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JOURNAL OF INTERNATIONAL BUSINESS RESEARCH

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LETTER FROM THE SPECIAL ISSUE EDITORS

It is with great pleasure that we welcome you to this issue of the *Journal of International Business Research*, a journal published by the Academy of International Business Research, an affiliate of the Allied Academies. The mission of the *Journal* is to support the exchange of ideas and insights in International Business.

This issue features the best papers among those presented at the ICBEIT 2010 Seoul International Conference on Business, Economics and Information Technology on the theme of “Doing Business in the Global Economy: Economic, Political, Social, Cultural and Technological Environments Facing Business". Founded on a very simple idea, that there is so much we can learn from each other, the above conference provided an opportunity for academicians, researchers, students, and representatives from industry and government to get together and exchange ideas in the spirit of scholarship and professional growth.

We thank the University of Guam’s School of Business and Public Administration and Penn State Altoona's Division of Business and Engineering for their support of the publication of this journal issue. We also acknowledge the members of my Editorial Review Board for their collegiality and service to our profession. Additionally, we are grateful to the Academy for providing us with the outlet by which we can share our scholarly efforts with those interested in the study of International Business.

Consistent with the editorial practices of the Academy, each paper in this issue has undergone a double-blind, peer-review process. The acceptance rate for these manuscripts was 25%.

That this issue includes papers by authors from different countries is a testimony to the international reach of Allied Academies and its affiliates and the diversity of its membership.

Information about the Allied Academies, as well as calls for conferences, are published on our website. In addition, we keep the website updated with the latest activities of the organization. Please visit our site and know that we welcome hearing from you at any time.

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THE INTRODUCTION OF ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS IN JAPAN: FOCUS ON MINORITY INTEREST AND OTHER RELATED ACCOUNTING TREATMENTS

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ABSTRACT

The classification of Minority Interest affects the calculation of Net Income, for example, through the intercompany elimination of Unrealized Profit. Japanese Accounting Principles for Consolidated Financial Statements was issued in 1975. Then, Minority Interest was classified as Liabilities, but now, it is classified as one item under Net Assets so as to make it more consistent with accounting principles. Minority Interest was formerly classified as Liabilities in Japan might reflect the influence of U.S. accounting standards on Japanese accounting standards, especially because consolidated financial statements were developed in the U.S. This paper examines the reason why Minority Interest was classified as Liabilities by reviewing the literature on U.S. accounting.

INTRODUCTION

The Accounting Standards Boards of Japan (ASBJ henceforth) has been working on for the convergence of Japanese General Acceptable Accounting Principles (GAAP henceforth) toward the International Financial Reporting Standards (IFRS henceforth). In August 2007, the International Accounting Standards Board (IASB henceforth) and the ASBJ announced the Tokyo Agreement which made clear the deadline for the above convergence by June 30, 2011. As IFRSs are continuing to move toward the economic-unit concept for preparing consolidated financial statements (IFRS No.3, 2008; IAS No.27, 2008), Japanese GAAP is also moving toward the same direction.

IASB amended IAS No.27 Consolidated and Separate Financial Statements to change the term “Minority Interest” to “Non-controlling Interest” (IAS No.27, BC28). This change is because of the fact that the owner of a minority interest in an entity might control that entity as opposed to the owners of a majority interest who might not control that entity.

In Japanese GAAP, the term “Minority Interest” (*Shousuu kabunushi mochibun* in Japanese) was used, but in December 2009 ASBJ tentatively agreed to consider using “Non-controlling interest” (*Hi shihai mochibun* in Japanese). Because the change takes time to take effect and the term "Minority Interest" continues to be used in Japanese GAAP, the same term will be used in this paper.

The Accounting Principles for Consolidated Financial Statements, which was amended in 1997, was also based on the parent-company concept. This is primarily because the information of consolidated financial statement was intended mainly for investors of parent company, and the treatment based on parent-company concept was more suitable in practice (Part 2 Revision of consolidated financial principles Ⅰ-2).

Based on the parent-company concept, there are two kinds of classification for Minority Interest on the consolidated balance sheet: One is as a liability and the other is as mezzanine (neither liability nor capital). Minority Interest was classified as a liability based on the Accounting Principles for Consolidated Financial Statements in June 1975 until its treatment was amended in 1997 when Minority Interest were excluded from Liabilities but not included among Capital.

The Accounting Principles for Consolidated Financial Statements was amended in 1997 by the Business Accounting Council (BAC, henceforth), which is a standard-setting body in Japan. This amendment now requires presenting Minority Interest as an independent item between Liabilities section and Capital section on the consolidated balance sheet. However, the presentation of Minority Income was not affected as it continues to be deducted for calculating Net Income on the consolidated income statement. This is because Minority Interest does not represent an obligation that the entity must satisfy. Consequently, it did not fulfill the definition of liability but rather an item unique to consolidated financial statements.

The balance sheet classification in Japan was changed by ASBJ Statement No. 5 Accounting Standard for Presentation of Net Assets in the Balance Sheet and ASBJ Guidance No. 8 Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet in 2005. By ASBJ Statement No.5, the Capital section of the balance sheet was replaced by the Net Assets section, and Minority Interest was included in the Net Assets section of the consolidated balance sheet. However, it should be noted that the Net Assets section consists of the following sub-sections: Shareholders' Capital, Valuation and Translation Adjustments, Subscription Rights to Shares, and Minority Interest. Although Minority Interest was included in the Net Assets section on the consolidated balance sheet, it was excluded from sub-section Shareholders' Capital.

The presentation of the income or loss attributable to Minority Interest in consolidated subsidiaries was not affected by ASBJ Statement No.5 in 2005. Minority Income continues to be deducted when calculating consolidated Net Income. Hence, ASBJ Statement No.5 changed only the presentation of Minority Interest on the balance sheet and not its accounting treatment. According to ASBJ Statement No.5, Minority Interest was a part of subsidiary's capital which was not attributable for the parent company. It is neither debt nor attributable to the parent company's shareholders in the consolidated financial statement. ASBJ Statement No.5 followed the Japanese conceptual framework that emphasized Net Income as well as Comprehensive Income.

In September 2004, the Working Group on Fundamental Concepts, which was organized by ASBJ, published The Series of Discussion Papers: Conceptual Framework of Financial Accounting. Instead of Comprehensive Income, Net Income was emphasized in Japanese conceptual framework. Considering the importance of profit information, the Discussion Paper defines “Net Income” independent from Comprehensive Income (Discussion Paper Elements of Financial Statements, Introduction). This reflects the stance of the Discussion Paper that Comprehensive Income cannot be a substitute for Net Income based on empirical findings that Comprehensive Income information has less usefulness to investors than is Net Income (Discussion Paper Elements of Financial Statements, para.20, Chapter 3 par.21 in 2006 version).

Because the Japanese Conceptual Framework emphasized the Net Income concept, the above change affected the classification in Net Assets. Net assets are defined as the difference between Total Assets and Total Liabilities. Shareholders’ Capital is defined as net stock of investments which generates Net Income, which is attributable to shareholders who are the owners of the reporting entity, that is, the parent company in the case of consolidated financial statements (Discussion Paper Elements of Financial Statements, par.6, Chapter 3 par.7 in 2006 version,). As a result, Net Assets consist of Owners’ Equity and other components. In order to derive Net Income from Comprehensive Income, it is necessary to deduct the Minority Interest share in earnings (Discussion Paper Elements of Financial Statements, par.12, Chapter 3 par.12 in 2006 version). As for the accounting treatment related to Minority Interest and Minority Income, it can be said that Japanese Conceptual Framework supports the parent-company concepts.

The ASBJ Statement No.22 Accounting Standard for Consolidated Financial Statements was published by ASBJ in December 2008. Based on that standard, the Regulation for Consolidated Financial Statement was amended where there is subtotal entitled Net Income before deducting Minority Income and Net Income. Although the amount disclosed as Net Income before deducting Minority Income would be the same as the amount of Net Income required by the IFRSs, Minority Income continues to be deducted before calculating the amount of Net Income in Japan. Minority Interest is also excluded from Shareholders’ Capital.

In Japan, Minority Interest was previously presented among Liabilities but, since 1997, is now reported in the Net Assets section on the balance sheet. Although classification of Minority Interest on the balance sheet in Japan might look the same as the balance sheet that follows the IFRSs, the meaning of that classification is not exactly the same. It should be noted that although Minority Interest is presented among Net Assets, it is excluded from Shareholders’ Capital section. Minority Income is presented below Net Income before deducting Minority Income but above Net Income, which is not exactly consistent with the economic-unit concept implemented in Japan. Hence, Japanese accounting standards have not completely adopted IFRSs, reflecting ASBJ’s continued preference for the parent-company concept rather than the economic-unit concept. ASBJ is now still struggling to amend Japanese Standards toward convergence toward the IFRSs.

MOTIVATION FOR THIS STUDY

As noted above, the lack of convergence of Japanese GAAP toward the IFRSs is due to Japanese Standards' preference for applying a relatively pure parent-company concept in Japanese accounting principles for consolidated financial statements. This reflects the history of Japanese accounting standards. This preference is to be analyzed in this paper.

Japanese GAAP itself was imported from U.S. in late 1940's. Japanese GAAP was influenced by A Statement of Accounting Principles written by Sanders, Hatfield, and Moore (Ohta, 1949; Nakajima, 1971). However, at that time, accounting principles for consolidated financial statements were not included in Japanese GAAP because the Japanese accounting practice had not reached that level (Kurosawa, 1975b). It was not until the 1960s when the BAC began deliberating over the accounting principles for consolidated financial statements.

Whether Minority Interest should be included among equity or not has been debated for years. Because that classification directly affects the calculation of earning, it is not simply a matter of disclosure but it affects the fundamentals and the basic concepts of accounting. The classification between liabilities and equity affects the calculation of profits and losses. For example, if Minority Interest is classified as liability, it affects the calculation of expense, and finally the calculation of Net Income. However, if it is classified as equity, dividends paid to minority shareholders of the subsidiaries will be treated as distribution of earnings, and will not affect the calculation of Net Income.

The presentation of Minority Interest is affected by the underlying concepts for combining the accounts of legally separated business units and presenting group data in the form of consolidated financial statements, namely, the parent-company concept and the economic-unit concept. These concepts also affect other accounting techniques such as measurement of goodwill and the calculation of profits and losses are affected by those concepts.

The main research question is why the parent-company concept was adopted in Japan. In order to figure out the answer, the origin of Japanese accounting principles for consolidated financial statements, namely accounting theory and practice in U.S. in 1960s and 1970s, will be analyzed. ARB No.51 was issued in 1959, but the treatment of Minority Interest was not explicitly stated and clarified in that accounting standard so it is also necessary to analyze accounting practices of Minority Interest in U.S. at that time. The review of relevant literature has focused on the classification of Minority Interest on the balance sheets and the analysis of how concepts for consolidated financial statements affect the accounting treatments.

THE TRIGGER FOR MANDATING CONSOLIDATED FINANCIAL STATEMENTS IN JAPAN

Japanese GAAP itself was issued by the Economic Stabilization Board in 1949. It is influenced by A Statement of Accounting Principles written by Sanders, Hatfield, and Moore (Ohta, 1949; Nakajima, 1971). There are four accounting principles for consolidated financial statements but they were not implemented in Japanese GAAP at that time because Japanese accounting practice at the time was not at that level (Kurosawa, 1975b, 7) although the importance of consolidated financial statements was recognized. In 1951, the BAC picked up 12 important matters in the Opinion for the adjustment between Commercial Code and Accounting Principles, of which the consolidated financial statement was one.

The history of disclosing consolidated financial statements by Japanese companies began in 1960s, when Sony, Toshiba and other companies began raising financing in U.S. capital markets (Takeda, 1977, 4; Kurosawa, 1975a, 2). Consequently, these companies had to prepare consolidated financial statements according to the regulations of the Security and Exchange Committee (SEC, henceforth). These statements were then submitted them to the New York Stock Exchange and the SEC. By 1975, approximately forty Japanese companies were preparing consolidated financial statements because they were offering their shares in the form of ADRs or EDRs (Takeda, 1977, 4). After 1964, the Tokyo Stock Exchange also utilized consolidated financial statements as a source of background information in its review of newly listed companies (Banba et al., 1975, 102).

By mid-1960s, the concept of consolidated financial statement had become an important issue in Japan. According to a survey by Aida (1965), 27 out of 40 companies (60%) were preparing consolidated financial statements while another 12 companies (27%) were moving in that direction. The reason for preparing consolidated financial statements includes external factors such as the company raising financing in U.S. capital markets (9 companies) or a loan from the World Bank (6companies) as well as internal factors such as the management of affiliate companies (7 companies) or for internal management (7 companies).

Accounting scandals in 1965 also elevated the discussion for mandating the disclosure of consolidated financial statements in Japan (Kurosawa, 1975a, 4). Starting with Sanyo Special Steel Co. in 1965, there were a number of business bankruptcies that revealed the presence of accounting fraud in transactions between parent company and subsidiaries (Yoshimi, 2006, 36-42; Kato, Tomosugi & Tsuda, 1995, 55-60) such as payments of illegal dividends and that the amount of surplus for those dividends were generated from a fictitious purchase and sale or fictitious debts and credits between parent company and subsidiaries (Kurosawa, 1975a, 4).

In order to prevent accounting fraud, the Ministry of Finance in March 1965 asked the BAC to discuss a mandate for companies to disclose their consolidated financial statements.

DISCUSSION OF MINORITY INTEREST FROM ACCOUNTING PUBLICATIONS IN U.S.

If the parent company owns less than 100% of a subsidiary's shares and the parent company's figures are combined with those of its subsidiaries into a consolidated statement, then the part not owned is shown in the consolidated balance sheet as Minority Interest. Finney (1924, 20) indicated that the presence of Minority Interest necessitated some adjustment in the consolidated profit and loss account but did not illustrate any such adjustments or discuss income statement treatments.

The classification of Minority Interest was not a major issue in the early days (Dickinson, 1906; Esquerre, 1914) for two reasons. First, parent companies generally held almost 100% of subsidiaries' stock when American accountants first began preparing consolidated financial statements (Yamaji, 1987, 129). Second, the classification between liabilities and equities was not clear. Some provided balance sheets with headings Assets and Liabilities but without sub-totals (Montgomery, 1912, 555; Bennett, 1917, 458).

The Accounting literature in those days was divided into three groups in regards to how Minority Interest was treated on the balance sheet: as a liability, a quasi-liability (between Liability and Shareholders' Equity) or as a component of Shareholders' Equity. Newlove (1948, 58), who performed a comprehensive survey of accounting literature relating to consolidated statements, found general support for the quasi-liability classification for Minority Interest. Lauderdale (1966, 57), who surveyed balance sheet classification of Minority Interest as reported or recommended in accounting textbooks and reference books, found revisions of some of these textbooks indicate a trend toward moving Minority Interest from a liability or a quasi-liability to a proprietorship classification in the 1960s.

Some classified Minority Interest as a liability (Kohler, 1938, 68; Kaluza, Leonard, Furneaux, 1971, 493). Kohler (1938, 68) stated Minority Interest on the consolidated balance sheet should be regarded as a liability, not as net worth. Kaluza, Leonard, Furneaux (1971, 493) classify Minority Interest as one item under "other liabilities". Some point out Minority Interest lacks the characteristics of a liability while also not being a part of the formal Net Worth section (Bennett, 1922, 447; Johnson, 1948, 103; Karrenbrock & Simons, 1955, 340; Chaykin & Zimering, 1958, 225; Griffin, Williams, & Welsch, 1966, 281).

The main issue is that, where minority shareholders exist, their rights (as well as those of other claimants) must be clearly disclosed. However, because the consolidated statement is often oriented toward the dominant shareholder (those of the parent company), the rights and equities of Minority Interest has assumed the character of a liability, although because Minority Interest is usually evidenced by ownership certificates, it displays certain quality of proprietorship, which is that of a separate identification between Liabilities and Shareholders' Equity (Griffin, Williams, and Welsch, 1966, 281).

Some classified Minority Interest as Shareholders' Equity (Kester, 1925, 549-550; Rorem, 1928, 440; Moonitz, 1944, 88; Childs, 1949, 285; Sapienza, 1960, 510; Bedford, Perry, & Wyatt, 1961, 225-257; Moonitz & Jordan, 1964, 227; Lauderdale, 1966, 69; Simons & Karrenbrock, 1968, 316). Among them, some hold strong objection to classifying Minority Interest as a liability because they consider this obviously inappropriate because the ownership of shares of stock in a subsidiary affiliate company does not represent a contractual commitment, which is how the term " liability" is normally used. Consolidated financial statements serve no real purpose unless they present the results of operations and the financial position of a group of companies, conceived of as one economic operating entity. The statements should ignore legal boundaries and should be presented for what they are accounting statements, not legal statements (Lauderdale 1966, 69).

A summary of the literature on the Classification of Minority Interest on the balancfe sheet is presented in Table 1.

Table1: CLASSIFICATION OF MINORITY INTEREST IN THE PREVIOUS RESEARCH

Liability	Neither liability nor Shareholders' Equity	Shareholders' Equity
Kohler(1938) Kaluza,Leonard, Furneaux(1971)	Bennett(1922) Johnson(1948) Karrenbrock & Simons (1955) Chaykin & Zimering(1958) Griffin, Williams, and Welsch(1966)	Kester(1925) Rorem(1928) Moonitz(1944) Childs(1949) Sapienza(1960) Bedford, Perry, & Wyatt(1961) Moonitz & Jordan(1964) Lauderdale(1966) Simons & Karrenbrock(1968)

CONSOLIDATION CONCEPTS

There were only a few existing studies that explain the reason for Minority Interest's classification. Childs (1949) compares two concepts for preparing consolidated statements: "legal-entity" point of view and "economic-entity" point of view. Although Childs used different terms, his work originated the comparison between the parent-company concept and the economic-unit concept (Lauderdale, 1966, 55-56), with the former's development in accounting practice cited in Childs (1949, 49) while the latter was developed by Moonitz (Finney & Miller, 1944, 474).

According to the "legal entity" point of view, consolidated statements should present the combined accounts of a central financial interest, which is composed of the stockholders of a parent company who are the owners of the company's subsidiaries. Consolidated statements should show the same proprietorship equity as the legal-entity statement of a parent company (Childs, 1949, 49).

According to the "economic-entity" point of view, the purpose of consolidated statements is to present the assets, equities, and earnings of an economic entity. It may display the combined financial and operating data of all affiliates which produce a good or service. Whether the consolidated proprietorship presents the stockholders' equities of one interest or of several interests does not matter (Childs, 1949, 49).

With regards to the treatment of Minority Interest, Childs compared two views: "majority interest" and "combined" (Childs, 1949, 54-55). Under the majority interest point of view, the consolidated capital stock is the parent's capital stock, the consolidated surplus is the parent's surplus adjusted for equity change in subsidiaries after acquisition, and consolidated profit or loss is the parent's profit or loss adjusted by its shares of the undistributed profits or losses of subsidiaries. A consolidated statement is an instrument for presenting the equity or earnings constructively allocable to a single proprietary interest (Childs, 1949, 54-55). Under the combined point of view, the minority interest is a same kind of proprietorship element as the majority interest. The consolidated capital has majority and minority elements, the consolidated surplus has majority and minority elements, and the consolidated profit and loss is distributable between the majority and Minority Interest. Consolidated statement is an instrument for presenting the total assets and earnings of a business enterprise with less emphasis on ownership (Childs, 1949, 54).

Childs was in favor of the "combined" point of view because of the coordinate status between the majority and minority, and minority interest does not have lien on any assets and it has a proprietary equity in certain assets and is a part of the capital of the enterprise (Childs, 1949, 54-55).

The Accounting International Study Group (AISG 1973) examined the fundamental objectives of consolidated financial statements and the practices in Canada, the U.K., and the U.S. Section V of the report compared the parent-company concept and the entity concept. The parent-company concept views consolidated statements as an extension of parent company statements, and subsidiaries are viewed as almost the equivalent of branches. The Minority Interest is considered to be an outside group and a liability. A difference between the cost of parent's investment and the parent's interest in the net worth of a subsidiary at the date of acquisition is attributed in its entirety to the parent company and does not affect the Minority Interest in the acquired company. Only the parent's share of an intercompany transaction is eliminated in consolidation, since the minority's share of such a transaction is considered to be a transaction with outsiders (AISG, 1973, para.24).

The entity concept views consolidated statements as those of an economic entity with two classes of proprietary interest - the majority and the minority interest. The consolidated statements are viewed as an expression of the financial position and operating results of a distinct consolidated entity consisting of a number of related companies under common control, so the Minority Interest represents a part of capital. The excess of the cost of a parent's investment over the parent's interest in the net worth of a subsidiary is used as the basis for determining the fair value of the entire subsidiary and the Minority Interest is revalued. Costs and profits are recognized only in transactions with parties outside the consolidated entity composed of both the majority and the minority interest (AISG, 1973, para.25).

The parent-company concept was generally followed in practice in the three nations, and it was considered to be more appropriate because the shareholder of the parent company is interested in consolidated statements which give the overall results of operations attributable to the investment which he/she has in the parent corporation. Minority shareholders must look to a particular company for the determination of their equity, the likelihood of dividends and their prospects in the event of liquidation (AISG, 1973, paras.26-27).

Although AISG analyzed the information needs of the users of the consolidated statements, they supported the parent-company concept.

ACCOUNTING STANDARDS AND PRACTICES IN THE U.S.

Although ARB No.51 (Consolidated Financial Statements) was issued in 1959, it was not clear on the balance sheet classification of the classification of Minority Interest and the treatment of Minority Income in the calculation for net income. As for the calculation of goodwill, the same document required including the cost to the parent company of an investment in a purchased subsidiary exceeds the parent company's equity in the subsidiary's net assets at the date of acquisition. In this case, the accounting treatment was consistent with the parent-company concept.

However, the above report required that intercompany profit or loss on assets remaining within the group be eliminated in order for the amount of intercompany profit or loss was not affected by the existence of a Minority Interest. This is consistent with the underlying assumption that consolidated statements represent the financial position and operating results of a single business enterprise. The elimination of the intercompany profit or loss may be allocated proportionately between the majority and Minority Interest (ARB51, paras.6 and 14). This accounting treatment was consistent with the economic-unit concept rather than the pure parent-company concept.

Because ARB No. 51 did not apply a single concept consistently, it would be interesting to look into the accounting practice to see which of the two concepts was dominant.

Childs conducted a survey of 37 leading accountants who had done original work in the field of consolidation accounting, to which 15 responded (Childs, 1949, 289-328). With regards to the treatment of Minority Interest on the balance sheet, 12 of the 15 respondents (or 80%) favored the "majority interest" point of view, in which the majority interest is assumed to be the consolidated proprietorship, and the minority interest is treated as a quasi liability. The remaining 3 respondents (or 20%) favored the "combined" view, in which the majority and the Minority Interest are treated as co-ordinate proprietorship factors. As for the preferred presentation of Minority Interest on the consolidated balance, 11 of the 15 respondents would treat Minority Interest as a quasi-liability while the remaining 4 respondents would classify Minority Interest in the capital and surplus section (Childs, 1949, 300-302).

Childs (1949, 302) noted a comment from the respondents that suggested a shift to the "combined view" when the Minority Interest is substantial in amount. He also received a comment discouraging the treatment of Minority Interest as a liability because the Minority Interest has no claim against the group as a whole that is represented on consolidated balance sheet. Hence, although more accountants shared the parent-company concept in those days, the reason for their preference might be because the Minority Interest was not a substantial item.

As for the method of showing the minority share of the profit on the consolidated profit and loss statement, 11 out of 15 respondents preferred presenting it as a deduction from "Net Profit", 3 respondents preferred reporting it as a distribution of "Net Profit" while one respondent favored presenting it as "Other Expense" (Childs, 1949, 303). These responses suggested a lack of consistency in either the economic-unit concept or the parent-company concept.

A survey conducted by the American Institute of Accountants of 83 companies who issues annual reports in 1954 showed that 23 companies reported Minority Interest as a liability, 3 as a part of stockholders' equity, 48 just above capital stock of parent where total parent company stockholders' equity shown, 8 unclassified, and 3 below total liabilities and just above parent company stockholders' equity (AIA, 1956, 18). Although the majority of respondents supported classifying Minority Interest as a quasi-liability and only a few companies disclosed Minority Interest in the stockholders' equity, the balance sheet classification practice in those days seemed to follow the parent-company concept.

On the treatment of Minority Interest in the income statement, 33 of the 85 companies surveyed reported Minority Interest as a separate and final deduction (or addition, if the company suffered a loss) in arriving at the net income for the year, 11 reported it as one of the deductions (or income, if the company suffered a loss) in a one-step income statement, 9 presented it as one of the unclassified deductions in arriving at net income before income taxes, and 28 did not report Minority Interest in their income statement (AIA, 1956, 19). Since the majority of survey respondents disclosed Minority Interest on the income statement as a deduction in the calculation of their net income, it appears that the parent-company concept was dominant.

Lauderdale's 1965 survey focused on the disclosure of minority interest on consolidated balance sheets. He asked respondents to indicate (1) the answer that the respondent believed to be preferred theoretically and (2) the answer that the respondent is currently using in practice. Forty two companies with published balanced sheets in which Minority Interest were disclosed were survey. Eleven public accountants expressed a theoretical preference for the presentation of Minority Interest as a liability and 10 companies follow that practice. The quasi-liability category was favored theoretically by 43 public accountants. The economic-unit concept was evidently favored by 10 public accountants who believed Minority Interest in capital stock and retained earnings should be indicated in the equity section of the balance sheet. However, only one of the companies was following that practice (Lauderdale, 1965, 216-217).

The extent to which the parent-company concept dominated in US practice in 1950s and 1960s is evident from data in Table 2, which show that the majority disclosed Minority Interest above stockholders' equity on balance sheet, and only a few companies disclosed minority interest in stockholders' equity, balance sheet classification practice in those days seemed to follow parent-company concept.

Table 2: THE CLASSIFICATION OF MINORITY INTEREST ON THE CONSOLIDATED BALANCE SHEET

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Above Capital	76	88	95	96	101	107	112	108	118	125	133	141	159
Capital	3	4	3	3	4	3	3	3	2	2	3	2	3

Source: AICPA *Accounting Trends and Techniques*

JAPANESE ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

The BAC released its Opinion on Consolidated Financial Statements (Tentative) in July 1966 and submitted its Opinion on Consolidated Financial Statements in May 1967. Because Japanese accounting practice and Japanese companies were not ready for preparing consolidated financial statements, the Opinion remained an educational one (Oosako, 1975, 92). At that time, it was too early to mandate disclosure of consolidated financial statements in Japan.

When the Security Exchange Act was amendment in February 1971, the resolution for mandating consolidated financial statements was approved by the Finance Committee of the House of Representatives (Kawamoto, 1997, 80). At that time, the improvement of the disclosure of financial information was a requirement for the liberalization of Japanese capital market. The Minister of Finance referred to the BAC to deliberate over the preparation and disclosure of consolidated financial statement again. BAC submitted its Opinion for Mandating the Consolidated Financial Statements which included Accounting Principles for Consolidated Financial Statements in June 1975. In 1976, the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statement was issued from Ministry of Finance, and the Japanese companies began to disclose their consolidated financial statements based on that regulation from April 1977. At that time, the consolidated financial statements were not treated as main financial statement but just additional financial information to the financial statements of the parent company.

Although there was mandate to prepare consolidated financial statements, there were some accounting practices that were permitted temporarily. Equity method for securities of the affiliated companies was optional and not mandatorily applied. Tax effect accounting was also optional and not mandatorily applied. Consolidated financial statements have to be filed to the Ministry of Finance within four month after the balance sheet date, which is one month later than filing deadline for the parent company's financial statements. Criteria to judge the materiality of subsidiaries was 10%.

In order to clarify which of the two concepts had been adopted in Japan, classification of Minority Interest, measurement of goodwill, and elimination of unrealized profit are analyzed.

Classification of Minority Interest

In the Opinion on Consolidated Financial Statements (Tentative) in July 1966, the classification of Minority Interest on the balance sheet was not clear. Additional explanations of that Opinion was released by the BAC as the Consolidated Financial Statements Commentary (Tentative), and the format of the consolidated balance sheet presented Minority Interest between liabilities and capital. As there was no further explanation, it only made it clear that Minority Interest were not included in liabilities. As for Minority Interest on the income statement, it was presented as a separate and final deduction in arriving at the net income for the year (para.8-4).

The Opinion on Consolidated Financial Statements in May 1967 continued to be unclear on the classification of Minority Interest on the balance sheet. Only the format of consolidated balance sheet included Minority Interest between liabilities and capital on the creditor side (comment 6). That presentation only clarifies that Minority Interest was not classified as liabilities. As for the treatment on the income statement, the share of the Minority Interest was deducted before arriving at the consolidated net income (para.7-4).

According to the Accounting Principles for Consolidated Financial Statements issued in June 1975, the consolidated balance sheet was classified into three sections; Assets, Liabilities, and Capital. That means the right-hand side of the consolidated balance sheet was separated into liabilities and Capital. It was required that Minority Interest must be presented in the Liabilities section on the consolidated balance sheet and minority income was deducted for calculating net income on the consolidated income statement. That classification on the consolidated financial statements means that the Japanese standard established in June 1975 was based on the parent-company concept (Kurosawa, 1975b, 9).

It was stated in the Accounting Principles for Consolidated Financial Statements that consolidated financial statements are prepared for reporting the comprehensive financial position and operating results of the business entity by parent company (1 the purpose of consolidated financial statement). Hence, the main purpose of consolidated financial statements was to provide information to the shareholders of the parent company, not to the minority shareholders of the subsidiaries. In this case, the capital of the consolidated balance sheet was consisted by the shares of the shareholders of the parent company.

Measurement of Goodwill

Whether the difference of the purchased price of the subsidiaries and the share in their net assets at the time of purchase should be reflected in the measurement of goodwill for the share of minority interest was not clearly stated in the Opinion on Consolidated Financial Statements (Tentative) in 1966. The Opinion on Consolidated Financial Statements in 1967 stated that the parent investment for subsidiary should be offset against net worth of subsidiary on consolidated balance sheets (para5-1) so the difference of the fair value and book value will not affect the measurement of minority share of the goodwill. This means that the Opinion on Consolidated Financial Statements in 1967 was consistent with the parent-company concept. Because the Accounting Principles for Consolidated Financial Statements issued in June 1975 described same accounting treatment, the Japanese standard adopted the parent-company concept when it was established.

Elimination of Unrealized Profit

The Opinion on Consolidated Financial Statements (Tentative) in July 1966 included a general statement to require the elimination of unrealized profit. However, there was a choice to eliminate only the parent company share of unrealized profit. This means it was allowed to follow a pure parent-company concept, and when there is an unrealized profit in the inventory of the parent company which was sold from subsidiary, it was allowed to eliminate only the parent company share.

Because the same treatment was allowed in the Accounting Principles for Consolidated Financial Statements issued in June 1975, this again suggests that the accounting treatment required by the Japanese standard was consistent with the parent-company concept.

CONCLUSION

The Japanese Accounting Principles for Consolidated Financial Statements was issued in 1975, which required presenting Minority Interest in the Liability section of the balance sheet. An amendment in 1997 changed the presentation of Minority Interest to the independent section between Liability and Capital. In 2005, ASBJ No.5 was published and Minority Interest was required to be presented in the Net Assets section for the international convergence of accounting standards.

The presentation of Minority Income on the consolidated income statement should not be overlooked when analyzing the balance sheet classification of Minority Interest. Although Minority Interest is now presented among Net Assets section on the balance sheet, it is excluded from the Owners' Equity part of Net Assets section, and Minority Income is deducted for calculating Net Income.

The balance sheet classification of the Minority Interest has been discussed by referring to the concepts of consolidated financial statements. As it is stated in the Japanese Conceptual Framework, Japanese accounting standard for consolidated financial statements still follow the parent-company concept. The classification of Minority Interest affects the calculation of Net Income, for example the calculation of Goodwill and also the intercompany elimination of Unrealized Profit.

It should be noted that a pure parent-company concept was primarily used in the Accounting Principles for Consolidated Financial Statements in Japan. In this paper, the reason for classifying Minority Interest as Liabilities is analyzed by reviewing U.S. accounting literature.

Even in the 1960s or 1970s, the majority of Accounting academics in the U.S. were supporting the entity theory or the economic-unit concept, but the accounting practice and the accounting standard in those days were in favor of the parent-company concept. One reason for the adoption of the parent-company concept in Japan might be the influence of U.S. accounting practices instead of the accounting theory at that time. As consolidated financial statements have been developed in U.S. and that Japanese accounting had a history of importing U.S. accounting standards, the classification of Minority Interest in Japan appears to be affected by the accounting practice in the U.S. For the same reason, other accounting treatments related to Minority Interest were also affected by the accounting practice in the U.S.

Although, it was not explained in this paper, there might be another reason for the adoption of a relatively pure parent-company concept in Japan, which is the relation between accounting and law in Japan. Before the amendment of the Commercial Code in 2004, there were a number of articles in the Commercial Code that provided rules relating to accounting treatment. The legal view was quite strong in Japan, and the economic-unit concept is far from that way of thinking.

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THE IMPACT OF IT: PEDAGOGICAL PERSPECTIVES IN UNIVERSITY EDUCATION SETTINGS

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ABSTRACT

IT applications are deeply embedded in our society, and the area of education is no exception. Particularly in the university setting, the use of technology has become more and more prevalent, improving access to course materials as well as communication between students and professors. Our findings support such implementation of technology in pre-established courses. This study does not validate the use of online courses.

This paper specifically explores the implementation of ANGEL, the online course management system used at The Pennsylvania State University, as well as PowerPoint presentations and other forms of technology in use in the classroom. Our findings demonstrate student preference toward technology and the perceived current learning trends. The analysis of extensive survey data collected from university classrooms representing four different majors (science, business, humanities, and undeclared) at The Pennsylvania State University will be discussed.

INTRODUCTION

In today's learning environment, education is no longer limited to the classroom setting. With the advent of the internet, students have become dependent on the ability to access nearly limitless information in seconds, and professors are facilitating this ability. The demand for easily accessible, personalized, and convenient learning is on the rise (Morgan and Adams, 2009), and the university scene is not immune to this desire. Only a few decades ago, technology was limited, and specialized skills were needed to operate it. Today, however, 93% of students own a laptop computer, according a study conducted by IBM and the Marist Institute for Public Opinion (2009).

The growing prevalence of technology in our society has given rise to some concerns with using it in the classroom, particularly with regard to online courses. Indeed, it has been shown that conducting courses entirely online can be detrimental to learning. Without direct contact with their professors, students have shown a significant drop in motivation (Eddy, Burnett, Spaulding, and Murphy, 1997). This finding is supported by online course dropout rates, which range from 30% to 70% (Frankola, 2001; Osberg, 2002; Wang, Foucar-Szocki, and

Griffin, 2003). In a typical classroom setting, the advantages of face-to-face contact must be considered. Student-professor interaction enables the professor to answer questions, make his expectations clear, and deal with any confusion the students may have. Students can also check with their classmates when something is missed or misunderstood. These connections can be made online, but not as easily (Conaway, Easton, and Schemidt, 2005).

Incorporating technology into the traditional classroom setting, however, is different than putting classes online. Instructional technology (IT) can be an efficient addition to existing courses, materials, and approaches (Smith, 1996). Alavi, Yoo, and Vogel (1997) argued that technological advances "have not led to fundamental changes in learning and teaching. Instead, in many instances, computers and communication technologies have replaced or augmented blackboards and chalk for instructors and paper and pencils for students" (p. 1312). This claim is supported by a survey conducted by a group at Eastern Illinois University, in which students expressed the wish to have their course materials, syllabi, assignments, and blackboard presentations/lectures available online. According to these students, one of the most beneficial features of having these materials online would be the freedom to access them at any time (Lundgren, Garrett, and Lundgren, 1999).

There are, in fact, numerous advantages to using technology in the classroom, which has led to its growing popularity. Technology used in moderation, for example, can provide students with different options for organizing and advancing their learning (Smith, 1996). Students at universities across the country appreciate the convenience of online course work supplementation: The International Data Corporation, a U.S.-based distance learning association, released an estimate that about 2000 major colleges and universities are offering some form of Web-based education (Aggarwal, Adlakha, and Mersha, 2006). When technology is used in cooperation with the classroom setting, both ways of learning benefit.

Communication, while originally confined to the parameters of the classroom and word of mouth, is now supported by informational technology. Piccoli, Ahmad, and Ives (2001) found that much of communication still occurs in the classroom or through broad messages sent electronically from professors to all students. R. Benbunan-Fich (2002) described IT as "a communication support tool, [that] can extend faculty availability beyond class times and office hours, establish links to other classmates, and accomplish administrative activities such as the distribution of materials, reminders, and notifications" (p. 94). This has been especially true at The Pennsylvania State University (PSU), where technology assisted education has been implemented for over forty years (Eddy, Burnett, Spaulding, and Murphy, 1997). Through the use of online advances in education, classes have become more accessible and engaging across a variety of majors. Because students are able to access vast amounts of knowledge in short periods of time through technology, and because this knowledge is cross-connected with other sources, students are able to follow their own interests and look further into areas of special interest to them (Morgan and Adams, 2009).

One major use of IT at PSU is the online course management system called ANGEL (similar to Blackboard and WebCT used at other colleges), which acts as a mediator for both conventional classes and online learning. ANGEL, whose name is an acronym for *A New Global Environment for Learning*, was made available at PSU during the Spring of 2002 is now used in a variety of ways to initiate learning. Professors and students can email entire classes in one step;.class notes, syllabi, PowerPoint presentations, and assignments can be posted online at the professor's discretion; and students can upload assignments straight from their computers or take quizzes from the comfort of their rooms. Clearly, ANGEL offers many features to enhance student learning, but the question remained whether students actually found the system useful.

HYPOTHESES

Given the importance and prevalence of IT, educators need to be aware of student responses to technology in order to generate the best model of college education. Our main research questions were:

How is technology being facilitated in the classroom?

Do students perceive they are learning from this facilitation?

METHOD

In order to answer these research questions, conducting a survey was the best method for this study. After developing a set of questions to objectively and fully explore the use of technology in the classroom, we visited core classes of the departments of Business, Science, and the Humanities at Pennsylvania State University. We conducted a sample of convenience, specifically choosing classes in which we were already enrolled or involved. Familiarity with the courses surveyed allowed us access to a greater number of students in a more specified arena. Before the classes began, we asked students if they would volunteer to take our anonymous survey. Those who agreed were given a survey to fill out, after being informed that no personal information was to be collected, and that our findings would be presented in this paper. Each of the researchers gathered the surveys and then compiled them into one collective group. The second survey question asked students to list the major they were currently enrolled in, so once the surveys were compiled, they were separated by major. We wrote down each major listed on a white board and from there divided them into four larger headings: Business, Science, Humanities, Undecided/Unlisted.

Once they were divided into four sections, we analyzed the data for each individual section. For the first two questions we made a chart, listing the options they could use across the top and listing the major groupings across the side. From there, we made tally marks for each option that was chosen. This is how we discovered student perceptions of learning vs. enjoyment. For questions 3, 4, and 5 we worked with averages. Under each major we found the average number of courses being taken and then looked at the average number of classes which used PowerPoint and ANGEL. Having discovered that, we tabulated what percent of the average were using technology in their classrooms.

Questions 6 through 11 were looked at as yes or no questions. We made a count of how many students replied yes and how many replied no for each question in each major grouping. Dividing the number of responses from the number of students in each group gave us our percentages for those responses. Because students were not hand chosen for this survey, we felt better able to discern how technology was being facilitated and from there we were able to accurately gauge student perceptions about this technology. This is stated with the assumption that each student who volunteered answered honestly, still bearing in mind that results are based solely on students' perceptions and not strong empirical data.

RESULTS

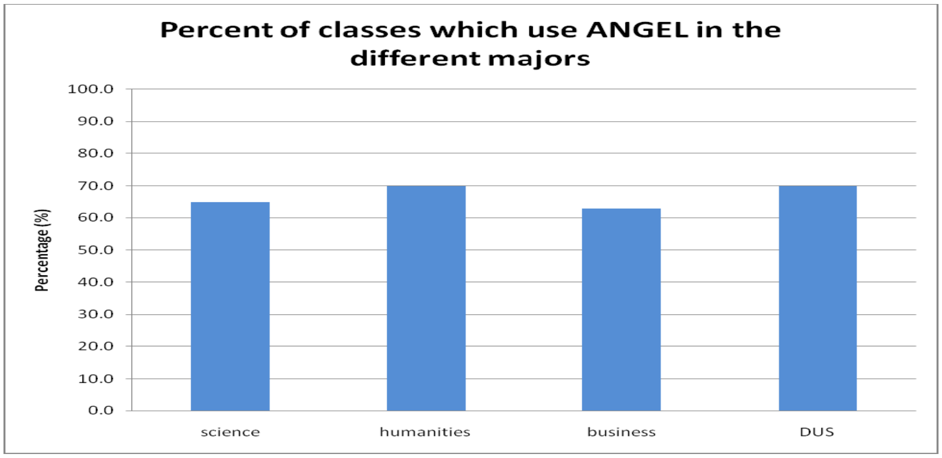
The survey involved a series of thirteen questions and is attached at the end of this paper. We received a variety of responses from 120 students, most of whom majored in either business, science, or the humanities. Those who chose not to respond to the question about their major or who answered "undecided" were grouped into their own subsection: DUS/X (DUS being used to indicate the Division of Undergraduate Studies within the Pennsylvania State University system).

Of the 32 business students interviewed, 63% of their courses used ANGEL (Figure 1). Ninety-seven percent of the business students owned personal computers, and 88% claimed that having a personal computer proved helpful in their studies. Not one student found the use of technology aids in their classrooms distracting, and 78% said they would prefer more technology be used in their classes. All of the business students surveyed believed that PowerPoint presentations and lecture notes should be accessible on ANGEL.

Thirty-seven science majors were interviewed, and 65% of their classes implemented ANGEL (Figure 1). All 37 science majors owned personal computers, and 92% found their computer helpful in conducting their studies. Ninety-seven percent were in favor of having PowerPoint presentations and lecture notes available on ANGEL, and 78% found technology aids in the classroom to be helpful, with 65% preferring more use of technology in their classes.

Thirty-seven humanities majors were surveyed as well, and 70% of their courses used ANGEL (Figure 1). Ninety-seven percent of these students owned a personal computer, and 92% found it to be helpful. Another 97% desired PowerPoint presentations and lecture notes to be posted on ANGEL. Eighty-six percent of the humanities students found technology aids in the classroom to be helpful, and 92% wished to see a greater implementation of technology in the future.

Figure 1



Finally, 14 students with undeclared majors were interviewed, and 70% of their courses used ANGEL (Figure 1). Ninety-three percent of these students owned a personal computer, and of that number, all indicated that it helped them in their studies. All of the students with undeclared majors believed that PowerPoint presentations and lecture notess should be accessible through ANGEL, and the same number found technology in the classroom to be helpful, with 71% wishing to see greater usage of technology in the classroom.

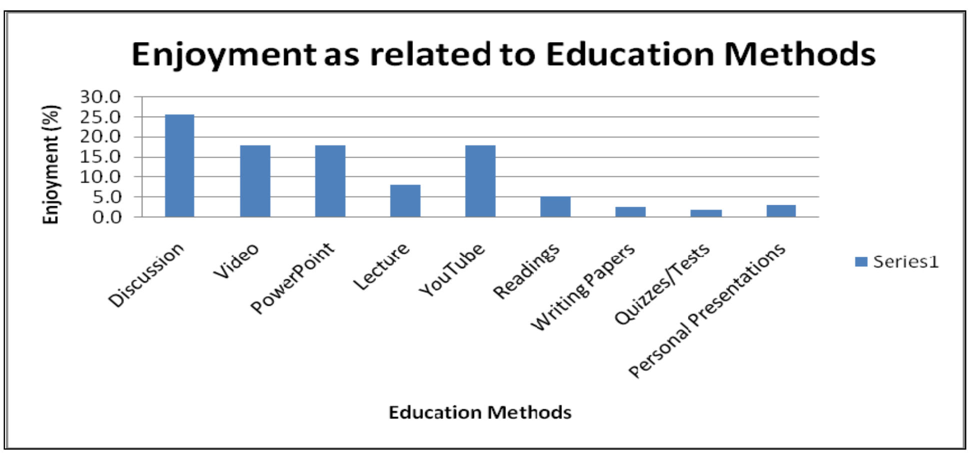
There were a number of reasons for the usefulness of ANGEL listed by the 120 students interviewed. The most common reason was ease of communication, both with other classmates and with the professor. Another reason that students found ANGEL helpful was the ability to find everything in one place—the system being described by one student as "a one stop shop for all of the information involving classes." Also mentioned was the ease of finding information regarding particular courses, as well as the ability to access notes/class material more conveniently. Students also enjoyed having more time to look over and study their class materials. Students often described how helpful ANGEL was in allowing students to access material they had missed, helping them to stay up-to-date in their classes. Many students appreciated how ANGEL allowed them to instantaneously access their grades and drop off assignments. While some students lauded ANGEL's elimination of the need to print assignments, others enjoyed the fact that they could easily print off notes or other class materials to study at their convenience. Students valued ANGEL's ability to help keep them organized, while also appreciating greater access to non-textbook material and readings.

DISCUSSION

As our survey shows, PSU students appreciate ANGEL because it provides convenient and extensive access—with a clear organization—to course-related materials. In every case, regardless of major, the majority of students perceived ANGEL to be useful in facilitating their learning and found technology aids to be of help in the classroom. From these results we posit that the response would be similar with any online course management system, such as Blackboard or Webwork. Ninety-eight percent of all students interviewed have incorporated technology into their lives through the use of a personal computer, and 84% of those found it to be beneficial in the context of their studies. Students also responded that they believe they learn a lot from discussions occurring in class and PowerPoint presentations used by their professors. This shows that technology has a firm place in the lives of students, and more importantly, in the education sector of their lives.

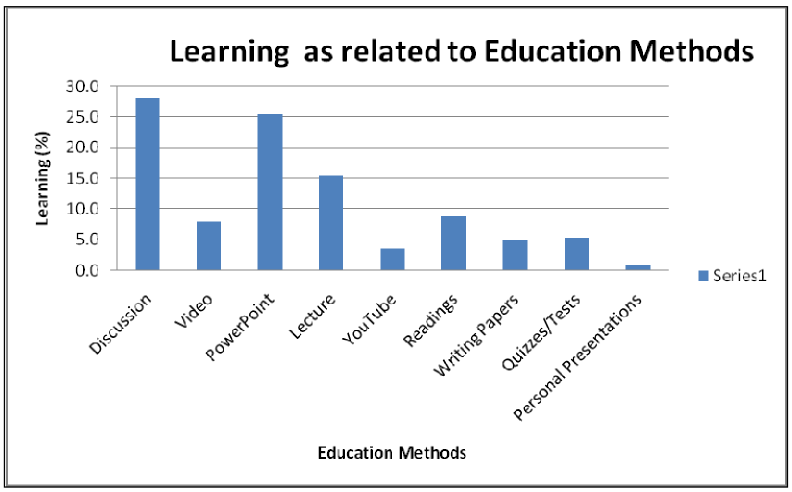
Contrary to previous studies, student response to our survey indicated that class discussion was not only the most enjoyable component of their educational experiences, but also offered the most learning. For the first question of our survey, we asked students to indicate which of nine activities they enjoyed the most in the classroom. We suggested they mark one or two, but more would also be accepted. The second question asked which activity they learned the most from. Class discussion received by far the most votes for both questions. The next most popular answer was the technological aspects of their classrooms (Figure 3). Thus, we deduced that students a) value face-to-face interaction; b) enjoy having some external stimulation; and c) desire the freedom to access course materials at times other than class.

Figure 2



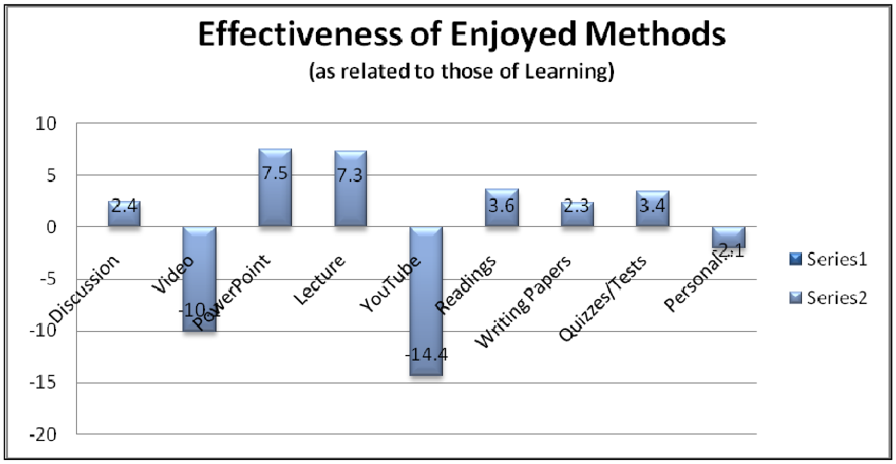
Looking at what students perceived they learned most from, we see an incredible difference in results (Figure 3). While students did not indicate that they enjoyed lecture as a teaching tool, many still indicated that it was a strong source of learning. Conversely, the YouTube videos they professed to enjoy offered little in the area of education. Clearly, enjoyment does not show a positive relationship to learning. The YouTube videos actually showed the greatest difference between enjoyment and learning, but video was not far behind (Figure 4). PowerPoint, however, while still a form of technology, did not show such a discrepancy. Instead, students found it to be helpful in facilitating the learning process. Therefore, we can conclude that not all technology in the classroom distracts from learning, but rather depends on what is being used and how effectively—with consideration of the purpose and topic of each class.

Figure 3



Our findings indicate that students learn most from high quality discussion, which is why we believe it should take the forefront in classroom practices. For that reason, we suggest that a more effective method of teaching would focus on classroom discussion and incorporate technology to a lesser degree. For example, 25 minutes of a typical 50-minute class should be devoted to discussion. A science course might utilize that time for open questions and answers targeting results and/or practical lab application. A business course might spend that time discussing case studies that apply to the topic at hand. A humanities course would perhaps engage its students in a debate concerning their current topic, in an effort to stimulate new ideas. Another 20 minutes of class time should be devoted to lecture and/or PowerPoint, with the extra 5 minutes dedicated to video clips, YouTube, or some other form of interactive learning. As 100% of participating students claimed to enjoy the usage of technology in the classroom, we felt that some portion of the class should be allotted for its usage. Placing course materials online should definitely also be encouraged, as it is something that a majority of students requested; however, stricter attendance policies should be also be implemented.

Figure 4



These suggestions are based solely on student responses to our survey in this study. These perceptions could have been conditioned over time, and therefore could be biased. Future studies should examine "actual" learning results in comparison with student "expected" outcomes, as well as the occurrence of "actual" learning and what defines it as such. Is a good test grade always indicative of retained material? Is information retention necessary for something to be considered learned? Do students' opinions on this subject affect their learning or how they respond to learning based questions? These are all research questions that could be considered for future studies, perhaps even targeting the limitations of discussion, exploring how readily students respond to a professor's encouragement of discussion. It might also be beneficial to see if small group discussions proved to be more or less effective than full classroom discussions and how much conversational stray is a factor. A future study might also gain responses from a much larger pool of students. Our survey only included 120 students—a more accurate view of student perceptions might be gained from increased numbers.

Our findings have suggested that when used wisely, technology can be a very effective pedagogical tool. If educators are careful not to overwhelm their students with a constant stream of technology, IT can prove to be vastly helpful in relaying ideas and information in an interesting and relatable way. While it is true that technology can be harmful if allowed to distract or used as a crutch, when used in moderation, its benefits outweigh its harm. When technology is integrated with modern teaching methods, working side-by-side with them instead of aiming to replace them, it becomes the cornerstone of a new style of pedagogy.

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THE IMPACT OF ENVIRONMENTAL INNOVATIONS ON FINANCIAL PERFORMANCE: THE CASE OF JAPANESE AUTOMOTIVE AND ELECTRONICS COMPANIES

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ABSTRACT

Sustainability reporting has been standardized as a practice in Japan since 2001 in compliance with the Ministry of Environment's environmental reporting guidelines. Manufacturing companies were quick to report their environmental costs as a result of innovations in product designs and process improvements. The economic benefits were estimated by the reporting companies in relation to their environmental costs. However, this case study of industries further explore how environmental innovations measured through environmental costs of Japanese automotive and electronics companies impact their financial performance.

BACKGROUND OF THE STUDY

With the rapid pace of globalization and internationalization of multinational enterprises come social issues of environmental neglect and depletion of natural resources. Issues on sustainability, social responsibility and governance practices call for highlighting activities multinational enterprises (MNEs) engage in to preserve and repair its natural environment.

While sustainability has a triple bottom line - environment, society and economy, environmental concerns seem to predominate value adding reports of Japanese companies. Arguably, without the environment, there will be no society; and without society, there will be no economy. Therefore, concerns for the environment encompasses societal and economic factors (Senge, 2008).

Environmental innovations started early in Japan in response to pollution problems in the 1970s due to rapid industrialization and economic growth. Product design and process improvements have since been institutionalized to be environmentally compliant. Porter (2008) updates his views on competitive advantage with green solutions on resource productivity to societal problems. He cites that product and process improvements has related benefits of cost savings and other income.

In 1997, the Ministry of Environment in coordination with various stakeholders and manufacturing companies came up with the guidelines for environmental reporting with the objective of standardizing reporting practices in Japan. This is in response to the absence of international environmental reporting guidelines, cognizant of the provisions of the Kyoto Protocol, and a move to advance the Global Reporting Initiative (GRI) of 1997. Four years after the initial implementation, the Japanese guidelines were revised and since then, environmental reporting has been a standard value adding non-financial report accompanying the annual report or internal revenue report of Japanese publicly listed companies in the New York Stock Exchange and Tokyo Stock Exchange. It is not surprising, therefore, that the highest adoption of sustainability reporting globally has taken place in Japan as a result of government initiative; followed by France, the U.K. and Germany (Kolk 2003).

The KPMG International Survey of Corporate Social Responsibility (CSR) 2005 revealed that 80% of the 250 companies examined are reporting in the electronics and computers, utilities and automotive and gas sectors (Hopkins 2007). Japanese automotive and electronics companies are most relevant in sustainability studies because of the carbon emissions in the upstream and downstream processes. In its manufacturing activities, companies aim to reduce their carbon emissions while eliminating toxic substances through eco-friendly product designs and energy-efficient process improvements. At the end-user or customer level, products of these companies are subject to energy consumption efficiency, thereby doubling the carbon emissions concerns.

The growing and varied concerns of stakeholders of a Japanese multinational enterprise in recent times highlight non-financial reports and disclosures that determine the quality or manner of financial performance. For almost a decade now, sustainability or environmental reports accompany financial reports to signal social responsibility and governance practices. It is in this light that the researchers investigate the question: how do environmental innovations impact financial performance of Japanese automotive and electronic companies?

This study aims: (1) to present the benefits of environmental innovations to include cost savings and opportunities for other income; (2) to determine the impact of environmental innovations on financial performance of Japanese automotive and electronics companies; (3) and to conclude with lessons learned for countries where subsidiaries and manufacturing companies have not yet adopted the practice of sustainability reporting.

Japanese automotive companies in this study include the global headquarters of Toyota, Honda, Mazda, Isuzu and Suzuki. For electronics companies, Toshiba, Fujitsu, Hitachi, Panasonic, and Sanyo were considered. The companies were chosen out of convenience and availability of comparable information. The scope of annual financial reports and environmental innovations costs from sustainability reports range from 2001 to 2008, which makes for consistency and comparability.

Toyota and Honda are leading global automotive manufacturing companies. Including Mazda, Isuzu and Suzuki in the sample companies would comprise most of the Japanese automotive and motor manufacturers of varying size and product lines. Toshiba and Fujitsu are likewise, globally renowned electronics brands. To provide for different sized companies, Hitachi, Panasonic, and Sanyo were included in the study.

Investigating the impact of environmental innovations on financial performance highlights the benefits to be gained by manufacturing companies, in general, and subsidiaries and related parties within the extended enterprise systems and value chains of these Japanese MNEs in developing countries. Governments and regulators may likewise consider the benefits of sustainability reporting on social and environmental compliance issues of manufacturing companies. Finally, the diverse demands of stakeholders and customers on profitability and manner of business operations are met through non-financial reporting of sustainable practices.

REVIEW OF LITERATURE

Earlier literature abound on corporate social responsibility of MNEs on social and environmental issues. Earlier 'environmental reports', aptly titled and reported by automotive and electronics companies could be seen from a CSR paradigm. However, in recent times, as environmental philosophy is institutionalized in Japanese multinational automotive and electronics companies, sustainability can likewise be seen from a governance perspective.

Sustainability reporting and environmental accounting in Japan

Sustainability of the natural environment is essentially about the long-term maintenance of the earth's ability to sustain itself (Crane 2008). Japan for Sustainability (JFS), a nonprofit organization providing information on developments and activities in Japan that lead toward sustainability defines the concept as:

> "Acts by humankind that respect the diversity of all creatures, and result in the passing on of life, nature, livelihoods and culture to future generations within the carrying capacity of the natural environment, and the establishment of mutual connections with the purpose of building better societies and seeking the greatest happiness of the greatest number across both time and space."

In expanding sustainability's triple bottom-line, sustainability is seen from the four areas of: nature, economy, society and well-being.

The practice of environmental accounting in Japan has been in place for over a decade now. Since 1998, the disclosure of environmental information of publicly listed Japanese corporations has increased steadily from 35 percent to majority practice as a result of the government's initiative, the Environmental Reporting Guidelines (2000) by the Ministry of Environment. While deemed voluntary, the adoption and common practice has established the guidelines as a norm or a standard.

Published in May 2000 and revised in September 2002, the guidelines can be summarized in the following three points: environmental accounting system, environmental conservation cost, and environmental conservation effects and economical effects (Kokubu & Nashioka 2002).

The Ministry of Environment (2002) describes environmental accounting in the following quote:

> Environmental accounting aims at achieving sustainable development, maintaining a favorable relationship with the community, and pursuing effective and efficient environmental conservation activities. These accounting procedures allow a company to identify the cost of environmental conservation during the normal course of business, identify the benefits gained from such activities, provide the best possible means of quantitative measurement (in monetary value or physical units) and support the communication of its results.

The guideline (2000) describes environmental accounting as a system that integrates financial performance and environmental performance through correlating the environmental conservation effects and economical effects associated with environmental measures.

Environmental innovations on investments in assets refer to cash outlays on environmental concerns that benefit future periods. These may include the current acquisition value of plant and equipment that benefit the environment, research and development that qualify for capitalization, social costs, and environmental conservation.

Environmental innovations on expenses are classified into six categories: (1) business area costs; (2) upstream/downstream costs; (3) management activity costs; (4) research and development costs; (5) social activity costs; and (6) environmental damage costs.

In a recent study by the Ministry of Environment, Japan, translated as Research on Eco-friendly Activities of Japanese Corporation, the agency surveyed 2,526 companies that are listed in the first and second category of the Tokyo and Osaka stock exchange and 3,968 non-publicly listed companies with more than 500 employees. Over the period 2005, 2006 and 2007, half of the respondents answered they publish environmental reports. Thirty-seven percent (37%) of listed companies over the period answered they have been introduced to environmental accounting. Interestingly in 2007, 48.4% of headquarters have answered they have given directions to their subsidiary companies to abide by environmental management; a significant increase from 42.9% in 2005 (Ministry of Environment 2009).

Kolk's (2003) study of Fortune 250 companies revealed chemicals & pharmaceuticals topped the sustainability reporting percentages followed by computers & electronics and automotive manufacturers. While reporting trend percentages decreased from 1998 to 2001 in chemicals & pharmaceuticals (-8.33), higher rates of reporting were observed in computers & electronics (17.33%) and automotive (4.58%). Japan, France and Germany stood out as having the highest and significant increases presumably because of the level of regulation and increased societal expectations (Kolk 2003).

The business rationale for sustainability

The positive relationship between corporate citizenship (CC) and corporate financial performance (CFP) with causal mechanisms such as the improvement of managerial knowledge and skill and enhanced corporate reputation was earlier established by Orlitzky, Schmidt and Rynes (2003). Along the same line, Jones and Murrell (2001 in Orlitzky 2008) examined how a firm's public recognition for exemplary social performance can serve as a positive signal of the firm's business performance to shareholders. In addition, Orlitzsky (2008) cites the following causal mechanisms that link CFP and CC: efficiency, increasing competitors' costs, attracting more productive workforce, boosting sales revenues, and reducing business risk.

In his pathbreaking book *The Necessary Revolution*, Senge (2008) emphasized the benefits of sustainability as: avoiding significant costs, earning significant other income, gaining competitive advantage over competition, establishing points of differentiation, shaping the future of an industry, becoming a preferred supplier, and changing image and brand preference.

In developed countries like Japan, stakeholder influence pressures companies to perform product improvements more than the required government standard. This translates to improved reputation and legitimacy of the company.

Moreover, existing technologies on energy sources is being challenged by its finite availability hence innovation is needed in finding cleaner and more sustainable sources of energy. This clean technology strategy repositions a company in the competitive future. The creation of a sustainable vision provides a roadmap for addressing changing needs of society such as climate change, resource depletion and poverty. This enables a company to have a sustainable growth trajectory (Senge 2008).

Evidence from the U.S. on environmental disclosure suggests the link to financial performance. The largest number for firms that did not have an environmental policy were the low financial performers while high financial performers did have higher incidences of environmental policies as compared to low financial performers. The highest incidence of environmental policies came from medium financial performers (Stanwick & Stanwick 2000).

Financial analysis studies and environmental accounting

Among the first and limited literature that aims to integrate sustainability reporting and financial analysis is the study by Castro and Chousa (2006). By building on the Dupont Pyramid, the balanced scorecard and shareholder value concepts, they proposed measures on relating sustainability variables (such as environmental fines, emissions costs, pollution levels, waste, etc.) with traditional performance indicators like sales, costs and capital. The findings would have significantly changed the manner of environmental reporting except that companies found their own metrics as they deemed important to their stakeholders. Further more, the proposed integrated framework could most likely be executed from within the reporting company considering the extent of internal information needed. An external analysis may not necessarily have the access to such information to operationalize the proposed integrated framework.

The impact on financial performance

Deloitte Touche Tohmatsu, a leading global accounting firm, published *The Sustainable Auto Report* in 2001 highlighting the strengths and weaknesses of sustainability reporting practices. While there is genuine environmental concerns in the corporate philosophy of automotive manufacturers with a detailed discussions on product life cycles, innovation, technological options and eco-efficiency, there seems to have been limited discussions on matters that have or could have a bearing both on risks and opportunities; and on short-term and long-term financial performance. More than half of the reports evaluated in the study scored low (0 or 1) on the description of financial implications of environmental or social issues.

In a survey of environmental accounting practices of listed companies in Japan, Kokubu & Nashioka (2002) covered the years 1998 to 2000. They view environmental accounting as more likely restricted to the calculation of environmental conservation cost but the range could be expanded into environmental conservation as well as corporate management (Kokubu & Nashioka 2002). They criticize the current practice and see the comparability of these costs amongst companies as not so reliable yet because companies conforming to the guidelines are left with much discretion in recognizing and reporting environmental costs. The problems in defining environmental costs could stem from the lack of standard definition, distorted calculations, access to information, hidden costs and cost internalization (Jasch 2002).

On the other hand, Kolk (2003) sees the standardization of sustainability reporting, through the initiatives of the GRI and government regulation as likely to increase the quantity and quality of reports. This is the very reason that the Japanese guidelines aimed at correctly understanding, evaluating, and supporting the treatment of environmental conservation by enterprises.

The comparison of environmental costs and financial figures such as sales is probably helpful in seeing trends in companies environmental conservation activities. The benefits of environmental accounting includes: improvement of corporate image while enhancing consciousness within the company; reduction of environmental burden; reduction of environmental costs; development of environmentally friendly products and the improvement of environmental decision making (Kokubu & Nashioka 2002). These are all consistent with Orlitzky's (2006) theorization of the benefits of environmental accounting.

Kokubu & Nashioka (2002) correlates environmental costs with sales, net income and assets but had to consider only the business area costs, upstream and downstream costs, and management activity costs. They saw the ambiguity of R&D costs, social activity costs and environmental damage costs in making the total environmental costs comparable. Using Spearman's correlation coefficient analysis, they concluded that there is positive correlation with non-consolidated data and strongly positive correlation for consolidated data. They suggested further studies considering that in 2002, standardization was in place and expected widespread compliance amongst Japanese companies. Meanwhile, their study revealed certain differences in environmental accounting practices according to company size and industrial sector.

HYPOTHESES AND METHODOLOGY

This study uses the descriptive and exploratory case study design in comparing five automotive and five electronic Japanese manufacturing companies' environmental innovations measured through environmental costs and the related impact on sales, net income and assets

Following the conceptual theorization and observation works on corporate citizenship and financial performance of Orlitzky et. al (2006), sales and profitability benefits by Senge (2008), cost savings and other income by Porter (2008), and empirical observation covering 1998 to 2001 by Kokubu & Nashioka (2002), the authors of this study determined environments costs (environmental investments and environmental maintenance costs) as independent variables and sales, income, and assets as dependent variables.

Total environmental costs were considered to reconcile the varying treatments of research & development and other discretionary recognition of assets and expenses. Details of environmental benefits as estimated by the reporting companies and accumulated by the authors over the inclusive period are discussed in the section after the regressions results and discussions.

H1: Environmental innovations positively impact sales of Japanese automotive and electronics companies.

It may be theorized further that environmental innovations create perceived value of automotive and electronics products that customers appreciate and patronize. Hence, with environmental investments in research and development, and environmental expenses (like maintenance, cleanup, pollution prevention), the preference of customers or end users of the products could be translated into sales. These are currently observable in the sales growth of hybrid cars, the need for more energy efficient products, and the introduction of a new range of electronics products that have high eco-efficiency rating and with provisions for responsible end of life disposal.

H2: Environmental costs positively impact net income of Japanese automotive and electronics companies.

Sustainability is a broader concept that covers life cycle assessment and resource productivity. Life cycle assessment involves product designs that are free of substances of concern, process improvements that reduce emissions, and end of product life activities for recall, disassembly, materials renewal and recycling, and disposal. Relatedly, resource productivity is the process of maximizing the output of a unit resource through improved product designs, efficient production processes and renewal of resources that result in cost savings or opportunities for earning other income. Earlier espoused by Porter (2008), Senge (2008) and Orlitzky et. al (2006), profitability could result from significant cost savings through investment in environmental innovations; and other income from renewable and recyclable materials.

H3: Environmental costs positively impact assets of Japanese automotive and electronics companies.

Sales growth and profitability accumulated over the years and investments in environmental innovations (facilities and research & development) all sum up to a company's financial position. It is in the light that the researchers investigate the impact of environmental costs on total assets of a company.

Sustainability reports of the five automotive and five electronics companies were reviewed and the total environmental costs were lifted. Annual financial reports and internal revenue reports were examined to gather financial performance highlights of the subject companies. Personal interviews were conducted with subsidiaries in the Philippines of Toyota Motors Corporation and Toshiba Corporation to validate and substantiate the research findings. As such, results of this study cannot be generalized as indicative of environmental accounting and practices of Japanese automotive and electronic companies. However, the findings of this study could serve as initial results and other methods of triangulation may also be employed in the future to verify the findings in this study.

Data Analysis

Environment innovations in terms of costs include investments and expenses. Environment investments, regardless of generally accepted accounting principles, include: research and development (otherwise not classifiable as asset); recycling-related investments; other expenses on social contribution; ISO certification; education and training; and investment in plant and equipment (like any tangible asset but pertinent to recycling, prevention of global warming and eco-efficiency).

Maintenance costs include expenses related to environmental measures of waste processing, waste water treatment, atmospheric pollution and environmental preservation. In addition to the maintenance costs are: awareness building, professional environmental staff and environmental restoration (vehicle recalls and soil and ground water remediation). The environmental investments and expenses from 2001 to 2008 are related to the performance indicators such as sales, net income, and assets.

RESULTS AND DISCUSSION

Regression analysis was employed to determine if the environmental innovations impact the financial performance of the Japanese automotive and electronic companies included in this study. Three sets of regression analysis were performed in this study. The first regression analysis is geared towards estimating the financial performance in terms of sales; the second analysis estimates the financial performance in terms of net income; and the last analysis is an estimate of the financial performance of the companies in terms of assets.

Impact of environmental innovations to sales

Model 1 shows that, with other things remaining the same, if environment innovation in terms of cost goes up by a billion yen, average sales go up by about 24.4979 billion yen. The slope coefficient is highly significant at $\alpha = 0.05$, for the t value of about 4.23, which is obtained under the assumption that the true population coefficient is zero, is highly significant for the p value is 0.00006. The intercept value suggests that if environment innovation in terms of cost is zero, sales will amount to approximately 3,815.74 billion yen. The intercept coefficient is also highly significant, for the p value of obtaining a t value for this coefficient of as much as about 5 is practically zero.

Table 1: Model 1: OLS, using observations 1-80 Dependent variable: Sales

	Coefficient	Std. Error	t-ratio	p-value	
const	3815.74	799.973	4.7698	<0.00001	***
Env_Innovation	24.4979	5.79109	4.2303	0.00006	***
Mean dependent var	6297.545		S.D. dependent var	5359.246	
Sum squared resid	1.85E+09		S.E. of regression	4864.282	
R-squared	0.186612		Adjusted R-squared	0.176184	
F(1, 78)	17.89523		P-value(F)	0.000063	
Log-likelihood	-791.6763		Akaike criterion	1587.353	
Schwarz criterion	1592.117		Hannan-Quinn	1589.263	

Notwithstanding the small value of the coefficient of determination, F ratio of about 18 measures the overall significance of the estimated regression line and this value is expected of bi-variate regression models. Also, the coefficients have signs according to prior expectations. The environmental innovations have a positive impact on sales.

Impact of environmental innovations to net income

Table 2: Model 2: OLS, using observations 1-80 Dependent variable: Net_Income					
	Coefficient	Std. Error	t-ratio	p-value	
const	-29.3313	57.7715	-0.5077	0.61309	
Env_Innovations	1.95351	0.418214	4.6711	0.00001	***
Mean dependent var	168.5734		S.D. dependent var	394.8668	
Sum squared resid	9625196		S.E. of regression	351.2833	
R-squared	0.218586		Adjusted R-squared	0.208568	
F(1, 78)	21.81902		P-value(F)	0.000012	
Log-likelihood	-581.4298		Akaike criterion	1166.860	
Schwarz criterion	1171.624		Hannan-Quinn	1168.770	

The slope coefficient in Model 2 suggests that, with all other things remain constant, if environment innovation in terms of cost goes up by a billion yen, net income on the average goes up by about 1.9535 billion yen. Using 5% level of significance, the coefficient of 1.9535 is highly significant, for the t value of about 4.67, which is obtained under the assumption that the true population coefficient is zero, is highly significant for the p value is 0.00001.

However, the intercept value of -29.3313 is not statistically significant. The results show that the model using the 80 sample observations cannot suggest a predictive power as to the amount of net income in the case where the companies included in the study do not have environmental innovations. This could possibly be explained by the recent drop in profitability of automotive and electronics companies due to the recent global economic crisis. Net losses or declines in profitability are observable in the companies' annual financial reports in fiscal year 2008.

F test that measures the overall significance of the estimated regression line poses a ratio of 18, a small value expected in this bi-variate regression model. Also, the slope coefficient has a sign according to prior expectation, which means that environmental innovations of the Japanese companies involved in this study have a positive impact on net income.

Impact of environmental innovations to assets

Model 3 shows that, with other things remaining the same, if environment innovation in terms of cost goes up by a billion yen, average assets go up by about 32.5421 billion yen. The slope coefficient is highly significant at $\alpha = 0.05$, for the t value of about 4 is highly significant for the p value is 0.00008.

Table 3: Model 3: OLS, using observations 1-80 Dependent variable: Assets					
	Coefficient	Std. Error	t-ratio	p-value	
Const	3299.52	1075.55	3.0678	0.00296	***
Env_Innovations	32.5421	7.78599	4.1796	0.00008	***
Mean dependent var	6596.261		S.D. dependent var	7189.350	
Sum squared resid	3.34E+09		S.E. of regression	6539.921	
R-squared	0.182979		Adjusted R-squared	0.172504	
F(1, 78)	17.46878		P-value(F)	0.000076	
Log-likelihood	-815.3568		Akaike criterion	1634.714	
Schwarz criterion	1639.478		Hannan-Quinn	1636.624	

The intercept value of 3,299.52 suggests that if the companies involve in this study do not have environmental innovations, amount of assets on the average will be about 3,299.5200 billion yen. The intercept coefficient is also highly significant, for the p value of obtaining a t value for this coefficient of as much as about 3 is practically zero.

Test of significance yielded p-value of .0.0000076 which implies that there is a linear relationship between assets and environmental innovations, although the r-squared has small ratio of about 18, a value expected in this bi-variate regression model. Furthermore, the coefficients have signs according to prior expectations. The model therefore suggests that environmental innovations of Japanese companies involved in this study have a positive impact on assets.

The benefits of environmental innovations

The Japanese environmental reporting guidelines attempt to correlate environmental costs with environmental benefits. The benefits include cost savings from reduced energy consumption, cost savings from reduced waste processing costs, sale of recyclable goods and other income from environmental technologies.

Taking for example Toyota Motors Corporation, environmental benefits were estimated at JPY 3.7 billion in 1998 and it steadily rose to JPY 15.6 billion ten years after. If these environmental benefits were to be accumulated and assumed to have an impact on the financial statements, the cumulative benefits would have reached JPY 95.9 billion; significant enough to harness any economic shock from the global crisis. With Toyota's reported JPY 435 billion net loss in 2009, the environmental benefits have shielded the company from greater losses with its environmental costs and investments. Toyota's economic benefits initially came from the reduction of energy and waste processing costs. However, the sale of recyclable goods started contributing significantly, JPY 5.9 billion, to environmental benefits in 2003 until it became the main source in 2008 at JPY 12.4 billion or 79% of economic benefits for the year.

Toshiba, on the other hand, has different categorization of environmental benefits. These are detailed as to actual benefits, assumed benefits, customer benefits, and risk prevention. The actual benefits are those that can be directly converted into monetary value such as reduced charges for electricity, water, etc. These range from JPY 2.4 billion to JPY 7 billion during the inclusive period. Assumed benefits are reductions in environmental impacts expressed in monetary value. This is the larger share of environmental benefits for Toshiba which ranges from JPY 14 billion in 2001 to JPY 9 billion in 2008. The total environmental benefits of Toshiba fluctuate from JPY 16 billion in 2001 to JPY 42 billion in 2008.

Kokubu & Nashioka (2001) earlier questioned the discretion practiced by companies in estimating environmental costs and the same could be argued as for environmental benefits. The estimation process may distort expected correlation of environmental costs with environmental benefits as intended by the Japanese guidelines on environmental reporting.

Therefore, to alternatively point the discussions on benefits, statistical tests were employed by the authors to falsify or validate the a priori expectation that environmental costs are correlated with environmental benefits. The benefits, however, would have to be operationalized further into impacts on sales, net income and assets of the companies.

CONCLUSIONS

Statistical tests using regression analysis reveal that environmental innovations in terms of costs show a linear relationship with the financial performance of Japanese firms included in the study. This might imply that any change in the environmental investments and expenses made by the companies would result to a corresponding level of change in their sales, net income and assets.

Regarding sales, results of the regression analysis reveal the very small p-value of 0.00061. This leads to the conclusion that there is a linear relationship between the environmental innovations and sales. This further indicates that a billion yen increase in environmental investments and expenses of these companies signals an increase in sales by about 24 billion yen. The results of the test therefore suggest a positive impact of environmental innovations on sales. In the current business environment, this may be interpreted as the customers' preference for the value of eco-efficient products and environmentally compliant processes. Notable are the sales increases of innovative energy efficient vehicles and electronics products that have high eco-rating.

Furthermore, regression results show that environmental innovations in terms of costs positively impact net income of Japanese automotive and electronics companies. The p-value of 0.00001 leads us to conclude that there is a linear relationship between the environmental innovations and net income. Although the authors could not predict the amount of average net income if the companies would not have environmental innovations, Model 2 suggests, holding other things constant, that if environment innovation in terms of cost goes up by a billion yen, net income on the average goes up by about 1.9535 billion yen.

Lastly, environmental innovations in terms of costs have a positive linear relationship with assets. A billion yen increase in environmental investments and expenses of Japanese companies included in this study predicts an increase in assets by about 32 billion yen. All the cost savings and other income in the inclusive period of study sum up to retained earnings, estimated or actual, directly or indirectly.

RECOMMENDATIONS

In the foregoing, the authors described the environmental benefits, and determined the positive impact of investments in environmental innovations, measured in total environmental costs, to sales, net income and assets of Japanese automotive and electronics companies.

Sustainability reporting has been in place in Japan as facilitated by the Ministry of Environment's guidelines on environmental reporting. While these reports involve an estimation and adjustment process from generally accepted accounting principles based annual financial reports, readers and stakeholders should exercise discretion in interpreting the environmental costs and benefits.

With a decade of comparable information, further studies that could emerge from the above findings may include the impact of environmental costs on financial markets particularly market value. It would likewise be interesting to replicate this study on other publicly traded companies in the Tokyo Securities Exchange or the New York Stock Exchange.

Comparative studies within the MNE would also be a potent ground for research. The samples in this study covered the global headquarters in Japan and their consolidated reports. Studying their subsidiaries using the same variables may be interesting considering that they belong to the same extended value system.

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MOVING PEOPLE TO DELIVER SERVICES: ISSUES AND PROSPECTS OF MODE 4 OF THE GENERAL AGREEMENT ON TRADE IN SERVICES (GATS) BETWEEN THE PHILIPPINES AND SOUTH KOREA

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ABSTRACT

The Philippines, or Southeast Asia in general, is a highly competitive supplier of Mode 4 services (Tullao and Cortez, 2005). Mode 4 suppliers can be self-employed or employed by a service provider and sent abroad to supply a service on a temporary basis. In practice, Mode 4 services involve high or low-skilled migrant workers temporarily supplying services in countries other than their own country of origin, and transferring the proceeds to their home country through remittances.

Considering South Korea's aging population and low fertility rates and the Philippines' excess labor supply, Mode 4 between the Philippines and South Korea can be enhanced to meet the needs of these two countries. Issues that need to be addressed should cover the effect of overseas employment on the host and home countries' economies, its role on facilitating trade, concerns for the migrant and the impact on the migrants' families and communities. Generally, there is a positive outlook for Mode 4 between the Philippines and South Korea.

INTRODUCTION

Declared as the South Korea-Philippines Friendship Year, 2009 marked the 60th anniversary of the diplomatic relations between these two countries. Bilateral relations began when the Philippines became the 5th country to extend diplomatic recognition to the Republic of Korea in 1949 and the 3rd country to send ground battle troops to defend South Korea during the Korean war in the 1950s (Retrieved December 4, 2009 from www.philembassy-seoul.com/anniversary_history.asp). From a military collaboration, relations between South Korea and the Philippines have covered political, economic and cultural ties. In recent years, the relations have been crucial because of the substantial number of South Koreans who travelled to the Philippines and the Filipinos who worked in S Korea.

The Filipinos who are working in South Korea or the South Koreans who work in the Philippines are part of the trend towards liberalization of trade in services which allow people to move temporarily to another country. Defined by the WTO as Mode 4, this involves the temporary stay of individual service suppliers of a GATS (General Agreement on Trade in

Services) member into the territory of another member to supply services. While globalization and the liberalization of trade in services have allowed people to move with ease for leisure, residence and employment across countries, differences in demographic and development trends have reinforced this movement (Tullao and Cortez, 2005). The shortage of labor in a developed country, such as South Korea, matches the excess labor in a developing country, like the Philippines, and, thus, movement of people is seen as an adjustment mechanism to this imbalance (Tullao and Cortez, 2005). Aside from its economic and socio-cultural implications, the movement of people between these two countries has problems and prospects that can be resolved either at the bilateral or multilateral level.

Significance of the Study

This study is crucial because of the free trade arrangement between ASEAN and South Korea. The movement of natural persons can be a mechanism to match the labor shortage in South Korea and the labor surplus in the Philippines. Under the free trade arrangement between ASEAN and South Korea, movement of natural persons can be enhanced to benefit the Philippines, which is an ASEAN member, and South Korea.

This study can add to the few researches on temporary movement of natural persons between the Philippines and South Korea.

Research Objectives

The objectives of this research study are to

examine the trend of the movement of natural persons from the Philippines to South Korea
examine the contributions of the movement of natural persons to the Philippine and South Korean economies
examine the key issues faced by Filipino workers in South Korea
analyze the prospects on how movement of natural persons between the Philippines and South Korea can be enhanced

REVIEW OF RELATED LITERATURE

Liberalization of Trade in Services

Liberalization is the process of opening the domestic economy to the global market. The opening of the domestic economy to overseas markets includes the removal of barriers to the free flow of goods and services within various countries. Liberalization of trade in services as defined under the GATS calls for removal of discriminatory practices of sovereign governments in the treatment of foreign service providers. Discriminatory practices can be removed by domestic legislation, mutual recognition agreements that recognize the qualification of foreign service providers as equal to those of local service providers or through the harmonization of laws and regulatory practices (Stephenson, 2000).

Liberalization of trade in services has been a major issue during multilateral negotiations (Stephenson, 2000). Due to innovations in information and communication technology, increasing specialization and government policies such as deregulation and liberalization, trade in services grew faster than trade in merchandise in the last decade (Hoekman, 1995). This is further enhanced by the movement of natural persons for leisure and employment. In 1980, trade in services was only 18.80% of global trade. This grew to 22.70% of global trade in 1992 or USD930 billion (Stephenson, 2000).

Trade in services, unlike trade in merchandise which can be managed by tariffs and quantitative restrictions, is more complicated. Since services are intangible, trade barriers do not take the form of import tariffs but in the form of prohibitions, quantitative restrictions, and government regulations (Hoekman, 1995 and Stephenson, 2000).

4 Modes of Supply Under GATS

The GATS defines Mode 4 as the supply of the services by a service supplier of one member through the presence of natural persons of a member in the territory of any other member. Services can include production, distribution, marketing, sale and delivery of a service. The 4 supply modes in the provision of services internationally are as follows (Tullao and Cortez, 2005):

Cross-border supply

Country A imports services from abroad. Services are supplied to Country A by another member country through telecommunications and other means. As an example, South Korean students in Seoul learn English online and pay for this service to a company in Manila.

Consumption abroad

The residents of Country A consume services in a foreign country. This refers to the purchase of foreigners of services in the territory of another member country. As an example, South Korean students travel to the Philippines during their summer and winter breaks and attend the so-called “English camps” where they learn how to speak English.

Commercial presence

Foreign suppliers establish a commercial presence in Country A. Service providers are allowed to conduct business in another country through offices, branches and other forms of equity participation. An example would be the English schools that Korean businessmen have put up in the Philippines to teach South Koreans how to speak English.

Movement of natural persons

People designated legally as “natural persons” move temporarily to Country A to provide a service. This includes the temporary stay of an individual service supplier of a GATS member into the territory of another member. An example would be the Filipinos who work in South Korea under the Employment Permit System (EPS).

Implemented on August 2004, the EPS provides foreign workers in South Korea the same labor conditions and human rights as the native workers (Anwar, 2008 and Amnesty International, 2009). Foreign workers under the EPS work in the following industries: manufacturing, construction, agriculture and stockbreeding, fishing and services. Foreign workers under the EPS are recruited by a government agency, such as the Philippine Overseas Employment Agency (POEA) in the Philippines. The National Assembly of South Korea amended the EPS provision to allow foreign workers to work for 5 straight years without having to make the obligatory one-month exit outside of South Korea to extend their job contracts (Castro, 2009)

Arguments on Movement of Natural Persons

The Uruguay Round of negotiations on Mode 4 had limited benefits to developing countries because it simply served to facilitate exploratory business visits and movement of high level personnel within multinational corporations instead of greater openness (Carzaniga, Antonia and Mattoo, Aatdiya, 2003). Developing countries were disappointed at the limited commitments on their area of comparative advantage (e.g. abundant labor). The following issues have to be tackled to make commitments to developed and developing countries more meaningful (Tullao and Cortez, 2005):

There is a need to separate Mode 4 from Mode 3. Movement of intra-corporate transferees should be under Mode 3 (commercial presence) while Mode 4 should be the movement of natural persons.

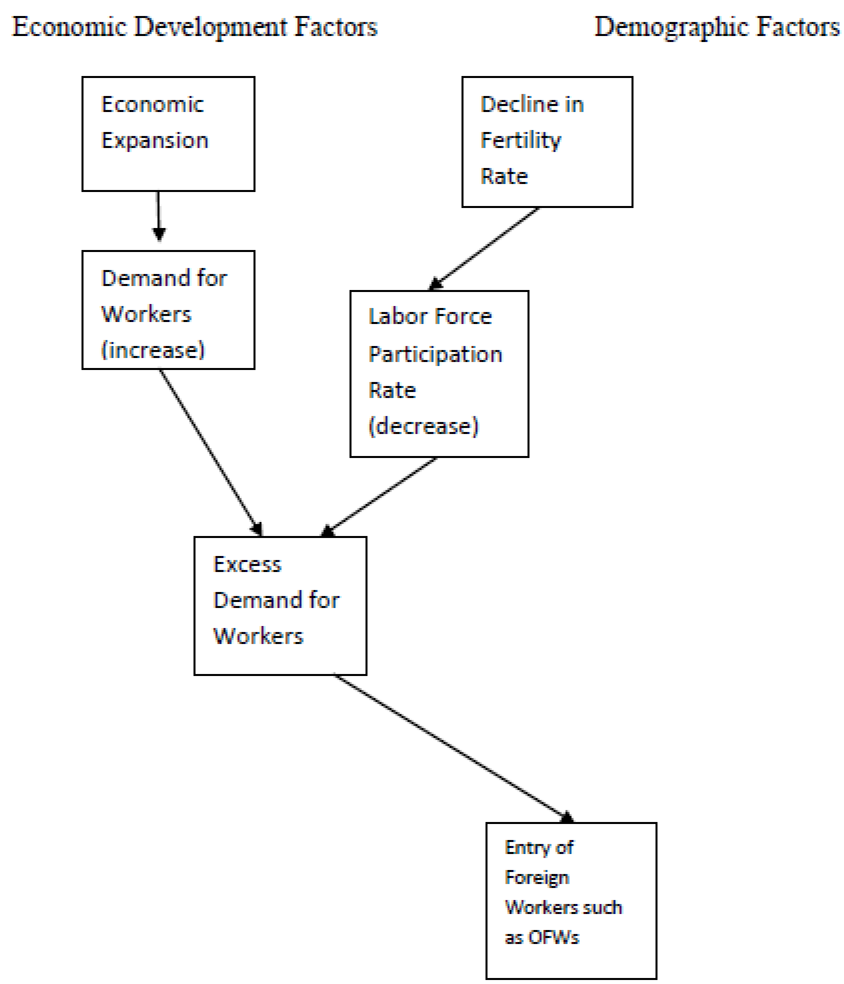
The application and benefits derived from Mode 4 should not be narrowed towards highly-skilled and professionals associated with transnational corporations.

The GATS visa should separate the temporary movement from permanent migration. The term "temporary employment" should be harmonized as to the period covered since various countries have varying interpretations of this term.

There is a need to harmonize the classification of jobs according to International Labor Organization's International Standards Classification of Occupations (ISCO) as jobs are subject to different interpretations by member countries. Adopting ISCO will mean that jobs are classified according to the tasks performed.

FACTORS AFFECTING THE MOVEMENT OF NATURAL PERSONS

Figure 1: Conceptual Framework for the Movement of Natural Persons (Tullao and Cortez, 2005)



The movement of persons across borders to explore economic opportunities can be explained by the differences in demography and the level of economic growth in the labor-sending and labor- receiving countries (Tullao and Cortez, 2005). The labor receiving country, or the host country, experiences rapid economic growth which will lead to the increase in the demand for workers (Please refer to Figure 1). The host country also experiences a decline in fertility rate which will lead to a decrease in the labor force participation rate. The decrease in labor force participation rate and economic growth will lead to the demand for workers. Since the demand cannot be met locally, there is a need to import foreign workers. Meanwhile, the labor-sending country experiences slow economic growth and fast population growth. This produces a pool of unemployed workers. Workers from the labor-sending country migrate to the labor-receiving country to resolve the differences in the demographic and economic growth between the two countries.

Trends in Movement of Natural Persons

Annual Flows of Overseas Filipino Workers (OFWs) to South Korea

Table 1: Deployment Of Filipino Workers to South Korea Per Year (1993-2006)

Year	Low- Skilled Workers	Middle- Skilled Workers	Professional Workers	Total
1993	272	200	16	488
1994	533	47	16	596
1995	3314	31	9	3354
1996	268	4	10	282
1997	2393	36	31	2460
1998	1419	48	6	1473
1999	3491	47	14	3552
2000	5120	97	51	5268
2001	1212	0	36	1248
2002	1627	256	6	1889
2003	3734	200	27	3961
2004	2812	615	15	3442
2005	6152	618	31	6801
2006	9975	1091	3	11069

Source: Philippine Overseas Employment Agency (POEA). Low-skilled workers are defined as domestic helpers, cooks, waiters, etc. Middle-skilled workers are dancers, choreographers, etc. while professional workers are medical doctors, teachers, engineers, etc. Annex 1 contains the classification of workers according to skills.

Although there are fluctuations in the annual flows of Filipino workers to South Korea as seen in Table 1, the trend shows that the number of workers deployed increased from only 488 in

1993 to 11,069 in 2006. Thus, there has been an increase in the number of Filipino workers sent to South Korea. There were 46,399 Filipinos in South Korea as of June 2009 (Interview with Consul Jin Byeong-Cheul, 2009). Of this figure, about 33,714 are Overseas Filipino Workers as of 2009.

Socio-Economic Characteristics of OFWs to South Korea

To get the socio-economic characteristics of the OFWs in South Korea and other information, the researcher surveyed 390 respondents in Seoul, Ansan and Pusan last November 1-December 10, 2009. Six questionnaires were invalid. Annex 2 shows the questionnaire used.

Table 2 shows that 76% of those surveyed are college graduates. This confirms studies that show that there has been an increase in college graduates who work as OFWs because the current labor market demands a significant level of education such as college education (Tullao and Rivera, 2008)

Table 2: Respondents According to Educational Attainment

Educational Level	n	Percent
Elementary	0	0
High School	78	20
College	292	76
Graduate Studies	9	2
Masteral/MBA Level	3	1
DBA/Ph.D Level	2	1
Total	384	100

Table 3: Respondents According to Civil Status

Civil Status	n	Percent
Single	133	35
Married, Spouse in South Korea	43	11
Married, Spouse in the Philippines	195	51
No answer	13	3
Total	384	100

Table 3 shows that most respondents (62%) are married. This implies that there is a greater pressure among married respondents to seek for greener pastures. Of the respondents who are married, 51% had their spouses in the Philippines. This implies that most married OFWs are separated from their spouses. Data from the Commission on Overseas Filipinos show that as of 2007, 50.32% of overseas Filipinos are single while only 49.68% are married (http://almanac.ofwphilanthropy.org/component/option,com_docman/Itemid,10/task,doc_details/gid,358/). This data is attached as Annex 3. However, this data does not specify that the registered respondents are overseas Filipino workers as there is a possibility that this data may apply to emigrants who are not temporary workers.

Flows of South Koreans to the Philippines

Table 4: Korea Inbound Tourism to the Philippines by Purpose of Travel (2001-2005)

Year	Total	Pleasure	Business	Visiting Friends/Relatives	Official	Convention	Others
2001	207,957	153,512	25,018	14,345	316	1,053	13,713
2002	293,468	224,073	33,047	18,275	1,048	1,194	14,095
2003	303,867	235,319	30,980	21,418	1,009	1,047	14,095
2004	378,602	304,679	31,264	24,336	422	1,028	16,874
2005	489,465	398,360	32,378	35,337	639	1,133	21,620
Average	334,672	263,188	30,537	22,742	686	1,091	16,426

Source: Korean National Tourism Organization (KNTO) and Philippine Department of Tourism (DOT) as cited in Cesar Rufino's Korean Tourist in the Philippines-An Econometric Evaluation (2009)

Table 4 shows that there is an increase in the number of South Koreans who travelled to the Philippines from 2001-2005. Most of the South Koreans travelled to the Philippines for pleasure. In 2007, South Korea became the number 1 source of tourists to the Philippines (Rufino, 2009). Most Koreans who reside in the Philippines are students (Interview with Consul Jin Byeong-Cheul, 2009). They come to the Philippines to study English.

As of May 2008, there were 115,500 South Koreans in the Philippines, which was a 33% increase over the 2007 figure of 77,385 (Interview with Consul Jin Byeong-Cheul, 2009).

Similarities and Differences of Bilateral Movement of Natural Persons

As to volume, there are more South Koreans in the Philippines than Filipinos in South Korea (Interview with Consul Jin Byeong-Cheul, 2009). Most of the South Koreans in the Philippines are either students or businessmen (Mode 3 or commercial presence). On the other hand, most of the Filipinos in South Korea are employed under the EPS which is under Mode 4 (Interview with Ambassador Cruz, 2009).

IMPACT OF MOVEMENT OF NATURAL PERSONS

Economic contributions of bilateral movement of natural persons

Annual flow of remittances

Table 5: Respondents According to Monthly Remittances in US Dollars		
US Dollars	n	Percent
300 and below	96	25
301-600	127	33
601-900	105	27
901-more	56	15
Total	384	100

Table 5 shows that 127 respondents or 33% send monthly remittances ranging from USD301-600. Annually, this would be USD3,612-USD7,200. Foreign remittances from OFWs have contributed to the country's economic growth.

Table 6: Overseas Filipino Workers' Remittances from South Korea from 2004-2008 (In Thousand US Dollars)					
	2004	2005	2006	2007	2008
Landbased	33,745	94,365	94,563	89,416	68,260
Seabased	3,206	5,345	6,107	6,018	13,382
Total	36,951	99,710	100,670	95,434	81,642
Source: Bangko Sentral ng Pilipinas, http://www.bsp.gov.ph/statistics/keystat/ofw.htm.					

Table 6 shows that remittances of OFWs from South Korea grew from USD36.9 million in 2004 to USD81.6 million in 2008.

Impact on the labor market

Filipino migrant workers in South Korea work on the 3D jobs; difficult, dangerous and dirty which the locals do not want to do (Amnesty International, 2009) . Thus, they contribute to the growth of the Korean economy.

Table 7 shows that 49% of the respondents work on low-skilled jobs. This implies that their migration to South Korea could not lead to brain drain.

Of the 384 respondents surveyed, 110 or 29% did not have jobs before leaving for South Korea. Their employment in South Korea has decreased the number of unemployed in the Philippines.

Table 7: Respondents According to Skills		
Skill Level	n	Percent
Professional Worker	25	7
Middle-Skilled Level	166	44
Low-Skilled	193	49
Total	384	100

Transfer of technology

South Korea introduced the Industrial and Technical Training Program in 1991 (Anwar, 2008). Modelled after the Japanese Training Program, this allowed Korean companies with branches overseas to bring foreign workers to South Korea for training (Amnesty International, 2009). This was followed by the Industrial Trainee System (ITS), which targeted SMEs in the manufacturing sector and extended the training period for foreign workers from 6 months to one year with the possibility of extension up to additional one year (Anwar, 2008). The administration of the training system such as the selection of the countries of origin and the quotas allocated to each country was carried out by the Korean Federation for Small and Medium Business or KFSB (Anwar, 2008). In the foreign workers' countries of origin, the recruitment process was handled by private recruiting companies. On January 2007, the ITS was integrated into the EPS (Anwar, 2008). The various training programs benefited foreign workers as there was a transfer of knowledge and technology.

Socio-cultural impact of bilateral movement of natural persons

Impact on the Family

Table 8: Respondents' Replies When Asked on Improvement of Family Situation		
	n	Percent
Family situation has improved	370	96
Family situation has not improved	14	4
Total	384	100

Concerns have been raised on the impact of temporary migration on families. Parental absence creates displacements, disruptions and changes in caregiving arrangements but strong families are able to withstand this separation (Episcopal Commission for the Pastoral Care of Migrant Workers, 2004). Table 8 shows that 96% of the respondents reported that their family situation has improved because of their temporary migration to South Korea.

Impact on the Community

Table 9: Respondents' Replies When Asked on Improvement of Relationships with Friends		
	n	Percent
Relationships with Friends Have Improved	382	99
Relationship with Friends Have not Improved	2	1

Table 9 shows that 99% of the respondents experienced improvement of their relationships with friends due to their temporary migration to South Korea. This may not be feasible since the respondents are far from their friends but their purchase of ICT products such as computer, web camera and digital camera has made it possible for them to connect to their friends electronically. Friends can be neighbors or immediate relatives that comprise the migrants' community.

When asked where did they learn about employment in South Korea, 76 respondents or 20% replied that they learned about it from their friends. One of the sources of information on overseas migration seems to be a network of friends. A migrant worker from one family enters a network of migrants, in the destination country (Tullao and Cortez, 2005). Thus, every family in the community has a migrant worker.

Impact on Income distribution

Two hundred seventy-four respondents had jobs prior to migration to South Korea. Of this number, 272 earned less than P25,000 or USD541 monthly while working in the Philippines. One respondent earned a monthly household income within the range of P25,000 (USD541)-P50,000 (USD1,082) while another one earned a monthly household income within the range of P50,001 (USD1,083)-P75,000 (USD1,624).

Table 10: Respondents According to their Monthly Income in US Dollars (n=384)				
In US Dollars	Professional	Middle- Skilled	Low- Skilled	Total
	n=24	n=167	n=193	
434 and below	0	15	2	17
435-869	4	93	110	207
870 and more	20	59	81	160

Table 10 shows an improvement in the respondents' household incomes while working in South Korea. Two hundred seven respondents earned a monthly household income ranging from USD435-USD869 while 160 respondents earned a monthly household income ranging from USD870 and more.

Problems and Issues in the Movement of Natural Persons

Cost of Migration

Table 11: Respondents' Pre-Departure Cost	
Pre-Departure Cost	In US Dollars
Mean Cost	565
Median Cost	67
Minimum Cost	0
Maximum Cost	8,265
Mode	582

Table 11 shows that the average respondents' pre-departure cost was USD565. The maximum cost was USD8,265. For respondents who apply directly at the POEA, the costs are cheaper as these will only include the fees for the Korean Language Test (USD17), passport, visa and plane fare. Those who apply through the recruitment agencies have to shoulder the cost of recruitment and placement aside from the Korean Language Test, passport, visa and plane fare. Two respondents reported that applying through the recruitment agencies is convenient as the job applicant does not have to join the long lines at the POEA.

Exploitation at the workplace

Of the 384 respondents, 344 or 90% had employment contracts registered with the POEA. Thirty-two respondents (8%) had employment contracts which were not registered with POEA and 3 respondents had no employment contracts. Those that have contracts registered with POEA are protected in the workplace as any contract violation can be reported to the labor authorities. They can always report any exploitation at the workplace to the Philippine Commercial Attache at the Philippine Embassy in Seoul, Sulyapinoy, which is the official newsletter of Filipino EPS workers in South Korea, the migrant center near their residence or the religious community where they belong. The respondents with employment contracts, especially those registered with POEA, have reported less job exploitation at the workplace. However, respondents, who do not have contracts and have contracts, have sought the help of the Labor Attache, the migrant centers or the Catholic parish near their residence on various problems listed in Table 12.

Table 12: Respondents' Work Problems		
Reported Problems	n	Percent
Communication	184	48
No problems in the Workplace	99	26
Cultural Adjustment	19	5
Continuous Work without Rest	16	4
Delayed and Low Wages	15	4
Discrimination	7	2
No overtime pay	7	2
Verbal Abuse	5	1.2
Dangerous Workplace (No protective Gear)	4	1
Dirty Workplace	4	1
Poor Housing	4	1
Exposure to Toxic Chemicals	3	1
Exposure to Cigarette Smoke	1	.2
Difficult Job	1	.2
No vacation leave/sick leave	1	.2
No Heater	1	.2
No Air-conditioning System	1	.2
No Bonus	1	.2
Presence of Illegal Workers	1	.2
Sickness	1	.2
Far Workplace	1	.2
No Answer	8	2
Total	384	100

Table 12 shows that the reported job exploitation in the workplace includes continuous work without rest (4%), delayed and low wages (4%),discrimination (2%), no overtime pay (2%), verbal abuse (1.2%), dangerous workplace (1%), no vacation/sick leave (0.2%) and no bonus (0.2%). However, it should be noted that 99 respondents or 26% reported that they did not have any workplace problem.

Amnesty International (2009) reported that although low-skilled South Korean workers suffer from job exploitation, migrant workers face greater risk because of their status. According to Amnesty International (2009), regular and irregular migrant workers face discrimination, verbal and physical abuse, long hours of work without rest without overtime and withheld wages. Migrant workers operate heavy machinery work with little or no training or with no protective gear (Amnesty International, 2009). Compared to South Korean workers, a greater number of migrant workers suffer industrial accidents, including fatal accidents. When these events occur, migrant workers do not receive enough medical treatment or compensation due to the language problem, unfamiliarity with their rights and local laws and inability to access a lawyer (Amnesty International, 2009).

On November 2008, it was reported that South Korean immigration officials forced a Filipina migrant worker to urinate in public and dragged two Filipina migrant workers by their hair while they were still in their underclothes (Amnesty International, 2009). These practices violated their human rights.

The Joint Committee on Migrant Workers in Korea (JCMW) has brought to the UN South Korea's violation of human rights especially on the EPS provision that migrant workers cannot transfer from one workplace to the other without the permission of their employers (Mee-yoo, 2009).

Unfair labor practice

The EPS aims to provide migrant workers with legal protection and recognition as workers under the domestic labor laws, prohibit discrimination and recognize their rights in cases of industrial accidents and unpaid wages (Amnesty International, 2009). Under the EPS, migrant workers have the rights to freedom of association, collective bargaining, collective action and national health insurance. In reality, migrant workers do not have the same rights as their South Korean counterparts (Amnesty International, 2009). This is because they fear reprisal from their employers when they report unfair labor practices and they face restrictions when they change their employers. Reported unfair labor practices include the following: the contract signed in their country of origin is different from the contract in South Korea especially in terms of work hours and pay, sexual harassment of female migrants, especially those who work as singers and entertainers, arrest and deportation of illegal migrants are not consistent with the legal protection given to South Korean nationals and absence of a judicial mechanism to address the complaints of migrant workers against their employers (Amnesty International, 2009).

Respondents have also reported the following unfair labor practices: employers' confiscation of their passports, delayed and incorrect computation of salaries and no overtime pay. They have requested the various migrant centers near their residence to resolve these problems.

Immigration problems

On September 2008, the Korean government announced that they would decrease by 50% the 220,000 irregular migrant workers by 2012 (Amnesty International, 2009). This strict policy against illegal migrant workers resulted to raids in workplaces, streets, public transport hubs, markets, homes of migrant workers and banks (Amnesty International, 2009). While interviewing respondents who sent money to their families in the Philippines, the researcher observed the immigration raid conducted near the Metropolitan Bank and Trust Company in Seoul. One Filipino migrant worker who was caught at the restroom was investigated. He was released by the immigration official when he presented his passport.

Adjustment problems

Pre-departure seminars. To minimize adjustment problems, 380 respondents (99%) reported that they attended a pre-departure seminar on Korean Language and Culture in the Philippines. However, 19 respondents (5%) reported that they still have adjustment problems in the workplace (see Table 12).

Language proficiency. EPS workers have to pay USD17 to take the Korean Language Test administered by POEA and the Human Resource Development Service of Korea (http://www.poea.gov.ph/eps/eps-klt%20service%20agreemnt%20dec2009.pdf). While some EPS workers study and review for the Korean Language Test on their own, most can take Korean classes at TESDA (Technical Education and Skills Development Authority (TESDA), University of the Philippines and other schools and other language training centers.

When asked if language has been a problem in communicating in South Korea, Table 10 shows that 92% of the respondents experienced communication problems in South Korea while only 8% did not. This validates the results in Table 12 that show that 184 respondents or 48% have communication problems in the workplace. This implies that there is a need for migrant workers to continuously study Korean to be effective in the workplace. Thus, migrant centers can offer free Korean classes to the migrant workers.

Table 13: Has Language Been A Problem in Communicating?

	n	Percent
Have Language Problems	353	92
Have no Language Problems	31	8
Total	384	100

Prospects of Enhancing Movement of Natural Persons

Commitments of South Korea under Mode 4 of the GATS

GATT commitments are guaranteed minimum treatment offered to other WTO members such as the Philippines (http://www.iom.int/jahia/webdav/site/myjahiasite/shared/shared/mainsite/microsites/IDM/workshops/Trade). South Korea has made commitments to allow the following businesses to employ foreign workers under the EPS: restaurants, business support, social welfare, cleaning, nursing and housework (http://www.eps.go.kr/wem/eh/inf/eh9901010b01.jsp). Further, South Korea signed an undertaking with the Philippines to recognize the training and certification of Philippine seafarers who will serve in Korean vessels on September 2006. In 2009, South Korea also signed an MOU with the Philippine Department of Labor to send workers to South Korea.

Current immigration policies of South Korea

In 1990s, South Korea strict immigration policy made it difficult for South Korean small and medium enterprises to fill low-skilled jobs. When the financial crisis hit South Korea in 1997, it became apparent that some sectors of South Korea's economy would not be viable without foreign workers (Retrieved http://www.migrationinformation.org/ Profiles/display.cfm?ID=272). The immigration policy has allowed foreign workers to stay on temporary basis to maintain the pace of economic growth.

Commitments of the Philippines under Mode 4 of the GATS

The Philippines has issued a limitation on Mode 4. This limitation specifies that non-resident aliens may be admitted to the Philippines to supply a service after the determination of non-availability of a person in the Philippines who is competent to perform the specific service (Tullao and Cortez, 2005). Although the European Union has requested that this should not be applied to intra-corporate transferees (Mode 3), the Philippines has not yet submitted any request from destination countries (Tullao and Cortez, 2005).

Demographic changes in South Korea-Implications of an aging population in South Korea

South Korea's birthrate was the lowest among OECD countries in 2008 (Jeong-ju, 2009). The falling birthrate, which is one of the lowest in the world, continues to challenge South Korea. Statistics Korea reported that the number of babies born in September 2009 dropped 4.7% from 2008, falling for the 19^{th} consecutive month since February 2008 (Jeong-ju, 2009). The aging population in South Korea implies that there will be more health professionals needed such as nurses. South Korea has allowed the entry of nurses under Mode 4. With the recession in the US and the proximity of South Korea to the Philippines, nurses may find working in South Korea an attractive option. This would mean that that they have to be able to learn Korean before working in South Korea.

An aging population may also imply that South Koreans may have more time for travel and leisure. Ships in South Korea can also be manned by Filipino seafarers.

An aging population may also imply vacancies in service industries such as teaching. Thus, the South Korean government may also consider employing Filipinos as English teachers in South Korea.

Policy Options

Issue of Access

To enhance the market access in the movement of natural persons between the Philippines and South Korea, the Philippines can engage in multilateral initiatives under the ASEAN- ROK FTA. Together with other ASEAN countries such as Bangladesh, Indonesia and Vietnam, which are also labor-sending countries to South Korea, the Philippines can enhance access to Mode 4 in South Korea. Another route will be to explore bilateral initiatives between the Philippines and South Korea. Under this bilateral initiative, a free trade agreement with South Korea can be explored which should include better access to OFWs under Mode 4.

Issue of Protection

Future MOUs on labor and manpower development between the Philippines and South Korea should include protection of Filipino migrant workers in South Korea. This can also be included in any proposed bilateral or multilateral initiatives with South Korea. The protection of workers should be from pre-departure period until their return to the Philippines.

Issue of Impact

The remittances of Filipino migrant workers from South Korea have steadily increased. Better market access to Mode 4 can enhance this further.

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ASSESSING STUDENTS' LEARNING IN PRINCIPLES OF ACCOUNTING

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ABSTRACT

The purpose of this assessment was to determine if students are learning what we teach them and/or if instructors are meeting the objectives of their courses. This paper includes a discussion of the results of an assessment administered in BA200, Principles of Financial Accounting, that was held in Summer 2008, Fall 2008 and Fall 2009 semesters, and identified how the objectives of this course tie into the accounting learning goals at the University of Guam (UOG). The results of this analysis revealed that the accounting program learning goals had a relationship to the course objectives. During Summer 2008, the assessment revealed that all of the students failed (less than 70%) the pretest, and the posttest revealed that 92% of the students passed (70% and above). During Fall 2008, the assessment revealed that all of the students failed the pretest, and the posttest revealed that 92% of the students passed. During Fall 2009, the assessment revealed that all of the students failed the pretest, and the posttest revealed that 62% of the students passed. Overall, there was a change in student's scores from 2% to 60%.

BACKGROUND

The purpose of this classroom assessment was to determine if students are learning what we teach them based on the objectives of the course. Conducting a classroom assessment can be a difficult task because it requires one to gather, analyze, and interpret the data. However, Angelo and Cross (1993) suggested, "Don't make classroom assessment into a self-inflicted chore or burden" (p. 31).

This is the third course assessment in a series and based on the course taught during Fall 2009 semester. BA200 is an introduction to fundamental accounting principles and procedures. This course is also an introduction to the theory and practice of accounting and financial reporting. This course introduces business decision making accounting information systems. Emphasis is on analyzing, summarizing, reporting, and interpreting financial information. Topics include the accounting cycle, financial statements and accounting for assets, liabilities, equities, revenues and expenses. Prerequisites for the course are BA130, Introduction to Computer Operations and MA110, Finite Mathematics with a grade of "C" or better (Course Syllabus, 2008).

This is the third assessment in a series of a Principles of Financial Accounting course. The first assessment occurred during the Summer 2008. This assessment revealed that the students failed (less than 70%) the pretest; however the posttest revealed that 92% of the students passed (70% and above) this test. The change in the student's scores ranged from 20% to 57% (Crisostomo, 2008). The second assessment was completed during Fall 2008. This assessment revealed that the students failed (less than 70%) the pretest; however the posttest revealed that 92% of the students passed (70% and over) this test. The change in the student's scores ranged from 13% to 52% (Crisostomo, 2008). The third assessment was done during Fall 2009. The result of this assessment found that none of the students passed (less than 70%) this pretest.

The posttest revealed that 62% of the students passed (70% and over) this test. The change in the student's scores ranged from 2% to 60%. Overall, there was an increase in the students' scores from the pretest to posttest (see Table 1).

Table 1: Pretest and Posttest Results in BA200, Summer 2008, Fall 2008, and Fall 2009

Student	Summer 2008			Fall 2008			Fall 2009		
	Pretest	Post test	Change	Pretest	Post test	Change	Pretest	Post test	Change
Student #1	43	64	20%	59	72	13%	68	70	2%
Student #2	48	70	22%	43	68	25%	56	63	7%
Student #3	48	77	30%	50	79	29%	40	50	10%
Student #4	48	77	30%	50	79	29%	36	47	11%
Student #5	41	70	30%	45	77	32%	36	50	14%
Student #6	48	80	32%	61	93	32%	45	59	14%
Student #7	39	75	36%	47	79	32%	56	72	16%
Student #8	43	84	41%	52	97	45%	38	56	18%
Student #9	55	95	41%	45	93	48%	40	59	19%
Student #10	43	86	43%	29	77	48%	59	79	20%
Student #11	41	89	48%	38	86	48%	63	84	21%
Student #12	45	93	48%	27	79	52%	63	84	21%
Student #13	39	95	57%				54	77	23%
Student #14							52	77	25%
Student #15							54	81	27%
Student #16							34	63	29%
Student #17							50	79	29%
Student #18							45	75	30%
Student #19							52	84	32%
Student #20							31	70	39%
Student #21							40	100	60%

Course Objectives

The course objectives are for the student to obtain knowledge in the following areas:

Identify the users and uses of accounting information.

Discuss GAAP and properly apply them in the analysis of transactions and the preparation of financial statements.

Identify the steps in the accounting cycle, and the role each step has in ensuring the reliability and relevance of the financial statements.

Understand the interrelationship among the four primary financial statements.

Understand the ethical consideration in the business environment.

Apply the rules for debits and credits to the preparation of journal entries for transactions.

Prepare financial statements to include: single-step and multiple-step income statement, statement of owner's equity, balance sheet, and statement of cash flow.

Compare and contrast the various business forms; sole proprietorship, partnerships and corporations.

Apply various management accounting tools and techniques for measuring and evaluating business condition and operating performance.

Accounting Program Learning Goals

The following are the accounting program learning goals (ALG) that will took in effect in Fall 2008.

Goal 1: Demonstrates teamwork and leadership in the accounting/business environment.
Goal 2: Demonstrates critical thinking and the ability to gather and synthesize information for accounting/business management problems.
Goal 3: Identify and analyze ethical problems that occur in the accounting/business environment.
Goal 4: Demonstrates competency in the application of accounting principles and concepts for local, regional, and global environments.

Goal 5: Demonstrates the ability to communicate relevant financial and nonfinancial information effectively.
Goal 6: Demonstrates competency in information technology for the accounting/business environment.

INSTRUMENT

The instrument used for this assessment consisted of 44 multiple-choice questions and one essay question that asked the students to list two [three, four, five] most significant things they had learned during the course. Forty-four questions were taken from the test database of the textbook used in BA200 (Larson, Wild, & Chiappetta, 2007) and one essay question that was taken from the minute paper instrument (see Appendix A). The pretest and posttest are the same instrument, with the addition of one essay question on the posttest. During *Summer 2008 and Fall 2008 t*he pretest and posttests were administered using hosted online testing software. During Fall 2009, the pretest was administered using hosted online testing software and the posttest was administered using paper test format due technical difficulties with UOG's (University of Guam) network.

Methodology

The participants used in this assessment were students who remained enrolled in BA200, Principles of Financial Accounting during Summer 2008 through Fall 2009 semesters. The questions used are tied to the course objectives based on the textbooks used in this course.

The course objectives were applied to the accounting program goals. For more information, see Appendix B entitled, "Application of Program Learning Goals to Course Objectives." The focus of the course is on fundamental accounting principles that involve the entire accounting cycle (e.g., analyzing, journalizing, posting, adjustments to accounts, preparation of financial statements and closing of the accounting period). As a student moves forward with their accounting degree program, the courses will expand more on these technical skills and competencies.

Another instrument used in this assessment was the "The Minute Paper." Although it was suggested that faculty use this assessment tool after every session, it was only used 3 times throughout the semester. The course assessed ran for 1 month, whereas a regular semester course would run for approximately 3 months, however the hours allocated for a summer and regular semesters are the same.

To administer the minute paper, 10-15 minutes was set aside for the student's response and any difficulties or concerns of the students' were clarified. The activity took place before an exam occurred. Angelo and Cross (1993) stated, "The most effective times to assess and provide feedback are before the chapter tests or the midterm and final examinations" (p. 7). For more information on the structure of this instrument, see Appendix A entitled, "The Minute Paper."

DATA ANALYSIS

To analyze the data gathered in this assessment, Excel spreadsheet software was used to determine the change in a student's scores from the pretest to posttest. Overall, there was an increase in the students' scores from the pretest to the posttest. There were no decreases in scores from the pretest to posttest.

To correlate the course objectives to the accounting learning goals, a matrix was created using Excel spreadsheet software that identified which course objectives corresponded to which accounting learning goals (see Appendix B).

Identify the users and uses of accounting information (ALG 1, 2), assessed using a simulation project and posttest.

Discuss GAAP and properly apply them in the analysis of transactions and the preparation of financial statements. (ALG 1, 2, 3, 4), assessed using a simulation project and posttest.

Identify the steps in the accounting cycle, and the role each step has in ensuring the reliability and relevance of the financial statements (ALG 1, 2, 3), assessed using a simulation project and posttest.

Understand the interrelationship among the four primary financial statements (ALG 1, 2, 5, 6), assessed using a simulation project and posttest.

Understand the ethical consideration in the business environment (ALG 3), assessed using a simulation project and posttest.

Apply the rules for debits and credits to the preparation of journal entries for transactions (ALG 1, 2, 4, 5), assessed using a simulation project and posttest.

Prepare financial statements (ALG 1, 2, 4, 5, 6), assessed using a simulation project and posttest.

Compare and contrast the various business forms; sole proprietorship, partnerships and corporations (ALG 1, 2), to be assessed using a posttest.

Apply various management accounting tools and techniques for measuring and evaluating business condition and operating performance (ALG 1, 2, 4, 5), assessed using a simulation project.

The results revealed that all of the course objectives had a relationship with the accounting program learning goals. This may be attributed to the fact that BA200 is a fundamental accounting course that applies to the entire accounting/business environment. Since this is a lower division course (course number below 300), the learning goals *touched* on the course and may not be the *central focus* of the course.

As a student moves forward with their accounting degree program, the courses will expand more on these technical skills and competencies. An example, using the Bloom's Taxonomy cognitive domain, students should demonstrate skills at the level of "application" at the minimum to the lower division courses; and students should demonstrate skills at the level of "analysis" at the minimum to the upper division courses (Anderson et al., 2001). To further clarify, the accounting course "B406, Ethics for the Accountant", an upper division course (300 and above) may be the *central focus* (greater emphasis) on Goal 3, "to identify and analyze ethical problems that occur in the accounting/business environment", whereas "BA200, Principles of Accounting" a lower division course *touched* (lesser emphasis) on this learning goal. The basis of accounting method used (cash vs. accrual; change accounting methods at different accounting cycles) when preparing the financial statements (Larson et al., 2007; Needles et al., 2008).

A contributing factor to the increase in scores may be attributed to the special/simulation project required of the course. The special/simulation project also known as a practice set comprised of a continuous case study. According to Needles (2008), the following is a description of the case study used in this course:

> "As students progress through Accounting Principles, courses one and two, they are primarily focused on learning the material to perform well on that section's exam. After they take the exam, they are ready to move on to the next section without any regard to the previous accounting material. This fragmented approach results in students not understanding how it all fits together. This problem has been resolved for the first several chapters by assigning an "accounting cycle" practice set. It is very common to hear students comment after completion of an accounting cycle practice set that they didn't really understand the accounting cycle until they worked the practice set (pg. 4).

This practice set is similar to Larson et al. (2007) textbook that used serial problems as "a continuous running case study to illustrate chapter concepts in a familiar context". This project requires the student to create, monitor and prepare financial statements of more than one accounting cycle of an organization, similar to an assessment tasks (Chun, 2010).

CONCLUSION

The courses administered here shows that there has been an increase in student's scores from the pretest to the posttest.

During the Summer 2008 through Fall 2008 the textbook used to administer the course is from Larson, Wild, and Chiappetta, *Fundamental Accounting Principles*. During fall 2009, the textbook used is from Needles, Powers, and Crosson, *Principles of Accounting*, 10th edition. The change in textbook may have contributed to the fewer number of students (62%) who passed the course compared to the prior semester (92%). The instrument used here tested the students in special journals (i.e., sales journal, purchase journal, cash receipt journal, and cash disbursement journal) and partnerships (i.e., allocation of gains and losses to each partner); however these topics were not covered in the course (fall 2009) using the new textbook. The instrument will be revised to reflect the current resources used for this course.

Conducting a classroom assessment can be a difficult task because it requires one to gather, analyze, and interpret the data. In order to be successful in assessment, an instructor should review the type of assessment tools that will be more fitting to the courses he or she teaches. The minute paper used in this assessment is applicable to this course. The course objective of this course had a relationship with the accounting program learning goals.

During Summer 2008, the assessment revealed that all of the students failed (less than 70%) the pretest, and the posttest revealed that 92% of the students passed (70% and above); during Fall 2008, the assessment revealed that all of the students failed the pretest and the posttest revealed that 92% of the students passed; and during Fall 2009, the assessment revealed that all of the students failed the pretest and the posttest revealed that 62% of the students passed. Overall, there was a change in student's scores from 2% to 60%.

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APPENDIX A: THE MINUTE PAPER

NAME: ____

Course # and Title ________________ Semester: __________________

The Minute Paper: In concise, well-planned sentences, please answer the following two questions below for each class session that we meet during this semester.

1. What are the two [three, four, five] most significant [central, useful, meaningful, surprising, disturbing] things you have learned during this session?
2. What question(s) remain uppermost in your mind?

In addition, please rate your level of class participation on a scale of 0 (absent) to 10 (active participant). An automatic score of 6 is given for merely being present.

Date		Reflection/Comments:	Participation Score	
			Requested	Awarded

1

APPENDIX B: APPLICATION OF ACCOUNTING PROGRAM LEARNING GOALS TO COURSE OBJECTIVES

Course Objectives	Goal 1: Demonstrates leadership in the accounting/business environment	Goal 2: Demonstrates critical thinking and the ability to gather and synthesize information for accounting/business management problems	Goal 3: Identify and analyze ethical problems that occur in the accounting/ business environment	Goal 4: Demonstrates competency in the application of accounting principles and concepts for local, regional, and global environments	Goal 5: Demonstrates the ability to communicate relevant financial and non-financial information	Goal 6: Demonstrates competency information technology for the accounting/business environment
Identify the users and uses of accounting information	X	X				
Discuss GAAP and properly apply them in the analysis of transactions and the preparation of financial statements	X	X	X	X		
Identify the steps in the accounting cycle, and the role each step has in ensuring the reliability and relevance of the financial statements	X	X	X			
Understand the interrelationship among the four primary financial statements	X	X			X	X
Understand the ethical consideration in the business environment			X			
Apply the rules for debits and credits to the preparation of journal entries for transactions	X	X			X	X
Prepare financial statements	X	X		X	X	X
Compare and contrast the various business forms; sole proprietorship, partnerships and corporations	X	X				
Apply various management accounting tools and techniques for measuring and evaluating business condition and operating performance	X	X		X	X	

THE VIETNAMESE CONSUMER PERCEPTION ON CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

International economic integration has helped Vietnamese businesses expand their activities and go global. Their rapid development causes at the same time side effects, issues of sustainable growth that affect business stakeholders' welfare, in particular consumers. Faced to recent CSR issues, Vietnamese consumers seem to response passively and weakly to protect themselves. Yet, from the existing literature, little is known about the personal perception of CSR from the Vietnamese consumer perspective. This paper investigates the self-conceptualization of CSR of Vietnamese consumers and their ethical consumption behavior. This understanding of consumers' response to CSR will help companies and manufacturers to design effectively CSR programs customized for the Vietnamese market.

INTRODUCTION

International economic integration occurred during the last decade has brought to Vietnamese businesses, especially the private sector that comprised mainly small and medium enterprises (SME), opportunities to expand their activities and to go global. Most importantly, it enables the private sector to grow and to contribute remarkably to the economic development of the country. While holding just 30% of total national assets, the Vietnamese private businesses contribute 40% to GDP, 30%-40% to export turnover and absorb 50% of the total workforce.

Despite its rapid growth and its good economic performance, the Vietnamese business community has been facing nowadays important issues for its sustainable development, especially societal and environmental ones, including waste management, energy saving, systematic implementation of workplace safety standards, and taking care of the well-being of workers as well. Recent scandals of factories committed to serious pollution in Thi Vai River and numerous cases of health safety problems especially tainted milk distribution, toxic ingredients found out in consumer goods,…, have been raising a greater concern on corporate social responsibility (CSR) in Vietnam. Along with these environmental and health issues, Vietnamese export-oriented companies have been also encountering problems of good citizenship when their foreign investors and buyers require them to take business practices based on respect for people, communities and the environment. For instance, the U.S.-Vietnam textiles agreement signed in May 2003 included an obligation for the Vietnamese authorities to encourage exporting companies to implement CSR codes in return for access to the U.S. market, which has been becoming the key market for Vietnam. In spite of the growing demand of international buyers for respecting CSR, a few Vietnamese companies got credentials of these CSR standards, especially private SMEs. It is reportedly only up to 50 Vietnamese businesses get CSR standard certifications among 200,000 businesses which have been currently operating in the country.

In fact, societal and environmental issues raised during the last few years in emerging countries like Vietnam are considered worldwide as corporate social responsibility that businesses should commit to their stakeholders such as the government, employees, and customers for the sake of positive long term benefits. On the demand side, faced to these CSR issues, Vietnamese consumers seem to response passively and weakly to protect themselves. At the reverse, consumers living in developed countries are more and more conscientious on their health and life in their purchasing behavior (Corporate Social responsibility Monitor 2001: Global Public Opinion on the changing role of companies, APCO Worldwide, 2004) and engage in putting aggressively pressure on companies to take greater social responsibility. The recent transition from planned to the market economy in the country explains mainly the reasons why Vietnamese consumers, victims of CSR scandals, do not know how to react actively to these issues and also how to use consumer power to make a social change.

Although the CSR concept is not new in Vietnam, its role and its impact on the business success and well-being of consumers have not yet attracted a great number of Vietnamese economists to get involved in such a research work. Besides, in the academic and non-academic literature on CSR, studies conducted by international authors do not treat the Vietnamese case (Shaw, Shin, 2000, Belk, Devinney, Eckhardt, 2005, Brinkmann; Peattie, Sigh, Sanchez, Bosque, 2008). More importantly, the Vietnamese consumers' perception toward CSR as well as their ethical consumption behavior remains virtually unknown even though they have been suffering serious consequences caused by growing CSR issues during the past few years.

The objective of this study is twofold: to understand the meaning and importance of corporate responsibilities for Vietnamese consumers and to explore the Vietnamese behavior toward ethical consumption. The consumer perspective on the personal perception about CSR is important for companies planning to implement an ethical dimension to their business operations. Our research contributes to help managers and professionals elaborate an effective integrated marketing communication strategy to meet the requirements of the emerging class of ethical consumers and to enhance their company's sustainable reputation.

Our paper is structured as follows: The first part presents the existing literature review about the evolution of CSR conceptualization and ethical consumer behavior. The second part investigates the field study on the Vietnamese consumers' perception about CSR and their ethical consumption behavior. The third part discusses its managerial implications and recommends effective marketing strategy for companies to become both socially and financially accountable in the long run.

CORPORATE SOCIAL RESPONSIBILITY: A BRIEF LITERATURE REVIEW

The conceptualization of CSR

In the past, the ultimate responsibility of a firm is to maximize its profit and to create shareholder value (Friedman, 1970). As a result, financial dimension is the unique driving force of a firm. Later on, the concept evolved to a broader dimension with the stakeholder theory of the firm that enlarges the focus of management beyond using the resources of the companies for the benefits of shareholders to using these resources to the benefit of much wider group of stakeholders (Freeman, 1984). Since then, even though in the literature, there is little consensus on what exactly should be included in the social responsibility of organizations (Frederick, 1994; Griffin, 2000, Johnston, Beatson, 2005), CSR has been commonly viewed as the obligation of businesses to be accountable for their environment as well for their stakeholders in a manner that goes beyond financial aspects (Gossling, Vocht, 2007, cited by Beurden, Gossling, 2008).

In practice, World Business Council for Sustainable Development outlines the continuing commitment by business to act ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. To clarify the role of each dimension derived from the conceptualization of CSR, Carroll (1991) proposed a pyramid of corporate social responsibility that portrays its four components, economic, legal, ethical and charitable responsibilities where the base economic and legal responsibilities are required, whereas ethical responsibilities are expected and charitable responsiveness is desired. Indeed, business must be profitable and at the same time must obey the law. Besides, business is expected to be ethical. This is its obligation to do what is right, just, and fair, and to avoid or at least to minimize harm to its stakeholders. In addition, it is desired to be a good corporate citizenship, to contribute resources to the community, and to improve the quality of life as well. This last CSR's dimension is considered as "philanthropic responsibilities" in Carroll's model. While environment component is not explicitly discussed in Carroll's model, environment protection has also financial and ethical consequences for an organization (Johnston, Beatson, 2005).

In reality, CSR covers a wide range of practices and activities, from charitable donations to societal issues, especially environmental protection, gender equity, working conditions, employee benefits, capacity development and community development (CATALYST Consortium, 2002[1], Pohle, Hittner, 2008; Cacioppe, Forster, Fox, 2008). However, the way organizations view about CSR (Johnson, Beatson, 2995) and act as good citizenship varies from one economic sector to another one, from one country to another country (Bui, 2008). In the business world, companies can demonstrate their corporate social responsibility by obtaining a number of internationally recognized certifications and codes of conduct[2].

In the empirical literature, numerous research works on CSR's impact on companies' performance have been most studied, especially the correlation between social (and environmental) performance and financial performance (Orlizty, Schmidt, Rynes, 2003; Porter M.E., Kramer M.R., 2006; Sanchez, Sotorrio,2007; Bird, et al, 2007; Beurden, Gossling, 2008; Castaldo, Perrini, Misani, Tencati, 2009). In the context of emerging countries such as Brazil, Mexico, Indonesia, or Vietnam, long term benefits gained from companies' implementation on CSR standards were studied by Kundu, Bill Foster (2005). Particularly in the case of Vietnam, undertaking CSR initiatives of several Vietnamese companies was awarded in many ways: increasing labor productivity and hence turnover (Ngo, 2008), building a good image in the perception of customers, creating customer satisfaction and loyalty, and attracting skilled workers and talents in their companies as well (Bui, 2008). Despite these tangible and intangible benefits, except a great number of companies that have been experiencing the pressure from their Multinational Corporation (MNC) customers to meet CSR norms, CSR credentials do not appear as a priority for SMEs operating in Vietnam.

The "ethical" consumer

In order to design effective CSR initiatives programs for their consumers' benefits, companies need to understand not only the nature of consumer perception on CSR, but also ethical consumerism and ethical consumer behavior because "*consumerism is viewed as a tool for social change"* (Adams, 1989, Ekins, 1989, cited by Tallontire, Rentsendorj, Blowfiled, 2001) *and "consumer power may be used to ensured that companies are accountable to society"* (Tallontire, Rentsendorj, Blowfiled, 2001).

However, the construct of CSR seems too abstract for consumers who expect some clarifications. As a result, the study on ethical consumer behavior is the following step for researchers to articulate corporate accountability and "consumer action" (Smith, 1990; Bendell, 1998). To this purpose, a body of research works tends to explore and explain attitudes and expectations of consumers who have been demanding more out of corporations than simply a quality product at a low price (Bhattacharya and Sen, 2004, cited by Marin, Ruiz and Rubio, 2009). Empirical studies revealed that around the world a group of "ethical" consumers has emerged (Strong, 1996; Shaw, Clarke, 1998, 1999; Hendarwan, 2002; Harrison et al, 2005, Freestone, McGoldrick, 2008) and has taken taking ethical and social issues into account when buying products (Corrigan et al. 2004; Mason, 2000; Rogers, 1998; Uusitalo and Oksanen, 2004; Maingan et all, 2005; Marin, Ruiz and Rubio, 2009). If we are based on Natural Resources and Ethical Trade Program (NRET) definition of the scope of ethical trade, it refers to any form of trade that consciously seeks to be socially, environmentally, and economically accountable. In this sense, ethical consumers would, therefore, seek to purchase or to use goods and services that can demonstrate societal and/or environmental responsibilities.

Historically, ethical consumerism evolved in three waves of consumerism movements (Lang and Hines. 1993). The first wave of the consumer movement concentrated on value for money, basic product information and labeling and consumer choice. The second wave tends to investigate into product safety associated to CSR. The third wave combined environmental responsibilities and citizenship that includes three components: animal welfare, the environment and human rights, working conditions and fair-trade. Most importantly, in line with the evolution of the construct of CRS, the initial concept of ethical consumerism has evolved from a focus on value for money, product information and safety standards to a concept that much more broadly incorporates matters of conscience (Carrigan et al. 2004). These matters of conscience include issues such as healthy eating, animal welfare, child labor, sweatshop, or community development (supporting local suppliers), fair trade (a better deal for developing countries suppliers), animal welfare and environmental sustainability (Carrigan et al, 2004; Crane 2001; Strong, 1996, cited by Auger, Devinney, 2007). This proactive evolution helps finalize the description of a complete portrait of an "ethical consumer" as the one who prioritizes his own ethical concern when buying products which are not harmful to the environment and society whether a corporation promotes employees from minority ethnicities and child labor (Shaw and Clarke, 1998; Harper, Makatoni, 2002; Harrison et all, 2005; Gauthier, 2005; Beurden, Gossling, 2008).

Factors influencing their purchasing decision are identified by Harrison, 2003; Spar and La Mure, 2003; Strong, 1996 (cited by Auger, Devinney, 2007) like pressure groups, media interest in social and ethical issues that push corporations to offer more "ethical" products on the market. And an "ethical shopping basket" is based on household consumption in food, household goods, transport, leisure and charity. Consequently, these ethical good have been experiencing growing market shares in developed countries and consumers are becoming more aware of ethical consumption through market and information campaigns (Harrison et al, 2005, cited by Freestone and McGoldrick, 2008). Ethical purchase behavior can be translated by direct action in a positive or negative sense (APCO Worldwide, 2004)[3]. The negative ethical purchase behavior leads to boycotting, avoiding goods with unethical characteristics. However, there is a growing positive attitude to buy products with ethical attributes, and leading to consumer action. Specific ethical products that consumers prefer to buy include mainly fair trade and organic products. Reasons to buy organic produce are varied, from avoiding pesticides to becoming friendly to the environment, supporting farmers, to having better taste. Sources of information have been collected from NGO campaigns, product labels, fair-trade shops and mainstream retailers, the media or family and friends, the communication role of a product on a shelf (Tallontire, Rentsendorj, Blowfield, 2001).

The Vietnamese consumer's behavior towards CSR

The Vietnamese consumers' behavior towards social accountability has been studied through our field qualitative research conducted in HCM city and in Hanoi. The survey was conducted with 198 well-educated people holding Bachelor or Master degrees (of more than 25 years old) working in companies located in HCMC and in Hanoi by face to face interviewing and questionnaire mailing. The profile of our convenience sample composed of well-educated professionals chosen in our field study is justified by our purpose to capture more useful information than a random sample because CSR awareness in the Vietnamese context requires both basic academic background and working experience. In order to explore the perception of CSR from the Vietnamese consumers' perspective, we have designed two sets of questions. The first set of questions concentrates on the self-conceptualization of CSR by consumers and their attitude toward CSR companies. The second set of our questionnaire attempts to understand how Vietnamese consumers are "ethical" based on the "ethical consumer" described in the existing literature.

The perception of CSR from the Vietnamese consumer's perspective Our results reveal that from the Vietnamese consumer perspective, the dimensions attributed to CSR are economic responsibilities (59%), philanthropic responsibilities (59%), environmental responsibilities (54%), and societal responsibilities (32%). Economic responsibilities include obligations to produce goods of quality, to build a good company's image and to be financially accountable. Philanthropic responsibilities mean for Vietnamese consumers the commitments of companies to contribute to the welfare of their community at large. Surprisingly, environmental and societal responsibilities, or ethical responsibilities in Carroll's model, defining *"the obligation to do what is right, just, and fair, and to avoid to harm or minimize to harm to stakeholders (employees, consumers, the environment, and others*)"(lines 29-31, p. 42, Caroll, 1991), are considered as a CSR component by less than one-third of the respondents. This suggests that the personal perception about CSR construct from Vietnamese consumers does not diverge from what is defined in the literature even though ethical obligation in Carroll's pyramid is not widely recognized. And this is understandable in the Vietnamese context where public relation activities aiming to serve the community at large to enhance company's reputation and brand equity have been appeared among the most popular integrated marketing communication tools adopted by businesses. What is specific in the Vietnamese conceptualization of CSR is the lack of knowledge about corporate obligations towards different types of stakeholders as suggested in the stakeholder theory. In fact, their importance attributed to business stakeholders in this survey supports this argument. 87% of interviewees think that companies have commitments to customers and the community at large whereas only 20% say companies should also make commitments to their employees.

Vietnamese consumers feel important about buying products from or working for a company who has similar values with their own. It is very important and important to work for (83%), to socialize with (62%) and to buy products (48%) from companies who have similar values and principles. Despite more than half of respondents in our sample is aware of the significance of CSR, they totally agree that only Vietnamese companies have to get involved in CSR activities when they are obliged to integrate into the global supply chain. Reasons that may explain the little attention of Vietnamese companies paying in CSR are mainly lack of knowledge (59%), lack of budget (57%), high cost for implementing CSR (43%), and weak impact on company's performance (35%). 17% of respondents believe that CSR practices are not a necessity for Vietnamese businesses because these businesses prioritize to solve rather short term problems on quality and price than issues of sustainable development. Regarding CSR credentials, only 39% of the respondents have heard about SA 8000 or WRAP social standards certificates. They believe that CSR standards are useful for FDI enterprises (67%) rather than state-owned (22%) or private enterprises (10%). Motivations for companies to implement CSR programs are primarily to improve their reputation and brand name (81%) and to meet foreign client requirements (43%) while to explore new markets or to retain talented employees remain secondary (17%). Most of them are not sure that CSR programs can improve company's sales and profits. Information that helps them to know more about CSR activities comes from mass media sources such as news papers, radio, and television (63%) and internet (47%). Other sources from conferences on CSR or from clients' companies are quite limited (7% and 11% respectively). Surprisingly, when asked to cite the names of companies that get SA 8000 or WRAP certification, a few consumers respond to this question by mentioning some pretty well-known companies operating in the textile, garment and footwear industries like Viet Tien, May 10, Thanh Cong, Kym Dan, Coasts Phong Phu, and Bitis or FDI companies like Unilever, Honda Vietnam. Only one local SME operating in the food industry namely Minh Phu has been recalled.

How ethical are Vietnamese consumers?

Like in developed countries, a segment of ethical consumers who becomes sensitive to CSR issues has been also emerged in the Vietnamese market. When purchasing a consumer good, two-third respondents tend to choose a consumer good that looks "clean" and "green". Half of them will choose products that have cruelty free labels or that do not destroy the environment. Only 30% consider the way companies invested in wasted water treatment while making purchasing decisions. Unlike in the U.S. or the U.K. where the way a company treats its employees and ensures good working conditions influences strongly on consumers' purchasing decisions (Curtis, 2006; Moy, Landers, 2008), this criterion does not seem truly important for two-third of our respondents. However, half of them confirm to buy and to repeat their purchase with products made by CSR companies. Interestingly, 65% will recommend CSR companies to their friends and relatives. And key factors influencing purchasing decision are mainly mass media (79%), then word of mouth from friends, colleagues, and relatives (43%). Internet and information communicated by CSR associations represent each one-fourth of the sample. Initiators or pressure groups seem to play a minor role in their buying process.

DISCUSSIONS AND MANAGERIAL IMPLICATIONS

The self-conceptualization of CSR from Vietnamese consumers indicates that the ethical dimension including the company's commitments to employees as stakeholders has not been recognized by a great number of the population in comparison with economic and charitable dimensions in Carroll's CSR pyramid. Our results are consistent with the common argument about CSR construct where there is little consensus on what exactly should be included in the social responsibility of organizations (Frederick, 1994; Griffin, 2000, Johnston, Beatson, 2005). In the Vietnamese context, consumers seem to welcome CSR companies and clean and green products. However, the ethical dimension is narrowed down to their health safety concern. Therefore, how a company relates with their employees does not have a significant meaning in their perception of CSR.

Consequently, societal factor is not an important criterion for their purchasing decision making. In emerging countries like Vietnam, a large population is still influenced by price and quality of products when making their buying decisions. Particularly, price is the first criteria in middle and low income districts and rural areas where poverty levels remain high. Moreover, serious food safety and health problems that Vietnamese consumers have been facing during the past few years (tainted milk, soybean and fish sauce, bird flu, blue ear pig disease, dry hot chilies, false jewels, etc…) have pushed them to reconsider the importance of environment and health factor. Therefore, corporations should promote strongly their CSR credentials, and more importantly to incorporate CSR initiatives in their integrated marketing communication strategy in particular branding strategy so as to attract and retain customers.

In spite of their slow and weak reaction to ethical issues, Vietnamese consumers currently begin to take actions against food safety problems while taking for granted societal and environmental dimensions of CSR. We can observe that an ethical segment of consumers has been also emerging gradually in the Vietnamese market. They tend to select clean food (fish sauce, soybean sauce, eggs, chicken, pork, milk, fruit and vegetable) and green products (solar water heater device, green construction material,…) and avoid products that might endanger their health. However, unlike Western consumers, they do not act as "activists" to put pressure on companies to take greater social responsibility. Unfortunately, in order to make buying decisions, they get little information about companies involved in CSR good practices. Therefore, the greatest challenge for businesses is how to promote efficiently CSR initiatives. Mass media and word of mouth appear effective communication tools to target specifically the Vietnamese audience.

Finally, understanding specific viewpoint about CSR from Vietnamese consumers and their sensitivity to response to CSR issues translated into their purchasing decisions will help companies to rethink about their CSR initiatives as well as to incorporate effective CSR initiatives programs in their integrated marketing communication strategies designed particularly the Vietnamese market.

CONCLUSION

Consumers worldwide do not have the same perception and response to the construct of CSR (Maignan, Ferrell, 2005; Jonhston, Beatson, 2005; Gupta, 2009). In the Vietnamese perspective, the conceptualization of CSR seems surprisingly simplistic that concentrates on company's commitments to only two types of stakeholders: customers and the community at large. The missing link between CSR and commitments to employees' well-being when defining CSR from Vietnamese consumers is very specific as this perception is quite dissimilar from U.S. or U.K. consumers (Curtis, 2006; Moy, Landers, 2008).

Research on the perspective of CSR from Vietnamese consumers is still largely underdeveloped. Therefore, extensions for our future research should go deeper into the comparative study about the self-conceptualization of CSR from consumers living in other emerging countries in the Asian-Pacific region with the emphasis on both qualitative and quantitative studies.

Our contribution is better understanding about the personal conceptualization of CSR from Vietnamese consumers that may influence directly their buying behavior. Even though CSR dimensions have not been fully recognized in the consumer perspective, a group of ethical consumers has been formed and tend to consume more ethical products offered in the local market. This understanding of consumers' response to CSR should help companies and manufacturers to adapt efficiently CSR programs especially on the account of Vietnamese consumers

ENDNOTES

[1] CATALYST Consortium is a USAID-funded family planning and reproductive health activity focused on working in Asia and the Near East, Europe and Eurasia, Latin America and the Caribbean.

[2] The most important CSR standards are: SA 8000 for the workplace of factories, WRAP (Worldwide Responsible Apparel Production), responsibility in the American textile & garment and footwear industry, or ISO 14000, the environment management system in the companies, and OHSAS 1800 for health safety.

[3] APCO Worldwide (2004): A survey conducted by APCO Worldwide in 2004 in 10 countries revealed that positive CSR information has led 72% of the respondents to purchase a company's product or services and 61% to recommend the company to others. Conversely, negative CSR news has led 60% to a boycott a company's products and services.

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APPLYING EMOTIONAL INTELLIGENCE (EQ-I) IN THE WORKPLACE: VITAL TO GLOBAL BUSINESS SUCCESS

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ABSTRACT

Effective global business leadership requires a thorough understanding of oneself. There are three dimensions of superior leadership - Cognitive intelligence (IQ), personality and emotional intelligence (EQ). Together the three dimensions shape the foundation for the quality of such leadership; much like the three legs of a good, strong stool.

Normal individuals possess all three dimensions. Good leaders recognize their presence and the impact they have on one's self and other. Superior leaders, however, develop each as a skill and use their knowledge of each dimension to maneuver the chasms of human interaction. Cognizant or not, each dimension does not exist apart from the other. A single mastery of a particular dimension is not a guarantee of excellence or success. It is apparent that the appropriate use and mix of the three dimensions together provides the most plausible means for global leadership excellence; and hence global business success.

Emotional Intelligence (EQ) is the most recent dimension to be identified. Unlike the traditional dimensions of IQ and personality, which are fixed from a very young age, EQ can be taught. EQ can be improved and developed over a person's lifetime.

This paper explores the emotional intelligence aspects of leadership, particularly as it relates to global business leadership. The basic concepts behind EQ, its advantages, and the value of learning about EQ are discussed.

INTRODUCTION

Global businesses operate in a unique environment. Its influence spans across national and cultural borders on a daily basis. As a result, the success of organizational leadership in these global operations presents extra challenges that may not be found when competing in a local environment.

Good leadership requires a mix of knowledge, skills and abilities (KSA's). However, global business leaders need a special mix of KSA's. Knowledge can be acquired. It generally focuses on the content of the business and related markets or environments it operates in and with. Skills as a business leader are also learned. Skills are usually based on experience and the application of lessons learned. Abilities may be both innate and learned. They relate to the use of one's understanding of people, environments and personality.

Success should be more than a short-term line item for global operations. Global business should then perceive success as a long-term investment in personnel, resources, and commitment. While capital investments are important, it is the human factor that will ultimately underscore and sustain longevity for global business. Therefore, the ongoing development of emotional intelligence (EQ) is the foundation to achieving global business success.

EMOTIONAL INTELLIGENCE AND BUSINESS LEADERS

Why is it that not all intelligent people succeed? Moreover, what accounts for the instances wherein people of average intelligence succeed when their more intelligent counterparts fall short? The answer comes in the form of emotional intelligence.

In the last two decades there has been a compelling shift in the understanding of what makes for success. Organizational researchers have come to recognize an overwhelming need for, and the importance of understanding the human facet of the organization; most especially in global operations. Moreover, before a leader can understand and effectively lead others, the leader must first understand and be comfortable with him or herself.

Depending on the source reviewed, emotional intelligence is also denoted as EQ or EI. In this paper, we refer to emotional intelligence primarily as EQ. EQ-i is used when the emotional intelligence tool is referred to. Regardless though of how it is referred to, emotional intelligence (EQ) is concerned with understanding oneself and others, relating to people, and adapting to and coping with the immediate surroundings to be more successful in dealing with environmental demands. EQ is a dynamic tool which continues changing with time, perspective, individual or environment.

Exercising emotional intelligence is then the effective management of self and the propensity for being socially adept. Simply put, EQ looks at how well one effectuates action in any given immediate situation. To measure an individual's EQ is tantamount to the gauging a person's common sense. Fundamentally, EQ helps to identify and explain how well one navigates the people element of the world.

In the 1920s, Thorndike introduced the concept of "social intelligence." This was explored less rigorously than IQ or Personality Type until the 1980's when Gardner wrote about the possibility of "multiple intelligences" and the propensity for "personal intelligence." Around the same time, Bar-On contributed with the "emotional quotient" or "EQ" by developing the theoretical framework for an "Emotional Quotient Inventory" (EQ-i) which, for the first time, allowed for the quantitative measurement of EQ scales. In 1990, Salovey and Mayer coined the phrase "emotional intelligence" which was the first conceptualized of the idea itself. Then, the concept of Emotional Intelligence (EQ) was popularized largely by Goleman (1995) in his publication of the same name.

It was Daniel Goleman who established the link between EQ and leadership. He first described this relationship with his Primal Leadership Model (2002). According to the theory of Primal Leadership leaders undeniably play a primordial emotional role in the lives of others. Thus, the primal job of leadership is rooted in being intelligent emotionally. In leader-follower relationships, the leader is an "emotional guide" who navigates the course of uncertainty, threat, clarity, assurance and work. It is also the fundamental task of leaders to create *resonance*; resonance being "a reservoir of positivity that frees the best in people" (Goleman, 2002, p. ix). To practice emotional intelligence is to assert a conscious effort of awareness and control of one's self and how he or she relates to others.

EQ AND PERFORMANCE

Mayer, Salovey, Caruso & Stiarenios (2001) say that research demonstrates that EQ is a central predictor of "significant outcomes" (p.240). The work of Web (2009) looks at a range of literature on emotional intelligence. He concludes that his broad literature survey acknowledges that EQ has "more predictive integrity" than IQ when it comes to performance (p.32).

Bar-On and Parker (2007) speak of a U.S. Department of Labor survey that was conducted in the mid-1980s. The national survey looked at what employers were looking for in entry level positions. The results showed that the list was dominated by emotional intelligence factors. This seems to go hand in hand with Goleman's (1998) view that EQ skills are those that keep us employable. Here it would follow that EQ is critical to job performance. It would be a sound deduction to also propose that the skills that are important in hiring and keeping one employable would be the same skills that are needed to bolster job performance.

Some very interesting numbers come from Bradberry and Grieves' (2009) research using their version of an EQ indicator, known as the Emotional Intelligence Appraisal Test that has tested over 500,000 people over the last decade. Their finding calculates that EQ "accounts for 58% of performance in all types of jobs" (p.20) and is "the single biggest predictor of performance in the workplace and the strongest driver of leadership and personal excellence" (p.21). They also account that people with the highest IQs outperform those with average ones "just 20% of the time" (p.8). Conversely, those with average IQ tend to outperform their higher IQ counterparts "70% of the time" (p.8). Additionally, "90% of high performers are also high in EQ" while "20% of low performers are high in EQ" (p.21).

Other significant numbers comes from Stein and Book (2006), who report using the EQ-i. The EQ-i is documented as having tested "more than 500,000 people from over 45 countries" (p.244). It is important to note here that that EQ-i is a psychological instrument that is "empirically constructed" and has measures that account for reliability, validity and correlation factors designed to adjust for bias (Bar-On, 2004, p.4). While he has a good amount of evidence, for EQ and success, or performance; the following are just a few examples.

One of the highlights comes from a large study done with the U.S. Air Force that was cited in a report to a U.S. Congressional Sub-committee. This study pegged recruiters' scores to actual job performance. It was found that those with high EQ scores were "2.7 times more likely to succeed" and "95% percent met or exceeded their quotas" (p.245). As a result of further use of the EQ-i, retention rates "increased by 92% worldwide; at a cost savings to the Air Force of an estimated $2.7 million" (p.247).

Stein and Book (2006) reference other significant findings. In 1997, the EQ-i was administered to the one hundred front line workers in the Philippines' fifth largest financial institution. In addition, these workers also took an IQ test and their managers submitted work appraisals. Upon review, "the IQ tests results accounted for less than 1 percent of their work appraisal scores, but their EQ scores could be linked to 27 percent of their success" (p.255). In another instance that dealt with a company that sells to internationally wealthy clients the findings showed that high EQ was correlated to "71 percent" of sales waiting to be closed (p.256).

Still another example comes from data from people who work in insurance sales for a firm in New York. Here, in addition to EQ tests, personality and IQ tests were both given. The researchers concluded that success was not predicted with the traditional measures such as IQ. Rather, salespeople who scored high on certain EQ facets "sold 33% more insurance than those who scored low" (p.257). After a two-year follow up they found that those same people who scored high on certain EQ facets "were more than 50 percent more likely than their lower-scoring peers to be thriving on the job" (257).

Emotional intelligence is not only linked to individual performance. Druskat and Wolff (2001) present research that implies that EQ has a team application as well. They found that individual EQ has a "group analog" that, when developed, leads to an increase in performance (p.82). Their study shows that emotionally intelligent teams are among the most effective of teams. Furthermore, any team can grow in emotional intelligence because EQ skills can be learned.

TRADITIONAL DIMENSIONS OF LEADERSHIP

The three dimensions (IQ, Personality type, and EQ) form the cornerstones of superior leadership. It is apparent that leadership cannot rely on only one dimension. Like a three-legged stool a suitable balance must be struck. This balance leads to stability and increased performance.

Cognitive Intelligence

Cognitive Intelligence is measured as the intelligence quotient or IQ. IQ is well known and has been used for a used for over a century. It is the basic toolkit that most leaders seem to be expected to possess. However, after the age of fifteen or so, IQ changes little over the course of a lifetime. This means that one's IQ is the relatively the same at age fifteen, as it is at fifty (Bradberry & Greaves, 2009; Goleman, 1995).

IQ is a measure of intelligence in comparison to others in the population. The scientific study of IQ started with Binet in 1905 (Martin, 1997). Since then, IQ has been the standard by which success was gauged. Those few gifted individuals with the highest IQ scores have been privileged by society to be called genius.

The world over, those with high IQ scores have been traditionally expected to perform at the top echelons of achievement in all areas and across all disciplines, including business leadership. In this view of intelligence, high IQ and achievement were synonymous. One's capacity for cognitive aptitude was considered by many to be an assurance of success.
However, there was a problem with this notion. A simple scan of any social group or organizational setting paints a different picture. The fact is that not all who people who have a high IQ are successful. Similarly, not all those who are successful have high IQ's.

Personality Type

The perception that good leadership stems from specific personalities or personality types has also been explored. While a number of possible approaches have been proposed, we will limit this discussion to the Myers Briggs Type Indicator (MBTI) in this paper.

Based on Jungian theory, Briggs and Myers developed the initial tool for inventorying personality based on four dichotomies of preferences. The initial tool was developed in 1917 and revised into its current format by the late 1950's.

An individual's preferences are explored for each of the four dichotomies in a self-administered questionnaire. The results are (or should be) interpreted and explained by a trained administrator.

The preferences are examined and categorized into a set of psychological personality types. Due to the nature of the MBTI, the personality of the individual may be grouped and described. According to Jung a person's personality type does not change and is fixed. It is important to always explore a person's "best-fit" when using the MBTI.

Some interpretations of the MBTI include the use of type to identify potential career or employment field suitability. However, administrators generally hasten to explain that while particular Types may be more common among those in certain professions, field or careers, there is nothing to support directing career or employment choices or assignments based on Type.

DIMENSIONS OF EMOTIONAL INTELLIGENCE

The EQ-i tool provides the global business leader with the means to understand herself/himself better. Using this understanding of self, the global leader can employ it to better guide diverse global operations, workforces and cultural entities for the achievement of common strategic and business operation goals. This self understanding will be extremely useful as global business leaders are integral to the success of their individual businesses as well as to those who work for them.

Bar-On, in the 1990's, developed and tested the EQ-i tool that enables the leader (and others) to come to a realistic and healthy understanding of self. As a bona fide assessment tool, it has been validated for reliability and validity across gender, age and culture. The EQ-i tool allows for the quantifying of a person's emotional behaviors and attitudes, which could then be compared to a norm group.

The EQ-i tool measures fifteen elements of emotional well being. These are grouped into five major composites as noted below (Bar-On, 1997, Bar-On, Maree, and Elias, 2007; Stein & Book, 2006).

1. Intrapersonal Composite
   a. Self-Regard
   b. Emotional Self-Awareness
   c. Assertiveness
   d. Independence
   e. Self-Actualization

2. Interpersonal Composite
   a. Empathy
   b. Social Responsibility
   c. Interpersonal Relationship

3. Stress Management Composite
   a. Stress Tolerance
   b. Impulse Control

4. Adaptability Composite
   a. Reality Testing
   b. Flexibility
   c. Problem Solving

5. General Mood Composite
   a. Optimism
   b. Happiness

THE EQ ADVANTAGE

Emotional intelligence is arguably a noteworthy competitive advantage. Brooks and Nafukho (2006), citing Appleby and Mavin (2000), suggest that people are the “single most sustainable source of competitive advantage” (p.124). If this is so, would not be reasonable to assert that organizations are always innovating toward the improvement of their human capital? The answer is no. This is not always the case. Emotional intelligence then is key because of its correlation to performance. Brooks and Nafukho’s (2006) strongly support this connection. Their literature review points to evidence of a “highly integrated” relationship among human resource development, emotional intelligence, social capital, and organizational productivity (p.117).

According to Gregersen, Morrison, & Black, “global leaders are born, then made” (1999, p.48). They contend that not everyone is predisposed to becoming a global leader. For each person then, while potential may exist, that potentiality may still be left wanting without legitimate realization and actualization of certain skills. It is through awareness, opportunity and training that the manifestation for such leadership evolves.

Cognitive intelligence (IQ) does not change with age or experience. However, with EQ, this is not the case. Emotional competencies are learned and can be taught. The mastery of EQ skills evolve over a lifelong growth. The growth of one’s emotional intelligence can be seen as becoming more mature with age, experience and the willingness to change.

It is true that some are born with a genetically advantageous hand. However, the fact that EQ can be learned means that anyone has the potentiality to manifest their capacity for emotional intelligence. Goleman (1998) said:

> *… the most effective leaders are alike in one crucial way: They all have a high degree of what has come to be known as emotional Intelligence. It's not that IQ and technical skills are irrelevant. They do matter, but mainly as "threshold capabilities"; that is, they are the entry-level requirements for executive positions. But my research, along with other recent studies, clearly shows that emotional intelligence is the sine qua non of leadership. Without it, a person can have the best training in the world, an incisive, analytical mind, and an endless supply of smart ideas, but he still won't make a great leader. (p. 93)*

IS EQ OVERSTATED

Notwithstanding EQ’s long list of proponents there are those who would question the evidence to support EQ. Roberts, Ziedner, and Matthews (2008) affirms that EQ is still an evolving field and, as such, may have some overstated claims made in “popular works” (p.64). The work of Law, Wong Huang and Li (2007), who studied the effect of EQ on job performance among Chinese R&D scientists, also acknowledges that "scientifically rigorous studies for the validation of the construct are still far from satisfactory" (p.65). Their findings conclude that General Mental Ability (GMA) is still a better predictor of job performance. However, they do also say that task-based tests may not particularly translate well when used in other cultures. This point may have contributed to the findings of predictive validity.

GLOBAL LEADERSHIP SETTING

For a good part of the twentieth century, the business environment was driven by a desire for hard scientific data, rational decision making, and technological advancement. This was because finance, accounting and bottom-line hard tools were considered the only "real" way to achieve and record success in the business environment. Anything else was often considered too "touchy-feely" or "warm and fuzzy" for successful business professionals.

Global business leadership depends on more than just business savvy and knowledge of systematic business techniques. The KSA's of successful global business leaders include a balanced set of tools that generally includes an appropriate intelligence quotient (IQ), a suitable personality, and a developed emotional intelligence (EQ).

Expertise in the basics of the business is imperative in good global business leaders. This links in with the leader's IQ as well as knowledge training.

We need to remember that global business leaders are operating in an environment that offers some very unique and unusual challenges. Personality will also determine how effective the leader is in a global business environment. Global leaders need to become aware of and be able to manage a diverse team of subordinates in a mixed business environment. The challenge for effective global business leadership extends beyond the basic personality that the leader possesses to include capability to grow, develop and adapt.

True global leadership inspires the unrealized potential in followers and subordinates. Leaders take us to places we may not normally go and ignite the critical mass of human potential. Within subordinates and organizations there exists the intrinsic potential for greatness. The capacity to take in existing potential and capitalize on it to realize success as a business operation, especially in a global business environment, should be the goal of global business leaders. Great business leaders will stir the human spirit as well as drive business operations. With this comes the realization of the best that each subordinate has to offer and the contribution that she/he brings to the business operation.

Imperative among these challenges facing today's global business leaders has to be the differences in cultural environments and among their subordinates. The global business leader deals with these changing dynamics on a regular and ongoing basis. The direction or strategy of a global business operation, too, is lost without consideration of the diverse human elements that will be part of the global business operation. Even the best conceived and most comprehensive of plans can be hindered by the lack of awareness that people and relationships matter. Thus, global business leaders must be comfortable with cultural differences, be sensitive to localized needs, be at ease with ambiguity and uncertainty in the daily workplace, be ready to bridge the chasms between home and local office operations, and have a good sense of self.

CONCLUSION

Whether an opponent or supporter of EQ, it has become an accepted concept. It has become the recognized third leg of the stool that leaders and others rely on to be well-rounded in their business and other roles. Thus the understanding of what is needed to be a superior leader, especially in global organizations, has to include a new set of expectations and standards.

Leaders in today's global arena are being held to a new standard which requires them to perform as organizational leaders. While performance is essential it should not come at the expense of the organization's greatest and primary resource: its people. The paradigms of yesterday are constantly being reshaped by the innovations of today and the potential of tomorrow. In this fast paced and dynamic environment, one needs not look too far to find the measure of such leaders; one needs only to look within. Global organizational leaders must increase their capacity to utilizing innate abilities, developing skills and applying them to the positions of responsibility that they hold.

Thus, global business leaders should learn as much about themselves as possible. They should constantly assess and reassess their basic capabilities, their personalities and their knowledge bases. Moreover, they must ensure that they have a cohesive understanding of the business itself and the market that it services. Effective global leaders have a developed emotional intelligence (EQ). Their EQ awareness will allow them the ability to maintain the balances needed for better global leadership in the business world of today and tomorrow.

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STOCK OPTIONS RULES IN MALAYSIA AND JAPAN: A COMPARATIVE ANALYSIS

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ABSTRACT

As each country has its own rules of the society based on its own history and culture, introduction of new accounting standards will have different effect among countries. IFRS 2 Share-based Payment affected accounting standards in Malaysia and Japan. FRS 2 in Malaysia and ASBJ Statement 8 in Japan both adopted modified grant date fair value accounting for stock options. But the situation of stock option plans, not only before, but also after the adoption of modified grant date fair value accounting, are different between Malaysia and Japan.

In Malaysia, although the culture is different from the USA, similar reaction was observed. In Japan, different reaction, namely, shift toward restricted stock type stock option plan was observed. In this paper, history of accounting, taxation, and law are compared and analyzed to clarify that the difference of the rules in each society affects the outcome of new accounting standards.

INTRODUCTION

In the USA, Baker (1940) analyzed the stock options used as a form of executive compensation in late 1920s to 1930s. As for accounting treatment for employee stock options, Dillavou (1945) supported measuring and recognizing operating expense when the option was exercised. So the history of stock option plans in the USA will be nearly a century.

Compared with the length of the history of employee stock options in the USA, the history of them in Malaysia and in Japan are relatively short. The real history of stock options began in Malaysia from 1980s and that in Japan from late 1990s.

Malaysia is a country where variety co exists in harmony. As for the composition of the population of 27.17 million, Malays consists more than 50%, Chinese 25%, Indians 10 %, and Bumiputeras and other races make up the rest. Although Malay is the national language, English is widely spoken. Islam is the official religion, but other religions are widely practiced (Malaysia Tourism Promotion Board, 2009). As for economy, Malaysia is becoming financial center for Islamic banking in the Southeast Asia. As for Japan, Tokyo Stock Exchange is the second largest stock exchange in the world when measured by the size of domestic equity market capitalization, and the fourth largest when measured by the size of share trading value (WFE, 2009). In this paper, situations of the different kind of countries in Asia, Malaysia and Japan, are compared and analyzed.

As each country has its own social rules based on its own history and culture, introduction of new accounting standards will have different effect among countries. IFRS 2 (International Financial Reporting Standard 2 *Share-based Payment*) affected accounting standards in Malaysia and Japan. FRS 2 (Financial Reporting Standard 2 *Share-based Payment*) in Malaysia, and ASBJ Statement 8 (ASBJ Statement No.8 *Accounting Standard for Share-based Payment)* in Japan, both adopted modified grant date fair value accounting for stock options. But the situation of stock option plans, not only before, but also after the adoption of new accounting standards, are different between Malaysia and Japan. As for taxation, in Japan, preferential tax treatment is introduced for qualified stock option plans, but in Malaysia such treatment is not introduced. In Malaysia, stock options are used mainly as an additional executive compensation among listed companies but the amount is not so large. In Japan, beside the ordinary use of stock options, they are also used to substitute lump sum cash payment at the retirement of the officers.

In this paper, history of accounting, taxation, and law in Malaysia and Japan are explained and difference in stock option plans are analyzed to clarify that social rules in each nation affects the outcome of the application of new accounting standards.

HISTORY OF STOCK OPTIONS IN MALAYSIA

Overview of the history

Stock options also known as share options in Malaysia is a new phenomenon among corporate entities in Malaysia. Public listed companies on the Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) began to issue stock options to its executives as a way of compensation in 1980s (Ariff, Mohamad, & Nassir, 1998). Although Malaysia gained independence in 1957, companies were small in size and were mostly involved in the mining and agriculture sectors. After independence, Malaysia relied heavily on the exports of raw materials and commodities such as rubber, tin and others. Malaysia, a middle-income and fast developing country transformed itself from 1971 through the late 1990s, from a producer of raw materials into an emerging multi-sector economy. Transformation of the Malaysian economy took place in the mid-1980s. In the mid-1980s, Malaysia experienced a sharp fall in the price of natural commodities leading to a recession. This was the first major economic crisis of its kind faced by Malaysia after independence. From 1971 to 1990 the economy grew at 6.7% and from 1991 to 2000 the economic growth was on an average of 7%. The economy contracted by 7.4% in 1998 following the financial crisis, but it recovered in 1999 and grew by 8.5% in 2000 (Bank Negara Malaysia, 2001).

After a restructuring process, the economy bounced back, but mainly due to foreign investment in the manufacturing sector. Exports no longer were in rubber and other commodities only, but more of manufactured goods and products. The economic growth of Malaysia now is almost exclusively driven by exports particularly of electronic equipments, petroleum and liquefied natural gas, chemicals, palm oil, wood and wood products, rubber and textiles and other manufactured goods. Malaysian companies compared to the Japanese are small in size and only began to be involved in manufacturing and other industries in 1990s. As such, all aspects of stock options and other forms of employee compensations are relatively new in Malaysia.

Stock options became popular as a means to compensate executives beginning mid-1980s when the companies made huge profits. This, however, was short-lived when Malaysia and other neighboring countries faced the Asian financial and economic crisis in 1997. The crisis did not allow for the development of the stock options in Malaysia as much as in Japan, U.S.A. or other developed countries in the world. Currently almost all the companies listed in the Bursa Malaysia have stock options for their executives and employees (Bursa Malaysia, http://www.bursamalaysia.com/). However, issues related to stock options in Malaysia are not that big as in Japan, because the amount is not large and material.

Accounting Standard for Employee Stock Options in Malaysia

In Malaysia, the Malaysian Accounting Standards Board (MASB) is responsible for the promulgation and implementation of the accounting standards. Beginning January 1st 2006, MASB has issued new standards known as the Financial Reporting Standards (FRS) that are almost identical to the International Financial Reporting Standards (IFRS) issued by the IASB. FRS 2 is concerned about stock options in Malaysia. The main features of FRS 2 are similar to IFRS 2 and they are listed below.

The FRS 2 sets out measurement principles and specific requirements for three types of share-based payment transactions:

For equity-settled share-based payment transactions, all entities are to measure the goods and services received, and the corresponding increase in equity, directly at the fair value of the goods and services received, unless that fair value cannot be estimated reliably. If the fair value cannot be estimated reliably then the entity must estimate indirectly, i.e., by reference to the fair value of the equity instruments granted. For employee stock options, the fair value of the instruments granted is measured at grant date (FRS 2 par.IN5, pars.10-12).

The FRS requires the fair value of equity instruments granted to be based on market price. When market prices are not available, fair value is to be estimated using the arm's length transactions technique (FRS 2 par.IN5, pars.16-17).

For stock options that are modified, re-priced, cancelled or repurchased the FRS requires the entity to recognize, as a minimum the services received measured at the grant date fair value of the equity instruments granted (FRS 2 par.IN5, pars.26-27).

Only after 2006 there were concerns about FRS 2 and the way accounting for it should be done. FRS 2 and other standards issued by the MASB have been enforced beginning January

2006. Since the standard requires companies to recognize compensation expenses every half-yearly, this gives rise to financial impact on the companies and their financial performance is severely affected. This has been the case for a number of companies in Malaysia since last year. In November 2006, Freight Management Holdings Bhd proposed the termination of its employees' stock options because of the fear of its impact on the financial performance for 2006 (Securities Commission Malaysia, http://www.sc.com.my).

This has also been the case for Key West Global Telecommunications Bhd, whereby the company has recognized compensation expense of RM790,000 for the first two quarters, but for the same period the company reported a net loss of RM385,000 (Securities Commission Malaysia, http://www.sc.com.my). Most companies are more worried about the financial impact as a result of recognizing compensation expenses in their financial statements.

Taxation of Employee Stock Options in Malaysia

Changes to the taxation of stock options in Malaysia took effect from the year of assessment 2006. Before year of assessment 2006, benefits derived from stock options by employees were deemed gross income and also subject to income tax. But, for the purpose of income tax, the value of the income from each share was determined based on the difference between the market price of the share on the date of offer and the discounted price for each share. It did not take into consideration the market value of the stock on the date when the stock option was exercised. The disposal value was not taken into consideration for tax purposes. So there was no tax imposed if the exercise price of the stock option was set at the market price on the grant date.

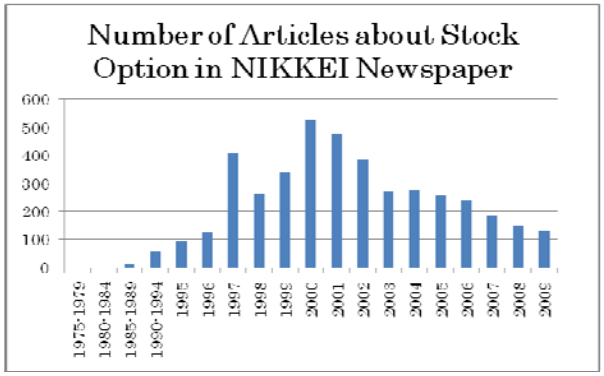
However, beginning YA 2006 this ruling has changed. The value of the benefit for each stock option is now determined based on the difference between the market price on the date the stock option is exercised or exercisable, whichever is lower, and the discounted price offered by the employer. Exercisable date means the date when the right shall be exercised, assigned, released or acquired if the right is exercisable on a specified date or otherwise. Furthermore, the benefit is liable to tax in the year the option is exercised. This will have an impact on the employees as to when they want to exercise their options. The employees must now decide as to when they would prefer to exercise their options. The timing to do that is also important.

HISTORY OF EMPLOYEE STOCK OPTIONS IN JAPAN

Overview of the history

Although, in Japan, there were research papers or monographs published in 1960s, such as Ikoma (1967), stock options were not widely used until late 1990s. Although in 1980s there were U.S. companies granted stock options directly to the officers of the subsidiary in Japan, the term "stock options" was not so popular until mid 1990s, when SOFTBANK and SONY introduced so called "quasi-stock options" in their compensation program. The trends of the number of the articles in the *NIKKEI Newspaper* are presented in Figure 1.

Figure 1



On October 4th in 1994, *NIKKEI Newspaper* reported that SOFTBANK was planning to introduce new compensation program using the shares of the principal stockholder. The principal stockholder sold his shares at low price (one third of the market price) to directors and key employees based on the contract between the principal stockholder and directors and key employees (Chuo Coopers & Lybrand Advisors, 1999, 255-256). As that compensation program had similar effect as introducing stock option plan, it was called "quasi-stock options" in Japan (Chuo Coopers & Lybrand Advisors, 1999, 231). According to the interim report of SOFTBANK, the principal stockholder effectively (directly and indirectly) held 70% of the outstanding shares on July 22nd in 1994, that made him possible to introduce such kind of compensation program. As the compensation program was introduced by the principal stockholder personally, no formal procedure was required for SOFTBANK except for the procedure to report the change in the number of shares that the principal stockholder holds (Chuo Coopers & Lybrand Advisors, 1999, 258-259).

Another kind of "quasi-stock options" was introduced by SONY in 1995, by utilizing bonds issued with detachable stock purchase warrants (*NIKKEI Newspaper* August 11, 1995; Chuo Coopers & Lybrand Advisors, 1999, 232-247; *The Economist* August 3, 1996, 56). Because Japanese Commercial Code at that time prevented Japanese corporations from granting stock options, stock purchase warrants were used to grant call options to the directors. At first, a bond with detachable stock purchase warrants was issued. Next, all of the stock purchase warrants were purchased. Finally, stock purchase warrants were made non-transferable by the contract, and granted to the directors. What the directors received as compensation were nothing but stock options in substance, but their legal form - reissued stock purchase warrants - made them legal. Accounting treatment for this type of stock options was quite unique, because it required recognition of compensation cost as an expense (or distribution of earnings), based on the fair value of stock purchase warrants on the grant date.

In October 1995, New Business Promotion Act was amended, and 27 designated small high tech firms were allowed to include stock option plans in their compensation program (*Keieizaimu*, November 20, 1995, 2-4). As the Commercial Code Article 280-2 at that time limited the effective period of special resolution of the shareholders' meeting to six month, New Business Promotion Act Article 8 extended that period to ten years. By that amendment, it became possible to introduce stock option plan by the approval of the shareholders' meeting to issue shares at the price significantly lower than the market price at the exercise date. Special Taxation Measures Law Article 29-2 was amended and preferential tax treatment for stock options for designated high tech firms were introduced in 1996.

By the amendment of the Commercial Code in 1997, two types of stock option plans, treasury stock type and stock purchase right type, were introduced.

Before the amendment in 2001, Commercial Code did not permit corporations to acquire their own shares other than in exceptional cases, which were specified in the Code. Before the amendment in 1994, the Commercial Code allowed corporations to acquire treasury stocks only for the following four reasons: (a) to cancel, (b) as a result of merger or bulk acquisition of other corporations, (c) for execution or payment, (d) for appraisal right of shareholders (Nakamura, 1996, 46). By the amendment in 1994, the following three reasons were added: (a) to sell shares to employees within six month, (b) to cancel shares based on the resolution at shareholders' meeting, (c) for appraisal right of shareholders of close corporations (Nakamura, 1996, 47).

By the amendment in 1997, the Commercial Code allowed corporations to acquire their own shares for stock option purpose (Article 210-2). As the reduction of capital stock was not allowed without following the due process strictly required by the Commercial Code, treasury stocks were treated as asset. Although treasury stocks were presented as deduction from the total capital in consolidated balance sheet, their realized gain or loss when they were sold, affected the consolidated surplus (retained earnings). Moreover, they were presented as assets on the balance sheet of the parent corporation.

For the preferential treatment under the Japanese Income Tax Law, it was necessary to set the exercise price at least equal to the price of the treasury stock at the grant date. Therefore, compensation cost was not recognized when granting this type of stock options. However, because treasury stocks were treated as assets, when they were reissued, any difference between the book value and the reissue price was reported as a gain or loss in the income statement. Although, treasury stocks were presented as a deduction from capital instead of an asset, the gain or loss recognized by the transaction of treasury stocks affected the consolidated surplus (retained earnings). That means they were treated as assets in measuring profit or loss, in spite of their presentation in the consolidated balance sheet.

By the amendment of the Commercial Code in May 1997, as from October of that year, Japanese corporation were allowed to grant stock options by granting stock purchase rights to their directors and employees (Article 280-19). However, a resolution at the shareholders' meeting must be approved by two-third majority. Because the Commercial Code did not allow contribution by service for shares, compensation cost for stock options was not recognized as an expense. No entry was made on the grant date, and the entry was made when they were exercised. As in the case of treasury stock type, the compensation cost for stock options was not reported in the income statement for this type of stock options. In the case of taxation, the same preferential treatment was applied. But, the approval by two-third majority was required; this type of stock option plan was not as popular as treasury stock type.

Before the amendment of the Commercial Code in 2001, it was not allowed to issue call options except for specific purposes allowed in the Code. Stock options based on the Commercial Code Article 280-19, convertible debt and debt issued with stock purchase warrants were those exceptions (Takei & Shimizu, 2002, 199). Because the stock options allowed in the Commercial Code amended in 1997 limited the grantee to directors and employees of the company, in order to grant stock options to the officers or employees of the subsidiaries or affiliated companies, it was still necessary to use quasi-stock options.

The amendment of the Commercial Code in 2001 allowed grant call options to anybody, and for any purpose if approved by the special resolution (two-third majority) of the shareholders' meeting. Grantees of the stock options were no longer limited to directors or employees of the corporation, and call options were no longer required to be packaged with debt (Egashira, 2009, 713). The reason for allowing corporations to issue call options in general was that it became possible to measure the fair value of call options when they are issued. It was argued that shareholders could compare the value of call options issued and the value of consideration for those call options (Takei & Shimizu, 2002, 200).

As a result of the amendment, as for the legal procedure, stock options, convertible debt, debt issued with stock purchase warrants were regulated under the same articles which rules about subscription rights to shares. As for accounting, it followed the legal form of the transaction. When stock options were granted as issuing subscription rights to shares without consideration, then there was no entry for recognizing compensation cost.

Accounting Standard for stock options in Japan

The Accounting Standards Board of Japan (ASBJ), Japanese private sector accounting standards setting body, began its deliberation on accounting for stock options in 2002. Stock Option Technical Committee was established in May, and Summary Issues Paper *Accounting for Stock Option* was published in December.

In December 2004, ASBJ published the Exposure Draft *Accounting Standard for Stock Options*. In the Exposure Draft, it was proposed to require an entity to reflect in its profit or loss and financial position the effects of stock options. It was proposed to require a fair value method of accounting for stock options. The fair value of stock options is estimated at the grant date, and the total amount of compensation cost recognized will be based on the number of stock options eventually vest. Those proposals are in accordance with the requirements of the IFRS 2 issued in February 2004. It was also proposed that the credit account for the recognized compensation cost should be presented as an item between liability and equity (the mezzanine section of the balance sheet). When the vested options expire without exercised, the balance of subscription rights to shares account would be recognized as gain and reported on the income statement. Non public companies were allowed to use intrinsic value at the grant date without reflecting subsequent change in intrinsic value. Those proposals were departure from the requirements of the IFRS 2.

In August 2005, ASBJ issued Exposure Draft *Accounting Standard for Presentation of Net Assets in the Balance Sheet* and Exposure Draft *Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet*. Subscription Rights to Shares was presented among current liabilities on the balance sheet, but ASBJ proposed to change that the balance sheet classification of Subscription Rights to Shares, because it does not meet the definition of liability, and required that item to be presented among Net Assets, but in the independent section separated from Shareholders' Capital.

In October 2005, ASBJ published the revised version of the Exposure Draft *Accounting Standard for Share-based Payment* and the Exposure Draft *Guidance on Accounting Standard for Share-based Payment*. Reflecting the new balance sheet classification proposed by the Exposure Draft *Accounting Standard for Presentation of Net Assets in the Balance Sheet*, It was proposed that the credit account for the recognized compensation cost should be presented in the independent item within the Net Assets section separated from the subsection Shareholders' Capital.

On December 9th 2005, ASBJ issued ASBJ Statement No. 5 *Accounting Standard for Presentation of Net Assets in the Balance Sheet* and ASBJ Guidance No. 8 *Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet* to change the balance sheet classification of Subscription Rights to Shares, and on 27th, Statement No. 8 *Accounting Standard for Share-based Payment* and ASBJ Guidance No. 11 *Guidance on Accounting Standard for Share-based Payment.* Most of the accounting treatments required by ASBJ Statement 8 are in accordance with the IFRS 2. But there are following two material differences; (a) Forfeiture of vested stock options results in recognizing gain and (b) Intrinsic value at the grant date allowed for non public companies.

Subscription Rights to Shares is presented in the Net Assets section on the balance sheet until exercised or expired, but as the independent item separated from Shareholders' Capital (ASBJ Statement 5, par.7). If the rights are exercised, the amount presented as Subscription Rights to Shares becomes paid-in capital, but if not, it does not become paid-in capital but a gain. Although such kind of suspense accounts used to be presented among liabilities, as Subscription

Rights to Shares do not meet the definition of liabilities, it is presented in the Net Assets section (par.22).

ASBJ Statements follow the narrow definition of paid-in capital. Paid-in capital is the amount invested by the shareholders. As the holders of subscription rights to shares are not shareholders yet, the consideration for subscription rights do not constitute Shareholders' Capital. This narrow definition is in accordance with the definition provided in *The Series of Discussion Papers* "Conceptual Framework of Financial Accounting" published in 2004 by the Working Group on Fundamental Concepts organized by the ASBJ. According to the Japanese Conceptual Framework, net assets consist of Shareholders' Capital, which is attributable to shareholders, and other components of net assets, which include portions attributable to parties other than shareholders and portions not attributable to any party. Minority Interests on the consolidated financial statements and the transactions with optionees who may become owners are included in net assets attributable to parties other than owners of the reporting entity (*Discussion Paper* "Elements of Financial Accounting" par.6, footnote4). When vested subscription rights to shares expire, the corresponding amount recorded in Subscription Rights to Shares account will be transferred to Shareholders' Capital (retained earnings) through profit (ASBJ Statement 8, par.9).

In IFRS 2, it is required that the entity shall make no adjustment to total equity after vesting date; the entity shall not subsequently reverse the amount recognized for services received from an employee if the options are not exercised. And it is also stated that requirement does not preclude the entity from recognizing a transfer within equity, ie a transfer from one component of equity to another (par.23). ASBJ Statement 8 does not require reversing the amount recognised for service received and it does not change the total equity. However, when option expires, the corresponding amount will be transferred to an account such as "Gain from Expired Subscription Rights to Shares" and reported in the income statement as a component of net income (par.47). Increasing net income when option expires is a departure from IFRS 2. Option holders are not considered as owners of the entity within the Japanese Conceptual Framework.

ASBJ Statement 8 allows non public companies to use the intrinsic value instead of fair value at the grant date, for measuring the amount to be recognized as an expense for share options (par.13). If company selects to use intrinsic value, total intrinsic value of share options at the end of each period and total intrinsic value of the exercised options at the exercise date are required to disclose in notes (par.16). As for non public companies in Japan, they can grant share options without recognizing compensation expense in the income statement. When the entity was unable to estimate the fair value at the measurement date, IFRS 2 requires measuring the intrinsic value and subsequently at each reporting period and at the date of final settlement, with any change in intrinsic value recognized in profit or loss (par.24). As Japanese accounting standard does not require recognizing change in intrinsic value, accounting for non public companies is different from IFRS 2.

Taxation for Employee Stock Options in Japan

The Japanese Corporation Tax Act was revised in March, 2006 in line with the new accounting standard for stock option expenses. Although both of qualified stock options and non-qualified stock options are able to recognized as compensation expenses in financial accounting after May 1st 2006, under this revision of taxation for stock options, only grantors of non-qualified stock options are able to include for stock option expense for taxation (Corporation Tax Act 54).

From the perspective of taxation there are three types of stock option plans in Japan: "qualified stock options," "non-transferable and non-qualified stock options" and "transferable and non-qualified stock options" (Ishii 2002, 50–55; Yamada 2003, 116–124).

For companies which granted stock options based on the plans according to the Commercial Code, it was not possible to deduct the compensation cost of stock option plans from the taxable income before the revision of Japanese Corporation Tax Act in 2006, although it was possible to deduct the compensation cost if the plan took the form of "quasi-stock options" using warrants issued with debt, instead of taking the form specified in the Commercial Code.

From May 1st, 2006, non-qualified stock options which are granted to the service providers were able to be treated as an expense for corporation tax purpose (Corporation Tax Act 54). The timing of inclusion in expense for company will be the day in which the service providers will be taxed for their income (Corporation Tax Act 54). That will be exercise date for non-transferable and non-qualified stock options and grant date for transferable and non-qualified stock options.

The deductible amount for stock options will be the same with the compensation expenses (Order for Enforcement of the Corporation Tax Act 111-2). Therefore, the valuation method in taxation for non-qualified stock options for the company will be the same with the method of accounting which could be based on grant-date fair value for public company and could be based on the fair value or the intrinsic value at the grant date for non public companies (ASBJ Statement 8, pars. 5, 6, 13). Although the deductible amount for stock options will be the same with the compensation expenses, there is a difference in the time of recognition between reporting purpose and tax purpose. And, as for qualified stock options, even if compensation expenses were recognized for the reporting purpose, those expenses will not be tax-deductible.

In regardless of "qualified" stock options or not, companies must adjust their taxable income both on the grant date and the exercise date for tax purpose. Additional burden will be imposed for companies by the difference between tax accounting and financial accounting.

As for income tax for employees, it is necessary to distinguish into three categories, qualified stock options, non-transferable non-qualified stock options, and transferable non-qualified stock options.

Qualified stock options provide tax advantages for the employee as grantee that a non-qualified stock option does not. Taxation for qualified stock options is deferred until the shares are sold by the grantee (Order for Enforcement of the Income Tax Act 84, Act on Special Measures Concerning Taxation 29-2). A 10% for capital gains tax rate will be applied on publicly listed stocks and a 20% for its rate will be applied on unlisted stocks (Order for Enforcement of the Act on Special Measures Concerning Taxation 19-3, Act on Special Measures Concerning Taxation 37-10). Although a 10% tax rate for publicly listed stocks will be hold until 2007, and from then will be 20% by the original schedule of regulations. There are numerous restrictions which have to be met in order to qualify as qualified stock options (Nakamura and Matsushita 2003, 84). This preferential tax treatment has been extended until 2011 (http://www.nta.go.jp/taxanswer/shotoku/1463.htm).

Stock options shall be issued without payment. Persons eligible for assignment are directors, executive officers, and employees of the company and its subsidiaries, apart from its major shareholders and special interest parties. The period for exercising stock options shall be not later than ten years and not less than two years after the date of the resolution. Maximum tax advantage per year shall be JPY 12,000,000, the sum of exercised amounts. The exercising price shall be higher than the market price at the grant date. Transferring stock options shall be prohibited (Order for Enforcement of the Act on Special Measures Concerning Taxation 19-3).

Non-transferable and non-qualified stock options are only made into profit by exercising the right of stock option. The employees as grantee taxed on the difference between the market price of shares and the strike price plus issuing price of stock options (Order for Enforcement of the Income Tax Act 84). As for corporation tax purpose, the companies are able to deduct compensation expense on the exercise date by the same amount recognized for financial reporting purpose. What that means is that the valuation of stock options is the fair value for public company and the intrinsic value for non public company at the grant date. So the amount that corporation can deduct for tax purpose and the amount of income that employees report might be different.

The type of income is decided by the purpose of the stock options and the nature of the relationship between grantee and grantor; consequently, it is defined as employment income, business income, or miscellaneous income under the Primary Regulation Notice of Income Tax Law 23~35.The tax rates for employment income are from 5% to 40% (10% to 37% until FY2006) plus 10 % local tax (5% to 13% until FY2006), for business income approximately 50% (including local tax), and for miscellaneous income 15% plus local tax 5%. When shares are sold, tax is imposed on the capital gain. That rate is 10% (Order for Enforcement of the Act on Special Measures Concerning Taxation 19-3 and Act on Special Measures Concerning Taxation 37-10).

Transferable and non-qualified stock options are taxed on the difference between the price of stock options and their fair value on the grant date (Income Tax Act 36 and Primary Notice on Income Tax Act 36-36). It is the same for non-transferable and non-qualified stock options on the case of issued stock options with fair value, the employees as grantee will be taxed for capital gain at the time of selling stocks.

Income tax is not imposed on the exercise date. When the shares are sold, tax will be imposed for the capital gains (Order for Enforcement of the Act on Special Measures Concerning Taxation 19-3 and Act on Special Measures Concerning Taxation 37-10). Capital gain is calculated by the difference between the strike price plus issuing price of stock option and the market price of shares (Primary Notice on Income Tax Act 48-6-2).

When it is based on the amended corporate tax law, companies are able to deduct compensation expense at the same time when the employees report their income for tax purpose (Corporation Tax Act 54). Companies will be able to deduct compensation expense for stock options at the grant date for tax purpose and reporting purpose in the same period.

EFFECT OF THE ADOPTION OF IFRS 2 AS FRS 2 IN MALAYSIA

Before the adoption of grant date fair value accounting for stock options in Malaysia, most of the listed companies used stock options as an additional form of executive compensation. As the adoption of grant date fair value accounting required companies to recognize expense for granting stock options, that discouraged companies from granting stock options to their employees, as some cases were mentioned previously in this paper. The reaction to the new standards observed in Malaysia was quite similar to that in the U.S. In the U.S., after the adoption of the grant date fair value accounting, decrease in stock options and increase in restricted stocks were observed (Henry, 2009, 68; Carter, Lynch, & Tuna, 2007, 354).

The structure of accounting standards in Malaysia reflects the co existence of dual system in harmony. Accounting standards in Malaysia consist of three categories. First category is FRS that corresponds to IFRS or IAS (FRS with a '100 prefix'). Second category is FRS with a '200' prefix that is locally developed standards with no equivalent IFRSs. Third category is Islamic Accounting Standards (FRS *i*-1 2004, TR *i*-1, TR *i*-2, TR *i*-3, SOP *i*-1). As conventional banking and Islamic banking, both exist in Malaysia, it is necessary to have IFRSs and Islamic Accounting Standards. Although stock option plans might be a typical western style compensation scheme, it fit in the conventional part of the Malaysian business. As a result, the similar reaction could be observed after the adoption of IFRS 2.

Another issue related to stock option was tax reform. Before 2006, there was no tax imposed on the income from stock option. But after 2006, income tax was imposed on the difference between the market price and the exercise price of the shares on the exercise date. There is no preferential tax treatment for stock option plans in Malaysia.

EFFECT OF THE CONVERGENCE OF ACCOUNTING STANDARD FOR STOCK OPTIONS IN JAPAN

By ASBJ Statement No.8, it became necessary to recognize compensation expense to grant stock options in regardless of their legal form of the plans In order to analyze the effect of that accounting standard, NIKKEI 225 companies were selected as samples. Securities reports and business reports of those companies were collected by using YUHO KAKUMEI web database service provided by Hitachi High-Technologies Corporation. Among those two hundred and twenty five companies, fifty one companies were found as companies approved stock option plan in 2006. One hundred and seventy four companies did not propose stock option plan in 2006. Among fifty one companies approved stock option plan in 2006, forty six companies adopted stock option plan in 2005, so those companies adopted stock option plan two years in a row. Among one hundred and seventy four companies that did not propose stock option plan in 2006, seventeen adopted stock option plan in 2005, and twenty three companies have adopted stock option plan before 2004.

Among those fifty one companies approved stock option plans in 2006, two different types of stock options could be found. One was stock option with exercise price set at the market price on grant date (ordinary type), and the other with only a nominal exercise price, one yen per share (restricted stock type). Twenty five companies adopted ordinary stock option plans, nineteen companies adopted restricted stock type stock option plans, and seven companies adopted both types.

Similar tendency could be observed in other surveys. According to the survey conducted by Towers Perrin and Nikko Cordial Securities (2009), among three hundred eighty one companies granted stock options within July 2008 and June 2009, one hundred and fifty companies granted restricted stock type stock options. Another survey conducted by the Price Waterhouse Coopers HRS (2009) in 2008 with small samples (sixty eight companies) revealed that thirty two percent had ordinary stock option plans and fifteen percent had restricted stock type stock option plans. In the Survey edition of Commercial Law Review (No.307), among one hundred and thirteen companies with one hundred and twenty samples of the resolutions of the shareholders meeting to approve stock option plans in June 2009, forty five were restricted stock type stock options and seventy five were other kinds of stock options.

It can be observed that restricted stock type stock option plans are increasing. The restricted stock type stock option plans can be divided into two groups. One is for ordinary compensation and the other is substitute of the lump sum payment at the retirement for executives.

In Japan, when the executives retire, the company used to pay additional compensation as distribution of retained earnings by the resolution approved at the shareholders' meeting. As the legal form of the procedure was distribution of retained earnings, the accounting treatment followed that legal form and treated as direct reduction of retained earnings instead of recognizing expense. In 2005, ASBJ Statement No. 4 *Accounting Standard for Directors' Bonus* was issued and the accounting treatment for directors' bonus has been changed. The Statement requires that the directors' bonus shall be accounted for as an expense instead of a deduction from the amount of surplus. When the two alternatives, lump sum payment on retirement and restricted stock type stock option plan, are compared, expense has to be recognized for both, but the latter can avoid cash out flow. This seems to be one of the reasons for companies began to use restricted stock type stock options to substitute retirement lump sum payment.

Other reasons for increase in restricted type stock options will be explained in the next section.

ANALYSIS OF THE BACKGROUND FOR RESTRICTED STOCK TYPE STOCK OPTION PLANS

According to the Securities and Exchange Act of Japan Article 166 (Prohibited Acts of Corporate Insider), corporate insider who has come to know any material fact relating to the business shall not make any sale or purchase of any specified security of the listed company. A material fact includes any fact relating to management, business, operations, or property of the listed company, which exerts a significant influence on investment judgment of investors. This restriction made it difficult for directors and audit officers to sell their shares of the company. Securities and Exchange Act has been amended in 2006 and now it is Financial Instruments and Exchange Act, but Article 166 (Prohibited Acts of Corporate Insider) remains same restriction as before.

According to Article 164 (Restriction of Undue Profit Made by Officer or Major Shareholder), for the purpose of preventing an officer or a major shareholder of a listed company from taking advantage of any confidential information which they have obtained by dint of his/her functions or position in the listed company, the listed company may demand the officer or major shareholder to surrender to the listed company, any profit which the officer or major shareholder has realized by making the sale within six months of the purchase of a specified security of the listed company. In substance, this article prohibits the directors and audit officers to sell shares within six month after the purchase of those shares. According to Shimazaki (2004), because the purpose of stock option plans cannot be attained, Nippon Keidanren (the Japan Business Federation) requested to exempt the profit made by the sales of the shares purchased by stock option plan when applying Article 164, but the same restriction remains in Financial Instruments and Exchange Act.

It was also required by the Securities and Exchange Act (Article 163), in case where an officer or a major shareholder has made the purchase or the sale of a specified security issue by the listed company, the officer or major shareholder shall file with Prime Minister a report on his/her sale or purchase, not later than the fifteenth day of the month following the month to which the day of the sale or purchase belongs. Same article is found in Financial Instruments and Exchange Act.

Above mentioned restrictions by the Securities and Exchange Law of Japan made it difficult for the directors and audit officers to sell their shares of the company. But that might not be the only reason why those officers do not sell their shares of the company. There might be a common thought among the officers of the company that they should not sell their shares of the company, even if it is allowed by the Law. They may think that sales of the corporation's stock by them will be viewed as disloyal. According to Herzel & Perlman (1978), an article written in late 1970s in the USA, there might be real or imagined informal pressure on optionees to retain the corporation's stock. The situation in the USA seems to be changed and now as for the shares obtain by the exercise of stock options are sold immediately. According to Ofek & Yarmeck (2000), when executives exercise options to acquire stock, nearly all of the shares are sold by the typical manager. Sautner & Weber (2009) also found that most option recipients sell the shares acquired on exercise in their data set from one of the largest German corporation. But in Japan, that is not the case.

In 2003, there were three corporations listed on the First Section of the Tokyo Stock Exchange, which applied for legal reorganization procedure. Number of shares held by each director or auditor of those companies was compared with that of the previous year. Those data was available in the securities reports filed at the Finance Services Agency. It is not possible to directly obtain the number of the share executives sold. Only the number of shares each director or auditor hold was the available data. There were ninety two directors and audit officers in those companies after the accounting period that ends on March 31st, 1997. There were four audit officers who did not hold shares of the company, and there were eighteen directors and audit officers who provided only one year data from 1997 to 2003, the behavior of seventy directors and audit officers constituted the samples. More than seventy five percent of the directors and audit officers increased the number of shares of the company compared with the previous year, and the rest did not change the number of their shares of the company. Only one director decreased the number of the shares of the company once. Although the financial condition of the company was in serious trouble, the directors and audit officers did not decrease the number of shares they hold with only one exception, at least for the periods mentioned above.

By the survey of seventy eight companies from NIKKEI 225, among one thousand nineteen directors and auditors, only four decreased the number of shares during 2008 reporting period. Seven hundred fifty one increased, and two hundred and sixty four did not change including one hundred thirty who did not hold shares at all.

Although above data does not directly prove that Japanese officers do not sell shares, because that data directly show the number of shares the directors or auditors sold are not available, it is possible to state that Japanese officers gradually increase the number of shares they hold.

One of the explanations of the result would be that the restriction by the Financial Instruments and Exchange Act (Securities and Exchange Act) prevented those directors and audit officers from selling their shares. Another explanation would be that those directors and audit officers simply missed the timing to sell the shares of the company. The other explanation would be loyalty; the directors and auditors do not sell their shares because they feel they should not sell the shares of the company, they feel they owe something to the company.

Those attitude of the officers of Japanese companies to hold shares of the company might be one of the reason to explain why ordinary stock options were not been used so widely as in the USA. If the officers just receive dividends after exercising the options, the cost recognized on the books of the company will be greater than the benefit gained by the officers from the stock options. It might not be so effective to use stock option as a form of compensation in Japan.

On the contrary, restricted stock type stock options fits well with those attitude of the officers. Although their substance is shares, they cannot be sold until retirement. But that restriction does not matter so much for Japanese officers, because even if they were allowed to sell those shares, they would not do so.

Taxation also played an important role in the choice of the form of the compensation plan. It is better to use stock option as a form of compensation plan than to grant restricted stock itself. When the restricted stock itself is granted, that date will be the time when income tax will be imposed. In case of restricted stock type stock option, even if it is not qualified stock option for preferential treatment for tax purpose, still tax will be imposed when the stock option is exercised, not at the grant date.

SUMMARY AND CONCLUSION

In Japan, by the introduction of accounting standard quite similar to IFRS, it became necessary to report compensation expense on the income statement. As a result, Japanese companies seem to be shifting their share compensation program from ordinary stock options to *de facto* restricted stocks; stock options with nominal strike price. Now about half of the stock options are restricted type stock options.

That fact reflects the ordinary stock option does not fit so well in Japanese business environment. When officers prefer to hold the shares, cost recognized by the company might exceed the gain felt by the officers. Ceilings for preferential tax treatment is set relatively low amount so the officers cannot make huge money from stock options. And more over there is relatively small difference between the executive compensation and ordinary employees' income. Most of the Japanese executives were ordinary employees when they were first employed by the company.

In Malaysia, almost 95% of the companies that comprise the Composite Index of the Bursa Malaysia had stock options plan for their employees. The Composite Index of Bursa Malaysia consists of 100 large companies. Unlike Japan, Malaysian companies do not have different type of stock options plan. This is because stock options plan as a reward system for employees is not popular among public listed companies in Malaysia. Unlike Japan, stock options plan by employers is mainly given to top executives of the company. Ordinary employees are given other incentives – better remuneration packages or bonus plans. The comparative analysis shows that there are many differences between Malaysia and Japan in respect to stock options reflecting the situation of the society and the business environment in each country.

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THE IMPACT OF THE INTERNATIONAL FINANCIAL REPORT STANDARDS FOR MERGERS AND ACQUISITIONS ON POTENTIAL EMPLOYEES: SOME JAPANESE EVIDENCE

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ABSTRACT

According to the Tokyo Agreement, the Accounting Standards of Japan (ASBJ) have developed the new Japanese accounting standards or revised the present ones. The related law of Japan was revised to permit some Japanese companies to adopt the International Financial Reporting Standards (IFRS) in 2009. What impact would the convergence into IFRSs or the adoption of IFRSs have on the Japanese traditional thoughts about their culture? Could the convergence or the adoption alter what they are and what they are doing at the group level as well as at the individual level.

Considering the differences between IFRSs and older Japanese Generally Accepted Accounting Principles (GAAP), we carry out the social research about impact of IFRSs for M&A on labor consciousness of Japanese university students. The results of both the Peason's independent coefficient and the factor analysis indicates that they prepare for the membership of the society obtaining advanced education and, with social responsibility, swear loyalty to an entity which they would work for all through their business life, even after mergers and acquisitions (M&A). Absorbing given new ideas of IFRSs', Japanese students are still in the great tradition of Japanese Confucianism, whose entities should be working with society to achieve sustainable development meeting their responsibilities to stakeholders and reporting corporate social responsibility (CSR).

INTRODUCTION

On August 8, 2007, the Accounting Standards Board of Japan (ASBJ, henceforth) and the International Accounting Standards Board (IASB, henceforth) jointly announced an agreement known as the Tokyo Agreement (ASBJ and IASB, 2007) to accelerate convergence between Japanese generally accepted accounting principles (GAAP, henceforth) and International Financial Reporting Standards (IFRSs, henceforth), a process that was started in March 2005. As part of the agreement, the two boards would seek to eliminate, by 2008, major differences between Japanese GAAP and IFRSs as defined by the July 2005 the Committee or European

Securities Regulators assessment of equivalence, with the remaining differences being removed on or before 30 June 2011 (ASBJ, 2007b).

After the Tokyo Agreement, Japanese GAAP, in fact, seems to be acceleratedly converged into IFRSs as shown in Table 1. Before the Tokyo Agreement, the Business Accounting Deliberation Council (BADC, henceforth), former accounting standards setter in Japan, issued the Opinion Relating to the Setting of the Accounting Standards for Research and Development Costs in 1998 and the Opinion Relating to the Setting of the Accounting Standards for Business Combinations in 2003.

The 1998's Accounting Standards for Research and Development Costs required research and development (R&D, henceforth) costs to be expensed (III.para.1), while the Financial Accounting Standards for Business Enterprises revised in 1982 permitted a company to defer both research and development expenditure (Note 15). The 2003's Accounting Standards for Business Combinations allowed some business combinations to be accounted for using the pooling of interests method (III.3) and required goodwill arising on a business combination, whether it was positive or negative, to be capitalized and then amortized on a systematic basis over its useful life (III.2(4)(5)).

Some large Japanese enterprises were afraid of a negative impact on practice resulted from the ASBJ's Practical Issues Task Force (PITF, henceforth) No. 18: Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements, which was issued in 2006 (Takahara, 2006). While it required a parent company and its subsidiaries be unified in principle, it permitted tentative treatment. That is, financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP, henceforth) might tentatively be used for the consolidation process. However, the six items should be adjusted in the consolidation process so that net income can be accurately accounted for, unless they were not material.

Among these six items, Japanese GAAP related to both amortization of goodwill and capitalization of intangible assets arising from development phases, which differed from those of the IFRSs and the U.S. GAAP, were regarded as disadvantage in competition with Western corporations, which were active in support of mergers and acquisitions (M&A, henceforth), and had an adverse effect on a Japanese entity which costed large amount of money in R&D in such industries as ***pharmaceutical*** (Takahara, 2006).

After the Tokyo Agreement, the ASBJ narrowed most of these gaps except amortization of positive goodwill, which is today seems as one of the items related to the remaining differences between existing Japanese GAAP and IFRSs in the latest ASBJ Project Plan Table (ASBJ, 2009).

The Cabinet Order No.73 (Article 1) on December 11, 2009, amended some old rules of the Ministerial Regulation concerning Terminology, Forms and Method of Preparation of Consolidated Financial Statements. As a result, some Japanese companies could be permitted to adopt IFRs instead of Japanese GAAP (FSAJ, 2009).

Table 1: Chronology of Accounting Standards for M&A and for R&D in Japan	
Title	Issuance Date
Accounting Standard for Business Combinations (ASBJ Statement No.21)	December 26, 2008
Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22)	December 26, 2008
Partial amendments to Accounting Standard for Research and Development Costs (ASBJ Statement No.23)	December 26, 2008
Partial amendments to Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18)	December 26, 2008
Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18)	May 17, 2006
Opinion Relating to the Setting of the Accounting Standards for Business Combinations inclusive of the Accounting Standards for Business Combinations (BADC)	October 31, 2003
Opinion Relating to the Setting of the Accounting Standards for Research and Development Costs inclusive of the Accounting Standards for Research and Development Costs (BADC)	March 13, 1998
Opinion Relating to the Setting of the Revision of the Consolidated Financial Reporting System inclusive of the Financial Accounting Standards for Consolidated Financial Statements with the revised Commentaries on Consolidation Standards (BADC)	June 6, 1997
Opinion Relating to the Codification of the Consolidated Financial Statements inclusive of the Financial Accounting Standards for Consolidated Financial Statements with the Commentaries on Consolidation Standards (BADC)	June 24, 1975
Annotation to Financial Accounting Standards for Business Enterprises (Investigation Committee of the Economic Stabilization Board)	July 9, 1954

FRAMEWORK

It was Nakane that referred to Japanese society as a vertical organization (1970, p.40), neither horizontal nor contractual (1969, p.158). ‘The ranking order which produces delicate differentiations between members of a group develops firm personal links between superior and subordinate. Such relationships form the core of the system of a group organization. A group structure based on a vertical line of this strength is demonstrably different from one based on a horizontal line.’ (Nakane, p.40)

These Japanese links are applicable not only to an individual but also to an entity. Centred on a ‘parent’ company, A Corporation, are twelve companies known as the A Group. These companies are closely linked with A Corporation through activities or business such as sales, exports, production of parts and supply of materials. They have a direct relationship with the central A Corporation. Top executives are often transferred between these companies within the A Group; members of the A family – brothers, sons, grandsons, nephews and sons-in-law take the top positions, although the positions of president and director are not invariably the exclusive preserve of family members. Capital can also be passed readily and swiftly between these directly linked companies in case of emergency. In addition to this group of directly linked companies there are roughly two hundred more plants and factories aligned under A Corporation, on the basis of a linear relationship (which the Japanese term Keiretsu) (Nakane, 1970, pp.95-96).

The original Antimonopoly Act of Japan, which was enacted in 1947, prohibited not only the formations of pure holding companies, but also, above all, in principle the acquisitions of companies' shares by the non-financial corporations. The independent Big Six groups, thereafter, appeared as a part of Keiretsu. They had a big bank, which played the decisive role as the central supplier of credit finance, and leading companies in various branches of industry (Kuroda, 2001, pp.1839-1845). M&A were, therefore, carried out exceptionally to help a member company or to give a membership (Okumura, 1994, ch.4). Moreover, as the structure of Japanese boards of directors and the processes of governance were, in those days, different from those of the West, so the Japanese did not see the need for intervention from the outside (Tricker, 1994, pp.21-22).

More than one hundred years ago, however, Nitobe (1900, ch.9) wrote that: will loyalty and its concomitant instinct of reverence disappear forever? We transfer our allegiance from one master to another, without being unfaithful to either: from being subjects of a ruler that wields the temporal sceptre we become servants of the monarch who sits enthroned in the penetralia of our hearts.

According to Reischauer and Jansen (1995, p.170), the emphasis on hard work, individual drive, and economic achievement is one of the characteristics of the Japanese. These traits are strong characteristics of all the people in East Asia - the Chinese, Koreans, and Vietnamese as well as the Japanese – who derive their underlying culture from ancient China and its Confucian attitudes. This work ethic is unquestionably associated with the drive for education all these people share, as well as with the cold climate in most of the area. It also seems to have been strengthened by the group orientation of the Japanese. A good group cooperator is also a good worker, and the camaraderie of group work can be a positive pleasure. Diligence is generally recognized by the Japanese themselves as one of their most outstanding virtues. The primary identification of the individual Japanese with his work group and his enthusiastic, even joyous, participation in its activities explains why the Japanese work ethic even today seems far less eroded.

As the Committee of Stock and Exchange of Japan, which had been expected to play a role in protections an investor independently like the U.S. Securities and Exchange Commission, disappeared in 1952 (Chiba, 1998, pp.200-201) and as some Japanese multinational enterprises seem to differ their domestic pension systems from foreign ones on or after the effective date of the Opinion Relating to the Setting of the Accounting Standards for Retirement Benefit (JICPA, 2007, pp.585-609), some latest ideas as shown in Table 1 might be absorbed into young Japanese thoughts in the same ways as their parents.

To test the relationship between M&A and Japanese work consciousness, we follow the methods used in our previous studies in addition to M&A variables (e.g., Tsuji and Tsuji, 2004;

2005; 2009) considering corporate social responsibility (CSR, henceforth) ones (e.g., Rodrigo and Arenas, 2008; Chen and Bouvain, 2009). We propose the following hypotheses:

H1: Young Japanese are preparing for the membership of the society obtaining advanced education.

H2: Young Japanese are willing to swear loyalty to an entity which they would work for not only as an individual but also as an element of the organization all through their business life with social responsibility, even though it is reorganized after M&A.

METHODOLOGY

An investigation concerning Japanese work consciousness was carried out in April, 2009. The subjects consisted of 394 students from four universities; the Faculty of Economics of a public university in Osaka (University A), the Faculty of Business Administration of a private university in Osaka (University B), the Faculty of Pharmacy of a private university in Kobe (University C) and the Graduate School of Economics and Business Administration of a public university in Osaka (University D). University A and University B had few samples from other faculties of the universities since those respondents selected either social or natural science for their majors. Table 2 shows each University's frequency in this study.

Table 2: Respondents of This Study

UNIVERSITY	Number of Respondents	Effective Percent	Frequency
University A: Faculty of Economics, Osaka	280	94.6	265
University B: Faculty of Business, Osaka	130	71.5	93
University C: Faculty of Pharmacy, Kobe	20	100.0	20
University D: Graduate School of Economics, Osaka	17	94.1	16
Total	447	88.1	394

Table 3: Respondents' Age and Gender

UNIVERSITY	AGE: Average	Maximum	Minimum	GENDER: Female (%)	Male (%)
A	18.5	26	18	98 (37.0)	167 (63.0)
B	19.5	25	19	25 (26.9)	68 (73.1)
C	19.8	22	19	16 (80.0)	4 (20.0)
D	35.1	47	24	2 (12.5)	14 (87.5)
Total	19.5	47	18	141 (35.8)	253 (64.2)

Each subject of those universities was asked to answer their grade (GRADE), their gender (GENDER), their major which he/she chose between social science and natural science (MAJOR), and whether he/she was a foreign student or not (FOREIGN). Only four people turned out to be foreign students.

Table 3 indicates that samples ranged in age from 18 to 47. The average age of the samples was 19.5 years old and most of them were around 20 years old because the students from University A, University B and University C were undergraduates. On the other hand, one prerequisite for admission to University D was more than two years' work experience after university, which resulted in its average age being 35.1.

On average, 64.2 percent of the respondents were male and 35.8 percent were female. The male percentage of University A, University B and University D is higher than the female one, while University C, formerly a women's college, female students account for 80.0 percent.

As shown in Table 4, the variables of the questionnaire were categorized into four dimensions; stable employment, merger and acquisition, corporate target and family role. The first dimension presented stable employment and loyalty to an entity which had three variables. Lifetime employment was whether they wish a lifetime employment or not. Important financial result was the item they considered to be the most important choosing from growth, profitability or stability as financial results of an entity. Success in business life was about which position in the end they would occupy in their business life such as CEO, director, manager, chief or common.

The second dimension was the struggle for survival of a university or an entity. Did they hope their university to merge or acquire its competitors or be merged or be acquired by its competitors? Which would they regard as the M&A winner not formally but substantially, your school, its competitor or both? After graduating from university, which industry would they like to get a job in, food, fiber, machine, information, distribution, civil servant or banking?

The third dimension was a corporate target. Which stakeholder of an entity was main, investor, employee, customer, lender or public? What kind of responsibility, whether financial or social, should be an entity significantly assured of profit, environment, employment, supplier or law?

The fourth dimension was family role. Which item should be required for baby and child, woman's care leave, man's care leave, their grandparents' support, social support or parental benefit/ nursery allowance? Which item should be required for the old, their yokefellow's care, their child's care, profession or fiscal payment? If an entity abused for example disabled person discount, who and how should punish it? Should a consumer boycott its goods? Should the government use the power? Should a bank stop furnishing its accommodation to the entity? Or should a shareholder dispose of its equities in the market?

The data were evaluated by means of Pearson correlations and factor analysis to confirm the attributes, to explain the relationships between the variables and to test hypotheses about work consciousness of the Japanese people.

Table 4: Study Variables and Measures		
Variable	Variable Name	Measure
I. Stable employment 1. Lifetime employment 2. Important financial result 3. Success in business life	1. EMPLOY 2. FINANCIAL 3. SUCCESS	1. wishful / not 2. growth / profitability / stability 3. CEO / director / manager / chief / common employee
II. Survival of university 1. Orientation to M&A 2. Equality in M&A 3. Industry to get a job in	1. M&AORIEN 2. M&AEQUAL 3. INDUSTRY	1. My school and its rival should be merged / not / other 2. My school is advantageous / disadvantageous / equal 3. Foods / fiber / machinery / information / retail / civil servant / banks
III. Corporate target 1. Main stakeholder 2. Main responsibility	1. STAKEHOLD 2. RESPONSIBIL	1. investor / employee / customer / lender / public 2. profit / environment / employment / supplier / law
IV. Family Role 1. Child-Support 2. Nursing Care for the Elderly 3. Discipline of a criminal firm	1. CHILD 2. ELDERLY 3. CRIMINAL	1. woman's care leave / man's care leave / grandparents' support / social support / allowance 2. yokefellow / child / profession / fiscal payment 3. consumer's boycott / national power / cutting of bank accommodation / equities' disposal

RESULTS

The calculated results of Pearson correlations related to the subjects' attributes are shown in Table 5. In Table 5 it is seen that UNIVERSITY, GRADE, AGE and MAJOR are positively correlative with each other. GENDER is negatively related to MAJOR and FOREIGN.

Among 394 subjects, 298 subjects considered EMPLOY to be desirable while 96 to be undesired. As FINANCIAL, 108 subjects selected Growth, 64 selected Profitability and 222 selected Stability. Each number of the responses to the items about SUCCESS were 126 for CEO, 143 for Director, 79 for Manager, 23 for Chief and 23 for Common employee, respectively.

EMPLOY is positively correlative with AGE (0.152**) and is negatively related to both FINANCIAL (-0.176**) and SUCCESS (-0.172**). SUCCESS is negatively related to

GENDER (-0.311**) as well as EMPLOY. In addition, SUCCESS is positively correlative with both MAJOR (0.155**) and FINANCIAL (0.192**).

Table 5: Results Related to the Subject's Attributes						
	UNIVERSITY	GRADE	GENDER	AGE	MAJOR	FOREIGN
UNIVERSITY						
GRADE	0.474**					
GENDER						
AGE	0.137**	0.765**				
MAJOR	0.168**	0.159**	-0.197**	0.131**		
FOREIGN			-0.136**			
** = significant at 0.01						

M&AORIEN is positively correlative with both UNIVERSITY (0.131**) and RESPONSIBLE (0.152**). CHILD is positively correlative with ELDERLY (0.108**).

Then, factor analysis was carried out. Table 6 shows the sum of variances resulting from the principal component analysis and Table 7 indicates the component matrix of factors after varimax criterion.

Table 6: Sum of Variances Resulting from Principal Component Analysis			
Factor	Sum	Variance Percent	Accumulative Percent
1	2.080	12.238	12.238
2	1.522	8.953	21.191
3	1.387	8.159	29.350
4	1.275	7.497	36.848
5	1.247	7.336	44.184
6	1.173	6.900	51.083
7	1.148	6.751	57.834

Based on the result of the first factor as shown in Table 6, we evaluated the data only from University A by means of Pearson correlations and factor analysis. EMPLOY is negatively related to both FINANCIAL (-0.240**) and SUCCESS (-0.148**). FINANCIAL is positively related to both SUCCESS (0.309**) and INDUSTRY (0.166**) as well as above negative EMPLOY. Besides, SUCCESS is positively correlative with GRADE (0.184**) and is negatively related to GENDER (-0.330**). M&AORIEN is positively correlative with RESPONSIBLE (0.153**) and M&AEQUAL s negatively related to STAKEHOLD (0.201**).

Table 7: Component Matrix of Factors after Varimax Criterion				
Factor	Factor Loading			
1	GRADE 0.922	AGE 0.860	UNIVERSITY 0.483	
2	GENDER -0.768	SUCCESS 0.622	MAJOR 0.497	
3	EMPLOY 0.617	FOREIGN 0.611	FINANCIAL -0.571	SUCCESS -0.443
4	RESPONSIBIL 0.690	M&AEQUAL 0.580	M&AORIEN 0.500	
5	ELDERLY 0.761	CHILD 0.689		
6	STAKEHOLD 0.707	INDUSTRY -0.490		

The sum of variances resulting from the principal component analysis is shown in Table 8. According to the component matrix of factors after varimax criterion, the first factor has GRADE (0.868) and AGE (0.867), the second one has FINANCIAL (-0.738) and EMPLOY (0.723), and the third one has GENDER (-0.765) and SUCCESS (0.704).

Table 8: Sum of Variances Resulting from Principal Component Analysis			
Factor	Sum	Variance Percent	Accumulative Percent
1	1.698	11.323	11.323
2	1.401	9.341	20.664
3	1.399	9.328	29.992
4	1.317	8.779	38.771
5	1.285	8.568	47.338
6	1.235	8.233	55.571

CONSIDERATIONS

We refer to the first factor as the present status in universities and the second factor as the preliminary move to the potential status. The Japanese university students verify what they are and prepare for the membership of the society obtaining advanced education. In Japan, a selection of university is a selection of their majors in most cases. They have to decide their majors before entering the university. Students are getting more conscious of their future status in society every year. What they are and what they will be do not depend on their gender today.

The third factor is referred to as membership in an entity and the fourth factor as relative corporate value for the third party. All through their business life, and even after their retirements, in some cases Japanese students will work for a company with their loyalty. It is important for them to belong to it, neither to occupy a higher position in it nor to earn a good salary from it. The corporation they will work for bear a responsibility for the society. They will never lose their loyalty to it even after it is merged or acquired by another company. They will work for their new organization with the same loyalty as before. It is interesting to note that the results of the students only from University A demonstrate the similar conclusions to the results of the whole data. Publicized through the media, a merger with its competitor, which the prefecture planned to carry out and failed after all, suddenly faced them in February, 2009.

The new accounting standards for M&A and for R&D would expect Japanese corporations to bring out more and more M&A nationally and internationally.

Young Japanese are preparing for the membership of the society obtaining advanced education and are willing to swear loyalty to an entity which they would work for not only as an individual but also as an element of the organization all through their business life with social responsibility, even though it is reorganized after M&A.

One of the objectives of the International Accounting Standards Committee Foundation is to bring about convergence of national accounting standards and IFRS to high quality solutions. An entity should provide its financial information which is useful for stakeholders to make decisions as capital providers. In addition, the entity is working with society to achieve sustainable development, respecting a code of conduct and taking its responsibilities for a stakeholder, CSR. In such an internationalized circumstance, it might be not so difficult for not only the Japanese but also for all the people in East Asia to be responsible for both local and global societies.

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FOREIGN DIRECT INVESTMENTS IN SUBIC BAY FREE PORT ZONE

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ABSTRACT

The research examined why foreign companies invest in Subic Bay Freeport Zone. We tested the relationship of these variables: market size, degree of openness, infrastructure, labor quality, inflation, taxes, foreign exchange, exports, in promoting foreign direct investments in Subic Bay. The study examined the presence of agglomeration in the freeport zone. The paper also identified competitor host countries, and other investment promotion agencies in the Philippines. The findings showed that market size, degree of openness, labor quality, exports, taxes have positive relationships with FDIs while inflation, infrastructure, foreign exchange rate have negative relationships with FDIs. We recommend that SBMA continue to take initiatives in its investment policies, adopting best practices that can compete with other IPAs and other countries.

INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD) referred to the Balance of Payments Manual (BPM-5th edition) in defining Foreign Direct Investments (FDI) as "*an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.*" Foreign direct investors must have at least 10 percent of equity ownership and manage the enterprise operating in another economy.

In the Philippines, the National Statistical Coordination Board (NSCB) similarly based the definition of FDI on the UNCTAD Balance of Payment (BOP) manual. FDIs are "*investments made by an entity resident in one economy in an enterprise resident in another economy.*" The Philippines, mostly, is a recipient of inward FDI. Approved foreign direct investments are those foreign investment commitments that may be generated at present or in the future. These FDIs are approved and registered with any of the Investment Promotion Agencies (IPAs)---the Board of Investments (BOI), the Philippine Economic Zone Authority (PEZA), the Subic Bay Metropolitan Authority (SBMA) and Clark Development Corporation (CDC). (www.nscb.gov.ph)

Several factors play an important role for companies to decide whether to invest directly in a foreign host country. These factors include market size, degree of openness, infrastructure, investments, labor quality, incentives, and location have empirical positive relationships with FDI. (Li, Hou, and Chan, 2008; Vogiatzoglou 2008; Ramirez, 2006; Chakrabarti, 2001). On the other hand, taxes, inflation, and foreign exchange have negative relationship with FDI (Chakrabarti, 2001; Woodward, Rolfe, 1993). However, there is no study that has identified factors affecting FDIs for Philippine investment promotional agencies (IPAs) particularly that of SBMA for Subic Bay Freeport Zone (Subic Bay).

The paper identifies which of these variables: approved projects, market size, degree of openness, infrastructure, labor costs, labor quality, available workforce, taxes, foreign exchange, and exports have a positive or negative impact on FDI in Subic Bay. The study also compares FDIs in SBMA with FDIs of other IPAs and competitor countries, namely, China, India and Vietnam.

The paper is organized as follows. Firstly, we present a review of literature that focuses on determinants of FDIs and agglomeration theory. Secondly, we present a regression model and discuss its results to validate a priori expectations. Lastly, the paper offers policy recommendations to enhance the growth of FDI in Subic Bay Freeport Zone.

LITERATURE REVIEW

Location choice and FDI

A vast number of research have examined location determinants of FDI starting with Dunning's (1979) seminal work as cited by Sethi, Guisinger, Phelan, Berg(2003). The location theory explains why multinational enterprises (MNEs) evaluate possible locations for more efficient operations on a regional rather than country-specific bases. MNEs' location determinants may include market size, market growth, labor cost, transportation, infrastructure, government policy, and taxes. (Sethi, Guisinger, Phelan, Berg, 2003; Woodward; Rolfe, 1993).

Market size, represented by Gross Domestic Product (GDP), is the most significant accepted determinant of FDI, and has a positive relationship. (Li, Hou, and Chan, 2008; Vogiatzoglou 2008; Ramirez, 2006; Chakrabarti, (2001). Ramirez (2006) also suggests the use of lagged value of GDP since foreigners make decision based on the past.

Li, Hou, and Chan (2008) measures infrastructure readiness of the location in three different variables: highways, railways, and telecommunications. MNEs would invest in locations that have accessible transportation and telecommunications facilities for more efficient operations.

The degree of openness is proxied by the ratio between exports and GDP. Majority of the literature demonstrate that the degree of openness and FDI has a positive relationship. (Li, Hou, and Chan, 2008; Vogiatzoglou 2008; Ramirez, 2006; Chakrabarti, 2001). However, Chakrabarti (2001) presented literature that the relationship of degree of openness and FDI was observed to be insignificant.

Wage rates are used to determine labor costs. Labor costs may have different a priori expectations. These can be positive (Li, Hou, and Chan, 2008; Woodward, Rolfe 2003;

Chakrabarti, 2001), negative (Chakrabarti, 2001) and insignificant or none (Li, Hou, and Chan, 2008; Chakrabarti, 2001).

Li, Hou, and Chan, (2008) referred to wage rate, as marginal productivity of labor in the classical economic theory. A higher wage rate results into higher labor productivity thus having a positive relationship with FDI. However, higher wages may also be detrimental to attracting MNEs, since a consideration for inward FDI is cheap labor, and may have negative or no significant effect on FDI (Chakrabarti, 2001;Woodward, Rolfe, 1993).

Chakrabarti (2001) surveyed literature on taxes and foreign exchange as determinants that may conclude in three different observations: positive, negative or insignificant relationship with FDI.

Other possible factors that can have a positive relationship with FDI are length of income tax holiday, political stability, and manufacturing concentration. A negative relationship with FDI was observed for inflation rate. (Chakrabarti, 2001;Woodward, Rolfe, 1993).

Agglomeration Theory

The theory of agglomeration economies inter-relates market conditions. Agglomeration economies allow foreign firms to interact with the community that they are located in. The geographical concentration of foreign firms in a locality lowers the transaction costs in filling up the labor requirements. Companies in the location find it easy to hire workers through networking, word of mouth, local trade publications, and referrals. These companies would have a ready supply of workers who can be hired when needed. However, the labor market may be volatile and seasonal, thus, workers may be hired only for a short period. Workers also benefit since they can be readily hired in a big labor market and improve their competencies and acquire skills as they move from one job to another as a result of agglomeration economies. (Scott 1998).

The clustering of companies in a particular area work both ways for the companies and the available workforce. Companies in a geographical concentration may have both backward and forward integration of firms and economies of scales. This may serve as an incentive for foreign firms to localize their activities in a particular area. (Pazienza, Vecchione, 2009; Scott, Storper, 2003). This occurrence under agglomeration economies brings a positive relationship to FDI since the experience of one foreign company in the host country can be shared to those intending to invest in that country. The Japanese FDI was cited as particularly sensitive to agglomeration (Pazienza, Vecchione, 2009; Zhou, Delios, Yang 2002).

METHODOLOGY

In 1992, the United States left Subic Bay naval base. Thus, RA 7227 also known as the Bases Conversion and Development Act of 1992 was enacted. Republic Act (RA) 7227 directs that "*Subic Bay Metropolitan Authority (SBMA) shall promote and develop the Subic Special*

Economic Zone into a self-sustaining, industrial, commercial, financial and investment center to generate employment opportunities in and around the zone and to attract and promote productive foreign investments." (SOFA 2006).

We use data from SBMA for 2004-2008 to estimate the determinants of FDI in Subic Bay Freeport Zone. The determinants were approved number of projects, market size, degree of openness, infrastructure, labor quality, labor costs, inflation, foreign exchange, taxes, revenue collections, and exports.

The FDI in Subic Bay, the dependent variable, is represented by the committed investments in US$. The committed investments are proposed contributions by non-residents to various project undertakings in Subic Bay. Market size is the Gross Domestic Product (GDP) per capita in US$. (Chakrabarti, 2001). The degree of openness is the ratio of exports to GDP (Li, Hou, and Chan, 2008). Exports data only cover those within Subic Bay and thus do not include the whole country's exports data. GDP refers to the country's GDP since there is no available GDP data for Subic Bay. Infrastructure is captured by highways, where we calculate the total kilometers of highways per square kilometer of land. (Li, Hou, and Chan, 2008). To determine labor costs, we derived the average minimum daily wage rate for the different sectors: non-agricultural, agricultural, private hospitals, retail/service, and cottage/ handicraft. Data on the daily wage rate for the different sectors and exports are from SBMA. We also included data on the available workforce to support labor quality. Data on taxes and cash and non cash collections are from the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), respectively. Inflation, foreign exchange rates are gathered from the Bangko Sentral ng Pilipinas (BSP).

A multiple regression was initially employed:

$$FDI_t = \beta 0 + \beta 1(MSIZE)_t + \beta 2\,(\text{approved projects})_t + \beta 3\,(DEGOPEN)_t + \beta 4(\text{Labor cost})_t + \beta 5(\text{ Lab quality})_t + \beta 6(Infras)_t + \beta 7(Infl)_t + \beta 8(Forex)_t + \beta 9(\text{ BIR})_t + \beta 10(BOC)_t + \beta 11(Exp)_t + \varepsilon \qquad (1)$$

Where MSIZE	= market size
Approved projects	= total number of approved projects
DEGOPEN	= degree of openness
Labor cost	= average minimum daily wages
Labor quality	= available workforce
Infras	= Infrastructure
Infl	= Inflation
Forex	= foreign exchange rate
BIR	= taxes
BOC	=cash and non-cash collection
Exp	= exports

Table 1 offers a description of the variables used in the regression model and the a priori expectations. Split regression was eventually used as there were several years when one or more variables were unobtainable. The 90% level of significance was used.

Table 1: Specification of Variables Used in the Model

VARIABLES	Description	A priori expectation
FDI (dependent variable)	Committed investments in SBMA	
Market size	GDP per capita	positive
Degree of openness	Exports in SBMA/GDP	positive
Infrastructure	Total kilometers of highway per square kilometer of land	positive
Average minimum Wage (labor costs)	Average minimum daily for different sectors: Non-agricultural, agricultural Private hospitals, retail/service, And cottage/handicraft	positive
Labor quality	available workforce in SBMA	positive
Exports	Exports from SBMA	positive
Inflation	Inflation data (BSP)	negative
Foreign exchange rate	Foreign exchange rate (BSP)	negative
Taxes (BIR)	Taxes	negative
Revenues ((BOC)	Cash and non-cash collections	negative

RESULTS

Correlation matrix shows the relationship between FDI, the dependent variable with the independent variables. The following variables have the highest correlation with FDI: Inflation at - 73%, Cash and non cash collection from the Bureau of Customs, 64%, followed by average minimum wage at 51%, and approved number of projects, 47%. (see Table 2)

Table 2: Correlation Matrix

	committed investments (Fdi)	approved projects	market size	degree open	infrastructure	available workforce	ave min daily wage	forex	inflation	boc	bir	exports
committed investments (Fdi)	1											
approved projects	0.475296897	1										
market size	0.3604362	0.880141332	1									
degree open	0.452108137	0.534318803	0.7579401	1								
infrastructure	-0.307394492	0.597597894	0.745401112	0.521804401	1							
available workforce	0.184290874	0.848075473	0.982699514	0.692594986	0.845779744	1						
ave min daily wage	0.515339206	0.889189638	0.966074439	0.851877123	0.653705608	0.915296463	1					
forex	-0.46388222	-0.918356851	-0.990082169	-0.723212613	-0.661689758	-0.954591231	-0.968584714	1				
inflation	-0.737704966	-0.165372647	0.10204782	0.255855177	0.672276839	0.238035373	0.034243391	0.03547568	1			
boc	0.639438893	0.182597721	0.198669697	0.716071292	-0.081925989	0.06942262	0.433262075	-0.2146937	-0.0732977	1		
bir	0.426930958	0.856899248	0.993258402	0.76270713	0.674319795	0.961134032	0.960633954	-0.9907815	0.0289811	0.2134602	1	
exports	0.188479609	0.850248963	0.810990964	0.235259317	0.605811251	0.833328423	0.686070542	-0.8356722	-0.1352341	-0.3176469	0.8004838	1

Tables 3,4 and 5 show the relationship of FDI with the different variables using split regression: market size, total number of approved projects, degree of openness, infrastructure, labor costs and quality, inflation, cash and non cash collections of BOC, taxes (BIR), and foreign exchange rates. The rest of the variables have weak correlations that may merit separate testing to determine the influence on investment decisions.

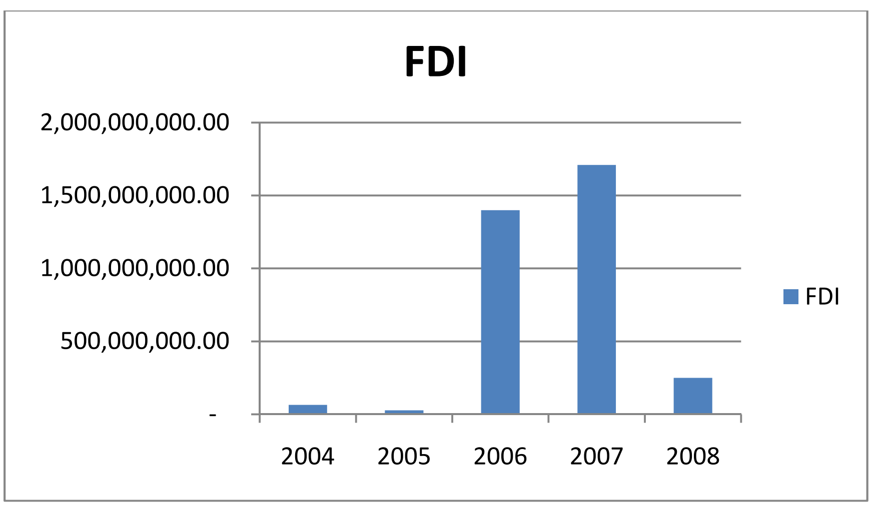
Table 3: Split Regression Results of FDI with the Independent Variables			
Dependent Variable: FDI			
VARIABLES	coefficient	p-value	r^2
Market size	873312.78	0.551	0.1299
Total number of approved project	7987094	0.418	0.2259
Degree of openness	14528764.73	0.445	0.2044
Infrastructure	-3.94e+07	0.615	0.0945
Average minimum wage	15187639	0.374	0.2657
Available workforce	11557.82	0.767	0.0340
Exports	1.100469	0.761	0.0355
Foreign exchange rate	-7.17e+07	0.431	0.2151
Inflation	-2.45e+08	0.155	0.5442
Cash and non cash collections (BOC)	35.02951	0.245	0.4089
Taxes (BIR)	41.47316	0.473	0.4873

Table 4: Split Regression Results of lnFDI with the Independent Variables			
Dependent Variable: FDI			
VARIABLES	coefficient	p-value	r^2
Market size	0.003139	0.322	0.3186
Total number of approved projects	.027079	0.186	0.4930
Degree of openness	.0453	0.270	0.3777
Infrastructure	-.0010153	0.996	0.0000
Average minimum wage	0.049039	0.166	0.5257
Available workforce	.0000597	0.488	0.1719
Exports	4.55E-09	0.576	0.1151
Foreign exchange rate	-.2302573	0.236	0.4214
Inflation	-.4146489	0.344	0.2953
Cash and non cash collections (BOC)	8.78e-08	0.190	0.4873
Taxes (BIR)	1.33e-07	0.288	0.3557

Table 5: Split Regression Results of lnFDI with the LN Independent Variables			
Dependent Variable: FDI			
VARIABLE	coefficient	p-value	r^2
LNMarket size	3.587019	0.277	0.3689
LNTotal number of approved projects	.395417	0.150	0.5519
LNDegree of openness	6.31457064	0.272	0.3747
LNInfrastructure	-.0183836	0.996	0.0000
LNAverage minimum wage	12.30736	0.152	0.5494
LNAvailable workforce	4.638253	0.441	0.2073
LNExports	3.568504	0.601	0.1015
LNForeign exchange rate	-11.23047	0.252	0.3997
LNInflation	-2.355748	0.300	0.3426
LNCash and non cash collections (BOC)	8.556389	0.170	0.5190
LNTaxes (BIR)	3.022733	0.251	0.4011

At the 10% level of significance, all variables have positive r^2. FDI and market size represented by GDP per capita shows a positive relationship. There is a weak correlation because the GDP is an aggregate figure representing the country. This was used in the model since there is no available data for GDP of Subic Bay. There may be other variables that can influence the FDI in SBMA. Figure 1 presents the committed investments were highest in 2007 but was affected by the global financial crisis thus, there was a big decline in committed investments in 2008.

Figure1: SBMA Committed Investments

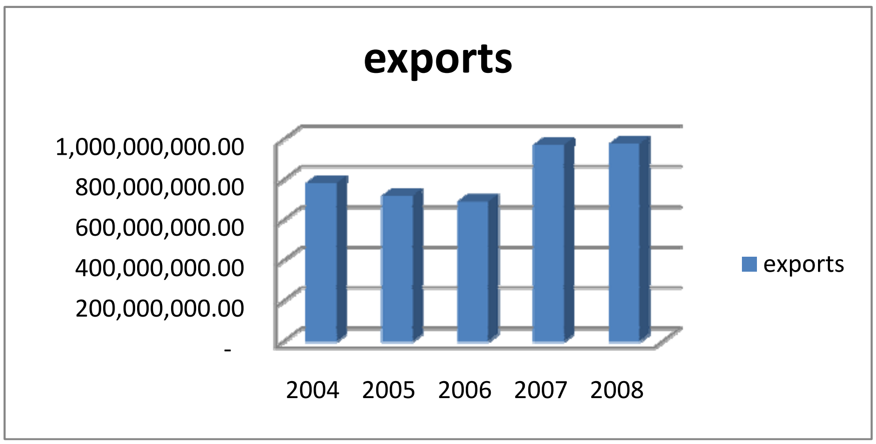


Source: SBMA

FDI and total number of approved projects have a positive relationship although it is statistically insignificant. There is a 41.8% probability that the coefficient is equal to zero. FDI will increase by 0.02%. (Table 4). And for every 1% increase in approved projects, FDI will increase by 0.39%. (Table 5).

Chakrabarti (2001) surveyed literature that presents a positive relationship between FDI and degree of openness. Degree of openness is the ratio of exports to GDP. While Table 3 shows that FDI and degree of openness have a positive relationship, this relationship is not significant. The same observations are shown in Tables 4 and 5. What we can draw from here is that there is a degree of openness in SBMA since the exporters come from foreign owned companies who are located in SBMA. Figure 2 show exports increasing in the five-year period. However, the degree of openness may not be enough to bring in foreign investors as evidenced by the low level of significance. The NSCB fourth quarter of 2008 data showed that Subic Bay only had 0.4 billion pesos investments which is only 0.54% of total approved FDI by IPAs.

Figure 2: SBMA Exports



Source: SBMA State of the Freeport Address (SOFA) for 2004-2008

There is a negative relationship between FDI and infrastructure. There are two ways to go to Subic from Manila, both passing through the North Luzon Expressway (NLEX). The Subic-Clark-Tarlac Expressways (SCTEX) connects with NLEX to go straight to Subic.. SCTEX was opened in 2008. The other way is via the old highway. Although, there are additional highways, there is a lack of farm to market road access towards SCTEX. Those who are near or along the highway but no inroads for agriculture would rather go to the Manila port area than in Subic Bay to ship their produce. The shipping costs are lower in the Manila port area because there are more ship calls. In Subic Bay, there are only a few ship calls which make shipping costs higher since there only a few cargos to ferry out in the turn around. The r^2=0.09 shows that the infrastructure has a positive impact on FDI although the relationship is weak. However, he new expressway is expected to attract more tourists, both local and foreign since travel time between Subic and Clark has become shorter.

The average daily minimum wage for the different sectors , represented by labor costs has a positive relationship with FDI and has a strong correlation, r^2=0.55. The minimum daily wage increases at average of 6.6% annually. Also, the available workforce shows a positive relationship with FDI although the correlation is weak at r^2=.2073. Although the correlation is weak, Figure 3 shows that the available workforce in Subic Bay is increasing every year at an average of 12% yearly. The workforce includes skilled workers for manufacturing, shipping, construction, household/ caretakers and services.

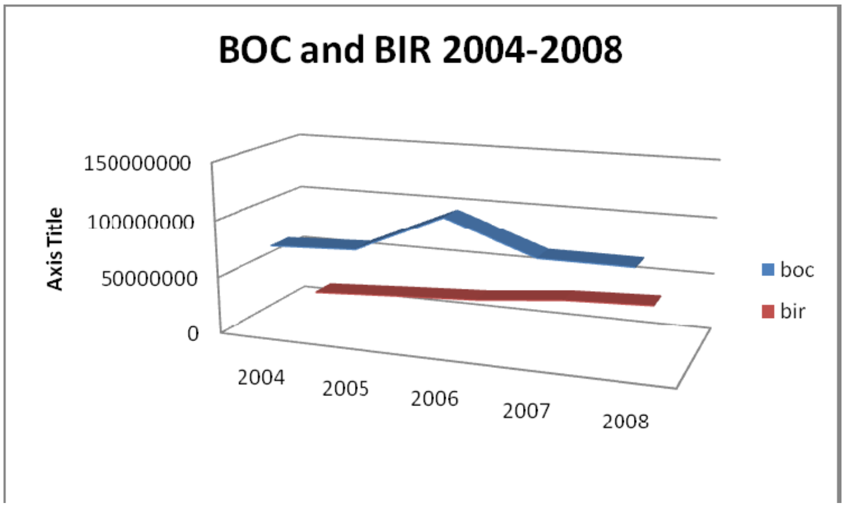
Figure 3: Subic Bay Freeport Zone Available Workforce

Source: SBMA State of the Freeport Address (SOFA) for 2004-2008

Both inflation and forex have negative relationships with FDIs. Inflation would have an impact on the production cost of foreign firms operating in SBMA. Also, foreign firms would want a stronger US$ versus the local currency, the Philippine peso since this would make their production costs lower.

The regression results with FDI and cash and non-cash collection from the Bureau of Customs (BOC) show a positive relationship. The same pattern can be seen for FDI and taxes collected by the Bureau of Internal Revenue (BIR). Figure 4 shows that cash and non cash collections of the Bureau of Customs (BOC) and taxes by BIR are increasing. The situations that can affect these variables, cash collections and non cash collections, and taxes are the effectiveness of fiscal policy in Subic Bay and the political will. Although, there are mixed conclusions in literature on the relationship of income tax incentives and FDI. Woodward and Rolfe (1993) cited Rolfe and White (1992) and Guisunger (1985) that income tax incentives have positive relationship with export oriented FDI. However, Chakrabarti (2001) presented literature that do not provide conclusive relationships between FDI and tax incentives.

Figure 4: Cash and non cash Collections (BOC) and Taxes (BIR)



Source: SBMA State of the Freeport Address (SOFA) for 2005-2008

Agglomeration Theory

Agglomeration economies have a positive relationship to FDIs. With more investors coming in from one country to the host country, there is a tendency to be in close proximity to geographical clusters of industries. (Pazienza, Vecchione, 2009; Zhou, Delios, Yang 2002). Table 6 shows the classification of companies by nationality from 2006-2008. Filipino owned companies have the most in Subic Bay which maybe considered as local investment, followed by Koreans. In the three years span, all nationalities have increased the number of companies in Subic Bay thus we can infer that they are in close proximity which makes it easy to fill up the labor requirements.

In 2004-2007, half of the available workforce fall under the services sector, followed by manufacturing at an average of 25%. In 2008, shipping and marine related industries contributed 35% of total workforce. This sector came in second to services at 41% and 17% manufacturing, third at 16% of the total 2008 available workforce of 87,502. Since there was intensive labor requirements for shipping and marine related industries, there are some workers under services and manufacturing on contractual basis that moved to the shipping and marine related industries. Since the foreign firms are geographical concentrated, it is easy for both employer and would be employee to match and fill up openings. We can infer that agglomeration economies exist in

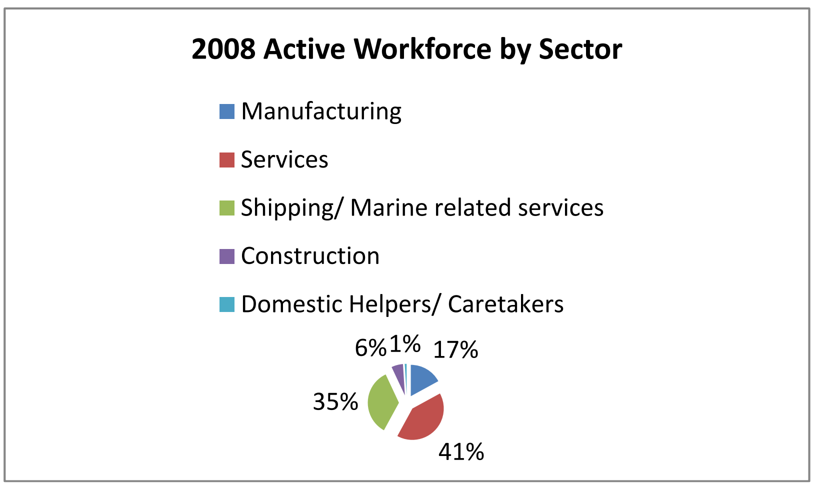
Subic Bay since the number of foreign firms coming from one country increases, thus increasing foreign direct investments.

Table 6: Subic Bay Freeport Classification of Companies by Nationality

Nationality	As of June 2006	As of Sept 2007	As of June 2008
American	29.84	30.36	33.46
British	14.16	13.11	12.94
Dutch	1.25	1.25	2.5
Filipino	393.89	433.55	486.53
Hong Kong	1.5	1.5	1.5
Korean	28.96	71.17	108.55
Japanese	33.96	34.05	40.42
Singaporean	3	3.08	3.08
Taiwanese	48.39	56.71	58.58
Swiss	2.12	2.62	2.62
Others	25.93	31.69	38.23
Total	583	679.09	788.41

Others include Austrian, Australian, Canadian, Danish, Finnish, French, German, Indian, Italian, Israel, Malaysia, Netherland, Norwegian, Pakistan, Sri Lankan and Swedish.
Source: 2006-2008 LRAD Nationality SBF Classification of Companies by Nationality. SBMA.

Figure 5: 2008 Available Workforce by Sector



Source: SBMA State of the Freeport Address (SOFA) for 2008

Competition

Investment Promotional Agencies (IPAs)

The following are the IPAs in the Philippines: Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), Clark Development Corporation (CDC) and Subic Bay Metropolitan Authority (SBMA). The 2008 annual FDI reached PhP 182.7 billion, lower by 14.7 percent than the PhP 214.1 billion approved in 2007. Electricity and manufacturing remained the top industries for FDIs in 2008, while finance and real estate and private services dominated the last quarter of 2008. The major sources of FDI commitments are Netherlands (24.8%) at Php45.4 billion and Korea, with a share of 21.9 percent or PhP40.0 billion in 2008. The United Kingdom and United States of America had 13.8 percent and 10.8 percent or PhP 25.3 billion and PhP 19.7 billion worth of investments, respectively. Among the country's four major IPAs, BOI got more than half of the total approved FDI in 2008 (51.2%) or PhP 93.6 billion. The rest of the FDI for 2008 are distributed to the following IPAs: PEZa (38.5%) or PhP 70.4 billion, SBMA and CDC with combined PhP 18.8 billion worth of investments or 10.3% .(http://nscb.gov.ph)

Majority of foreign and Filipino investments for fourth quarter 2008 went to BOI and PEZA. PEZA had Php60.4 billion or 81.7 percent possible investments, BOI (17.4%) had Php12.9 billion investment pledges. SBMA (0.54%) only had Php0.4 billion, which was a 196% decline from Php9.3 billion investment in the fourth quarter in 2007. CDC (0.27%) also decreased by 180% from Php1.0 billion to Php0.2 billion. (http://nscb.gov.ph)

Foreign Competitors

UNCTAD's World Investments Prospect Survey 2009-2011 showed that BRIC (Brazil, the Russian Federation, India and China) tops the list of most favored location for FDIs. China ranked first and India third. The leading determinants influencing location of companies are size of local market, market growth, presence of suppliers/ partners, access to international/regional markets, stable and friendly business environment, availability of cheap labor, access to natural resource.

In 2008, the inward FDI of China amounted to US$108,312 million which was a 240% increase from 1990. There was also a 22% increase from 2007 FDI of US$83,521 million. While, the inward FDI of India for 2008 amounted to US$33,033 million which was a 72% increase from 2007 US$19,156 million. (http://www.unctad.org/Templates/ Page.asp?intItemID =2441&lang=1; http://dipp.nic.in/fdi_statistics/india_FDI_December2008.pdf

Vietnam has established a total of 154 Industrial Zones and export processing zones (EPZs). For 2008, total approved FDI was US$64 billion. As of November 2007, there were 2,627 foreign invested enterprises licensed in the zones with a total registered capital of $25.5 billion. As of August 2007, the number of on-going projects is 7,833 with investors coming from

79 economies. The emergence of Vietnam as a location for possible investments from Taiwan affected Subic Bay. (SOFA 2006).

The Philippines total approved FDI was only US$4,107 million in 2008 which is a measly 4% of China's FDIs. Comparing with India and Vietnam, the Philippine's FDI was 12% and 14% of their total FDIs, respectively. The Philippines is only getting a small portion of possible FDIs and may need to review its investment policies.

Also, China has minimal FDI in the Philippines. China is estimated to have GDP growth rate of 7.5%, in 2010. At present, the manufacturing sector from China's FDI to the Philippines dominates. However, this is minimal and the Philippines can strategize in tapping FDI from big companies established under the central government. (SBMA, 2008).

CONCLUSIONS

Based on the regression results, the following determinants have positive relationship with FDI: market size, total number of approved projects, degree of openness, labor costs and labor quality, and exports. FDI has a positive relationship with cash and non-cash collection (BOC), taxes which is contrary to a priori expectations but is supported by other literature. The number of approved projects, average minimum daily wage, and cash and non-cash collections by the Bureau of Customs have shown strong relationships. The following have negative relationship with FDI: forex, inflation, infrastructure.

Investors or locators consider Subic Bay because of a perceived easy living where amenities are readily available. Also, since the available workforce has the skills and competencies, which can make them readily adapt to changes, they are marketable and can readily be employed. The geographical concentration of companies in one location provides economies of scales. The number of companies by nationality increases over the years. We can infer that agglomeration economies exist in Subic Bay and have positive relationships with FDIs.

RECOMMENDATIONS

Since there was a decline in FDIs in 2008 due to the global financial crisis, IPAs have relaxed/ modified regulations or policies, more incentives, additional inclusions to tax and duty free importation, streamlined procedures. (SOFA 2008). IPAs are doing international road shows to promote the Philippines and get more FDIs.

SBMA must continue to take initiatives in adopting more investment policies that can compete with other countries. They can look at other countries IPAs and adopt best practices and create a one stop shop business for the locators.

In the midst of the global financial crisis, SBMA must rethink on how it would be able to get more FDIs, since it is competing with the local IPAs and other countries. They can review its global competitiveness by doing a self-assessment and benchmarking with these IPAs and the top three leading in FDIs, China, India, Vietnam. A survey can also be done for the locators or investors in Subic Bay. The survey can be done in several phases, tapping the different sectors to better understand the motivation of doing business in Subic Bay. The results can be used as inputs for the strategic plans of SBMA in increasing its FDIs.

With the opening of the SCTEX, SBMA can work with CDC by tapping flights from Clark. This could open more opportunities for a complete cost competitive package for tourist destinations, ecotourism, diving, beach.

SBMA can envision a long-term plan to have a community development intended for retirees that would be complete with housing, recreational activities, medical facilities. Also, since there are international and local schools in Subic Bay, this would provide world class education to the dependents of the locators. The locators can also work with the schools in providing on the job training in order to provide minimum competencies for those who will work in the different sectors in Subic Bay Freeport

There is a need to further improve the infrastructure, telecommunications, utilities support that they offer to investors. SBMA must compare the prices with other local and foreign IPAs for cost efficiency so that they will be able to have more locators in Subic Bay. Also, there is a need to upgrade telecommunications for the planned Business Processing Outsourcing and Information Computer Technology hub project with Clark.

There is a need for more farm to market access roads which will help increase the cargo that would be shipped and the costs will be lower. Perhaps, it is possible to make representations with different government representatives on how there will be road accessibility from the various areas near Subic Bay. This will encourage the locals and nearby provinces to use Subic Bay for their shipment requirements rather than go to Manila.

Since there was data constraint on running the regression model, it is recommended that the different units working in SBMA have a database that can easily be retrieved and be used for strategic planning. As such, the regression model used in the study can have more years, other variables, and include the other IPAs and other countries to validate the results of the model.

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