	11.4	11.4	11.9	13.9	13.3	14.1

: Indicates Data Not available: Source of Data: *Eurostat*

Table 5: Selective European Real GDP Growth Rates

Countries	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**		**2009**		**2010**	
Belgium	3.4	3.7	0.8	1.5	1.0	3.0	1.8	3.0	2.8	1.1		-3.5	(f)	-0.2	(f)
Bulgaria	2.3	5.4	4.1	4.5	5.0	6.6	6.2	6.3	6.2	6.0		-1.6	(f)	-0.1	(f)
Czech Republic	1.3	3.6	2.5	1.9	3.6	4.5	6.3	6.8	6.1	3.0		-2.7	(f)	0.3	(f)
Denmark	2.6	3.5	0.7	0.5	0.4	2.3	2.4	3.3	1.6	-1.2		-3.3	(f)	0.3	(f)
Germany (including ex-GDR from 1991)	2.0	3.2	1.2	0.0	-0.2	1.2	0.8	3.2	2.5	1.3		-5.4	(f)	0.3	(f)
Ireland	10.7	9.2	5.8	6.4	4.5	4.7	6.4	5.7	6.0	-2.3		-9.0	(f)	-2.6	(f)

Table 5: Selective European Real GDP Growth Rates

Countries	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		2009		2010	
Greece	3.4	4.5	4.2	3.4	5.6	4.9	2.9	4.5	4.0	2.9		-0.9	(f)	0.1	(f)
Spain	4.7	5.0	3.6	2.7	3.1	3.3	3.6	3.9	3.7	1.2		-3.2	(f)	-1.0	(f)
France	3.3	3.9	1.9	1.0	1.1	2.5	1.9	2.2	2.3	0.4		-3.0	(f)	-0.2	(f)
Italy	1.5	3.7	1.8	0.5	-0.0	1.5	0.7	2.0	1.6	-1.0		-4.4	(f)	0.1	(f)
Hungary	4.2	5.2	4.1	4.4	4.3	4.7	3.9	4.0	1.2	0.6		-6.3	(f)	-0.3	(f)
Netherlands	4.7	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.6	2.0		-3.5	(f)	-0.4	(f)
Austria	3.3	3.7	0.5	1.6	0.8	2.5	2.5	3.5	3.5	2.0		-4.0	(f)	-0.1	(f)
Poland	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.6	5.0		-1.4	(f)	0.8	(f)
Portugal	3.8	3.9	2.0	0.8	-0.8	1.5	0.9	1.4	1.9	-0.0		-3.7	(f)	-0.8	(f)
Romania	-1.2	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.2	7.1		-4.0	(f)	0.0	(f)
Slovenia	5.4	4.4	2.8	4.0	2.8	4.3	4.3	5.9	6.8	3.5		-3.4	(f)	0.7	(f)
Slovakia	0.0	1.4	3.4	4.8	4.7	5.2	6.5	8.5	10.4	6.4	(e)	-2.6	(f)	0.7	(f)
Finland	3.9	5.1	2.7	1.6	1.8	3.7	2.8	4.9	4.2	1.0		-4.7	(f)	0.2	(f)
Sweden	4.6	4.4	1.1	2.4	1.9	4.1	3.3	4.2	2.6	-0.2		-4.0	(f)	0.8	(f)
United Kingdom	3.5	3.9	2.5	2.1	2.8	3.0	2.2	2.9	2.6	0.7		-3.8	(f)	0.1	(f)
Norway	2	3.3	2.0	1.5	1.0	3.9	2.7	2.3	3.1	2.1		-3.4	(f)	0.2	(f)
Switzerland	1.3	3.6	1.2	0.4	-0.2	2.5	2.6	3.6	3.6	1.6		-3.2	(f)	-0.5	(f)
United States	4.8	4.1	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4		-2.9	(f)	0.9	(f)
Japan	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.3	-0.7		-5.3	(f)	0.1	(f)

f=Forecast e=Estimated value Source of Data: *Eurostat*

However, despite these indirect linkages, it would be foolish to blame a successful growth strategy because those who benefited from the growth experience got caught up in a speculative frenzy.

The speculative frenzy that burst in Ireland in 2008-09 was fed by the cheap credit that flooded the global capital markets during the mid 2000s. Irish banks participated in the credit explosion that fueled the housing and construction bubble and are now suffering the consequences of the bursting of that bubble. The major sections of the crisis are property owners suffering from crashing property values, the construction industry and construction workers, a deeply indebted banking industry, heavily weighted down with toxic assets, and a deeply indebted Irish government, burdened with the aftermath of massive bank debt rescue packages. The economic recession is, of course, victimizing Irish workers in general who are facing higher unemployment and lower wages (Stratfor Global Intelligence).

Although the use of inward FDI as a growth stimulant cannot be directly or closely linked to the recent economic meltdown, should the country's FDI promotion strategy be modified based

on current economic maladies? The next section reviews the historical role of Irish public policy relative to FDI promotion, and the final section recommends some significant changes in the country's foreign investment promotion strategy.

FDI Fueled Irish Growth: The Role of Public Policy Historically

The overly simplistic explanation of the Irish success story in attracting FDI in the years preceding the current economic meltdown is that the Irish government "purchased" this success by establishing a lucrative tax haven for foreign multinationals. While it is true that artificial investment incentives, such as tax relief and government grants, have played a role in attracting foreign multinationals to Irish soil, the relative importance of FDI incentive programs has been exaggerated. Studies indicate that government incentive packages alone will not be effective unless market conditions in host countries are also favorable for FDI (Casey, 1998, Chapter 6). In Ireland, favorable market conditions have supported Irish industrial policy, given MNCs the motivation to invest in Ireland for reasons relating to both cost control and revenue growth.

To understand investment motivation it is necessary to distinguish between two distinct periods when FDI surged in Ireland. The first wave was in the 1960s when the country opened up to foreign investment and when industry policy became much more supportive of foreign capital inflows. Admittedly, low Irish taxes and lucrative grants were dominant "motivating" factors during the 1960s in inducing foreign firms, particularly in manufacturing, to move to Ireland as so-called "runaway plants", seeking to minimize after-tax production costs. Firms came to Ireland not in search of domestic markets, but to employ a cost effective export strategy. Even here, however, relatively low wages in Ireland and relatively high productivity contributed to this low-cost strategy beyond the favorable impact of government subsidies and tax relief (Sweeney, 1999, Chapter 5).

The second wave of FDI in Ireland began during the 1980s, surging in the 1990s and in the early and middle part of the current decade. It differed from the earlier period in several ways. First, although tax breaks and subsidies continued, foreign investment motives became more linked to the maturing of the skilled labor force in Ireland and to the advantages of locating productive facilities within the single European market. Ireland became much more than a tax haven. It the words of a Hewlett Packard executive, commenting on why the company chose Dublin for its printer cartridge plant in 1997, "We had a package from the IDA. It is nice to have, but it was not the deciding factor. If the other factors were not in place though, it means diddly squat" (Strohm, 1998, p.3).

The IDA is, of course, the Irish Industrial Development Agency, the government authority most directly involved with the formulation and implementation of inward FDI industrial policy in Ireland. A major difference between the earlier rise and later spent in inward FDI in Ireland related to the maturing of IDA policy. Tax relief and grants continued, but as industry policy evolved, it became more focused and targeted. The quality of the foreign investment becomes as important as the quantity in the eyes of Irish policy makers. Based on its success into in translating inward FDI

into really growth, Irish policy makers in particular have been credited with the attraction of "blue chip" companies from abroad and the IDA has been given credit for picking "winners", i.e., by targeting successful foreign firms from such growth industries as electronics, pharmaceuticals, financial services, teleservices and software. Obviously industrial and investment promotion policy over time has (summarized in the appendix) involved more than simple tax relief.

The IDA approach has been to use tailor-made packages of assistance to attract targeted foreign companies, involving combinations of programs including tax relief, worker training subsidies, land use support and other forms of infrastructure support. (Dorgan, 2006). In short, it can be argued that the Irish government, primarily through the IDA should be given due credit for the heavy infusion of FDI since the 1960s. It engineered a successful transition from a closed, protectionist system to an open economy with an industrial policy that welcomes and rewards inward FDI. One could argue that the Irish miracle was not created by government policy alone. However, the market and resource advantages of Ireland as an FDI target were certainly publicize and promoted by Irish policy maker in recruiting foreign investors.

The Irish Labor Force as a FDI Magnet

Cost-conscientious MNCs, contemplating overseas investments, have found Irish corporate tax rates to be attractive in recent decades. The same is true of the high productivity of the labor force, which has translated into relatively low production costs for companies producing on Irish soil. IDA Ireland has certainly promoted and publicized the qualities of the Irish worker.

High labor productivity is, in part, a by-product of the quality of the Irish educational system. Full time education tends to continue for longer and is broader based than in the case of most other EU countries (Fahy, 1998). Between 40% and 50% of those entering the work force in Ireland have completed third-level education, compared to a 20% average in other EU countries. Furthermore, the Irish educational system excels in teaching the engineering and technical skills needed by foreign "high tech" firms, seeking fertile ground for FDI. As reported by the OECD in a 1997 survey, foreign businesses, located in Europe, ranked Ireland first in the EU for its educated work force and second (after Germany) for worker skills (Sweeney, 1999, p. 117).

In addition to educational factors, there are demographic factors relating to the Irish population that promote the attractiveness of the country as an FDI target. On average, the Irish population is younger than the European norm. The median age of the Irish population is approximately 30 years, well below the average in other European countries, which is closer to 40 years (IDA Ireland, 2000). Thus, in Ireland, a larger percent of the population is entering their most productive career years than in the case of the European average.

High Irish labor productivity is based in part on the quality of the country's educational system and favorable demographics but there are other root causes. The Irish government can take some credit for the promotion of high productivity. There have been fewer strikes and far fewer days

lost to strikes in Ireland since the late 1980s than in the case of other EU countries. This is the by-product of a social partnership, designed by Irish government policy during the late 1980s and accepted by trade unions as the best avenue for Irish labor to follow. This labor/business/government partnership replaces the adversarial system of industrial relations in Ireland and has become rooted in society in slightly more than a decade.

Political Stability, the Quality of Life, and Other Intangibles

The government of the Republic of Ireland has contributed directly to the creation of a national environment conducive to inward FDI through its industrial policy and the formulation of a labor/business partnership. There have been indirect contributions as well. Long standing political stability within the Republic has promoted confidence among foreign investors that their economic interests in Ireland would be protected, and the recent easing of tension and hostility in Northern Ireland has captured the attention of these and other investors. Companies, such as Nortel, Apple, Intel and Microsoft, with a significant high tech presence in Dublin view the North (a short two hour drive from Dublin) as a source of skilled labor and as a talent pool of freshly minted engineering and computer science graduates. (McGarvey, 2000)

Beyond the political and the strategic, there are several cultural and environmental factors that have combined to attract inward FDI in recent decades. Ireland's appeal has been based on the welcoming attitude to foreign investors on the part of the populace, the use of the English language and the general quality of life in the country. Executives of MNCs have commented favorably about the relative small size and livability of urban areas, the easy availability of recreation facilities, the low crime rate, the lack of pollution and the moderate climate. (Fahy, 1998) IDA Ireland has certainly featured these favorable cultural and environmental factors in structuring its foreign investment promotion strategy.

FDI in Ireland and the Single Market: The Policy Implications

The Irish strategy for attracting inward FDI and in using the same to fuel internal growth and develop is linked to the country's membership in the European Union (EU). The evidence is clear that multinational corporations from capital rich countries favor investments in other highly industrialized countries rather than in capital poor regions. Also, it has been clearly demonstrated that large domestic markets in target areas play a significant role in attracting inward FDI. (Barrell & Pain, 1996) Interestingly, Ireland does not rank high by international comparison in either the size of its domestic market or in reference to internal capital intensity. Nevertheless, its success in attracting FDI has been well documented.

Some of the reasons for this success have been presented earlier in this paper, relating mostly to cost advantages, but FDI motivations extend beyond the cost side of the ledger. Despite the small

size of the Irish domestic market, foreign multinational corporations, by moving productive facilities to Ireland, are able to locate within the European "single market", thereby circumventing trade barriers and gaining access to the largest integrated market in the world. Thus, what attracts FDI to Ireland is not the size of the Irish market per se, but rather the size of the EU market.

Ireland's membership in the EU has promoted the country's attractiveness as an FDI target in another important way. As in the case of all businesses, multinational corporations will invest in those host countries that provide the needed infrastructure and social overhead capital. The Irish government provided some through internally generated capital, but the country also received significant transfers of structural funds under the EU's Community Support Framework. Much of this capital was targeted in support of improved infrastructure and human resource development in Ireland (OECD, 1999) and this infrastructure funding played a key role in the foreign investment promotion strategy of the Irish government.

The economic, fiscal and monetary integration of Western Europe, including the adoption of a common currency, required that the richest, most industrialized community members, such as Germany and France, transfer capital in support of the growth and development of poorer member nations. Ireland was a major recipient of these transfers and by using the funds productively in building infrastructure, it ironically was able to out-bid its generous benefactors in Europe for FDI capital, particularly from the U.S.

IRELAND'S INDUSTRIAL INVESTMENT PROMOTION POLICIES: A RECONSIDERATION

Clearly, the deep recession of 2008-09 in Ireland has cast a shadow of doubt over the wisdom of the country's FDI-fueled growth strategy of the past two decades. However, it is argued here that the linkages between the country's investment promotion strategy and the factors that triggered the recession (housing bubble, land speculation, bank financial mismanagement, government fiscal excesses, etc.) are indirect as best. When Ireland recovers from the current economic malaise, change is needed in the country's approach to investment promotion, but the change should be more evolutionary rather than systemic or structural. The following are recommendations for investment promotion policy rethinking and revision.

Continue to Seek UDFDI but Reduce the Degree of Dependency

A key element in the Irish strategy to stimulate growth through FDI infusions has been the successful courting of U.S. multinationals. This made sense historically given the wealth and technological proficiency of U.S. companies and the resulting positive spillover effects that U.S. FDI is capable of bestowing on the Irish economy. Furthermore, ancestral, cultural, and language commonalities between the two countries have made the investment marriage a convenient one.

Nevertheless, the dependence or capital/investment inflows from any one country, produces risks and disadvantages for host countries. This has proven to be particularly true of the U.S./Ireland relationship. Heavy FDI inflows from the U.S. mean that major sectors of the Irish economy have become dependent on U.S. economic performance. The recent downturn in the U.S. economy has already resonated in Ireland and continued U.S. economic difficulties would have important implications for USFDI flows to Ireland and for U.S. multinationals already located in the Irish economy (Hannigan, 1999, pg. 9).

The heavy FDI interdependency has already led to the importation of U.S. recession into Ireland with more instability on the way. Similarities in the areas of financial and housing/construction collapse between the two countries are not accidental.

Overdependence on UDFDI also creates the potential for disruption to normal capital flows based on exchange rate distortions and macroeconomic imbalances. For examples, in the 1990s, an overvalued dollar priced U.S. exports out of foreign markets, giving U.S. producers the incentive to serve these foreign markets, including Ireland, as foreign direct investors rather than as exporters. The significant depreciation of the dollar of recent memory, including against the EURO, made U.S. exportation a more viable option in serving the foreign markets.

Also, the 1990s witnessed heavy inflows of foreign portfolio investments in U.S. stocks and bonds. Bull market conditions on Wall Street served as a magnet for foreign investments and these inflows were instrumental (in a balance-of-payments sense) in supplementing U.S. domestic savings, in offsetting U.S. current account deficits and in indirectly financing the international operations of U.S. multinationals. Recent financial market instability on Wall Street has generated some capital flight through disinvestments and there are concerns that foreign portfolio investment in the future may not fund U.S. current account deficits and USFDI outflows to the extent that it has in the past. (Hannigan, 1999, pg. 8) As a major recipient of USFDI, Ireland has reason for concern unless the heavy dependency on U.S. capital is reduced.

Different investing countries have different macroeconomic problems and conditions that may disrupt FDI flows. It is advisable host countries not to be dependent on any one source of FDI.

Maintain a Policy of Selectivity but Change the Mix

Ireland's investment promotion strategy, based on a targeted search for U.S. multinationals capable of complementing the country's resource mix and capabilities, made good historical sense. The hope was that the attraction of the right types of investment would generate agglomeration economics through shared input markets, particularly labor, as well as through product linkages (Ruane & Buckley, 2006). Sectoral clusters were promoted in the areas of electronic and chemicals/pharmaceuticals.

Although the generation of agglomeration economics through clustering can be an effective growth-stimulating industrial policy tool, there can be a vulnerable if the sectors chosen for

clustering are sub-optimal. The accusation could be made that, in the case of Ireland, a mistake was made in the selective targeting of the information communication (ICT) sector. Difficulties were visible in this sector well before the recessionary conditions in 2008-2009.

High tech activities, of course, lead the surge in U.S. growth during the 1990s, fueled by quantum jumps in NASDAQ stock prices, but it softened significantly in the early 2000s. Accordingly, over 17,000 high tech jobs were lost in Ireland in 2001 as U.S. multinationals retrenched. The (ICT) sector was particularly hard hit in this regard. The vulnerability of the Irish economy in the late 1990s and early 2000s was reflected by the fact that over 90,000 people were employed during this period in the ICT sector with a heavy emphasis on PCs, chips, PC components and telecom equipment (Economist Intelligence Unit, 2002, pg.1). More recently, of course the decision by Dell computer to close its massive manufacturing facility in Limerick will lead to the loss of an estimated 1900 jobs and significant regional disruption (Agence France-Press, 2009). High tech may have regained some glamour since the early 2000s but not in all sub-sectors.

In retrospect, given the post-maturity product life cycle position of P.Cs and given the fact that the unskilled/low-skilled nature of PC production would seem to entice manufacturers to seek out cheap labor in China, Poland, Czech Republic, etc. the Irish investment promotion strategy of recent memory seemingly has been flawed. This strategy, of course, was based on the creation of an electronics cluster with the Dells, Gateways and Compaqs as the hub linked to smaller electronic and software enterprises (Ruane & Buckley, 2006).

Due credit must be extended to IDA-Ireland in this regard. Recent reports conclude that future investment clustering will focus more on biotech, medical devices and services. Most importantly, Ireland must in the future target those sectors in reference to which there are closely linked and synergies to the country's resource strengths, producing a comparative advantage in bidding MNCs away from low wage countries in Asia and in Eastern Europe.

Interestingly, the transition from low-skilled labor inputs in production to high-skilled activity and the transition from a manufacturing-based economy to a service-based economy have become the growth paths followed by most advanced and maturing economies in the world.

Prioritize the Creation of Vertical Linkages in the Supply Chain in the Recruitment of Foreign Direct Investors

The approach used by IDA Ireland in targeting those MNCs capable of producing positive spillover effects on the domestic Irish economy is a model of enlightened policy making. Investment promotion agencies (IPAs) in other developing countries have observed the successful "selective" recruitment strategy of IDA Ireland in seeking to match the capabilities of the recruited MNCs to the resource mix of the host country. This is a model that is transferable to other developing nations.

However, there appears to be one historical flaw in the Irish strategy that has impacted growth and employment negatively. There was an early expectation that small Irish supplies would

gain significantly from the presence of MNCs through the development of supply chain relationships. Disappointments in this regard date back to the 1990s (Ruane and Görg, 1997) and continue today with minimal improvement. In a sense, it appears as though the matchmaking strategy of IDA Ireland has failed historically to prioritize the recruitment of those investment targets most likely to seek supply relations with local Irish companies. Many MNCs in Ireland have global supply linkages with little interest in buying locally or even regionally. Others have found it to be cost effective doing business with larger continental (EU) suppliers. In the absence of EU community restrictions, Ireland could mandate or at least encourage the marriage of foreign manufacturers and domestic suppliers through domestic content requirements. This is not possible in the EU, of course, since regional content requirements have replaced earlier domestic content requirements.

In the future, IDA Ireland should continue its selective, targeted approach but with a different set of priorities. At the top of the list should be the capturing of the secondary employment benefits of inward FDI by careful targeting MNCs most likely to develop supply chain relationships with indigenous Irish companies. Thus, balanced economic growth will be the principle benefit of success.

Consolidate the Activities and Strategies of IDA Ireland and Enterprise Ireland Through Organizational Unification

On the surface, it appears that IDA Ireland and Enterprise Ireland have different missions with the former responsible for recruiting foreign companies to locate subsidiaries on foreign soil and the latter to support the growth and development of indigenous Irish companies (Enterprise Ireland, 2009). This difference in missions was a major factor in the historical separation of the two.

However, given the importance of establishing vertical linkages in the supply chain between MNCs operating in Ireland and indigenous Irish companies (examined in the preceding section), it is time to consider placing the two agencies under the same administrative umbrella. Certainly, it is possible to coordinate strategies under separate agency administrations, but it is more difficult. Also, under the current separation, it is less likely that the need to capture positive spillover effects in the Irish supply chain will be recognized and prioritized. The call for Ireland to wean itself from FDI dependence (Finfacts Ireland, 2009) is symptomatic of the problem. It suggests that the strategic emphasis among Irish policy makers should be the promotion of indigenous company growth, but this should not be an either/or situation. FDI should not "crowd out" local companies not should the opposite be true. Irish prosperity, in the future, will be linked to the complementary growth of both sectors and this should be a strategic priority of Irish policy makers.

De-emphasize the Social Contract with Irish Labor

Ireland in the past received a great deal of praise for using a social contract, including a no-strike commitment on the part of Irish labor, as a tool for recruiting MNCs. Certainly, a social

contract, offering labor market stability, is better than no contract, but the importance of this will diminish over time. Accordingly, this diminished importance should be reflected in the establishment of priorities by IDA Ireland and other policy makers.

The current recessionary conditions in Ireland are creating some labor unrest because of rising unemployment and falling wage rates. However, MNCs should not be affected significantly even if the no-strike social contract is broken. Most MNCs, operating in Ireland, use non-unionized labor and this should become increasingly so in the near future as MNC targeting moves from low value added to high value added production and from manufacturing operations in general to service companies (IDA Ireland, 2009). It is highly predictable that labor union issues among MNCs, operating in Ireland, will become progressively less important with these transitions.

Negotiate Aggressively for the Country's Continued Exemption from the EU "Principles of Conversion" in the Area of Taxation

If Ireland is to continue to employ an FDI-fueled growth strategy, attractive incentive packages must continue to be offered to prospective foreign investors. Favorable corporate tax rates should be included as key elements in these packages. Will Ireland over the long term be able to compete for FDI capital by outbidding its EU partners through low corporate taxation?

The long-term master plan of the EU is evidence. Complete economic and financial integration, needed to support the single currency, presupposes that monetary and fiscal differences among the member nations dissolve over time. Furthermore, each country will ultimately be required to play under the same international trade and investment rules.

In the short-term, however, the "plan" allows certain exemptions from economic convergence for poorer members of the community, including Ireland. In attracting inward FDI, Ireland has exploited its temporary exemption from EU taxation policy in offering relatively low effective tax rates on foreign manufacturing operations on Irish soil. Given the importance of a relatively low corporation tax regime in attracting FDI, the Irish government continues to oppose efforts to harmonize EU taxes, arguing that the Republic would be adversely affected. The threat is ongoing, however. As early as 1992, the influential EU Ruding Committee Report concluded that tax differentials among member countries do influence the direction of FDI flows and that ultimately there should be a harmonization of corporation tax rates. [Thomsen & Woolcock, 1999, pp. 80-82.]

As one of the poorest EU members historically, Ireland has been a recipient of generous community policy exemptions. However, with EU expansion, Ireland no longer ranks among the poorest members of the community in the future. It would be a disaster for Ireland if they lost their exempt status while Slovenia, Hungary, Poland, Slovakia, Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, and Malta gained or retained theirs. Ireland has already lost its status in the EC as the low labor cost alternative to new eastern and western European members. Losing its historical position as a low corporate tax alternate would compound its investment promotion difficulties.

Fortunately, EU ministers to date have had difficulty agreeing on principles of convergence involving minutia, let alone issues as complicate as a tax policy harmonization. Nevertheless, it is important for Irish policy makers to be steadfast in opposing change in this regard. An opportunity to gain leverage in this regard is the November, 2009 Irish vote to ratify the Lisbon Treaty. The EU had made a tentative legal promise not to impose special rules on Ireland concerning taxation as a condition of ratification (BBC, 2009). The Irish government should hold the EU "feet to the fire" on this issue, seeking a more ironclad guarantee.

CONCLUSIONS

Recent recessionary conditions in Ireland have produced fairly widespread skepticism about the long-term viability of the Irish government's strategy to fuel economic growth though the aggressive promotion of inward FDI. Until recently the selective, focused, targeted recruitment strategy of IDA Ireland was praised as a model approach that other developing countries should adopt. Now, questions are raised about the long term benefits of FDI inflows despite the absence of evidences of any causal relationship between FDI dependency and domestic economic recession.

It is the position of this paper that the fundamental strategy of IDA Ireland remains sound but that policy modifications should take place in the implementation of the strategies. Recommended changes include (a) reducing the degree of dependency on USFDI, (b) remaining selective but with target adjustments, (c) prioritizing the creation of vertical linkages in the supply chain through selective FDI recruiting, (d) consolidating the activity of IDA Ireland and Enterprise Ireland through organizational unification, (e) de-emphasize the social contract with Irish labor, and (f) negotiate aggressively for continued taxation exemptions from the EU's "principles of convergence".

With appropriate strategic adjustment in Irish industrial and investment promotion policies, the Celtic Tiger can be "saved".

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IMPLICATIONS OF IFRS ADOPTION ON THE ORGANIZATION AND HUMAN RESOURCE MANAGEMENT PRACTICES OF GLOBAL ACCOUNTING FIRMS

Katherine Campbell, University of North Dakota
Duane Helleloid, University of North Dakota

ABSTRACT

Many industries have experienced a globalization process that has led to fundamental shifts in industry dynamics and changes to the basic structure of firms. However, the international accounting industry has largely remained a collection of inter-related but separate nationally-based industries. This nationally-based structure has been driven by the existence of country-specific accounting standards and professional licensing boards that are unique to each country. Various financial market regulators also prescribe financial reporting and other requirements for firms listed on specific equity exchanges. Cultural, economic, and legal factors all contributed to the development of country-specific accounting approaches.

Now, a number of factors are facilitating a globalization of the accounting industry. These factors include the recent development of international accounting standards, the trend towards listing equities on multiple exchanges, and increasing prevalence of electronic accounting information and communication. These trends will likely lead to changes in the structure and organization of accounting firms, changes in the nature of accounting work performed in certain countries, and a shift in accounting tasks to locations that can perform functions more efficiently.

INTRODUCTION

The twentieth century saw dramatic changes in the nature of national and global competition in many industries. In the past transportation costs, trade barriers, and communication limitations meant that most industries were organized on a national basis with minimal cross-border activity. Now, many industries have been transformed, and firms compete globally in industries where most national boundaries are transparent. These trends have been captured in research studies (Bartlett & Ghoshal, 1998), and popularized in the trade press (Friedman, 2005). While globalization happened faster in some industries than others, and competition evolved in unique ways as a result differing structural characteristics, few industries have been unaffected by globalization. One industry that has remained very much influenced by national boundaries is public accounting. The

recent development of international accounting standards, the trend towards listing equities on multiple exchanges, and the increasing prevalence of electronic accounting data, are among the factors that are now facilitating a globalization of the accounting industry. Although the largest accounting firms have operated across many countries for decades, in practice local partnerships have been semi-autonomous entities that focused on the domestic market while facilitating the audit, tax, and consulting needs of multinational companies. In many ways this was similar to how IBM, other computer companies, and software consulting firms operated prior to the development of the internet. In these industries, local sales, service, support, and software development teams worked closely with local companies to develop specific solutions for each client's unique needs, even if they were part of a multinational corporation. Similar to other industries, the accounting industry may experience changes in competition, organizational form, and distribution of work in the coming decade. More specifically, national offices are likely to become less autonomous, and certain tasks will be performed by employees or contractors who might be located anywhere in the world.

HOW GLOBAL IS THE PUBLIC ACCOUNTING INDUSTRY?

Large companies operating in multiple countries have responded to the increasing flatness of the global economy in many ways (Friedman, 2005). In the world of financial reporting, however, a variety of regulatory forces seem to have constrained responses by large public accounting firms. While the largest public accounting firms, known as the "big four," are global organizations, they are organized as networks of national affiliates rather than as truly integrated global firms. One reason for this organizational form has been the national regulatory environments within which public accounting firms operate. Historically, national accounting standards, auditing standards, and security regulations made it difficult or impossible for public accountants from one country to have the appropriate expertise and/or mandated certifications to effectively function in other countries. Hence the structure of the worldwide accounting industry was one where there were a number of individual nationally-based industries, each with its own unique characteristics, competitors, and regulatory structure. As their clients (corporations) expanded internationally, however, accounting firms began to affiliate with independent accounting firms in other countries. Gradually these firms came to operate under similar "brand names," and evolved into network structures of interdependent, yet fairly autonomous entities.

Nevertheless, there are signs that public accounting firms are now shifting their organizations and human resource management approaches. For some time, U.S. corporations have outsourced a number of functions to lower cost environments such as India. Work that is commonly outsourced offshore includes service work such as customer service, bookkeeping, information systems management, and accounting. There is also evidence that public accounting firms are also outsourcing work offshore. Most of the work being outsourced by public accounting firms is lower-level work requiring limited judgment. Smaller firms are most often outsourcing bookkeeping work,

while large firms such as Ernst & Young are outsourcing tax compliance work (Boomer, 2005; Guda, 2009; Houlder, 2007; Daugherty & Dickens, 2009). The increasing reliance on electronic data for all financial transactions, rather than paper trails and written ledger books, has facilitated the shift of some activities to offshore locations.

Offshore outsourcing of truly professional services, including legal and auditing services, however has been limited. Although some evidence exists about outsourcing low-level audit work, and two of the big four firms reportedly have started pilot programs to test offshore performance of audit procedures, currently relatively little audit work appears to be outsourced (Daugherty & Dickens, 2009). A number of factors make outsourcing audit work problematic. First, most audit work requires at least some judgment, and this type of work is known to be more difficult to effectively outsource. Second, auditing standards and other regulatory requirements make offshore outsourcing of audit work problematic. For example, U.S. audit standards require appropriate supervision of individuals performing audit work. Indicators of supervision quality may include education, experience, and certification. Since it is difficult to find U.S.-licensed CPAs in other countries, it can be challenging to meet this standard when outsourcing audit work to other countries. It is interesting to note, however, that country-specific rules don't seem to be an impediment to outsourcing. Although the U.S. tax code is quite specific to the United States, tax preparation is one of the most outsourced activities of U.S. public accounting firms. The professional nature of auditing work can affect offshore outsourcing. While some dimensions of audit work could likely be fragmented and outsourced, other dimensions are more advisory in nature and depend on relationships and client service. Also, the profession may resist the de-professionalization of public accountants that would accompany fragmentation of their work and offshore outsourcing (Sako, 2009).

STATUS OF IFRS ADOPTION

Historically, nations developed their own financial accounting standards. Culture, legal, governmental, and economic factors influenced the way accounting standards developed in different countries, and as a result direct comparison of financial statements was problematic. As business and finance became more global, the idea of one common international set of financial accounting standards became more appealing. The quest to develop a set of international financial accounting standards that would be globally accepted has been a relatively long one. While contemplated earlier (Mueller, 1963), the goal was formally institutionalized in 1973 with the creation of the International Accounting Standards Committee Foundation (IASC). Thirty-five years later, a comprehensive set of accounting standards, International Financial Reporting Standards (IFRS) was developed and are now required or permitted by more than 100 countries (IASB, 2010). While IFRS was earlier adopted by developing countries, the European Union mandated adoption of IFRS by EU-listed public companies in 2005. This step precipitously augmented the stature of IFRS, as it meant nearly

a third of the world economy would be preparing financial statements in accordance with IFRS (Kotlyar, 2008). The drive for IFRS came from many sources, not the least of which was multinational firms that wanted to list their equity on multiple exchanges and obtain financing worldwide.

In the United States, efforts have been underway for some time to converge U.S. financial accounting standards (GAAP) with IFRS. The 2002 "Norwalk Agreement" formalized a commitment to this objective (FASB, 2010). Since this time, the U.S. standards setter, the Financial Accounting Standards Board (FASB), has been working with its IFRS counterpart, the International Accounting Standards Board (IASB), on joint standard setting projects. While considerable progress was made toward convergence, the Securities and Exchange Commission (SEC) took steps that ultimately may lead to a leap from a commitment to converge U.S. and IFRS standards to the wholesale adoption of IFRS by U.S. public companies. In 2007, the SEC issued a final rule allowing foreign registrants to report under IFRS without reconciliation to U.S. GAAP (SEC, 2007). One reason for this may have been to facilitate foreign firms listing on U.S. exchanges in order to preserve the "market share" of New York in the global equity market. Regardless of the SEC's motivation, this was a significant step. In essence it allowed foreign companies a reporting option (i.e., IFRS) that was not available to U.S. companies. This disparity in reporting options, however, created a further impetus towards a single set of standards. In November 2008 the SEC issued its proposed rule titled "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with IFRS by U.S. Issuers" (SEC, 2008). This proposed rule articulates the process the SEC will use to evaluate whether to mandate adoption of IFRS by all U.S. public companies as early as 2014 (although earlier adoption might be allowed for certain companies). In this roadmap, the SEC articulates its motivation for proposing a process by which U.S. companies would be required to adopt IFRS as follows:

> *As capital markets become increasingly global, U.S. investors have a corresponding increase in international investment opportunities. In this environment, we believe that U.S. investors would benefit form an enhanced ability to compare financial information of U.S. companies with that of non-U.S. companies. The Commission has long expressed its support for a single set of high-quality global accounting standards as an important means of enhancing comparability. We believe that IFRS has the potential to best provide the common platform on which companies can report and investors can compare financial information* (SEC, 2008).

There is some debate among academics, practitioners, and other stakeholders regarding the pros and cons of IFRS adoption, but major U.S. corporations and the big four public accounting firms generally support this move. While anything can happen, all indications suggest that the question is "when" rather than "if" the U.S. will fully adopt IFRS.

IMPLICATIONS OF U.S. ADOPTION OF IFRS ON THE PRACTICE OF PUBLIC ACCOUNTING

The adoption of IFRS is building momentum. If the U.S. adopts IFRS, effectively there will be one global set of accounting standards for most of the world's economy. Many, including the SEC, have commented on the potential this would have for facilitating comparison of financial statements and efficiency in capital allocation (SEC, 2008). Others have recognized that U.S. adoption of IFRS and the emergence of global accounting standards will be a catalyst for global change with respect to regulatory frameworks, contracting, and corporate communications (Kotlyar, 2008). There has been little discussion, however, of the effect global accounting standards might have on the organization and management of public accounting firms, and the practice of public accounting.

The immediate consequences of global IFRS adoption relate to creation of a common set of accounting standards. Accountants around the world would be trained to understand the same standards. In a world of one common set of accounting standards, and potentially one common professional certification, factors underlying the current organization of public accounting firms and the way work is performed would change. It would be much easier for staff of a global public accounting firm to work trans-nationally, and much easier to meet regulatory standards regarding supervision when audit work was performed in different countries. This notion, while not widely articulated in the U.S., was at least present in considerations regarding the EU's mandate for listed companies to adopt IFRS. The EU planned to open a single market for financial services, as articulated under its Financial Services Action Plan, and common accounting standards were a necessary precondition for achieving this goal (Kotlyar, 2008). Additionally, the momentum toward global adoption of IFRS most likely is related to the pilot programs being introduced by some of the big four public accounting firms to test offshore outsourcing of some audit procedures. As globalization of accounting standards progresses and spurs more global integration of related regulation, it is likely that audit work will be performed more globally. Ernst & Young clearly articulates the importance of staff mobility in its discussion of its Career Development Framework (see Appendix 1). While Ernst & Young discusses this as a competitive advantage of its firm (E&Y, 2009), increasing global competition for audit jobs and downward pressure on salaries are possible consequences of a more global financial reporting system. Ernst & Young does not address this point in its promotional materials regarding its Career Development Framework.

More globally integrated audit work is almost inevitable as global accounting standards and financial regulations are adopted. This will be facilitated by the movement away from paper invoices and ledger books that would need to be audited "on site," since most accounting data are now electronic and could be audited and reconciled from anywhere in the world where an auditor could access the data. The logic of the current organizational form of the big four may also be reconsidered. A myriad of factors, including the implications of global practice on liability, will

affect the organizational form ultimately adopted by public accounting firms. Ernst & Young has already altered the structure of its operations in response to globalization (see Appendix 1), even if it retains elements of its prior structure for legal purposes. Global accounting, auditing, and financial reporting regulations may make a more truly global public accounting firm possible.

CONCLUSION

It is clear that globalization of accounting standards and financial reporting practices will have implications for investors and public corporations. But there will also be implications for how, where and by whom audit work will be performed. It is reasonable to consider that the practice of auditing could follow a trajectory similar to that seen in the practice of information systems development and consulting, where much of the development work now takes place in countries with a large number of skilled, but lower wage, programmers. This potential shift of work and change in organizational structure needs to enter the discourse surrounding U.S. adoption of IFRS in a more meaningful fashion. While the big four firms are taking actions that reflect cognizance of these issues, their understanding of, and planning for, these changes have not been clearly articulated with regard to adoption of IFRS. The IASB and the big four public accounting firms are mounting education programs to ramp up for the U.S. transition to IFRS. But the implications of the U.S. adoption of IFRS for employment and education run much deeper than the need to rapidly integrate IFRS into college curricula. If public accounting firms can move staff more easily and even outsource audit procedures, career paths within public accounting will change. The public accounting positions that remain in the U.S. will be quite different than the ones that currently exist, suggesting a need for different recruiting, training, and retention strategies. While more judgment-intensive and client relationship-oriented work might remain domestically staffed in the near term, the question of how staff will develop judgment becomes significant. If lower level audit work can be outsourced, how will staff be trained and develop expertise? In the description of its structure, PwC clearly articulates the importance of experience at the engagement level for developing professional competence:

> *The unit of organisation most critical to our success is also its smallest and most fluid: the client engagement team. Much of the decision-making authority relating to how client needs are met rests with engagement teams. The team also has primary responsibility for building and expanding client relationships. And the team is where much of our people's professional development occurs and PwC's culture is passed to younger professionals. As a consequence, each piece of the PwC network shares a single, overriding aim: to help engagement teams connect with clients, win work, and mentor the next generation of leaders* (PwC, 2010).

Ernst & Young openly suggests that staff mobility across national boundaries will be central to career development, "We see mobility as the key to providing our people with the experiences

they expect to build their careers and is therefore an important part of our EYU framework" (E&Y, 2009). Regardless of public accounting firms' individual responses to the changing business and financial reporting landscape, the implications for the organization of public accounting firms, the staffing of audit work, and the development of professionals are significant and need to be part of the discourse surrounding the possible U.S. adoption of IFRS.

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APPENDIX 1: ERNST AND YOUNG'S CAREER DEVELOPMENT FRAMEWORK

From: http://199.52.9.11/Global_Review_2008/Index.html

This year marked the global launch of EYU, our career development framework. Through EYU, our Service Lines operate in ways that provide our people with the right experiences, learning and coaching to help them grow and achieve their potential. It brings consistency, clarity and transparency to the way we develop all our people globally and reflects the mutual commitment we have to supporting our people, and our people have to owning their career.

We provide our people with some of the most challenging, exciting and rewarding experiences available anywhere through a range of international, cross-Service-Line and cross-functional assignments. We have increased our focus and investment on mobility assignments, and our US$1 billion, four-year expansion effort in key markets will help to provide even greater mobility opportunities for our people.

We see mobility as the key to providing our people with the experiences they expect to build their careers and is therefore an important part of our EYU framework. More than half the graduates joining us today say they chose us because they want to embark on an international career. And our clients increasingly require our support across a number of markets.

We are pushing hard to give our people global experiences to help shape their perspectives and enable their personal and professional growth. Mobility is one of our global priorities. It helps foster our inclusive culture, and promotes global assignments and working on cross-cultural teams.

The integration of our business across our Americas, EMEIA and Far East Areas has helped to promote inclusiveness across our diverse cultures. We can now more easily mobilize our people and provide them with greater opportunities to build rich careers, working with a greater range of accounts, specialty practices, industry sectors and geographies.

EYU also provides our people with a structured learning curriculum that offers globally consistent content to help our people develop their skills and become well-rounded professionals. And we provide our people with continual support to ensure they know how to apply their learning in their day-to-day role, to build their competencies and skills and accelerate their careers with us. But it is only by supporting our people in the broadest sense that we can deliver on our promise of being an inclusive and diverse organization.

GLOBALIZATION: TRENDS AND PERSPECTIVES

Tiffany Bishop, Sam Houston State University
John Reinke, Sam Houston State University
Tommy Adams, Sam Houston State University

ABSTRACT

Over the past thirty five years the world has been transitioning into a global marketplace. Today financial markets, industry, and politics are all internationalized. This internationalization has lead to an increased transfer of capital across borders, increased communication throughout the world, an increased importance of trade in the economy, and an increase in international trade policies. Globalization has had drastic effects on the economic world and has created many challenges politically. This paper defines globalization, gives a brief history, discusses recent trends, and gives several different perspectives on globalization. Recommendations for the future will be given, such as what regulations should be put into place, how the politics should be handled, and how to prevent globalization from going too far too quickly.

INTRODUCTION

Due to globalization, the business world has been completely transformed over the past thirty years. The economy is now more international with shares being traded between citizens of different countries on a daily basis. With the internationalization of industry and the economy there is a need for increased regulation from the governments of all countries involved. It is important to understand globalization to be a good business person in the world today. First, it is important to have a good understanding of the definition of globalization from several different business sources. Also, it is necessary to review the history of globalization so that it can be understood how we got to where we are today. Furthermore, there are several different trends that are occurring in the business world due to increased globalization. Professionals have different perspectives on how globalization has affected business today. Many scholars question whether or not globalization is positive or negative, especially for developing nations. These professionals feel that globalization brings both pros and cons to the world as a whole. Finally, business people should use this gained knowledge of globalization and apply it to future situations in the business environment.

A clear definition of globalization is important before beginning. Globalization is the increasing integration and interdependence among countries resulting from the modern flow of people, trade, finance and ideas from one nation to another. The World Bank, a strong supporter of globalization, defines it as, “the growing integration of economies and societies around the world.”

(Mukherjee, 2008). Globalization became an increasingly used term with technological innovations- most significantly the World Wide Web or Internet- that made financial transactions and recordkeeping of international shipments quicker and easier. As improved communication networks brought far-flung businesses together, it also brought different cultures together expanding the concept of globalization which now intersects the media, ideas, politics, the arts and other social artifacts across the planet. Globalization has expanded beyond its economic roots and has proliferated into human rights, the environment and even national security. Although these new initiatives do not look similar to the ones we are used to seeing the difference is that today's agreements come equipped with their own governance structures. This has led to an astonishing shift of policy-making prerogatives from individual nation-states to a host of new, higher level political institutions. This is a cause for celebration the notion that political institutions have come together to grow in size, importance and boldness is today's conventional wisdom.

HISTORY OF GLOBALIZATION

Globalization began as soon as the world began to become connected at the beginning of human history. Trading began centuries ago when European explorers began trading on their voyages overseas. Trade opened up and countries began trading gems, spices, silk, gold and silver. Eventually trading companies in each country were formed and international trade began. International trade steadily increased up until World War 1. The beginning of World War 1 ended the first big boom of globalization for trade and international investment. After this time the Suez Canal opened up along with new railroads which decreased the transportation time between Europe and Asia (Mukherjee, 2008). This increased the amount of trade that was taking place, which increased the competition between countries to participate in international trade. During this time trade was centered near England and those countries that had excess resources, land, and capital. In the 19th Century the United States made a transition to the center of international trade with the U.S. share of manufactured goods increasing from 30% in 1840 to near 60% in 1913 (Mukherjee, 2008) However, the United States began to migrate toward being the center of trade, but their progress was hindered by the Great Depression and World War II. After World War II the United States began to increase trade with other nations, but this trade did not begin to rapidly increase until the1970s and 1980s. In 1947 the General Agreement on Tariffs and Trade (GATT) was created benefitting the world trading system. Since then there have been eight different agreements of multilateral trade liberalization, as well as agreements that were made in individual regions of the world. From the close of World War II to the 1970s the Bretton Woods compromise was in full effect. This compromise restricted cross-border capital flow, it also let countries determine their own social and economy arrangements and how they wanted to develop their country. After the mid-70's financial markets became liberalized and countries have become more internationalized either on their own accord, or with some pushing from the International Monetary Fund (IMF) and the World Bank. Since the mid-1970s all three

circuits of capital (sales, finance, and production) have been internationalized more than any other time in history (Went, 2004). This increase since the 1970s has been largely due to a rapid increase in technology and the liberalization of governmental trade policies. However, some economist believe that globalization is retreating from its peak during the past thirty years and going into reverse. Globalization is seen to be at a standstill or in decline in the current economic crisis. A clear prediction of where globalization will go in the future has not been fully agreed upon.

REVIEW OF LITERATURE

Globalization is usually presented in different perspectives. Two perspectives most commonly used is pro-globalizationists and the other is anti-globalization or the like, but a close examination of the literature really reveals that people are neither true capitalist or true isolationist.

Pro-golablizationists or capitalist argue there is little evidence of income inequality (Almas Heshmati says) for two reasons. First there is no previous data to prove the hypothesis, second levels of income inequality in the pre-globalization phase are undeterminable.

The anti-globalization side argues the lowest cost provider does not mean more income equality for people of that country as Researcher Kaplinsky (2001) examines the current state of China and India and believes the increased participation has not only hurt the incomes of the unskilled worker but also semi-skilled and skilled workers.

For current literature McNally (2006) interprets how previous fundamental movements of laborers, peasants, and natives peoples in different countries have changed policies, he proposes a rough outline of revolutionary politics established on nonuniformity, internationalism and moving beyond the idea of one market. He also offers a clear understanding of how the movements need to make the best use of their strengths. Literature addressing the concept of globalization was also examined. The concept of globalization is a wide field but one of the most common books used in this area is probably Thomas Friedmans “The Lexus and the Olive Tree. Mr. Friedman is pro-globalization and views globalization as the utopian way of life. To understand other global economic topics, such as agricultural reform, outsourcing and so forth the website www.iie.com gave more of practical pro-globalization than Friedman.

TRENDS OF GLOBALIZATION

An Increase In Technology and Transportation

Globalization has been rising side by side with the increase in available technology and convenience of improved transportation. Technology has made it simpler for people to communicate across borders, and has also lead to a decline in the cost of transportation. The technological revolutions in the-mid 1980s lead to lowering the cost of transportation on airplanes, cars, and ships.

It is now much less expensive and much easier to transport goods from one country to another. Transportation is a pro-active agent of globalization and continues to receive additional benefits as transportation itself improves. Globalized transportation has become very profitable resulting in additional research and improved transportation technology. During the main growth stages of globalization between 1970 and 1993 mobilization increased nearly fifty percent throughout Europe. It was found that the average person went from traveling 16.5 km per day per person to 31.5 km per day per person. This travel generally takes place by automobile with automobile ownership increasing to an estimated 810 million in 2010, up from 670 million in 2003. Since the 1970s the flow of goods in Europe has dramatically increased. The transport of goods by road has increased by 40%, intercontinental rail shipping has increased by 17%, and waterway shipping has increased by 12% (Capineri and Leinback, 2004). Transportation is the main factor that reduces barriers to international trade and helps to market new technology globally. Business people are able to travel more easily in order to work out deals with business people in other nations. A decrease in transportation costs has triggered business' to garner greater profits by factory relocation, concentrating production in one sector, or in one location, where country inequalities exist (Heshmati, 2003). In addition, the digital revolution has also made globalization increase. Companies can now transfer files digitally over the internet, and even over handheld device. This makes it possible to have meetings without every participant of the meeting being physically present. The deregulation of the telecom market has lead to lower long distance communication costs and the exchange of information easier than ever before (Mukherjee, 2008). International businesses can now communicate with others through the ease of the email, telephone conferences, and videoconferences. It is now much less expensive for business people to pick of the telephone and ask their colleagues a quick question about a transaction that they are currently working on. The increase in telecommunications development had to do with a cause-effect relationship between technological development and the deregulation of financial market policies. New technology revealed how inefficient the financial market regulations were to begin with, and the deregulations of the financial market regulations lead to an increased investment in telecommunications, which then lead to increase technological advances (Czaputowicz, 2007). This increase in communication technology even further decreases the cost of doing business internationally.

The Liberalization of Governmental Trade Policies

Globalization is both inescapable and illogical. We cannot completely isolate ourselves nor can we have a completely unregulated commerce. Either way or idea would probably be catastrophic and almost out of the question. The question is how much regulation do we need and what type. The government has a big place in globalization by setting standards for international trade and monitoring the structure for international trade and determining which sectors should become

privatized. In fact International Monetary Fund loan terms require certain sectors to become privatized.

If the government is active in facilitating investment, then that country is most likely globalized. The marketplace should be an efficient place to allocate resources. Therefore, the main role of the government should be to create an effective marketplace by providing a superior structure of corporate governance and business law, providing a stable economic framework, and provide supply-side flexibility at a micro level (Alexander and Warwick, 2007). Kagan, 2007 stated that "there is little doubt that globalization has impinged on the autonomy of national governments, pushing the legal systems of economically advanced democracies toward convergence in significant ways." Convergence between governments is needed so that trade can be regulated the same in all participating countries. Recently, trade laws are getting more liberal and opening up trade in parts of the world where international trade was previously not taking place. These trade liberalization policies are needed to open trade throughout the world and increase economic growth. In recent years, the United States has increased membership in intergovernmental organizations and increased the amount of legislation passed that was intended to regulate numerous aspects of trade and finance (Pryor, 2000). With this new standardization the United States is now able to trade more easily with foreign nations. The new nations that are now available for trade are able to make products much more affordable for United States citizens. It is important for developing nations to participate in trade agreements in order to gain a competitive advantage in a globalized world. Research suggests that even further liberalization in both advanced and developing countries is needed for all countries to receive full benefits of globalization.

Next, financial capital has become more dominant, making it important for corporations to maximize shareholder value, which affects the companies' way of functioning, and how income and wealth are distributed. The removal of the Bretton Woods accord led to financial deregulation and exchange markets are now speculative, and rely on the amount of money flowing through the system rather than trade flows (Went, 2004). With the free flow of capital throughout the world financial markets, trading and technology have all exploded at a rapid pace. An investor may borrow money from a bank in London to build a skyscraper in China, and even have financial backers from Australia, Sweden, and Dubai.

An Increase In The Inequalities Among Nations

Also, globalization has lead to an increase in the inequalities of nations. Literature has many contradicting viewpoints on exactly how unequal nations are currently, and how big a factor globalization is playing in the inequalities. The richest of nations are continuing to increase in wealth while the poorest nations are continuing to get poorer . It has been found that 20% of the world's richest population control 86% of world gross domestic product and 82% of world exports, while the world's poorest 20% consume, 1.3% (Herriott and Scott-Jackson, 2002). However, (Crafts ,2003) predicts that growth rates for countries just beginning to actively participate in international

commerce will grow steadily for those countries. He believes that low-income countries will not be left out of globalization due to the increased reduction of trade borders throughout the world. These types of reforms include creating macroeconomic and fiscal stability and easing trade regimes (Graham, 2001). These reforms help nations integrate into the global world more easily and help reduce the inequality between the U.S. and nations that are already integrated into the global marketplace. Emerging countries such as India and China have reduced poverty and has shown an increase in economic growth since they adopted open economic policies in the 1990's (Cheng and Mittlehammer, 2008). This proves that with the right policies developing nations do not have to suffer due to globalization. It is important to put these policies in place so that more countries will want to participate in globalization. If developing countries know that they will not have to suffer from inequalities they will want join globalization. In 1995 The United Nations Conference on Trade and Development (UNCTAD) conducted an empirical study in developing countries in Asia. The study found that foreign investment has had a positive impact on economic growth when country-specific factors are taken into account (Carkovic and Levine, 2002). These factors include; domestic financial development, school attainment, and national income. Even though the numbers say that globalization is not imposing negativity on developing nations, many researchers still believe that it is. This study might have been slightly skewed due to the country-specific factors that were taken into consideration. When researchers use the information from the countries previous condition it could have mixed data. Some of the countries may have been so bad off in the first place that it actually seems as though there is a positive income on that countries economy.

Each country wanting to integrate toward globalization should create local conditions to complement its integrating. These conditions include, creating an efficient and stable financial market, developing human capital, and creating quality institutions. The government needs to be effective in utilizing these institutions to make policy and deliver public services. There is no current research that directly defines whether economic performance is actually better due to institutions. However, literature states that the quality of institutions affects both the quality and quantity of input productivity. Research found the quality of institutions affects both stocks and investment rate of capital (Gwartney et al., 2004).

On the other hand, some researcher's say that although globalization has the potential to benefit all of the nations involved it has not done so. Basu (2003) stated that "those who are at the helm of global politics and economics have made sure that their wealth gets amassed and their power is protected." This being said, the regions that are just beginning to participate in international trade are suffering greatly.

An Increase In the Inequalities of Incomes Between Citizens of A Single Nation

Finally, along with the increase in the inequalities of nations there was an increase in labor inequalities between the citizens of a single nation. Kaplinsky (2001) discusses this inequality and

poverty due to globalization. He stated that as China chooses to increasingly participate in the global economy it will hurt the income of many of China's citizens. The same thing was said for India and other low wage emerging economies. This researcher believed that participating in globalization would hurt the incomes of not just the unskilled workers but also the incomes of the semi-skilled and skilled workers Kaplinsky (2001). Research documents indicate that since the 1970s developing countries have exhibited economic growth and growing inequalities (Tisdell, 2004). Prior research presents two facts on income inequality prior to globalization. First, there is no proven correlation linking growth and inequality. Second, the levels of income inequality in the pre-globalization phase are undeterminable (Heshmati, 2003). However, the division between the upper and lower classes is getting wider and wider as time goes by. Literature suggests that trade has played a minor role in labor inequality, but rapid technological changes are the main source for income inequality. The conditions of work for unskilled workers and skilled workers are rapidly changing with technology. The unskilled workers are unable to operate new technology and therefore are beginning to get paid less and less. New technology is creating diverging wage and salary levels, increasing job insecurity for unskilled workers, and increasing unemployment rates for low skilled employees. In the previously mentioned article Kaplinsky discussed unequal incomes in China during the 1980s and 90s. He found that when global income inequality is "measured in relation to individual incomes, rather than inter-country average incomes the share of global income going to individuals has become more unequal. The average income in China did rise but large numbers of the Chinese population were excluded from gains, and are worse off than before" (Kaplinsky, 2001). Currently, many reforms are taking place to bridge the gap between incomes in countries throughout the world. Often times reforms on developing nations are looked at in a negative light. However, the effect of these reforms on the poor can actually be very positive. The poor have the most difficult time protecting themselves from high rates of inflation. In the past market reforms have reoriented public spending towards benefits for the less fortunante or poor (Graham, 2001). These reforms have lead to globalization actually becoming positive for lower class society. Local socioeconomic conditions play a big part on how globalization impacts certain areas of society. Individuals no longer see themselves as part of society as a whole and continue to separate themselves from society. This leads to an "every man for himself" type culture and even furthers the gap between individuals in society. These individuals are motivated by their own needs, preferences, and rights, and begin to lose high regard for other members of society.

PERSPECTIVES ON GLOBALIZATION

There are three main perspectives on globalization, each discussing different positives and negatives that are associated with globalization. The three different perspectives are the hyperglobalist perspective, the skeptical perspective, and the transformationalist perspective.

The Hyperglobalist Perspective

The first perspective is the Hyperglobalist perspective. This perspective argues that past history and current economics have joined together to create a new relationship where nations are uniting both economically and politically. It is necessary for countries to band together in both of these aspects in order to be successful in the globalized world. Countries that are not uniting are being left behind in the new globalized world that we live in today. This perspective views that the world economy is controlled more by the current marketplace than by governments. It is believed that industry, trading, and the global financial marketplace drives the economy, with governance having little to no control over the marketplace. Hyperglobalist believe that the power of individual governments is weakening as a whole, and that globalization has weakened the ability of individual governments to regulate the economy. Noting this, transnational governance organizations are becoming increasingly important. Many governments will have to merge together, and some may have to obey rules that they do not establish. Some scholars say that the democratic social models implemented and protected by nation-states will become increasingly insupportable. With the amount of trading going on in the national marketplace it is almost inevitable to have some sort of global governance system. Each country and its citizens have different beliefs on how a government should be developed and how much control it may have. It will most likely be a long time in the future before governments can come together and create any type of global system. However, other scholars say that the dissemination of a "consumerist ideology" is the first step in breaking down traditional modes of identification. As liberal democracy spreads the world will develop more universal principles of economic and political organization. After these things take place a truly global civilization will become possible (Held. Et al.,1999). Increased communication due to technological advances has created more of a mass culture, than existed in the past. The Hyperglobalist perspective sees the world economy as one single unit, more so than any other perspective does.

The Skeptical Perspective

The second perspective is the Skeptical perspective. The skeptical perspective views the globalization process as more separated and regionalized than as a truly global world. Scholars who view globalization with a skeptical perspective dismiss the fact that there is the development of a global culture of global development structure. These people believe that the world is globalizing but different regions are globalizing together. This perspective suggests that the past provides evidence that the world is not becoming a single market but that it is the expansion of regional economic sectors and the cooperation of trade between countries (Robinson 2006.) For example, industrialized nations have been trading together and building a trading block between each other. Then they slowly start purchasing products from developing countries and adding these countries to their block. The skeptical perspective believes that a strong-nation state is needed to facilitate

trade between countries and regulate the running of the global economy. These "power countries" will regulate the trading between developing nations who do not have a strong government system. Many scholars view this perspective as more believable because those countries with a strong nation-state are more active in international commerce. The skeptical perspective believes in a globalized world but believes that globalization begins regionally then migrates toward a globalized economy.

The Transformationalist Perspective

The final perspective is the Transformationalist perspective. This perspective differs from the other two perspectives in two ways. First, it is believed that there is no individual cause (that is, the market or economic logic) behind globalization. Globalization is considered a phenomenon that just slowly progressed over the years. Second, scholars believe that the outcome of processes of globalization is not determined (Held et al. 1999). These scholars say that globalization is an unknown phenomenon and its outcome will not be known for many years down the road. Transformationalist authors believe that the same general changes have occurred from globalization but there is no direct belief in the exact direction that these changes came about. Also, this perspective does not define any historical events or factors that define globalization. Globalization is just something that has been happening with no defined past or future. Transformationalist say the power of national governments is increasing but the nature of these national governments is changing. This perspective believes that the range of factors influencing processes of globalization is much greater, and the outcomes of globalization are very uncertain.

The Perspective That Globalization Is Not Occurring

In addition to these three perspectives there are those who believe that globalization is not occurring. In the article *Globalization in Question* authors Paul Hirst and Grahame Thompson (1996) believe that our world today is not experiencing globalization but rather an increase in growth in the international economy. These theorists believe that in fact the international economy is becoming more globalized but full globalization is not taking place. The international economy is experiencing the growth that it previously had before the Great Depression, World War II, and the Cold War. These authors believe that if we truly lived in a globalized world, society, as a whole would be very similar socially. Currently this is not true. Societies of different countries are different in so many different wants. They think that if our society were truly globalized then market forces would be uncontrollable and automatic. Right now the market forces are somewhat controllable by government intervention. Those who do not believe in globalization also think that there is not enough political backing for this type of globalized movement to be taking place. Although, many countries support globalization no government supports the world being fully globalized. These are the reasons that some believe that globalization is not occurring.

THEORIES OF GLOBALIZATION

There are many different theories on globalization that are circulating literature. Researcher Almas Heshmati (2003) found that there are three basic theories on globalization and world-wide inequality. First, is the neoclassical growth theory that forecasts the coming together of nations because of increased flow of capital throughout the world. Next, is the endogenous growth theory, which forecasts a smaller amount of convergence or divergence because there is a larger return on technological advances in countries that are already fully globalized. Finally, the dependency approach forecasts that divergence occurs because of the different amount of benefits that each country will receive from economic integration depending on how wealthy that country is. For example if a country is trying to become more democratic the dependency approach will hurt the process because the dependency perspective relies on foreign capital. (Heckelman and Knack 2005).

Is Globalization Reversible

When asking whether or not globalization is reversible does not mean it needs to be altered to the degree of disbandment but rather can it to a certain extent be changed to advance all societies, rather than a few nations. Examining this possibility requires a sincere look into the unfair nature of globalization of today and then evaluate the needed steps to adjust it ongoing development in all countries. The World Commission on the Social Dimension of Globalization says to be aware of the clear warnings of what is going to occur if globalization is allowed its continued path, while advancements are "too distant for too many". (The Assoc. for Women's Right in Development, 2008).

Great wealth is being accumulated, but developmental problems of exclusion, poverty, an inequality persist. Bribery is generally accepted, free and open cultures and societies are endangered by violence and the ideas of an open market are in question. World-Wide sovereignty is in a predicament. The world is at a perilous juncture and we all need to revise or rethink our present policy and organizations (The Association for Women's Rights in Development, 2008).

Societal change has always existed. The amount societies have changed has allowed mankind to achieve great and wondrous things. Without the progress of social change (examples include technological and medical discoveries) mankind would fight to survive. However social change is not always done for the benefit of all. It is undeniable that the power of globalization is both advantageous and disadvantageous at the same time. Countries such as the United States celebrate its good fortunes while Africa struggles. With inherent challenges making the concept of globalization unforeseeable. Africa's economy depends heavily on exports and farming, globalization will make such customary practices outdated.

The belief among financial experts, "Globalization and the progress to an informational market which relies on knowledge-based products threatens Africa's already shaky position in the

global market" (IPS 2004). Africa's economy relies on regionally grown commodities such as palm oil, sugar, cocoa, and vanilla, speaks to the aspect of efficient techniques which are created faster, cheaper and within "research facilities or in a non-traditional environment" (IPS 2004). Indeed, while much of the rest of the world looks longingly toward the prospect of globalization, African farmers and the rest of the population are seeing nothing short of economic destruction. Primary to the challenges facing Africa due to globalization is that it is destroying the very nature of equitable commerce.

Changing this approach to globalization will require a number of modifications to the present methodology, a multifaceted task clearly laid out by the Commission in its document entitled; A Fair Globalization: Creating Opportunities for All that includes the following criteria: 1) A focus on people that addresses such global characteristics as gender equality, cultural autonomy/identity, community empowerment and decent work opportunities; 2) a democratic and effective State whereby the capacity exists to offer economic/social opportunity as well as assimilate into the global economy; 3) sustainable development in all forms of social, economic and environmental application; 4) productive and equitable markets; 5) fair rules; 6) globalization with solidarity; 7) greater responsibility to citizens, both public and private; 8) deeper partnerships in all organizational levels; and 9) an effective United Nations that creates and enforces an appropriate system of governance. In short, these proposals call for "a wider and more democratic participation of people and countries in the making of policies that affect them. They also require those with the capacity and power to decide-governments, parliaments, business, labour, civil society and international organizations—to assume their common responsibility to promote a free, equitable and productive global community" (The World Commission on the Social Dimension of Globalization, 2004).

SUMMARY AND CONCLUSIONS

In conclusion, over the past thirty years globalization has completely transformed how nations are conducting business in the world. The increases in technology and the liberalization or governmental policies have lead to globalization skyrocketing over the past three decades. This drastic increase in globalization has lead to an increase in inequality amongst nations, as well as an increase in the inequalities between social classes of individual countries. There are three main perspectives on globalization within literature today. Each individual perspective has different viewpoints on what causes globalization, how globalization impacts society, and the future of globalization. There are also several theories of globalization that need to be understood. It is imperative to have a clear understanding of the trends and perspectives of globalization to be able to understand how it affects the business world and society.

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