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INTERNATIONAL TRADE FINANCING: THE U.S. VERSUS THE WORLD

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ABSTRACT

International trade financing is dominated by the letter of credit (L/C), a contractual agreement with one bank, on behalf of one of its customers, authorizing another bank, to make payment to the beneficiary, usually to purchase foreign goods or services. Due to the nature of international business dealings, including factors such as distance, differing laws in each country and difficulty in knowing each party personally, the use of L/Cs has become a very important aspect of international trade. In fact, some 14 percent of all world trade, nearly \$1 trillion in total, is settled through the use of L/Cs. Given their importance in settling international trade transactions, the ability for a firm to use L/Cs can be viewed as a significant component of its ability to compete in the global marketplace.

The U.S. Department of Commerce reports that 97 percent of U.S. exporters are small- and medium-sized companies. Unfortunately, many of these firms are unlikely to have adequate resources to devote to international activities that larger, more sophisticated, firms do. They will more likely rely on their banks for many of their international trade and financing needs.

The role of the banks cannot be overstated. Whether providing an L/C for a customer, confirming (guaranteeing) another institution's L/C on behalf of that customer, or simply handling the flow of documents associated with international trade transactions on behalf of that customer, banks are the focal point of many international transactions.

Smaller firms tend to use smaller banks. Given the strong relationships and personalized services provided by smaller, community banks, they remain critical to the success of many smaller companies with 40 percent of them using community banks (rather than their much larger cousins) for their financial needs. Yet as one looks at the data, one finds disturbing trends of apparent disinterest on the part of U.S. domestic banking institutions to provide trade financing services. For example, in 1984 nearly 30 percent of the 7,200 large community banks in the U.S. (i.e., those assumed to have the size and clientele necessary to provide international services) provided letter of credit financing, while by the end of 2005 that figure had fallen to less than 17 percent (of the 4,000 banks large community banks that remained).

This paper examines the trends in U.S. trade financing statistics. We try to determine why U.S. banks, particularly the community banks upon which many of small- to medium-sized companies rely for their financing needs, appear to be abandoning the international sector. It also examines the move by foreign financial institutions to fill the gap that this phenomenon has created. Foreign banks have made major inroads to the U.S. banking sector for decades, and are increasingly becoming a factor in the commercial activities, domestic and international, of many U.S. and foreign companies. Their increasing role, along with the decreasing role of the U.S. domestic banking sector, is also evaluated.

HOW FOREIGN DIRECT INVESTMENT FACILITATES THE GLOBALIZATION PROCESS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

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ABSTRACT

The collapse of communism and the advanced Economic Integration of Europe shaped the global development in the twenty-first century. This study reviews the experience of CEE countries in integrating into the global market and suggests a link between FDI stock and economic growth. This paper examines the role of the foreign direct investment (FDI) in facilitating advancing globalization process in the Central and Eastern European (CEE) economies and explores the relationship between increasing FDI stock and economic growth in analyzed countries. The first section defines the globalization process and discusses World FDI inflows. The second section analyzes FDI stock as a percentage of the gross domestic product (GDP) and FDI stock per capita in CEE countries. The third section provides an overview of the basic economic growth trends in CEE, and the fourth one includes propositions for the future research and concludes that this study can be extended to verify the correlation between FDI stock and the economic growth of CEE economies.

THE RELATIONSHIP BETWEEN NATIONAL CULTURE, ORGANIZATIONAL CULTURE, CAUSAL AMBIGUITY AND COMPETITIVE ADVANTAGE IN AN INTERNATIONAL SETTING: AN EXPLORATORY ANALYSIS

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ABSTRACT

It is important for managers to understand the dynamics of competitive advantage in the global environment. Today, companies find more difficulties in distinguishing their core competencies and achieving a competitive advantage. The current global environment is changing and some competitive advantages may be losing their sustainability as new firms entering an industry imitate distinctive competencies of incumbent firms. This research is a preliminary exploratory analysis of the relationship between the social complexity of the firm, causal ambiguity and susceptibility to imitation as affected by regional/national and organizational culture. The research is important since it has been shown that causal ambiguity limits imitation and increases the sustainability of competitive advantage. Our results confirm the relationship between organizational culture, national/regional culture, imitation and causal ambiguity through a survey and factor analysis. Thus, firms should take advantage of the unique complexity of their corporate culture to limit imitation and increase competitive advantage.

INTRODUCTION

The number of players in the world economy is increasing significantly and competition beyond national borders is creating a complicated business environment (Threlkel, 1999). For example, automobile manufacturers in the United States are finding difficulties in differentiating their products from their competitors. They have also had problems with improving quality, reducing inventory costs and improving efficiency. One of the main international competitors, Toyota, has become the largest car manufacturer in the world in recent years. Toyota has been able to accomplish this by being the low-cost leader in product and the differentiator in quality, styling and customer service.

It is probable that firms, such as GM (General Motors), Ford and Chrysler are continuously attempting to duplicate/copy the capabilities and resources of the new industry leader, Toyota. Particular resources and capabilities of Toyota such as the *kanban* inventory system, quality teams and supplier management systems should be relatively easy for these companies to imitate. The objective of this research is a preliminary exploratory analysis of the relationship between the social complexity of the firm, causal ambiguity and susceptibility to imitation as affected by national, regional and organizational culture.

CONCEPTUAL DEVELOPMENT AND DEFINITIONS

There are three basic types of resources that may provide a firm with competitive advantage: physical capital resources, such as the firm's plant, equipment and finances; organizational capital resources, such as the firm's structure, planning, controlling and coordination; and, human capital resources, such as the skills, judgement and intelligence of the firm's employees (Barney & Wright, 1998). The human and organizational resources are both contributors to the organizational culture of the firm.

Porter (1996) stated that companies must be flexible in order to respond rapidly to competitive and market changes because rivals can quickly copy any changes in market position and/or strategies. But, the purpose of a competitive strategy is to achieve a sustainable competitive advantage (SCA) and long-term, enhanced a firm performance. As stated earlier, Competitive Advantage can come from valuable and rare organizational resources. However, these resources only become a source of SCA when they cannot be obtained and/or imitated by the firm's competitors (Barney, 1991; King and Zeithaml, 2001.) Research has shown that there is a positive relationship between causal ambiguity and inimitability (King and Zeithaml, 2001); and, social complexity and inimitability (Porter, 1980; Barney, 1986). Therefore, regarding competencies, firms need to understand how social complexity, causal ambiguity and imitation are related in order to build stronger constraints against imitation.

Causal ambiguity is present in every process of the competition between firms (Gonzalez-Alvarez and Nieto-Antolin, 2005). Causal ambiguity is defined in the literature as a lack of clarity regarding the link between firm resources and sustained competitive advantage (King and Zeithaml, 2001) and occurs when competitors are unable to detect how a firm uses its competencies as a foundation for its competitive advantage. The less observable the resource and the more difficult it is to understand, the greater the likelihood to be a source of SCA (Fahy, 2000).

Building competencies that reside in the culture of the firm helps build and sustain competitive advantage (King and Zeithaml, 2001). The phenomena of social complexity and culture play an important role in competitive advantage. Because organizations are, in many ways, embedded in the larger society in which they exist, research on cultural differences of cross-national businesses lead to an examination of both national and organizational cultures. Though there has been much research on organizational culture, none has yet been able to definitively link organizational performance to national/regional culture performance.

METHODOLOGY

The data collected to test the propositions was collected by means of a self-administered questionnaire. For the purposes of a better respondent understanding and error deduction, the survey instrument began with the description of a current situation with two of the world's largest automotive companies: Toyota and General Motors (GM, representing all US auto manufacturers). The instrument included two parts, looking from the perspective of the "incumbent" firm, and from the perspective of the "challenger/copier" firm. A Likert scale was utilized; therefore, each respondent was asked to rate each item on a 1-to-5 scale (1=strongly disagree; 5=strongly agree).

PROPOSITIONS

The review of the literature leads to the following propositions. As noted by Martin-de-Castro, Navas-Lopez, Lopez-Saez and Alama-Salzar (2006), organizational culture can be highly valuable and difficult to imitate. A strong organizational culture can be a source of sustained competitive advantage (Martin-de-Castro, 2006; King and Zeithaml, 2001). Inimitability is the difficulty that competitors find in copying the resources and capabilities of the company through

internal development (Barney, 1991, 2001).. Giving these findings, it is reasonable to propose that a company's strong culture will limit imitation by the firm's competitors. Thus,

P₁: The stronger the organizational/corporate culture within the firm, the more difficult imitation by competitors will be.

Building competencies that reside in organizational culture helps build and sustain competitive advantage; however, changes in the environment put the value of these competencies at risk (King and Zeithaml, 2001). Corporate culture is a key element in ensuring that as the business environment evolves (due to new technology, client segmentation, regulation, competition, and other factors) organizations respond effectively to the global market changes before their competitors (Elashmawi, 2000). This results in the following proposition:

P₂: Social complexities of the firm will make imitation by competitors more difficult in the global competitive environment.

In order to become a successful global business, companies must become skilled in the multicultural aspects of the company (Elashmawi, 2000). A firm that operates in different cultural environments should be able to recognize, support and combine these differences with the organizational culture. Chow, Haddad, and Wu (2003) discovered that the most valued corporate cultural aspects differed from country to country. This leads to the following proposition:

P₃: Firms with a strong combination of corporate culture and national/regional culture will be able to limit imitation and create competitive advantage.

SAMPLE

As exploratory research, our sample consisted of 36 undergraduate, six graduate students, and nine faculty and staff members at a university located in the south eastern US. Current subject matters, such as business strategy, organizational/corporate culture, national/regional culture, causal ambiguity, and limitations for imitation were analyzed.

RESULTS

The survey instrument was divided into two parts. The first part was from the "incumbent firm" perspective (Toyota), while the second part was from the "challenger/copier firm" perspective (General Motors). The data was measured by using a confirmatory factor analysis. Stevens (1996) suggested the use of the Varimax rotation method; therefore, a factor rotation using the Varimax method with Kaiser normalization was applied. To obtain more easily interpretable results, the original data was summarized with four factors, which explains 76.3 % of the cumulative variance

| Component | Initial Eigenvalues | | Cumulative % |
|-----------|---------------------|---------------|---------------|
| | Total | % of Variance | |
| 1 | 2.133 | 26.663 | 26.663 |
| 2 | 1.556 | 19.450 | 46.113 |
| 3 | 1.406 | 17.578 | 63.690 |
| 4 | 1.007 | 12.591 | 76.281 |

Eight questions were chosen from the survey instrument to be analyzed in the rotated component matrix. The questions that formed factors could be classified as (see Table 2):

Factor 1 – For the challenger firm, imitation will blur their uniqueness

Factor 2 – For the incumbent firm, causal ambiguity is based on organizational and national culture

Factor 3 – For the incumbent firm, clear competitive advantage roots are from complexity

Factor 4 – For the copier firm, national culture has a positive affect on the industry

| | Component | | | |
|-------------|--------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | 4 |
| Part I: a-1 | -0.069 | -0.253 | 0.847 | 0.104 |
| Part I: a-5 | 0.100 | 0.284 | 0.805 | -0.168 |
| Part I: b | -0.196 | 0.819 | 0.02 | -0.203 |
| Part I: c | 0.063 | 0.864 | -0.018 | 0.102 |
| Part II: a | 0.051 | -0.045 | -0.042 | 0.941 |
| Part II: e | 0.636 | -0.053 | 0.022 | 0.356 |
| Part II: f | 0.889 | 0.023 | -0.131 | -0.145 |
| Part II: g | 0.870 | -0.097 | 0.134 | 0.044 |

Proposition 1 examined the importance of a strong organizational culture within the firm. The third factor converged with a commonality of complexity. According to this indicator, social complexity within the firm and complex company resources may provide a firm with a clear competitive advantage. Thus, Proposition 1 was supported (see Table 2).

Proposition 2 dealt with the firms' relationship between the degree of corporate flexibility, and how quickly they respond to the changes in the global competitive environment. Validity to the Proposition 2 is provided.

Proposition 3 examined the effects of a firm's relationship between the combination of corporate/regional culture and national/regional culture. The second factor indicates that organizational/corporate culture and national/regional culture has an impact on causal ambiguity. This factor converged to support Proposition 3. A fourth factor indicates some relationship between national culture and industry culture; however, more than one question may be needed to support this proposition. As it is described above, the factor rotation could be applied with only the first three factors.

MANAGERIAL IMPLICATIONS AND CONCLUSIONS

The results of this study indicate that firms that concentrate on retaining the relationship between their corporate culture and their national/regional culture will be able to limit imitation and create competitive advantage. This information can be used for organizations to understand and improve cross-national organizational cultural differences. Therefore, by discovering new sources of competitive advantage, a company can sustain its above average returns in the current global economic environment.

In conclusion, this study has contributed to an exploration and analysis of how causal ambiguity around a flexible and suitable organizational culture limits imitation and influences firm

performance. The findings of this study suggest that there is a relationship between companies' corporate and national culture and the linkage between inimitability and causal ambiguity

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E-TUTORING SERVICES: FROM RUSSIA WITH KNOWLEDGE

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ABSTRACT

It was going on for years that at first figuratively (through movies) and then in full flesh (via popular mail brides' catalogues) Westerners used to return from Russia with love. Love was the most available and cheap sentiment in the country struggling for years with the dire deficit of everything: food, apartments, shoes, most obviously - common sense and entrepreneurial skills. Suddenly, globalization and revitalization of markets in the European East made it possible to come back from Russia with money (still a rarer occurrence), or some piece of intellectual property (usually completely unaccounted for until now).

Slowly small businesses in Russia are opening up to the Western-like practices after many years of economic transition to somewhat internal business freedom. No more so called "chelnoky" there, first genuine entrepreneurs that used to cross the Russian borders in various directions with huge bags just to fill them up with some cheap merchandize for resale at home. Not that many "kiosks" with faked vodka left in Russian big cities, and even spontaneous "fresh markets" flourishing by metro stations and normally staffed with 'babushkas' (old ladies) are gradually retiring under the more illuminated and glamorous labels such as "Supermarket" or some chain-store neon signs. Times definitely changed.

The forgotten class – Russian intelligentsia – well educated and greatly deprived in salaries for years is still attached to their small non-flat TV screens on which many popular talk shows endlessly discuss gravity of the daily problems of survival in Russia. No wind of globalization has reached them so far. No hope has been extended to them from either the Russian government or more successful private sector.

It is known that the country is well equipped with strong mathematicians, chemists, humanitarians, and physicists. Many of them are PhD holders with excellent knowledge of English, French or German. Some have even been traveling abroad. It has rarely occurred to Russian instructors that they can profitably sell their brains to many desperate American, British or Australian students right before their seasons of the many nightmarish standardized tests. All it takes is a familiarity with the subject setup, a PC with Internet connection, and knowledge of Pay Pal or Western Union financial vehicles. The opportunities of the global online tutoring industry are knocking the ice-covered widows of their meager apartments.

How does e-tutoring work? Western students via their computers at home or in school can log in to the tutoring system and have a live tutor help them day or night. Subjects like Math, English, Calculus, World History, Latin, French, Chemistry, Physics and many others can be taught to them by certified tutors/teachers. And there are online tutoring systems that even supply their own courseware library, featuring some of the finest programmed learning courses in computer sciences, management and academic subjects.

For last four years this industry is actively shifting from the Western countries (with hourly tutoring fees averaging from \$40 to \$100) to English-speaking India (respectively, \$15-20). The Indian firms have well benefited from the growing U.S. government-financed tutoring industry -- which had annual revenues of nearly \$4 billion. That growth is partly due to the No Child Left Behind Act of 2001, which requires schools to test students in math and reading every year from third grade through eighth grade (the Federal Government allocates as much as \$1,800 per eligible student though less than 10% of eligible students currently participate). In 2006, it was estimated that Indian online tutoring companies earned about \$10 million, 80 percent of it came from the

United States. An average Indian tutor makes solid \$230 monthly on up to 40 sessions that is a very good income by local standards.

How to ignite the interest to build this industry in Russia while the demand is growing in the West? There are two folds of this story. Firstly, there is a need in internal (in-country) information on e-tutoring opportunities. Many qualified educators have no idea about its existence. Many Russian instructors need an orientation and acquaintance with the Western structure of testing, curriculum requirements and communication standards. Normally, plenty of local universities can take this part to successfully accomplish. The majority of the Russian universities are already on a self-survival mode due to the lack of the Russian federal funding. They have many fee-for-service sections of the curricula to teach as well as various commercial consulting projects that help the faculty to make it to the next paycheck. It would be easy to find the great Russian specialists in the UK, French, German, or US educational systems within any foreign language university department even outside of the mega-cities. All Russian universities (thanks mainly to Mr. Soros' funding) are equipped with the computers and the Internet applications.

Already now you can find some rare ads placed by the faculty of the Russian universities online. One ad from remote town of Ulynovsk reads: "I am Associate Professor with Ph.D degree in Physics and Math. I will teach you online detailed, step-by-step solution to any problem you may have in Physics and Mathematics. Just send me your questions and problems by email, and I will send you back solutions done in Word with all proper formulas and diagrams as soon as possible. You can email me a trial problem right now. My tutoring rate is as low as \$10 per hour. This is the minimum possible rate you will hardly ever get from a professionally qualified tutor. If you need my tutoring help on a regular base, you may pay \$100 per month, or \$500 for six months with everyday questions and problems and anytime connections with me via email."

The second part is more challenging: how to promote the 'Russian brains' in the big Western educational markets? According to a simple Google search, there are over 20 online services only in the U.S. that provide various levels of academic tutoring support. There should be many folds more in the entire Western world. The obvious advantage here is the time difference. Many American instructors would prefer to not to work very late at night or weekend shifts while in Russia it is an early morning of the next day. Plus impressively the Eastern European labor cost and superior qualification advantage (as we specified above) are very important to any employer in the West.

There are some international joint ventures in the global e-tutoring industry that emerged recently. For instance, we found a company called 'Growing Stars', based in Cochin, India, and Fremont, California. It is estimated that total annual revenue from offshore outsourcing in India already reached recently \$17.2 billion and keep growing. Many popular U.S. tutoring companies are actively looking for the outsourcing possibilities in the low-cost countries around the world.

How to institutionalize the process and let numerous parties take advantage of each other? There are many organizations from various countries that are working hard to ignite a spark of entrepreneurship among the usually economically passive and always complaining Russian intellectuals. One of them is the U.S. - Russia Center of Entrepreneurship (CFE) based in Moscow. The Center is a catalyst organization advancing the role and scope of entrepreneurship in Russia through a network of learning events that target the needs of Russian entrepreneurs. The effort today is concentrating around major cities of European Russia, but soon will possibly spread much broader. There are also plenty of joint business schools, institutes and dual degree establishments in the country that promote entrepreneurship, leadership and teach basics of global marketing, finance and human relations. Some Russian regional power centers (oblast authorities) have established business development centers that promote entrepreneurship and small business development regionally with the global applications. This is a powerful resource to rely upon in the global online education as well.

Education is a very special industry. It is always about people, intellect, knowledge, communication, and cultures. In many countries general non-profit orientation of educational establishments does not prevent creation of a profitable concept of online tutoring. Globalization and outsourcing allow for experiment, around-the-clock service, creative non-traditional solutions, and reaching the goal with the ultimate efficiency requirements. They proved to become a driving force of survival and mutual empowerment.

Isn't it right time to come from Russia with knowledge?

COMPETING WITH INDIA AND CHINA: STRATEGIC CHOICES FOR ASEAN MEMBER STATES

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ABSTRACT

India and China have experienced astonishing economic growth in recent years. Their continued accession into world-class competitor status has been seen as a threat to the economies of Southeast Asia. This paper explores that emerging threat and offers advice to ASEAN member states on how to compete effectively with these emerging economic superpowers.

INTRODUCTION

The four largest emerging economies of the world are often called “BRIC” countries, referring to the four economies of Brazil, Russia, India, and China. In reality it now appears that India and China are by far the major players in this club of emerging countries. India and China are poised to change the economic landscape of the 21st Century and will significantly change the economic dynamics of Southeast Asian nations. China will continue to dominate in manufacturing capacity, and India will excel in information technology and services (Lall & Albaladejo 2004; Saran & Guo 2005). With China taking labor intensive manufacturing, and India capturing the upper-end of the value chain, and both attracting increasing levels of foreign direct investment (FDI), Southeast Asian countries are wondering what will be left for them. Southeast Asian countries have also seen less interest from the United States as U.S. foreign policy has shifted in a post-September 11th environment (Francis 2006). While such concerns are legitimate, a better approach to this challenge is to view the changing economic conditions as not only a threat, but also as an opportunity. As Kenichi Ohmae (2002), noted Japanese strategist tells us: “China is a threat, a customer, and an opportunity.” The same logic applies to India as well. The new strategic focus should be on questions such as how do we position our businesses to sell, buy, and produce in these two giant Asian economies. In his recent book, *Three Million New Capitalists*, Clyde Prestowitz (2005) argues that a more prosperous India and China are good for the economies of the world, providing businesses with billions of new consumers. In a 2005 Asian Development Bank study, it was found that China’s new ability to attract FDI had a positive effect on the flow of foreign investment into Southeast Asia. One reason for this spill-over effect is the concept of a “China Plus One” strategy in which investors seek to invest in China and other countries in the region in order to reduce political risk. Many Southeast Asian countries can be the beneficiaries of this risk diversification strategy. In addition to viewing the emergence of India and China as opportunities as well as threats, there are a number of other things that can be done to prosper from the emergence of these two economic superpowers.

INTEGRATED MANUFACTURING

In the “old economy,” international trade mainly consisted of the simple one-way exchanges of completed goods. Entire products were completed in one country and sold to another. In the new economy of the 21st Century, international trade is more about integrated production chains and regional production networks. For example, computer monitors are assembled in Cambodia and Vietnam, after the cathode tube is manufactured in Singapore, and the wiring and electrical components are produced in Malaysia. The world economy is moving past the centralized

production scheme in which goods are centrally manufactured and distributed, and moving towards a production scheme based on regional specialization. This new model of manufacturing is based on the theory that the comparative advantage of one country can be complemented by the comparative advantages of other countries. In the past, we tended to view comparative advantage from the standpoint of finished products. Today we can see the concept of comparative advantage applied to the vertical integrated production network of one company.

The competitive position of countries operating in this global supply chain network are determined by their efficiency and cost structures, their quality of production, their ability to be flexible, and the perception of their dependability and innovative character. In addition, the economic policies of host countries can be an advantage or disadvantage to companies seeking to integrate into these production networks. ASEAN member nations must continue to build their productive capabilities, focusing on quality, efficiency, and flexibility.

OBSTACLES TO ECONOMIC GROWTH

In a competitive market for the attraction of foreign investment, governmental policy can be an obstacle to overcome. Typically, high taxation, government ownership of businesses, poor infrastructure, trade barriers, corruption of governmental officials, and business regulation deter foreign investment. A World Bank report in 2005 comparing the ease of doing business across countries ranked the United States, New Zealand, and Singapore as among the best. With the exception of Singapore, most ASEAN member countries rank as moderate to low in terms of business facilitation. A U.S. Commerce Department report recently stated that “investors find business registration, customs, immigration, and visa procedures burdensome and a source of frustration in the Philippines.” The same assessment can be said of many other ASEAN countries. Governmental policy reflects a country’s orientation towards economic freedom. Research clearly shows that a strong correlation exists between economic freedom and wealth creation. Economic freedom has been particularly successful in generating wealth creation in East Asia. In order for this association to be fully realized, it is helpful if a country has political stability, good economic management, and an educated and motivated workforce. According to the Fraser Institute, economic freedom produces higher GDP per capita, more productivity for an economy, and the attraction of more foreign direct investment. ASEAN must continue its drive towards free trade and promote economic freedom in its member states.

FOREIGN DIRECT INVESTMENT

Investors typically possess three motives for investing in other countries: seeking markets, seeking efficiency, or seeking resources (Dunning 2002). A recent article in *Business Week* magazine (2005) pointed out the importance of the third element in this motive triad when it stated that “natural resources are driving the global economy as never before.” China’s growing demand for resources has the potential to offer Southeast Asian countries a number of opportunities in the resource seeking aspect of foreign direct investment. In particular, ASEAN countries offer opportunities in mining, agriculture, and aquatic resources. In addition, the ASEAN member states offer to potential investors countries rich in human resources. With the playing field becoming more level, or with the world flattening, as Thomas Friedman (2005) would state, “you don’t want to be selling vanilla in a flat world.” While natural resources can be part of the solution to the rise of China and India, ASEAN member states should also position themselves to be attractive for efficiency seeking foreign direct investment. As we have seen in Vietnam, size isn’t a limiting factor. Although the country is relatively small, it has managed to attract impressive amounts of foreign investment due to its efficiency orientation and doi moi economic reforms. The combined power of the ten member states can increase their strategic position and capitalize on the

comparative advantages and economic efficiencies of each country. More economic integration, and faster implementation of planned integration is recommended.

THE COMPETITIVE ADVANTAGE OF NATIONS

The landmark comparative study of national wealth, conducted by Harvard Business School professor Michael Porter (1990), clearly points out that natural resources are generally not sufficient to build a long-lasting and dynamic economic system. The factors which he found important to determining the competitive advantage of nations are: firm strategy, structure, and rivalry; demand conditions, factor conditions, related and supporting industries.

The competitive advantage of a nation depends on its managerial abilities. Management education and development are important to building a vibrant economy. Also, the competitive nature of business firms causes increased attention to efficiency and profitability. Macroeconomic policies that foster free enterprise are essential to developing this competitive spirit. Demand conditions refer to the strength and sophistication of the marketplace in any given country. Strong consumer demand coupled with demanding customers produces the strongest global competitors. While Porter does not deny the possible effect of natural resources in building a strong economy, he stresses the importance of human resources as important factors of economic development. Strong international competitors are also developed in countries in which significant industrial clusters can be found. While pointing out the importance of these four factors, Porter also recognizes that government policy can facilitate industrial competitiveness.

Porter's advice for ASEAN member states would be: improving education at all levels, including managerial and entrepreneurial education; capitalizing on the natural and human resources of the country; emphasizing quality manufacturing; and building important cluster industries. Particular strength in terms of clusters for a number of ASEAN countries include: agriculture, printing and publishing, textiles, automotive parts, mining, health care, and business services. Macro-level policies that promote economic freedom, yet at the same time encourage economic development in key clusters are essential.

On the micro-level, the choice of appropriate strategic choice is important. With essentially three strategy choices (Porter 1980): cost leadership; focus; and differentiation, the choice of strategic may appear simple. Each strategic choice requires essential characteristics and skills, and the correct choice for any given cluster or firm operating within the cluster may not be easily determined. *Cost leadership* requires an organizational culture that focuses on efficiency and cost consciousness. Economies of scale can also be helpful, and maybe even essential in succeeding with this strategic choice. A strategy of *differentiation* requires a strong emphasis on marketing and branding activities, and often requires high levels of customer service and quality considerations. The *focus* strategic option requires limitations in the choice of product/market and a very strong orientation to the needs of these select markets.

With the economic emergence of India and China with their low labor costs, many businesses in Southeast Asia may want to consider a strategic choice that doesn't involve "selling vanilla." Creative thinking and innovation are needed to compete in a flat world. The challenges facing the nations of Southeast Asia are significant. The essential questions are how to cope with India and China's size and growth, and how to benefit from globalization and regional integration. Macroeconomic policies that encourage economic freedom, economic integration, and free trade are needed. The targeting of industries with high domestic value added outputs, and the selection of niches to avoid direct competition are recommended.

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ECONOMIC INTEGRATION, POLITICAL DISINTEGRATION: CHALLENGES AND OPPORTUNITIES FOR THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS

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ABSTRACT

During the past forty years the economies of the world have become more interdependent, and at the same time, the number of sovereign states has greatly expanded. These two interrelated events have produced unique challenges and opportunities. This paper explores the current state of economic integration in the world and provides recommendations for ASEAN member states. The paper proposes faster integration and cooperation, greater trade liberalization, reduction of corruption, and forward thinking policies.

“In a regime of free trade and economic intercourse, it would be of little consequence that iron lay on one side of a political frontier, and labor, coal, and blast furnaces on the other. But as it is, men have devised ways to impoverish themselves and one another; and prefer collective animosities to individual happiness.”

John Maynard Keynes, 1920

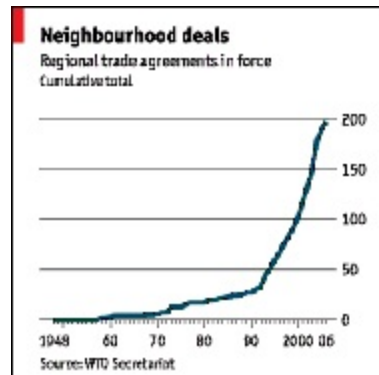
Economic integration or the linking of economies through free trade areas, customs unions, common markets, or through an economic union has been increasing in recent years. The expansion has been driven by consumer globalization, advances in technology, and governmental policies. Movements in recent years towards the linking of economies have included countries in North and South America, Europe, the Middle East, Africa, and Asia. In the Americas, the North American Free Trade Area (NAFTA) and the Central American Free Trade Area (CAFTA) were created, and MERCOSUR was expanded. The European Community became the European Union (EU) and continues to expand its reach. In 2007, the EU welcomed two new countries as member states bringing the total to 27 countries. In Asia a number of trade agreements have been enacted, and the Association of South East Asian Nations (ASEAN) expanded its membership and made movement towards greater cooperation.

As the world has become more economically integrated, it has also seen more political disintegration – the reduced importance of political boundaries and the loss of national sovereignty. In 1946, there were seventy-four countries in the world. Forty years later that number had expanded to almost two hundred. These two trends are related to a certain degree, in that economic interdependency has allowed political boundaries to fragment, as countries no longer need to be self-sufficient as trade expansion occurs (Alesina, Spolaore, Wacziarg 2000).

The forces driving both economic interdependency and political disintegration are expected to continue. Economic integration offers a number of advantages to participating countries including economic growth, specialization of production, and increased economic and political clout in the world, and consequently it is expected that based on these advantages, the trend will continue into the foreseeable future. Figure 1 shows the expansion of regional trade agreements as the world has become more economically integrated. Economic integration also has some disadvantages such as

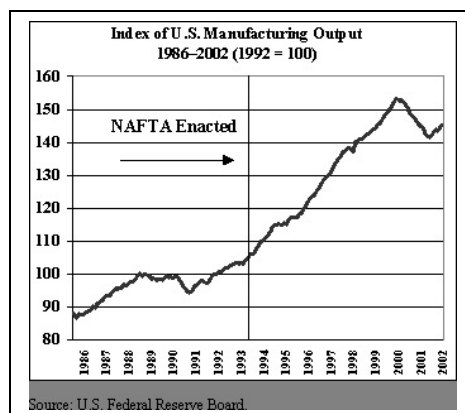
trade diversion and the possible loss of some less efficient producers, however, the benefits generally outweigh these disadvantages.

FIGURE 1



In Europe the most extensive example of economic integration can be seen. Beginning with the Coal and Steel Community in 1951, economic cooperation expanded to a common market, and is now an economic union comprising almost a half billion citizens. While the main motive for economic cooperation was peace on the European continent, the additional benefits have not been insignificant. The European Union has given member states a more efficient movement of factors of production, allowing for greater specialization and flexibility of labor. Additionally, the EU has given its citizens greater political standing in the world, decreased income inequality among member countries, and increased consumer choice. NAFTA and the EU have both been successful in equalizing income levels in the region. Economic integration in Europe and North American has raised the income levels of the poorer members. This income equalization has occurred without the loss of manufacturing job loss in wealthier member states. As can be seen in Figure 2, the fear of manufacturing job loss after the passage of NAFTA was unfounded. While some manufacturing jobs were lost by the United States to Mexico, the expansion of the Mexican market for American companies increased production in other industries.

FIGURE 2



The European Union represents the most extensive example of economic integration. Compared to the European Union, NAFTA and AFTA have less trade liberalization and more trade exemptions, less financial integration, less macroeconomic policy coordination, and less will for political unification (Lim 2006). An economic union isn't necessarily proposed for all regions of the world, however, economic integration in which fragmented markets remain fragmented isn't very beneficial. A McKinsey & Company study (Schwarz & Villinger) published in 2004 concluded that ASEAN was still operating as a collection of fragmented markets and denying itself the benefits of operating as one large market. The study remarked that "ASEAN has the intrinsic to be competitive on a global scale." Because of market size, natural resources, a skilled and educated labor force, and market growth, ASEAN could be a much more significant force in the global economy. The report concluded that ASEAN suffers from the following problems: alignment of external trade barriers; cross-border investment restrictions; lack of regional collaboration and assistance; and too many non-tariff trade barriers.

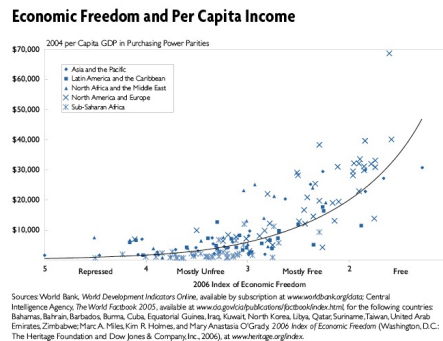
The Center for Strategic and International Studies (CSIS) concluded that AFTA was not as efficient as it could be due to implementation issues (Soesastro 2005). The organization found that "Although a large percentage of intra-ASEAN trade is eligible for low or zero tariffs, only a small percentage utilizes the lower tariff AFTA preferential rules." Due to a lack of private sector awareness and a lack of clarity concerning rules of origin, problems with customs procedure, and other non-tariff barriers, the benefits of free trade are not being maximized within ASEAN.

It will take political will in order to fully realize the benefits from a free trade area and to further economic integration in the region. Political will is required to reduce corruption, allow more economic freedom, and to promote the future and not cling to the past. Corruption is an inhibiting factor in economic development. Corruption hampers efficiency and discourages competition. The evidence is clear: higher levels of corruption are associated with lower levels of economic development. Empirical evidence shows that as the corruption perception index (CPI) increases, per capita GDP decreases. The least corrupt member of ASEAN (as reported by Transparency International) is Singapore, with a per capita GDP of \$24,000 a year. The most corrupt member of ASEAN (again as reported by Transparency International) is Myanmar, with an annual per capita GDP of \$1,900. While the cause and effect relationship can be debated, it is reasonable to propose that corruption is unhealthy for an economy.

While decreasing corruption within ASEAN member states is important to further economic integration and economic prosperity, equally important is government policy that promotes economic freedom. The four fastest growing economies in the past 20 years have been in East Asia (Singapore, Taiwan, South Korea, Hong Kong) and these economies rank high on the index of economic freedom.

There is a strong correlation between economic freedom and per capita GDP as can be seen in Figure 3 below. The late, and highly-regarded Austrian School economist, F.A. Hayek proposed the concept of spontaneous order to explain the economic gains made through freedom. Spontaneous order refers to the "results of human action, not human design" when describing an economic system. Any economic system is too complex for any one individual or group of individuals to understand and to control. Optimal results are obtained from human action but not from human design – each individual attempting to maximize his/her own self-interest.

FIGURE 3



The concept of comparative advantage is just as relevant today as it was when proposed by David Ricardo almost two hundred years ago. Greater economic integration allows for greater benefits from comparative advantage. Each country within ASEAN has certain skills and resources. The comparative advantages of one country are complemented by the comparative advantages of other countries. This process realizes its full benefit when barriers to trade are removed and economic freedom is allowed. ASEAN has not achieved as much success as Europe and North America in its post-integration trade. According to The McKinsey Quarterly, interregional trade actually decreased in ASEAN as a percentage of the region's total trade, as compared to significant increases in interregional trade experienced among NAFTA and EU members. ASEAN now faces very formidable challenges from the emerging economies of India and China. Now, more than ever, ASEAN must respond to the Bangkok Declaration of "mutual interests and common problems among countries in Southeast Asia." The solution to the economic challenges facing member countries is to view these changes as an opportunity. The solution lies in an economically liberated and globally connected Association, and the solution will require strong and effective leadership within ASEAN.

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A MULTI-MODALTY APPROACH TO CULTURAL ASSESSMENT

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ABSTRACT

Considerable debate exists in the literature concerning the most appropriate method of assessing national culture. This paper proposes that by taking a multi-modal approach one can gain a better understanding of the culture under study. In particular, the value orientations of Hofstede and Trompenaars are combined with the metaphorical analysis of Gannon. Burmese culture is used as an example to show the limitations of assessment based on just one methodology and of the richness found in combining competing approaches.

The cross-culture literature contains many articles assessing the relevance and accuracy of the various models and theories used to describe and explain differences in national culture. Some of these articles focus on ideological struggles and methodological limitations of the targeted research model (Early 2006; Javidan, House, Dorfman, Hange, & Sully de Luque 2006). Some have argued for a more contextual approach to the classification and study of culture (Sackmann & Phillips 2002; Niffenegger, Kulviwat, & Engchanil 2006) in which culture operates in a time-sensitive dimension and may produce multiple “cultures” within one national culture. Still others (Jacob 2005) believe that national cultures are too complex to be explained in terms of the uni-linear dimensions used by researchers such as Hofstede and Trompenaars. This article proposes that a better understanding of national culture can be developed through a combination of approaches in which the weakness of one model can be supplemented by the qualities of another. In particular, an assessment of the culture of Myanmar is made by combining the frameworks of Hofstede and Trompenaars, along with the use of a metaphorical analysis.

Myanmar was not included in the research of either Geert Hofstede or Frans Trompenaars, and no reference to the country can be found in the culture metaphor literature. Myanmar is located in Southeast Asia, bordering Thailand, China, India, and Laos. The country, formerly called Burma (and still referred to by that name by the United States government for political reasons), gained its independence from Britain at the end of World War II, after a hard fought struggle with the colonial power and the Japanese invaders. Burmese nationalist and national hero, Aung San fought for his country’s independence and for democratic rule (Khng 2000). His daughter, Nobel Peace Prize winner, Aung San Suu Kyi continues the struggle today inside Myanmar, even as she lives under house arrest. While Myanmar interacts with its ASEAN neighbors, a number of Western countries have placed economic sanctions on the country for its lack of democracy. These sanctions have limited foreign investment and other forms of economic exchange. A military junta has ruled the country in one capacity or another since 1962, and Myanmar has operated in various states of isolation from the world over those years (Fink 2001). As a result of its isolation, very little research has been conducted on its culture or values orientation. Myanmar is a strongly Buddhist country which retains many traditional values and cultural practices. A multi-modality approach to its classification allows for the inclusion of these important cultural characteristics.

Hofstede and Myanmar

Perhaps the most popular and far-reaching cross-cultural model is that of Geert Hofstede (Hofstede 1980a; Hofstede 1980b; Hofstede 1983; Hofstede 1993; Hofstede 1994; Hofstede 2001). Hofstede's work has been widely cited in a number of different management related academic studies (Kirkman, Lowe & Gibson 2006) and typically forms the basis for cross-cultural analysis in university management courses. Using surveys from the original 72 countries, Hofstede was able to classify 40 of the countries. Later research allowed the addition of 10 more countries and three regions (Arab World, East Africa, West Africa). Hofstede originally identified four dimensions of culture: power distance, individualism, masculinity, and uncertainty avoidance. Power distance represents the degree of a culture's acceptance of inequality among its members. Individualism and collectivism represent a culture's main focus, being either the importance of the individual or the group. Masculinity and femininity represents the stereotypical characteristics of men and women as being the dominant cultural values. Uncertainty avoidance is essentially a collective tolerance for ambiguity for a culture. Later research with Michael Bond (Hofstede & Bond 1988) added a fifth dimension called long-term orientation. This dimension, originally called Confucian Dynamism, measures the preferences of a culture for a long-term and traditional view of time.

Hofstede's work has attracted a number of critics. Some have expressed concerns about the generalizability of the sample, the level of analysis, the comparison of political boundaries (countries) to culture, and the validity of the instrument (Mc Sweeney 2002; Smith 2002). Others have challenged the assumption of the homogeneity of each studied culture (Sivakumar & Nakata 2001). The additional dimension of long-term orientation (LTO) has been challenged on the grounds of conceptual validity (Fang 2003). While many of the concerns raised by his critics can be considered to have some validity, Hofstede's model, nevertheless, represents the most popular approach to cultural assessment.

In order to assess Burmese culture using the value orientations of Hofstede, a sample of 37 Myanmar citizens was conducted. While the sample size was small, it should be remembered that Hofstede's original classification of Pakistan was based on the exact same number of participants as this study (Hofstede 1980). The seminar participants were given the Values Survey Module 1994 (VSM94) prior to beginning the seminars. Thirty-seven surveys were completed and useful which represented 93% of the seminar attendees. The VSM 94 consists of 26 questions. Twenty questions contain content information designed to assess the five dimensions of the Hofstede-Bond cultural classification model, and six questions are for demographic collection. The surveys were analyzed using the index method recommended by the instrument's author, whereby a separate score is determined for each survey element. Separate scores were determined for power distance (PDI), masculinity (MAS), individualism (IDV), uncertainty avoidance (UAI), and long-term orientation (LTO). The results for Myanmar were compared with all other countries in the earlier Hofstede surveys.

The results of the survey indicate that Myanmar culture is low power distance, highly feminine, moderately individualistic, high uncertainty avoidance, and moderately long-term in its orientation. The results were surprising in that Myanmar has little in common in terms of values orientation with neighboring Southeast Asian countries. A typical values portrait of countries in the region would be high power distance, masculine, collectivist, moderate uncertainty avoidance, and long-term in orientation.

Trompenaars and Myanmar

Frans Trompenaars (1994) proposed a cultural framework similar to Hofstede in which a series of bipolar dimensions were used to capture the essence of national culture. The framework was derived primarily from the work of Talcott Parsons and was assessed using a questionnaire

administered to managers in twenty-eight countries (Gooderhan & Nordhaug 2003). The results of these surveys indicated five dimensions important to the understanding of cross-cultural differences. The five dimensions are: (1) universalism v. particularism; (2) communitarism v. individualism; (3) neutral v. emotional; (4) specific v. diffuse; (5) achievement v. ascription. Of the five dimensions identified by Trompenaars, four are different from Hofstede. The dimension of communitarism/individualism of Trompenaars is similar to Hofstede's classification of individualism/collectivism.

Myanmar was not included in the twenty-eight countries assessed by Trompenaars. A qualitative assessment of Burmese culture using personal experiences and a review of the related literature indicates a culture that is particular, individualistic, neutral, diffuse, and ascription oriented. As with other countries in the region, Myanmar culture readily makes many exceptions to rules and regulations. The application of principles is "particular" to a specific situation and based on the strength of personal relationships. While there are many laws and regulations concerning behavior, the application and enforcement of these laws is selective and based on the situation, including social standing (Fink 2001). While our use of the Hofstede value survey indicated that Myanmar was a moderately individualistic culture, it is reasonable to assume that the sample group was somewhat unique and also influenced by the current desperate economic circumstances. With economic sanctions imposed by the United States and the European Union, the economy of Myanmar has suffered greatly. Many large employers have gone out of business and almost all banks have closed. This has caused its citizens to seek more entrepreneurial opportunities on their own with non-sanctioning countries, and has promoted a degree of individualism, in what is believed to be a collectivist culture. Myanmar is clearly a neutral country in terms of the showing of emotion. While the democracy movement has caused some emotion to be expressed at times, the showing of emotion generally causes one to lose face and is avoided. The military crackdown on political demonstrations is due in part to the desire of the ruling generals to save face for the nation. In Myanmar it is common for work and play to be combined, making this a diffuse culture. The Burmese enjoy eating and socializing with each other both inside and outside the organization. Work life and personal life are often blended with many opportunities for social interaction. Myanmar culture is typical for the region in the assignment of social status based on ascription. There is great respect for age and family lineage, and the very frequent use of titles denotes the importance placed on educational attainment.

Metaphorical Analysis and Myanmar

A newer and intriguing approach to the study of culture employs the use of a metaphor to identify dimensions deemed important to a particular culture. Using a metaphor, a comparison is made between two seemingly unrelated items. Gannon (2001; 2002) explains that a cultural metaphor is "any activity, phenomenon, or institution with which members of a given culture emotionally and/or cognitively identify." The assumption underlying the metaphorical analysis of culture is that the metaphor represents important values of the culture under study and provides a deeper understanding of that culture. For example, Gannon uses the metaphor of a Japanese garden to explain the importance of harmony, balance, and proper placement (kata) to Japanese society. Metaphors and metaphorical mapping forms an individual's participation in social institutions and practices (Gelfand & McCusker 2002). While the choice of proper metaphor is important, and a number of competing metaphors could be chosen, this qualitative analysis allows the researcher to be somewhat creative in the application of the assessment. The proper choice of metaphor and its interpretation can be assessed on the researcher's intimate knowledge of the target culture. The freedom of expression in that interpretation can provide a rich tapestry of dimensions of culture not previously assessed.

The choice of metaphor for Myanmar culture, based on the authors experience with that culture is the Burmese harp. The Burmese harp is an important symbol of the country and its culture and can be seen in many places as a national symbol of Myanmar. The harp represents an important symbol of Burmese history and culture and many representations can be found in souvenir shops throughout the country. The harp represents an important aspect of classical Burmese music and art. It is believed that the Burmese harp probably originated in India some time before 500 AD (Becker 1967) and was modified by the Burmese over the years, taking on an arched shape.

The harp plays an important role in Buddhist understanding of the “middle way,” an important doctrine of Buddhism (Lowenstein 2005; Sach 2006). The Buddha is believed to have used the concept of the harp to explain to an ascetic the importance of avoiding excess when he asks the ascetic about producing fine music. Explaining that if the strings of a harp are too loose or too tight, the instrument will not produce pleasant music. The Buddha explains that enlightenment is like adjusting the strings of a harp, seeking moderation in lieu of extremes. In Burmese culture, extremes are avoided. Like the playing of a harp, success and happiness comes from the harmony experienced when the strings are properly adjusted. At the same time, Burmese culture values patience. The citizens of Myanmar have been patient in their wait for a return to democratic rule. And patience is needed to successfully master the difficulties of learning to play this musical instrument. In a feminine culture, harmony and cooperation are valued. The playing of the Burmese harp signifies this harmony as well as a degree of independence. The harp can produce beautiful music being played alone, or as part of an ensemble. The harp represents the importance of dignity to Burmese culture and the significance of history and consistency. The purpose of the harp is to produce an environment in which harmony is realized for the joy of the one playing the instrument and for others. The music produced by the harp also represents the impermanence doctrine of Buddhist belief.

CONCLUSION

This paper has proposed that national culture is best studied using a multidimensional and multi-methodological approach. The conclusion concerning Burmese culture is that it may not be the typical Asian culture. With an individualistic, feminine, and moderate long-term orientation, Myanmar is somewhat unique in Asia. The unique circumstances of Myanmar’s political environment may be the cause or manifestation of these differences. The lower power distance value seems to be consistent with the economic system that developed in Myanmar after gaining independence. The “Burmese way to socialism,” an earlier economic program, reflected a desire to maintain economic equality among societal members. Myanmar is also a strongly Buddhist country, perhaps the most devout among the South East Asian nations. This spiritual orientation may also shape the low power distance and feminine orientations of Myanmar to a greater extent than even its other Buddhist neighboring countries. With its unique political and desperate economic situation, people in Myanmar may be more focused towards individualism at the moment as a basis for survival. This would also perhaps explain the slightly less long-term orientation in the region. In addition, the symbolic importance of the Burmese harp stresses the importance of harmony, dignity, and individual effort expended for the benefit of the group. Only through multiple modalities can one hope to explain the complex composite we call culture.

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LESSONS LEARNED FROM THE ASIAN FINANCIAL CRISIS AND MEXICAN PESO CRISIS

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ABSTRACT

This paper analyzes the Asian Financial Crisis of 1997 the Mexican Peso Crisis of 1994 in terms of their similarities and differences. It further looks into the lessons we learned from these crisis. The attributes of each crisis, as well as their implications for each affected region are discussed in terms of how they relate to each region. These attributes as they appeared in other select countries in each affected region are also explained to expose how they were either affected or untouched by each event in ways that were alike or different. Additionally, each affected region's current economic and financial climate is analyzed for any lasting affects from the crisis.

THE ROLE OF UNCERTAINTY IN ESCALATION OF COMMITMENT TO A LOSING COURSE OF ACTION: A PROPOSED COMPARISON OF AMERICANS AND KOREANS

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ABSTRACT

Many of the most important decisions to most everyday life decisions have involved escalation of commitment. Researchers have frequently cited the Vietnam War as a contemporary example of escalating commitment to a losing course of action that had tragic consequences for the Americans (Arkes & Blumer, 1985; Brockner, Shaw, & Rubin, 1979; Nathanson, Brockner, Brenner, & Samuelson, 1982; Rubin & Brockner, 1975; Staw, 1981; Teger, 1980; Whyte, 1985). During the Vietnam War some people were strongly against ending the conflict before achieving total victory because to do so would have meant the waste of lives that already had been lost (Arkes & Blumer, 1985).

Past research has demonstrated that escalation of commitment exists within the Western cultural setting, yet there exists an absence of broadly applicable empirical support for and escalation at a multicultural level. However, past research also demonstrates varying propensities across cultures toward changing existing strategies, whether feedback reflects previous success or not.

The purpose of this paper is to extend the study of escalation of commitment to a non-western setting. Specifically, the presence and behaviour of escalation is tested using a Korean sample. If the escalation of commitment is present in a Korean sample as it was in an American sample, are the same factor(s) operating? Are the degrees of escalation similar? Hofstede's (1981) study involving the level of uncertainty between U.S. and Korea suggest that differences involving characteristics of escalation may exist. It is hypothesized that uncertainty avoidance and collectivism may act as moderating variables in escalation of commitment.

There are several possible extensions to this line of research. Escalation of commitment may be distinguished from reluctance to change a course of action. The antecedents of specific escalation of commitment might weaken or mitigate the effects of the phenomenon. Additional cultures might be studied with regard to the propensity toward escalation of commitment. Finally, further research in trust and escalation of commitment in diverse cultural contexts might yield insights into the dynamics of collaborative efforts, strategic alliances and teaming.

