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## **EDITOR'S INTRODUCTION**

Welcome to the first edition of 2012 of the SIU Journal of Management. The journal enters its second year of publication with an edition including an invited paper, three double-blind peer-reviewed research papers, a commentary and two book reviews. The invited paper is provided by Dr. Cornelis Reiman, who is an accomplished international businessman, academic and writer. He has worked in Australia, Asia and the former Soviet Union and had pivotal responsibility when establishing a global business based in Singapore. In addition, as an independent director of the Chamber of Professional Accountants of the Republic of Kazakhstan, the largest professional accounting association in that country, his guidance and advice helped that entity to become an Associate Member of the International Federation of Accountants (IFAC). I was delighted when Dr. Reiman agreed to share something of his experiences and wisdom, especially in relation to cross-cultural Asian management. He provides a thought-provoking and educational view as to the challenges of working internationally and a challenging view of the Thai business environment.

In the first peer-reviewed paper, Shankar Prasad Acharya writes about the Wagner Hypothesis, which links government expenditure and national wealth, in the context of six countries in the South Asian Association of Research Cooperation. He finds, through using p-value analysis, some support for the hypothesis in five of the six countries and draws some policy conclusions from this.

Salawati Sahari, Michael Tinggi and Norlina Kadri consider the impact of inventory management on firm performance by analyzing a sample of construction firms in Malaysia. The authors find that the situation does not yield a simple, linear relationship but a more complex one that must take into account a number of different factors.

The third paper, by Mahmoud Moussa, returns to the issue of cross-cultural management raised in the invited paper. Based on a series of

personal, in-depth interviews with executives in the automobile industry in the Eastern Seaboard region of Thailand, he finds that intercultural workplace relationships are complex and multi-faceted but that sophisticated and mature managers are capable of navigating them not only on their own behalf but on behalf of the firm as a whole.

Professor Ran next provides a brief note on the IFRD Conference successfully held in Bangkok at the beginning of this year. The editor and several doctoral candidates from Shinawatra University's School of Management also attended this conference and presented papers.

Finally, the editor provides a short commentary on the recent events in Myanmar and the role of Dawei Industrial Estate is shaping likely future commercial and social developments in that country.

Please consult the call for papers at the end of this edition for details of how to submit papers and the types of submission of interest.

The first half of 2012 has seen Thailand escape from the worst of the ongoing crisis of austerity. This may not continue if European governments continue to fail to provide the growth policies so badly needed to improve employment and consumer confidence and, instead, continue with the discredited anti-Keynesian ideology that has done so much damage around the world. The Mekong region continues to represent an attractive venue for investment and, by virtue of the 300 baht daily minimum wage policy, the current Pheu Thai administration is bravely seeking to convert the inwards investment into a more effective means of social and economic development. This is part of the much-needed attempt to escape from the Middle Income Trap: the development model that enabled Thailand to rise from low to middle income status is not the same as that which will be required to move to high income status. There will need to be more structural changes.

*John Walsh, Editor, SIU Journal of Management*

## **INVITED PAPER**

## Going Global – Lessons Learned in Asia

Cornelis Reiman

### Abstract

*Globalisation is commonplace. Management talent, increasingly, can shift geographically in accordance with rising demand for people who have the necessary skills to fill roles in other countries. Of course, there are many benefits from working internationally. There is exposure to new cultures of countries that have ethnic, religious and social foundations in stark contrast to that of one's home country. In a work context, there are different corporate or organisational cultures, too, especially when many of these are coloured by the aforementioned socio-foundations of the prevailing population. Furthermore, there is the unique experience, and considerable challenge, gained from dealing with people in such settings, especially when working in an entity that is the product of a paternal society.*

Key words: Asia, employee effectiveness, employee reliability, international management, paternal culture, Thailand.

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## **1. Introduction**

For any manager, it is the proverbial blessing and a curse to be efficient and to see what must be done to improve any given situation. Having vision and the experience to achieve outcomes is one thing but, usually, it brings with it the challenge of encouraging the dedication and participation of others. That, I might suggest, is the art of excellent management.

How all of this applies to any international setting depends upon a manager having the necessary skill set, as well as the ability to apply these in an environment that may be very different to anything experienced beforehand. Also, there is the matter of a suitable opportunity arising that can exercise and prove the capabilities of a manager who works beyond the borders of the home country. In summary, these are fundamental themes to what follows herein.

After a small introduction, this article has three major parts, specifically: lessons learned from the early years of my life, with this being a brief synopsis of factors that influenced my foray into international business; lessons learned in business, which have provided me with a clear view as to the need for management styles to suit the circumstances, especially when employee reliability can vary; and, lessons learned from Asia, where I have worked in differing roles, with the related experience being instructive as to cultural influences on employee behaviour and workplace effectiveness. A concluding section completes the paper.

## **2. Lessons Learned in the Early Years**

There were many factors that influenced my entry into international management, with serendipity being foremost. Yet, without an adequate background, I would not have grasped the chance to work abroad. For instance, I had:

- An open-minded, migrant family;
- A willingness to connect with people;
- A business-related education;
- An accounting background;
- A solid work history;
- A keenness to learn.

I could say that any and all of these factors have had a positive impact upon my career path, with education and experience being particularly important. Yet, there must be more, because I know of others who have had similar, and better, backgrounds without that leading to anything beyond the borders of their homeland. Could it be that there was no appropriate opportunity? Is it a lower tolerance to risk taking? Must someone understand personal drive and business success? Perhaps this is so, although I do not know this with any certainty. However, I am very much aware that an aspiring manager must have a particular mindset that allows for interaction with all that international business entails, which can be good, as well as not so good.

In my case, I have visited extraordinary places, such as Samarkand on the legendary Silk Road in Uzbekistan, the Blue Mosque in Istanbul, temples in Thailand, cathedrals of Europe, and so on. I have marvelled at the greatness of Tokyo and New York, and followed the successes and failures of multinational corporations in the daily news reports. I have seen the foolishness of business, too, and have shaken my head in disbelief at the laxness and dishonesty of people in positions of influence.

Plus, I have enjoyed and collated experiences of meeting people with different backgrounds, which has provided the chance to advance my

own understanding of human endeavour. Also, I have met important people, and people who thought that they were important. In addition, I have met with people who were not at all significant. Still, I figured that seeing people as equals is a key component to doing well in business, whether domestic or international in nature. To be accepted as someone of equal standing, regardless of their position in life, has led to memorable encounters, such as meals in the simple homes of common people, and more elaborate events with the rich and powerful. Yet, all of that could be garnered by way of an enquiring mind and tourism alone.

From the perspective of my internationalisation, memorable occasions include little things that reinforced my interest in the world at large. By chance, I met a colleague who had lived in China for a while when IBM had first set up operations there. He was an Asian Studies graduate from whom I could learn about cultural differences, particularly Asian etiquette, such as not pointing at someone with my index finger. Not long after, while working on a trade-related consulting assignment, I spent time in Malaysia with two Westerners. From the outset, I sat with the driver and began to ask about local language and culture and that way, I learned a great deal. The others did not: I found that to be remarkable.

Increasingly, in a direct business capacity, I conducted PESTLE analysis (looking at **P**olitical, **E**conomic, **S**ociological, **T**echnological, **L**egal and **E**nvironmental factors) within a specific territory. That has given me a very clear idea about companies and countries, as well as places to be, and those to avoid unless the return on investment rises and the risk profile falls.

In relation to assessing countries, see:

- Corruption Perceptions Index ([www.transparency.org](http://www.transparency.org));
- Rule of Law Index ([www.worldjusticeproject.org/rule-of-law-index](http://www.worldjusticeproject.org/rule-of-law-index));

- CIA World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/index.html>);
- Global Competitiveness Index ([gcr.weforum.org/gcr2011](http://gcr.weforum.org/gcr2011));
- Cross-cultural differences ([geert-hofstede.com/countries.html](http://geert-hofstede.com/countries.html)).

### 3. Lessons Learned in Business

Obviously, international travel involves the observation of and meetings with people. That, of course, can be put aside when it comes to the fundamentals of business management. After all, a business should have a primary purpose, as per vision and mission statements. In turn, these are expressed in strategic plans that lead to objectives upon which operational plans and activities are based. Managers and other employees are expected to pursue the successful achievement of those business objectives. Also, managers should make the best use of human resources to accomplish expected outcomes, doing so in the most economic and timely manner.

In this regard, consider the following four-sector diagram in Figure 1 (below), which shows the likely and perhaps probable, management style that is appropriate to circumstances related to an interaction between the urgency of a business situation and the reliability of employees to deal with the same. As might be expected, low urgency requires little in the way of management when employees are reliable, as in the lower right-hand quadrant of the diagram. More management is required if employees are otherwise. When urgency increases, management attention rises, even when employees are reliable. This is especially true when employees are unreliable, as is depicted in the upper left-hand quadrant when management is shown to be hard, focussed and forceful.

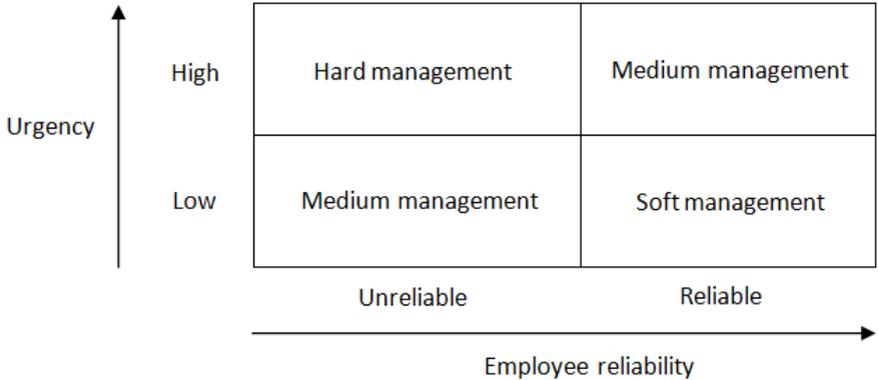


Figure 1: Management style as determined by urgency and employee reliability; Source: Author’s own composition

In the case of start-up and turnaround work, with which I am very familiar, the urgency is palpable and constant. For instance, in the case of any turnaround situation, especially when the business is at risk of collapse, all the mission-critical issues must be addressed. Anything less than full commitment to addressing those issues is a dereliction of duty, regardless of whether that applies directly to an employee, a manager or an executive.

Consequently, management focus must be acute, persistent and, perhaps, quite hard in driving employees to achieve various strategic outcomes. As an added observation, the more complex any situation might be, the less reliable will be the associated employees. This is because, usually, they are unaccustomed to dealing with the prevailing factors that affect the likelihood of business success in very challenging situations. As a consequence, the hard edge of leadership and management become quite likely, if not compulsory, in those situations. Again, that makes sense, especially when managers in those types of circumstances are pushed by executives or business owners to achieve specific objectives.

Also, the more serious is any given situation, the more probable it is that a manager does not have the luxury of time or any concern for pleasantries. Accordingly, it is a matter of whether subordinates respond positively, and promptly, or are unprofessional in failing to follow what the manager expects.

The preceding commentary regarding the four-sector analysis of management behaviour raises an interesting issue as to the perception of management in relation to the actual urgency of any given business situation, as well as in terms of correctly assessing the reliability of employees. We can assume that managers will be sufficiently skilled to appraise properly any situation as to urgency. Or, we might suggest that they will pursue urgent objectives given to them by decision makers, such as executives. The question, then, is whether employees can correctly determine why a certain management style is put into play.

#### **4. Lessons Learned in East Asia**

In relation to the preceding point about the assessment of employees, consider the general characteristics of people in Thailand, and elsewhere in the neighbouring Mekong region. In this article, Thais will serve as a proxy for workers across Asia, especially when many attributes are shared across the continent.

The following section summarises my long-standing observations and supporting conclusions derived from my work in Asia, over several years as a manager, executive and advisor. Of course, first-hand experience provided by these roles might not be applicable to all sectors of the Thai economy or that of East Asia as a much greater whole. Even so, in providing direction in this article, I am very much guided by the needs of management in addressing business issues and in achieving strategic goals.

#### **4.1. Employee Characteristics – Lacking Business Basics**

I can see quite clearly that, when confronted by a superior, Thais can be shy, reticent, reluctant, cautious and passive. Also, they can exhibit a lack of adequate problem-solving capability in organisational situations. The ‘systems thinking’ approach, whereby the causes and effects of issues are explored or are apparent, seems alien to Thais in my experience. Instead, everything is seen as an isolated and disconnected instance and, of course, the ramifications of that approach are far from optimal. To some extent, I have found differences in people from elsewhere. I have found that Chinese, for example, are more reliable and this also applies to Sino-Thais (insofar as it is possible ever to separate Thais from Sino-Thais) and especially to Singaporeans, many of whom are capable and responsive. However, it must be said that mainland Chinese can still carry traditional opinions that make them less responsive. I expect that this will improve over time as younger people replace those who are of the old ways. Certainly, there are cultural, ethical and religious differences across East Asia, and these influential factors can, and do, shape the thinking and behaviour of people.

The aforementioned perception of Thais lacking basic business skills can be seen in conjunction with the extent to which students are raised on rote learning. Consequently, they are assumed to lack independent thought. A pertinent example sheds some light on this view. In Australia, I taught international business and management subjects to postgraduate students (almost all of whom were Asian, including many Thais, and from affluent business families). I guided them as to the reasons why an international business should be established. In the concluding exam, I asked what would justify the discontinuance of an international business, which would be the exact opposite of the requirements for establishment. However, that question was answered calamitously because it was something unknown to them, despite the fact that they had learned all the necessary answers, although in

reverse order. The students, in the main, could not distance themselves from what they had learned to see the obvious answers.

Possibly because of poor understanding as to cause and effect and deficiencies of perception as to the whole, there often seems to be disorganisation in Thai organizations. There is also the communal nature of Thais who usually like to do things in groups or as part of teams. To an outsider, team-bonding activities can make it seem that efficiency is not the primary objective so much as it is all about giving themselves a good time. Additional problems that I have observed include lack or adequate forethought or planning, even among people with tertiary level education. The problem of inadequate problem solving persists and this is exacerbated by the rigid hierarchies endemic in Thai society which make it extremely difficult for people to speak out about or in opposition to the views of others.

Given these observations, it can be said that Thais as a whole tend to be task-oriented rather than project-oriented and are very rarely strategically-oriented. In fact, as suggested earlier, the actual orientation for people at low organizational levels, life is about small moments of enjoyment and avoiding the critical gaze of superiors. This is clearly problematic when it comes to paid employment and it adds to the challenge for foreigners working in Thailand, who are likely to have a different view as to what employment entails.

Furthermore, the lack of information exchange in a Thai workplace can be very apparent and may be as much a matter of misinformation as it is about Thai employees transferring insufficient amounts of information. In addition, given the disincentive to take initiative, Thai employees can be insufficiently inquisitive and this affects their capacity to solve problems or to conduct worthwhile research. This can cause a paralysis in information sharing even when passing on a fact could have a dramatic impact, positive or negative, on a task with which they may be engaged.

The delays caused by a lack of adequate focus and follow-through are costly in terms of additional operational expenses incurred, such as extra labour input required for finishing a job. This occurs when anyone is involved with a task or project for longer than is necessary or if any project completion is delayed. A more important and hidden cost is that of lost opportunity. The incapacity or unwillingness of people to see any opportunity or their failure to react positively if any such thing is ever discovered can be costly.

For all of Thailand's celebrated charm, there are some unfortunate things that happen because of an exceedingly lax attitude as to rules largely caused by the culture of impunity. Lack of respect for rules is rooted in the lack of social solidarity caused by the ability of powerful and wealthy people to ignore rules. When combined with a background in agricultural seasonality and the tedious traffic jams of Bangkok, this tends to make Thais slack as to punctuality, other than stopping, religiously, for lunch at noon. With business expecting timeliness, it can be yet another challenge when many Thai employees show no concern about when a meeting starts.

In the workplace, another widespread aspect is that of Thai employees, fearful of sudden and often unwarranted criticism from superiors, tending to try to look busy as much as possible. Consequently, the associated efficiency level can be low, since the lack of genuine responsibility to make changes leads to inadequate focus, poor dedication to the task and a propensity to being distracted. Of course, to be fair, following a misguided employer or lax manager can be a cause for employee inefficiency.

In effect, from a business perspective, Thailand seems to offer a poor working environment, except that people do not seem to wish any ill or hardship to others, which is more than can be said for some other countries. In a Thai context, any damage that does arise is incidental and all liability is denied if anyone is challenged.

## **4.2. Corruption – Ever Present**

Corruption is another issue in the workplace. As such, employee honesty can become a problem, especially when any accessible money is involved. Note that poor governance and inadequate controls in Thailand suit people who have a personal interest in keeping everything running that way. Otherwise, the process of skimming, kickbacks, or outright theft, could not occur. There is a general perception in Thailand, and Asia generally, that corruption is not only a fact of life, but a necessary one in getting things done. It amounts to being, in the minds of many people, a transaction cost or expeditiousness fee that is in the order of ten to fifteen percent of the total sale or revenue figure.

At the micro and macro level, corruption is not considered to be a problem if things do get done. In the public sector, whether in Thailand, the nearby region, or elsewhere in Asia, infrastructure is a critical component of economic development, as well as social harmony. It is probable that the large amounts of money involved in related government spending provide many politicians and bureaucrats with the glorious chance for reaping lucrative benefits from large ‘transaction fees’. But, if all goes well, no one seems to care.

This brings to mind India, where I spent some time recently, which is a country that had the golden opportunity to showcase its capabilities to the world in the form of the hosting the Commonwealth Games. Yet, that event and the related projects were reported to be plagued by gross inefficiencies, financial mismanagement and rampant corruption. This was instructive for anyone contemplating India as a destination for foreign direct investment. My own observations, whilst in that country, reinforced this opinion. This gave added texture to the existing PESTLE risk assessment that was prepared for my client. Certainly, Indian infrastructure proved to be poorly maintained or built badly. Driving along the tollways and highways proved this. For

instance, and this is a telling thing, levels of the road surface changed when one length of bituminised road met another (as happened every few kilometres) or when it met at the edges of a previously-constructed concrete bridge. This meant that all drivers, especially of cars, had to slow down considerably whenever such a situation was seen. If not, they would suffer a jarring jolt caused by hitting the significant rise, the large fall or even the wide gap, that happened to be there because of shoddy work. This type of unprofessionalism in road building was apparent everywhere, even on a stretch of the national highway network that was recently completed.

I could not quite comprehend how such a situation could exist. So, I asked my Indian host about this obvious issue. Without any hint of humour, I was told that related government contracts were given to several companies, rather than just one road builder. The idea for doing so is that more contractors at work will lead to faster completion. However, since no one is given proper control of the situation, the sections of road are built and bituminised with no consideration for the next section or bridge. It is a ridiculous situation.

As a related afterthought, one can also argue that more corruption money could be extracted from several construction companies than by manipulating just one. The end result, appalling as it was, raises the obvious question. Is 'the system' working in that country? The clear answer is a very firm "No". It shows ineptitude. In comparison, no matter what the related financial arrangements might be, generally, the quality of Asian roads is of a good to excellent standard.

### **4.3. Strong Management of Employees: A Cultural Necessity**

The primary purpose of management is to understand, internalise, implement and demonstrate business plans and goals, as well as encourage others to do the same. When dealing with Thai organisations, there sometimes seems to be a distinct lack of active and adequate inquisitiveness and an overall inability to see real reason

for change. Besides, there is almost a national forgetfulness, resulting from the wide morass of subject matters which it is forbidden to discuss, which adds to the challenge of dealing with people in Thailand. One way for the manager to deal with this is through constant, intensive attention to details, milestones, progress, outcomes and achievements. Management and control, therefore, are very necessary, as in setting direction and monitoring progress. This means that regular reminders are required, as are subtle suggestions framed in a way that do not appear to be criticisms. It is noteworthy that Thais, generally, often seem incapable of admitting any wrongdoing, even if it is glaringly obvious and, astonishingly, even if the manager was present when something had happened. At best, that sort of thing has the solid makings of a black comedy.

No matter how much care is taken by a manager in pointing out a possible problem or actual error, clumsy speech can be taken as an affront by Thais and treated as an actual attack upon their person. Deep offence can be taken by people subjected to criticism, especially in public and good managers will try to avoid alienating employees needlessly. Furthermore, in any situation of that kind, as can arise when a manager asks for an explanation about any transgression, replies given may be ambiguous to avoid the loss of face. For people unfamiliar or uninterested in cultural issues, this can make the employees appear to be uncaring or unobservant.

#### **4.4. What to Do about Control and Motivation?**

It is a well-known fact that confrontation and public chastisement of an employee in East Asia, no matter how mild, can cause severe personal upset, due to loss of face. Yet, this is incongruous with contemporary business situations, which require people to be able to adapt rapidly with often wildly changing circumstances and, therefore, changes in responsibilities and required duties. Sadly, honesty (more so the lack of it) can be an issue when any employees defend their inadequacies with purposeful untruth and wild fantasy. Convenient

forgetfulness is another strong probability. As indicated, in terms of business objectives and professionalism, there are incongruities present.

Simply put, the perennial pull of fun has more power over Thais than does dignity. In other words, it is convenient for Thais to have malleable self images that can be seen to support entertainment and enjoyment above anything else but which may fail to secure their self-perceived level of respect and status in their particular social setting, such as the workplace. This means that motivational efforts must be recalibrated to take account of specific local conditions.

All of that brings forth to me the ultimate conclusion that it is better to be forceful and to push employees for a conclusion than it is to try and train, coach, coax, motivate, cajole or jolly along someone who, in truth, is beyond the realms of generally accepted western methods connected with inspiration and motivation. Once again, such a presumption supports the firm, stern and unfriendly management model that experience shows to be prevalent and as is in keeping with the paternal, familial, cronyistic ways of much of traditional Thai management. It may also be prevalent in other parts of the Mekong Region and East Asia.

Although there does not seem to be an easy remedy to the predicament of poor performance, one is plausible if not necessarily practical. This solution is for a manager to focus on what is important and ignore any deficiencies in employees that are not relevant to the task at hand. This must be done immediately, without comment, and as a matter of course. Accordingly, the way to go about managing Thais is to use the current situation, whatever it is, as the basis for the next instruction and that can mean a long process of trial and error, with deficiencies ignored and remedies explored without ever accusing someone of any bad behaviour. The same applies to suggestions for improvement, as a manager might do to coach and steer an employee or a colleague.

Consequently, extreme patience and overt understanding are fundamental elements of any manager in Thailand, as can be said to be the case in managing anyone. This is especially the situation when employees and colleagues are unlikely to have the same framework of reference education or commitment to the business as that of a manager, especially if the manager is a foreigner. From a business perspective, that is, why Thais behave as they do is irrelevant, especially when managers and employees are responsible for achieving organisational outcomes. Basically, human resources must be dependable. However, previously discussed characteristics in Thai behaviour can be widespread and ingrained. This, of course, is in the purview of social scientists and psychologists and, for a manager in any Thai organisation, if business or organisational objectives are to be achieved, it is a matter of constantly training, coaching, coaxing, mentoring and monitoring managing and leading people to a conclusion. This may contradict the background and expectations of employees and sensitivity will be required to manage this situation in a sustainable way – of course, the situation will be different for a manager (often a foreign manager) who is only interested in a short-term fix before moving elsewhere. That amount of management effort necessarily adds to the investment of time. Still, it must be considered that, when time is crucial and in short supply, it is better and less difficult to go for the harder approach in managing people. Quite frankly, it is easier to let Thai nature take its course, rather than argue the point, even if this may appear contrary to the efficient pursuit of short-term business objectives. This approach, therefore, is more of an ongoing training exercise and, naturally, cannot be done for important tasks when management must focus on immediate achievement of goals or the undertaking must be given to someone who can do it successfully.

The reality is that a task not done properly is unlikely to serve as a future reminder that ensures more efficiency. As suggested earlier, the underlying, innermost persona of a Thai employee has a tendency to be resilient in maintaining itself and all the foibles and failings that it

generates. Success in circumstances outlined in the previous section, therefore, is more about the management of people, rather than any collective effort, as may be the case with effective teams in well-run organisations elsewhere. Of course, the innate communal characteristic of Thais and others in the Mekong region can bring people together when something must be done, preferably when a sense of enjoyment can be attached to the activity. Again, management is necessary and, in that situation, managers must be leaders, motivators and work as if in charge of a social committee.

This suggests that a manager needs to be soft and communal. Yet, one cannot forget that the viable alternative is to give commands and drive people, as was identified in the preceding four-sector diagram, with application of the hard management style being met, all the while, with the disarming smile and pleasant countenance of most Thai employees.

The question for the manager is between the soft or the hard management style, as in the model summarised in the previous section of this article, usually comes down to the manager's preferences. Often, this is a product of their personality and related characteristics, although the dominant corporate culture of an organisation can influence people to such an extent that it that overrides any personal preferences of a manager.

#### **4.5. Paternal Society and Its Effects on Business**

It is generally agreed in business that time is a precious commodity and that it should not be wasted on long-winded decision cycles or in seeking the agreement of all concerned, especially in any environment where some sort of consensus is expected by employees. In such cases, as when any threat is imminent or has arrived, decisions must be made instantly and that is all about good, strong leadership.

If managers are not in a position to make the mission-critical decisions in isolation, they tend to follow the leader. In contrast, it is noteworthy that any manager playing a dominant, hard, paternal role is very much in keeping with the very nature of autocratic Thailand and that of many parts of East Asia generally. This is expressed in the circular flow diagram of Figure 2.

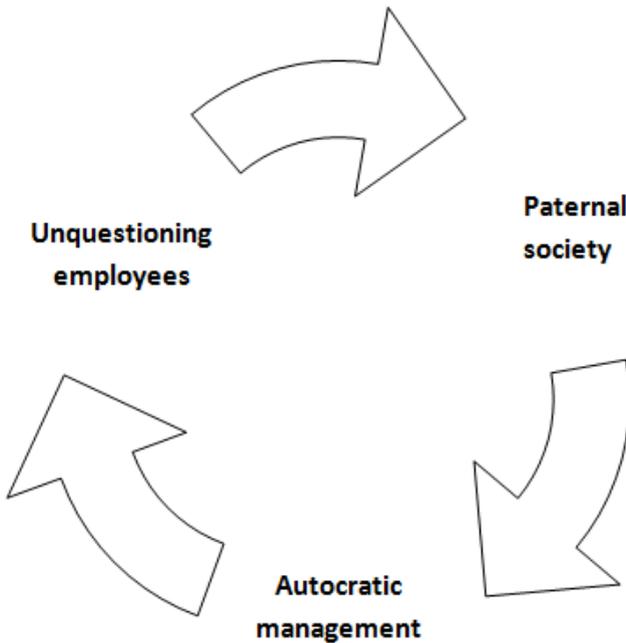


Figure 2: Paternal Society in Asia – Its Effects and Self-Reinforcement; Source: Author’s Own Composition

Working in entities controlled by other nationalities is an added challenge for anyone working internationally. In the case of East Asia, a paternal society tends to cultivate autocratic management whereby the chief executive or owner of an entity treats employees as family members, although doing so as a hard task master akin to being the

head of the household. In turn, as suggested by the diagram above, employees follow what is commanded, and do so unquestioningly. That, of course, reinforces the very elements that make an East Asian organisation, and the prevailing society, as it is. In the microcosms created by Asian organisations, such as in the private and public sectors, autocracy and tyranny are obvious, and possible, outcomes.

In the traditional hierarchical structure of a paternal organisation, for people in more senior positions, less softness and much more hardness is evident in terms of the style of management. So it is that the 'father figure' borders on being unyielding and unforgiving. Again, generalisations sweep aside people who do behave differently. Still, the overall model is appropriate, especially when anyone new to the region wants a guide by which to understand the way of things in Thailand and in much of East Asia.

In that type of environment, where there is fundamental adherence to the musing of one person, consider that the chance for organisational change is low. As is understandable, Thai employees respect their manager or executive or the business owner. That is all well and good but respect for elders extends to following their lead faithfully, even if incorrect as to their vision, judgement and decisions or if it is entirely contrary to whatever was said to be the objective of the business. It is possible that a so-called leader can be so misguided as to have no real clue as to where he or she wants to go. Yet, employees will still follow and no one will say anything out of place. This is also problematic.

Another issue is that people who were suppressed by authoritative leadership and lacking any power as a direct consequence seem to relish the opportunity to act paternally and autocratically when they get their own chance and are promoted to management roles. That adds a significant degree of difficulty to the attainment of organisational efficiency, if it is even an objective, and gives many who must deal with such managers a very trying time. Also, cronyism

is a by-product of paternalism. This can mean that incompetent people are placed in positions of small or large influence, with this leading to gross inefficiencies.

The good thing is that the generally casual and accepting attitude of Thais means that whatever they are told to do is taken in their stride and related ramifications may well be forgotten. Again, that adds to the pleasantness of working with Thais, even if it does little to generate any confidence in their ability to see good reason as to why decisions occurred or if there were better options available at the time or subsequently. In the prevailing paternal culture, Thais dare not challenge authority or even question what others might think of any topic and so it is that the status quo remains unchallenged.

For managers, there can be a lack of the executive-level information flow (if any exists at all) that is necessary to do the job well. Also, there are not likely to be transparent decision making processes (if any exist at all). Consequently, it is problematic for a manager when subordinates do not have any real idea about business purpose or courtesy. The same can be said when dealing with colleagues of equal standing in an organisation who show no capability to offer help of any sort. It is extraordinary to think that managers and even executives show no apparent evidence of sharing or caring about others of equal or lower, rank. It is tricky, if not difficult, to be manager in Thailand, and may be thankless too.

Understandably, inadequate information is an obstacle for a determined manager. I recall a situation where a very competent foreigner was appointed as President of an entity in a popular province south of Bangkok. Despite the lofty position, he was never given access to financial statements. As expected, this situation hampered his ability to run the business, and to make economically-sound decisions. Of course, withholding vital information also had the effect of making that man feel that he was not on equal terms with senior executives, all of whom were Thai and, predictably, he resigned. The

reality in any international setting is that locals can resist any push for change from foreigners due to the high likelihood that the foreigners will leave and they will stay. In another part of the world, I have had as much said to me when trying to save a business in the grips of a vicious takeover battle.

Owing to the inefficiencies of some Thai organisations, it must be pointed out that foreigners may be recruited to establish a business or garner some sort of positive public image. Once that sort of objective is achieved, the foreigner is discarded, even if it means that the Thai replacement cannot maintain the level of previous accomplishment or the former pace of progress. This may be done for reasons of national pride, inflated egos or exaggerated opinions of Thai skills and without any value placed upon the positive contribution that foreigners, in such cases, can continue to provide. In the case of a prominent professional services firm in Thailand, when it merged with another, all foreign partners were terminated so as to ensure full Thai control, with that happening regardless of the loss of reputation or diminution of the client base.

Back in the Thai workplace, it is best if a manager deals with what must be done to the full extent of the responsibilities entrusted to them in their role. Anything less might not be in keeping with their level of professionalism and personal expectations of themselves. Anything more and they would be seen by others, including colleagues and superiors, as having interfered in the workings of another person. That can be the case, even if positive outcomes can eventuate. Of course, possible opposition and polite antagonism is unlikely to arise if a manager was asked for help or if it were the consequence of a communal, group effort. The reality is that, amongst Thai employees, someone exhibiting a less than an acceptable standard of work might not be commented upon by others for fear of upsetting that person. Societal sensitivity, therefore, can compromise the chance of advancement that comes from utilising skills and abilities to the fullest.

Note that this sensitivity does not end when someone becomes a manager or an executive. The situation can become ridiculous when a mission critical issue cannot be expressed for fear of inadvertently upsetting or accidentally insulting someone. For instance, in a board meeting, I listened to a director speak, at length, about his business idea, which was flawed. No one said anything in opposition. Then, the chairman asked for my opinion and I gave it. The previous speaker, later, spoke with his colleagues and wondered why I had attacked him personally and why I did not like him. Of course, I had questioned the validity of the business idea and had not mentioned the person, as that would have been inappropriate. However, the person concerned did not restrict the extent of his sense of self and that means all comments are interpreted as attacks. That particular incident suggested that inadequate attention was paid to the objective of the meeting and of the business. For the person who felt attacked, it was more about him wanting happy families than it was about obtaining better business outcomes. As a direct aside, it is worth noting that the chairman had honoured me in asking for my opinion so as to show everyone present that I was worthy of being heard. In addition, consider that the chairman had utilised my response as a way of downplaying the topic on the table, rather than him having to do it, which would have been difficult for a Thai person, especially the chairman, to do to another Thai. In this regard, consider the possible absence of clarity as to lines of reporting, as can arise from complex matrix frameworks and that there is sure to be a lack of transparency. In relation to decision making, for a manager, that can become an unfathomable nightmare. Of course, all of this confusion might suit the owners or primary executives of an organisation. Either that mystification is maintained for financial gain, so as to shroud any corrupt activities, or it ensures that their position as head of the household is sustained because they are the only person who knows what is really happening.

Again, leadership can be biased and not at all in accordance with generally accepted business principles or organisational goals. For example, at a very critical point in time, the output of a particular

employee was crucial to a business in my care. Yet he left for a few days to attend a family event, despite the fact that his attendance was not mandatory. Also, he had failed to speak with me about his planned absence, having gained some sort of concurrence from a low-level manager instead. Of course, I sought an immediate explanation, only to cause uproar amongst colleagues who, being of the same ethnic background, had all placed their cultural norms ahead of what had to be done to move the business toward success. It was another lesson for me as to the way of things at that workplace. Still, I remain steadfast that all employees need to put aside much of themselves to remain effective in a business setting or adapt to suit it. It is all about focus, as opposed to distraction.

#### **4.6. Employee Focus and Distraction**

For any manager working in Thailand, yet another challenge is seeing the significance of something when it happens and, then, having the additional adventure of convincing others that it is a genuine issue. For subordinates, that can mean another dose of hard management. However, if it involves peers or superiors, the challenge of convincing them about the magnitude of an issue can be substantial. Ideally, employees need to be focussed upon whatever is placed before them so as to move the organisation onwards and upward, as per the strategic plan of that entity. Consequently, managers must be aware that there are four main aspects that can drive employee action and involvement in the workplace. These are presented in Figure 3 below.

As is suggested by this diagram, simplistically, an employee can be driven by:

- Self-interest, whereby they support themselves;
- Cronyism, by supporting a Thai superior or sponsor;

- Friendship, being a bond that supports a manager on a personal level;
- Business focus, by supporting a manager entirely on a business level.

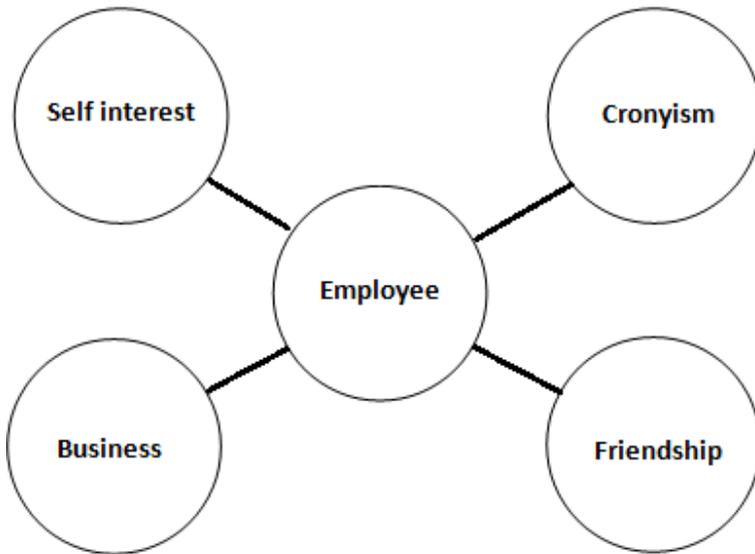


Figure 3. Areas of Possible Focus and Influence for an Employee;  
Source: Author's Own Composition

From an employee's perspective, there is a trade-off between focussing upon the attainment of work-related objectives and allowing for more personal goals to affect their thoughts and actions. It is necessary, then, for a manager to know subordinates well enough in the hope that this understanding can help in shifting their focus, thinking and actions to the low side of the preceding diagram, whereby employees support business aims directly or through their

friendship with the manager. There are constant questions that must be asked by a manager. For instance, is an employee aligned with the needs of the business? Or, at the expense of the organisation, does self-interest lead them astray?

It should be said that management becomes something of an art in balancing the needs of a business with the sensitivities of employees. An alternative, one that can also be effective, although potentially problematic in the longer term with regard to employee retention, is to be dictatorial and show only hardness. In that regard, the question is whether a manager pays sufficient attention to improving outcomes or allows a management regime that is less demanding upon employees time to prevail. This is determined by the social environment as well as employee interests. Again, this is a dichotomy concerning what is necessary when selecting an appropriate management style.

Obviously, a manager must be diligent in ensuring that human, physical and financial resources are employed optimally. It is as much about return on investment for a person as it is for infrastructure, facilities, equipment or funds invested on the short-term money market. Fundamentally, this is a constant question of whether an individual is pursuing the achievement of business objectives.

In business, timeliness is important. Delays should not be allowed. Often, delays do arise due to personal interests, as can become evident through a continued lack of initiative, enthusiasm, curiosity or business focus. I recall an instance when I was running a large part of a particular Asian-based business. At that time, a new technological innovation was announced and suppliers were offering an easy-to-install trial. I could see that this application would provide definite benefits to the President of the business, as well as others if the benefits were proven and, therefore, I asked the technical manager when that application could be installed. "Three weeks" was the answer. My immediate reply was "Why not by Monday?" Pleasingly, and necessarily, it was done in my timeframe, and not in line with

what that less-than-focussed manager thought was right. Again, it comes down to a misalignments of what an employee believes is required, by way of a mixture of interests, and what a manager, or executive, knows is vital to business success. Even so, in a business context, there is the persistent matter of employee self interest and also the strong probability that this is at odds with what is required in the workplace. It is no wonder, therefore, that some managers in East Asia can take on behavioural characteristics of the old ways, as discussed in the earlier section about paternalism, if only to ensure that employees achieve any allocated objectives. Nevertheless, it must be said that management in any location has challenges. Motivation, coaching, counselling, guiding and leading are ever-present. In addition, patience and persistence are universally required skills for managers who strive to do well. This leads to the view that managers must be of a mind to find any way that can improve the productivity of people, policies and processes. Even if the latter two are outside the scope of a manager's responsibilities, people are not and should never be an afterthought or aberration. Getting employees onside is vital in terms of securing a manager's success, not to mention that of the business overall.

#### **4.7. Building a Sub-Culture Based upon Trust**

In a veritable sea of complexity, it is best for a manager to be a stable point of reference around which employees can rally as and when it suits them. Since there can be a lack of constancy exhibited by employees, consider the range of possible management styles that were introduced earlier. Managers can act toward employees in a soft manner or, as was expressed in Figure 1, managers can harden that approach considerably. However, no matter what the style, it is paramount that everything is anchored and driven by the same sense of purpose that is evident in the strategic intention of the organisation. Before reading on, please give some thought to that notion for a moment.

Consistency on the part of a manager can also act as something of a social catalyst that will foster a beneficial group culture emanating from a manager's point of view and his or her persona. In relation to this, mull over the following diagram as a representation of this anchoring aspect.

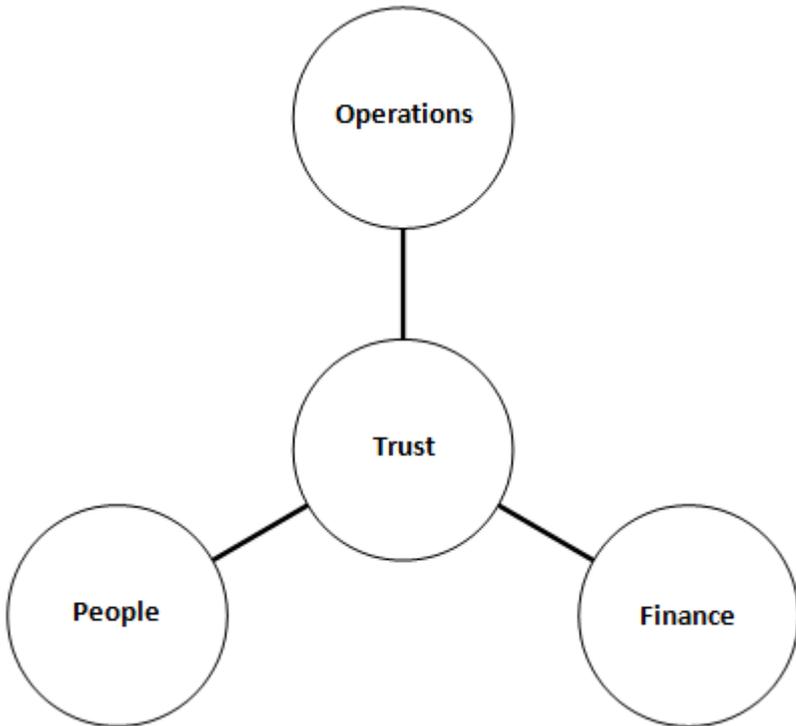


Figure 4. Trust as the Stable Foundation for Any Organisation;  
Source: Author's Own Composition

The preceding diagram arose from a conversation with a leading corporate lawyer about the topic of turnaround management. He asked me what was most important in dealing with a critical business situation. Was it the operations, the financial aspects or human

resources (HR)? I replied that it was something else: the constancy of trust. From my perspective, this is central to any situation. Of course, operations are important, as they are necessary to produce the goods or services that an entity sells in a market. Also, finance is important as there should be no overruns in terms of money and HR is important as there is the need to have people committed to a project. Obviously, success cannot be achieved without the support of employees.

However, in relation to one thing being of the utmost importance, it must be consistency, which can only come from unwavering support for the business goals. Without that steadiness, people involved with the business cannot have the trust in the manager that is necessary in relation to attaining the envisioned objectives. In effect, the manager, ever-mindful of what the business requires, should not allow any other distractions to affect his or her personal behaviour. Employees, thereby, see constancy that can be relied upon and this supports the thoughts related to the three aspects of a business shown in the previous diagram. In effect, everything in an organisation must be underpinned by centrally-located trust.

Moreover, when dealing with business issues, whether these are financial, operational or related to human resources, a manager must be trusted to provide consistent guidance as to how employees and the business must function. Usually, this involves garnering the support of employees, since this can yield in any organisation a sub-culture that revolves around a reliable manager. Basically, to look at the counter-factual argument, if a manager does not have the support of employees and they do not trust the manager's judgement, the three functional areas mentioned above, as well as any others, will fail to meet expectations.

An allied consideration is that there is a need for personal integrity on the part of a manager, if only to ensure the manager's peace of mind. In a turnaround situation or any other where the aforementioned sense of urgency is high, there is a need for a manager to have knowledge

and nerve in dealing with the numerous issues of a struggling business. Even in such circumstances, it is vital that appropriate focus is maintained. Also, throughout, market competitiveness must be an underlying consideration. If an employee, manager or executive does not do as well as possible and identical aspects of a competitor do better, this can lead to loss of market power, market share and profitability, which can undermine the financial position.

Again, we can see that a manager must delegate work to those in their particular area and help them to achieve tasks and projects as assigned. Short of doing the actual work, a manager must also provide an environment that is conducive to effectiveness, which might need the aforementioned coaching and so forth. Without wishing to repeat myself, consider that trust is central to the point of organisational stability grown by a manager. Without that, employees will not be able to discern differences between what the manager does and the complexity that already exists. Of course, this does not suggest that a manager can undo the rudimentary elements of an East Asian organisation. That should be evident due to the self-supporting paternal scenario that was considered earlier.

#### **4.8. Becoming International**

Given all of the preceding commentary, it is little wonder that Thais do not seem to be in high demand in the global business community. It is difficult to imagine that people who were born into and raised by a society that has the characteristics and expectations explained here will do well elsewhere, if they dared to leave. Even so, the pleasantness and caring of Thai people does have a particular home in the service sector, including the tourism and hospitality industry, especially when jobs are task-based. Naturally, there are pockets of perfection, although these are few and far between. That these exemplars exist at all is a saving grace, although not when others also employed in an entity are obstacles to possible progress. Notwithstanding widespread cronyism, anyone who does stand apart

from the rest of the employees has the potential to become a splendid leader and can also become an ideal candidate for international work, whether on an individual project, a longer-term assignment or a more permanent placement.

To determine the readiness of employees for international roles, it is necessary that they:

- Know their strengths and possible limitations;
- Know particular languages that are required;
- Know what to do when faced with serious business issues;
- Know how to seize opportunities;
- Know how to fix any non-business problems that arise when in a new location.

Without support from an existing manager of employer, how can someone begin a process of internationalisation? If that is the case, people should:

- Go to the country where they want to work;
- Become immersed in the targeted culture;
- Sell themselves to people who could make good use of their capabilities;
- Look for opportunities that suit their skill set;
- Learn from others.

Note that it is easier to find a job in a place where an aspiring manager is physically available, rather than being too far away. In addition, it is about:

- Fitting in - this can be done by affecting local mannerisms but, it is better to remain observant, rather than to participate fully doing so in order to learn from what is happening and from what others do.
- Eating habits – consider the details of fine dining, the use of chopsticks, the Thai style (with a fork in the left hand and a spoon in the right), using finger tips or an entire hand. Also, there is the associated etiquette as to what is necessary in each case.
- Beliefs – have actual respect for fundamental beliefs, such as in Buddhist, Christian and Islamic societies. Still, one must understand the demands of business and that these can be counter to prevailing cultural expectations.
- Patience – especially when in East Asian cultures that applaud serenity.
- Proper assessment – making certain of the consequences before any related decision is made.

#### **4.9. The Best Approach for Managers**

Experience I have gained in Asia and elsewhere suggests that the best approach for workplace management is a mixture of things and that much depends upon context, as well as the persons with whom a manager interacts. For instance, it appears that managers must be beneficial, believable, consistent and kind, yet stern when necessary. Optimal management is not about supporting one type of style. It is situational, fluid and in accordance with what is required by the

organisation that has engaged a manager to meet strategic objectives. That flexibility, foremost, is the deciding factor as to how a manager must work, as well as how to interact with others. This involves finding what is right for the moment, the person, the project or whatever it is that comes into view and that requires a manager's attention. For a manager to do less than what is proposed is to be less than optimal in the job and, therefore, it is to be less than professional.

Having said all of that, if a manager is ever put into extremely challenging roles, as referred to earlier in relation to start-up and turnaround situations, the necessary management style is sure to be hard and will require discarding all pleasantries in the pursuit of necessary business outcomes.

Certainly, how to be a good manager should be judged in accordance with business outcomes. Still, that can mean a manager must be considerate, approachable, compassionate, understanding of people, as well as accepting of their obvious weaknesses and failings. It is also advisable to encourage, if not initiate and engage in, non-work activities. Alternatively, the manager must be a tyrant or hard task master, which is a common management style in East Asia and is a recurrent theme in this article.

The primary point arising from my experience and, probably, the main lesson to be learned, is to remain calm and clear in situations where those qualities are absent. The soft human quality provides a skilled manager with a hard-edged tool to use in pushing people to pursue and attain business outcomes. This form of behaviour, I believe, provides the grounds for succeeding in international roles that have a remarkable array of challenges.

## **5. Conclusion**

East Asian workplaces offer considerable complexity and uncertainty, as well as too much bureaucracy, low to no strategic direction,

inadequate leadership and poor management. Accordingly, such workplaces are a great training ground for anyone who is contemplating international business opportunities, and going global. The lessons in East Asia are there to be learned and applied.

Given all of the aforementioned problems that are attributable to Thai characteristics, with this serving as a surrogate for East Asia generally, it is best for any aspiring international manager to be very philosophical in order to remain quite composed and lucid as to what must be done to remedy any business situation. As such, that approach makes the perfect basis for dealing with difficult issues and thorny people.

You might recall that this article started with a heartfelt paragraph as to the meaning of management, which might be worth revisiting here. There is the need for readers who are current and prospective managers to give serious thought as to what they ought to do in making their work day more productive, especially when engaged with others over whom they have potential or actual influence.

Consider that any place of work is international, in one form or other, and that each one of these workplaces is a school for managers who want to become international. It is, simply, a matter of learning lessons that are there for the taking and making the right decision when any strong opportunity comes along.

**PEER REVIEWED RESEARCH PAPERS**

# **Growth and Public Expenditure Management: P-Value Analysis and Granger Causality in SAARC Economies**

Shankar Prasad Acharya

## **Abstract**

*The Wagner Hypothesis (WH) is a concept that supposes that public expenditure is largely determined by the relative volume of the gross domestic product (GDP) and the size of the government (Wagner's law of expanding state activity). It has been tested widely in a number of different territories. This proposition seems pertinent in the context of the South Asian Association for Regional Cooperation (SAARC) as this region has been flourishing with high growth and large public spending areas in the world, especially after the economic liberalization period starting in the mid-1980s. Major countries of this region annually spend on average more than 24 percent of their GDP on public spending, which is indicative of a high level of state activity. To explore this, WH has been tested to determine whether causality runs from GDP to public expenditure of the SAARC countries - Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka - by analysing GDP and government expenditure (GE) using data from 1985 to 2008. The econometric test results suggest that the WH is applicable to Bhutan, India, Nepal, Pakistan and Sri Lanka but there is no causation in the case of Bangladesh. This suggests several macroeconomic policy implications and need for rational policy adjustments, which are discussed in the context of the results.*

**Keywords:** *econometric analysis, government expenditure, South Asian Association for Regional Cooperation, Wagner Hypothesis*

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## 1. Introduction

Gross Domestic Product (GDP), one of the measures of formal economic activities within a specific territory, is an outcome of several economic variables. Amongst these variables is public expenditure, which has an important impact on GDP accumulation and growth. The government sector normally builds and supports public utilities, builds socioeconomic infrastructure and incurs significant amount of expenditure for day-to-day running of the judiciary, legislative and administrative functions. By such consumption and investment activities, production (service and infrastructure) and income is generated in the economy. The relationship between GDP and government expenditure (GE) suggests that GDP would be a partial function of public expenditure. However, in contrast to this opinion, Adolph Wagner (1835-1917), a public finance theorist and advocate, suggested that as the size of the economy (or the government) grows bigger, public spending will also be affected accordingly. This proposition is examined in this paper for the South Asian Association for Regional Cooperation (SAARC), which consists of Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka. Evaluating the trend of government spending over time in the SAARC region reveals a regional average of GE/GDP ratio of more than 24 percent. In country specific terms, Bangladesh has the lowest rate 15 percent and Bhutan has the highest at 40 percent, when considered from 1985-2008. India and Nepal have 18 percent each and Pakistan and Sri Lanka have 25 percent and 28 percent respectively in the same period. The research questions to be answered include the extent to which these figures (GE and GDP) are causally related and what is the nature of any such relationship. To explore the issue, p-value analysis is employed.

The paper continues with a section briefly mentioning the different mathematical models that have been proposed previously and a literature survey of relevant work. The third section discusses the methodology employed and the model specification. The fourth section analyses the empirical findings for all the countries whose time series data has been used for testing WH. Finally, Section 5 summarizes, concludes and suggests policy measures and scope for further research.

## 2. Theoretical Models and Literature Survey

According to the functional relationship proposed by Adolph Wagner, GE is a partial function of GDP. This basic hypothesis has been proposed in six different basic models:

- (a)  $GE = f(GNP)$ .
- (b)  $GE/P = f(GNP/P)$ .
- (c)  $GC/GNP = f(GNP/P)$ .
- (d)  $GE = f(GNP/P)$ .
- (e)  $GE/GNP = f(GNP/P)$  and
- (f)  $GE/GDP = f(GDP)$ .

Where, GE, P, GC and GNP represent government expenditure, price index, government consumption and gross national product and the symbol  $f$  in all equations signifies a functional relationship between the dependent variable and the explanatory variables.

Although there have been several models suggested and analysis may vary depending on specific research objectives, no unanimous

findings have been obtained in the past. In essence, there have been basic three types of relationships found in prior research:

a. There was support in different studies for a GE-GDP relationship (WH) in which it was indicated that public expenditure was the function of output or growth such that as the size of the economy or the government grows, public expenditure also increases (Vatter and Walker (1986) for USA 1929-1979; Islam (2001) for USA 1929-1996; Gyles (1991) for UK 1946-1985; Nomura (1995) for Japan 1960-1991; Ahsan *et al.* (1996) for Canada 1952-1988; Dritsakis and Adamopoulos (2004) for Greece 1960-2001; Abizadeh and Yousefi (1998) for South Korea 1960-1990 and Dao (1995) for 55 countries 1980-1991).

b. There was no support for a GE-GDP relationship (WH), indicating that public expenditure was independent of growth of GDP (Legrenzi and Milas (2002) for Italy 1959-1996; Henrekson (1988) for Sweden 1861-1990; Halicioglu (2003) for Turkey 1960-2000; Burney (2002) for Kuwait 1969-1994; Wagner and Weber (1977) for 34 countries 1950-1972 and Lall (1969) for 46 developing countries 1962-1964).

c. Mixed results were also obtained showing support; no support; periodic support or inconclusive results concerning WH analysis (Abdel Rahman and Barry (1997) for Saudi Arabia 1970-1991; Ram (1987) for 115 countries 1950-1980; Bairam (1992) for OECD countries 1950-1985 and Payne and Ewing (1996) for 22 countries 1948-1994).

### **3. Model, Data and Methodology**

The objective of this paper is to verify the causal relationship between GE and GDP in SAARC economies. The model employed in this paper is an econometric representation in line with the proposition:

$$GE = a + b GDP + e$$

Most of the macroeconomic time series data are believed to be non stationary at this level (Gujarati, 1995:729). Considering this generalization, applying standard regression models to non-stationary data series seems to be improper because any econometric analyses from which reasonable conclusions may be drawn must make sure that all the data series are of the same order of integration in order to avoid the problem of spurious relationships. Hence, to avoid such relationships and erroneous results with respect to the causal relationship between GE and GDP, an Augmented Dickey-Fuller (ADF)<sup>1</sup> unit root test is performed for GE and GDP included in the model based on the following regression equations:

$$\Delta GDP_t = \alpha_1 + \beta_1 GDP_{t-1} + \theta_1 \sum_{i=1}^n \Delta GDP_{t-i} + \varepsilon_{1t}$$

$$\Delta GE_t = \alpha_2 + \beta_2 GE_{t-1} + \theta_2 \sum_{i=1}^n \Delta GE_{t-i} + \varepsilon_{2t}$$

Where  $\Delta$  is the first difference operator,  $t$  is the time trend,  $\varepsilon$  is the stationary random error and  $n$  is the maximum lag length. In both equations, the null hypothesis is that “GDP and GE have unit roots,” that is,  $\beta_1 = \beta_2 = 1$  hence non-stationary. The alternative hypothesis is that both variables are integrated of order zero,  $I(0)$ , hence, stationary at levels. The null hypothesis that GDP and GE are non-stationary time series is rejected when both  $\beta_1$  and  $\beta_2$  are significantly negative and the  $t$  statistics are less than the MacKinnon critical values.

For further support to ADF test results, the Phillips-Perron (PP) test is also conducted as it gives more robust estimates compared to the ADF

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<sup>1</sup> For details, see Gujarati (2003: 817-8).

test when the series has serial correlation. Hence, PP has also been employed in this analysis in addition to the conventional ADF test. The PP test finds the presence of a unit root in a series, say  $Y_t$ , by estimating following equations:

$$\Delta Y_t = \alpha + \rho^* Y_{t-1} + e_t$$

$$\Delta Y_t = \alpha + \beta t + \rho^* Y_{t-1} + e_t$$

Where, the second equation includes a trend variable. The PP test is the t-value associated with the estimated coefficient of  $\rho^*$ . The series is stationary if  $\rho^*$  is negative and not significant.

In this paper, a conventional Granger causality test has been performed to study the causal relationship between GE and GDP in SAARC countries. The conventional Granger causality test is assumed to be a reliable test for causality between two variables. It states that a variable  $GDP$  Granger-cause  $GE$  exists if the prediction of  $GE$  is improved solely by the past values of  $GDP$  and not by other series included in the analysis. Vice versa is also true for  $GE$  Granger-causing  $GDP$ . According to Granger (1969), if  $GE$  can be better explained on the basis of past  $GDP$  and past  $GE$  than on the basis of past  $GE$  alone, a causal relationship exists from  $GDP$  to public spending. Three other possible results are the cases of unilateral causality from  $GDP$  to public expenditure, bi-directional causality (or feedback) and independence. The procedure here is used to detect the causality between  $GE$  and  $GDP$  is defined<sup>2</sup> as follows:

$$GDP_t = \sum_{i=1}^n \alpha_i GE_{t-i} + \sum_{j=1}^n \beta_j GDP_{t-j} + u_{1t}$$

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<sup>2</sup> For details, see Gujarati (2003: 697-701).

$$GE_t = \sum_{i=1}^n \lambda_i GE_{t-i} + \sum_{j=1}^n \delta_j GDP_{t-j} + u_{2t}$$

Where, GE is total government expenditure or, alternatively, public spending or public expenditure, GDP is gross domestic product and  $\varepsilon_1$  and  $\varepsilon_2$  are white-noise residuals. The null hypothesis to be tested here would be that ‘GDP does not Granger cause GE.’ The corresponding null hypothesis will be that ‘GE does not Granger cause GDP.’ If both the hypotheses are subject to rejection, then we can conclude that there is the presence of a feedback effect between *GE* and *GDP*. Further, if only one of the hypotheses is subject to rejection, it can be interpreted that there is unidirectional causality from that variable to the independent variable of the equation. In this process, co-integration of level series is considered so as to check the long run relationship amongst the variables. Through the residual stationary test, a long-run relationship is found between the variables concerned. This basis opens the ground for further testing of causality.

From the abovementioned Granger causality representations, it is apparent that:

(a) There is a unidirectional causality from GE to GDP if  $\sum \alpha_i \neq 0$  and  $\sum \delta_i = 0$ .

(b) Quite the reverse, a unidirectional causality from GPP to GE will be found if  $\sum \alpha_i = 0$  and  $\sum \delta_i \neq 0$ .

(c) There will be bi-directional causality or feedback between GDP and GE if both the conditions  $\sum \delta_i \neq 0$  and  $\sum \alpha_i \neq 0$  simultaneously hold; that is, the set of estimated coefficients of lagged *GDP* and lagged *GE* are significantly different from zero in both *GE* and *GDP* equations and

(d) GDP and GE will be determined independently and not statistically significant if  $\sum \delta_i = 0$  and  $\sum \alpha_i = 0$ , implying that there is no causal link between these two variables.

In this process, a dilemma may arise while selecting the appropriate lags of variables to include in the model. First, although the Granger causality test has a greater appeal than its alternatives, the issue concerning the optimal lag length still remains unclear. The distribution of a test statistic is sensitive to the order of lags used. If the lag order used is less than the true lag, the regression estimates would be biased and the residuals might be serially correlated. If the order of lags used exceeds the true lag order, the power of the test is likely to be reduced. In order to overcome such problems, it is possible to adopt the minimum final prediction error (FPE) criterion based on the Akaike Info Criterion (AIC) and the Schwartz Criterion (SC) and this approach has been taken here. The AIC is often used in model selection for non-nested alternatives where smaller values of the AIC are preferred. The SC is an alternative tool to the AIC that imposes a larger penalty for additional coefficients. The P-value approach has become a popular alternative these days to conclude a test of hypotheses. Under this method, the test compares the p-value of the sample test statistic with significance level ( $\alpha$ ) chosen.

The p-value of the test statistic is the smallest level of significance for which the null hypothesis ( $H_0$ ) can be rejected. Most contemporary econometric and statistical software programmes report the p-value associated with the concerned sample statistic. The P-value further ensures that test results and interpretations lead to the right direction. The P-value should be explained very carefully, even though it is straightforward. It is compared to significance level  $\alpha$  and, based upon this comparison, the null hypothesis is either rejected or not rejected. In general, there are four possible misinterpretations of the p-values:

(a) the probability that the null hypothesis is true;

- (b) the probability of committing a Type – I error;
- (c) the probability of making a wrong decision and
- (d) the probability that the sample statistic is due to chance alone.

The general guideline for using the p-value is to derive the evidence against the null hypothesis is as follows:

P-value	Interpretations
$p \leq 0.01$	Very strong evidence against null hypothesis, i.e. result is highly significant
$0.01 < p < 0.05$	Strong evidence against null hypothesis, i.e. result is significant
$0.05 < p < 0.10$	Moderate evidence against null hypothesis, i.e. result is marginally significant
$p > 0.10$	Little or no evidence against null hypothesis, i.e. result is not significant

Table – 1: P-values and Their Contemporary Interpretations

The contemporary interpretations of p-values clarify and simplify the use of modern tools in research and pave the way for proper investigation and interpretation of the statistical and economic meanings of the findings. While converting the nominal data into real data for GE and GDP, the base years are set as 1996=100 for Bangladesh and Sri Lanka; 2001=100 for Bhutan, India and Nepal; and 2000=100 for Pakistan depending upon the several overlapping indexes of GDP deflators of the respective countries. Data is provided by the Asian Development Bank.

#### 4. Analysis of Empirical Findings

The objective of this paper was to study the causal relationship between GE and GDP in SAARC countries. At the outset, correlograms were plotted for initial diagnostic checking to determine

whether data are autocorrelated. Furthermore, the ADF and PP tests have been used to test the null hypothesis of unit root. The findings are explained below.

#### 4.1. Stationary Test Results

Initial indications of correlograms plotted for the respective variables of all the respective countries included in the test indicated that the data have shown non-stationary trends in level and stationary trends at first differencing. The results of the ADF unit root and PP test statistic for GE and GDP of SAARC economies are reported in Table 2.

Countries	Data at	ADF Test Statistic		Phillips-Perron Test Statistic	
		GE	GDP	GE	GDP
Bangladesh	Level	2.3576	1.5920	2.9116	2.1841
	First Difference	-2.6248**	-5.3306***	-2.6155**	-5.3406***
Bhutan	Level	0.7028	3.5489	0.7028	3.4350
	First Difference	-4.6079***	-3.9641***	-4.6103***	-4.0106***
India	Level	2.8515	4.5822	2.9546	5.1285
	First Difference	-2.0125**	-2.6892**	-1.2168***	-2.6114**
Nepal	Level	0.3129	1.3439	0.8988	4.3089
	First Difference	-2.4971**	-4.5708***	-3.7531***	-5.0923***
Pakistan	Level	0.9654	2.9878	0.5832	3.4752
	First Difference	-2.8497***	-2.9551**	-2.8608**	-2.9551**
Sri Lanka	Level	2.9226	5.3126	1.5253	5.3126
	First Difference	-3.8875***	-2.2073*	-3.9258***	-2.0023*

Table 2: Unit Root Test Based on ADF and PP Test Statistics;<sup>3</sup> source: Original Research

<sup>3</sup> \* indicates significance level at 10% MacKinnon Critical Values, \*\* indicates significance level at 5% MacKinnon Critical Values and \*\*\* indicates significance level at 1% MacKinnon Critical Values.

Since the computed ADF test statistic of all the variables are higher than any of these MacKinnon Critical values at level forms, the null hypothesis that these variables exhibit a unit root cannot be rejected in these SAARC countries. Owing to the presence of unit roots in all the time series, they are non-stationary, implying no statistically meaningful relationship between them. However, after first differencing, the null hypothesis of unit root is rejected in all of the cases since the ADF test statistic is smaller than MacKinnon critical values. That is, the first differenced GDP and GE do not exhibit a unit root, meaning that these variables are stationary. Unit root test results on the basis of the ADF test indicate that all the series are integrated of order one or  $I(1)$ . The null hypothesis of unit root could not be rejected for GDP and GE in the level form but could be rejected in their first differences for both the models.

Furthermore, the PP test checks the robustness of the ADF test. PP unit root also has a null hypothesis of unit root. Likewise, the results of the PP Unit Root statistic for GDP and GE of these South Asian nations are presented in the same table above. Since the computed PP test statistics of GDP and GE are higher than any of these MacKinnon Critical values at level forms, the null hypothesis that these variables exhibit a unit root cannot be rejected. The PP test does not reject the null hypothesis of unit root for GDP and GE in the level form and rejects the null hypothesis in the first difference form of the series. Owing to the presence of unit root in the variables, they are non-stationary, implying no statistically meaningful relationship between them. However, after first differencing, the null hypothesis of unit root is rejected in all of the cases since the PP test statistic is smaller than MacKinnon critical values. That is, the first differenced GDP and GE do not exhibit a unit root, meaning that these variables of all the six countries are stationary. Hence, both ADF and PP tests have similar indications that all the variables have unit root in level forms and no unit root in the first difference.

## 4.2. Granger Causality Test

The AIC and SC values for the selection of optimal lag have been presented in Appendix 1. The Appendix shows that the minimum value of AIC and SC for both variables is found at first lag for all six countries included in the study. Hence, the first lag has been selected as the optimal lag for all these countries to proceed further for the Granger causality test. This paper has employed the technique of bivariate pair-wise Granger causality testing to examine the causal relationship between GE and GDP. The Granger causality results presented in Table 3 are obtained by using first lag as optimum lag length for each variable.

According to the values presented in Table 3 for pair-wise Granger causality tests, p-values have indicated mixed possibilities. In country specific terms, the results for Bhutan, India, Nepal, Pakistan and Sri Lanka show that the null hypothesis that "GDP does not Granger cause GE" is rejected in different level of significance. The p-values are highly significant and produced very strong evidence against the null hypothesis at 1% level in the case of Bhutan and Sri Lanka. In relation to Nepal, the p-value is significant at the 5% level and this suggests strong evidence against the null hypothesis. For India and Pakistan, the p-values support moderate evidence against the null hypothesis at the 10% level of significance, implying that the results are marginally significant. In contrast, p-value is  $> 0.10$  in the case of Bangladesh, indicating little or no evidence against the null hypothesis and the result is non-significant. These patterns of results suggest that there is unidirectional causality running from GDP to GE in Bhutan, India, Nepal, Pakistan and Sri Lanka, so that GDP is one of the sources of variation of GE in those countries. However, in the same test, the results for Bangladesh are different. The results suggest that there is no causal relationship between GDP and GE in Bangladesh.

Country	Null Hypothesis	Obs	Lag	F - Stat	P-Values <sup>4</sup>	Decision
<b>Bangladesh</b>	GDP does not Granger Cause GE	23	1	2.7830	0.1108	Do not Reject
	GE does not Granger Cause GDP			2.93100	0.1023	Do not Reject
<b>Bhutan</b>	GDP does not Granger Cause GE	23	1	13.1023	0.0017***	Reject
	GE does not Granger Cause GDP			1.2687	0.2733	Do not Reject
<b>India</b>	GDP does not Granger Cause GE	23	1	4.2400	0.0527*	Reject
	GE does not Granger Cause GDP			0.0119	0.9140	Do not Reject
<b>Nepal</b>	GDP does not Granger Cause GE	23	1	7.7904	0.0112**	Reject
	GE does not Granger Cause GDP			0.2599	0.6157	Do not Reject
<b>Pakistan</b>	GDP does not Granger Cause GE	23	1	4.0129	0.0588*	Reject
	GE does not Granger Cause GDP			1.8699	0.1866	Do not Reject
<b>Sri Lanka</b>	GDP does not Granger Cause GE	23	1	12.4263	0.0021***	Reject
	GE does not Granger Cause GDP			0.28001	0.6025	Do not Reject

Table 3: Pair-Wise Granger Causality Results

<sup>4</sup> \* p-value <0.01 (significant at 0.01), \*\* p-value <0.05 (significant at 0.05), and \*\*\* p-value <0.10 (significant at 0.10)

### **4.3. Views on Locality, Model Formulation and Findings**

Researchers face several limitations in their work and may observe discrepancies in results due to contemporary practices of model verification and hypothesis testing because of exclusion of internal factors in the models that might have specific influences. In this paper too, regarding the analysis of relationship between GDP and GE, the countries included are of different sizes in terms of geographic area, population, growth pattern, socio-economic diversity, level of development and political set-up. For example, the populations of Bhutan, Sri Lanka and Nepal are significantly lower than India and Pakistan. Furthermore, the transparency and literacy of the government in public spending would also have an impact on expenditure patterns. For example, if the government concerned is populist and democratically accountable, then the spending tendency would be higher in development sectors, whereas if the country is ruled by military junta or there are concerns about national security, then spending might be more focused on defence. Pakistan and India dedicate a higher proportion of their budgets on defence than do Bhutan and the Maldives. The efficiency of national resource use by the government can be increased through greater transparency, accountability and integrity (Transparency International, 2010). The results of the present study indicated unidirectional causality from GDP to GE in Bhutan, India, Nepal, Pakistan and Sri Lanka and no causality in Bangladesh. Such discrepancies of results amongst countries might have been influenced by these factors.

However, despite the several possible influences of locality, transparency and ideology regarding public spending, the belief can be held that the ultimate transmission channel of the government expenditure is: (a) based on consumption elasticity thereby boosting backward and forward linkages between primary, secondary and tertiary sectors of the economy, (b) capital-spending elasticity, thereby promoting accumulation of capital wealth and socio-economic

infrastructure or (c) combined consumption and capital spending in the development process.

## **5. Conclusion, Recommendation and Scope**

Government spending incurred by the concerned countries is a matter of choice of those countries depending upon resource availability, national fiscal policy, size of the economy, level of national socio-economic development and other sectoral policies (trade, monetary, poverty alleviation, defence etc). In the SAARC Region, amongst the countries included in the study, all of the countries' data series except Bangladesh supported WH, i.e. as the size of the government or economy increases, GE also increases. Hence, respective authorities of the countries can take the findings as reference material while formulating their fiscal policies and trade policies according to their socio-economic condition and financial needs. One important observation to mention here is that Bhutan, India, Nepal, Pakistan and Sri Lanka have their GE/GDP ratio over 18 percent whereas in Bangladesh it is only 15 percent. Furthermore, India and Nepal, with 18 percent GE/GDP ratio rejected the null hypothesis "GDP does not Granger Cause GE" at 10 percent and 5 percent level of significance respectively, whereas Bhutan, and Sri Lanka, having more than 25 percent of GE/GDP ratio, rejected the same null hypothesis at 1 percent level and Pakistan, having GE/GDP ratio of 25 percent, rejected the same at 10 percent. It may be, then, that the WH might work effectively only if the level of public spending crosses a certain limit of threshold of GE/GDP ratio. This possibility can further be tested by broader coverage and longer periods of time series data. Similarly, the WH can be explored further and reinforced by advanced methods of testing like intervention analysis (impulse response function and variance decomposition), spectral analysis and inclusion of influences of locality, all of which was beyond the scope of this paper.

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## Appendix 1: Selection of Optimal Lag Length

Countries	Dependent Variable	Respective Lags	AIC	SC
Bangladesh	GE	1	1.1195	1.1686
		2	2.5123	2.5614
		3	3.3297	3.3788
	GDP	1	0.9298	0.9788
		2	2.3171	2.3661
		3	3.1289	3.1780
Bhutan	GE	1	0.9024	0.9515
		2	2.2889	2.3381
		3	3.1001	3.1489
	GDP	1	1.1732	1.2228
		2	2.5595	2.6086
		3	3.3706	3.4195
India	GE	1	1.0623	1.1114
		2	2.4492	2.4982
		3	3.2607	3.3098
	GDP	1	1.9096	1.1587
		2	2.4980	2.5951
		3	3.3090	3.3561
Nepal	GE	1	0.3188	0.3679
		2	1.7051	1.7542
		3	2.5161	2.5651
	GDP	1	0.5082	0.5572
		2	1.8944	1.9435
		3	2.7054	2.7545
Pakistan	GE	1	-0.1822	-0.1331
		2	1.2066	1.2557
		3	2.0201	2.0691
	GDP	1	0.3692	0.4453
		2	1.7831	1.8322
		3	2.5946	2.6437
Sri Lanka	GE	1	0.0276	0.0767
		2	1.4139	1.4630
		3	2.2249	2.2739
	GDP	1	0.7158	0.7648
		2	2.1020	2.1511
		3	2.9130	2.9621

Note: AIC and SC were calculated up to six lag, however the values are reported for only up to three lags because of space constraints.

## Appendix 2: Government Expenditure and GDP Pattern in the SAARC Countries<sup>5</sup>

Countries	Bangladesh		Bhutan		India		Nepal		Pakistan		Sri Lanka	
	GDP	GE/GDP	GDP	GE/GDP	GDP	GE/GDP	GDP	GE/GDP	GDP	GE/GDP	GDP	GE/GDP
Years												
1985	763	15	8.2	52	7357	18	190.6	18	1962	25	415.2	34
1986	797	15	9.0	44	7685	20	199.4	17	2073	26	429.0	33
1987	827	14	10.6	43	8026	19	202.8	17	2207	27	439.1	33
1988	921	15	10.7	45	8885	19	218.4	18	2371	27	455.8	32
1989	872	16	11.2	49	9506	19	227.7	20	2491	26	471.9	31
1990	1283	12	12.0	36	10797	19	255.6	18	2311	29	503.8	29
1991	1337	11	12.3	33	10943	18	273.7	18	2441	29	528.2	29
1992	1391	13	12.8	35	11531	17	285.3	16	2618	30	547.7	27
1993	1456	13	13.1	35	12206	17	295.7	17	2679	29	592.8	27
1994	1515	15	13.8	35	12958	16	320.9	16	2785	26	628.2	27
1995	1590	14	14.7	38	13906	16	331.8	17	2923	26	662.4	30
1996	1663	14	15.5	38	15044	15	349.1	17	3118	27	688.1	28
1997	1753	13	16.2	35	15716	15	366.8	17	3141	24	731.6	26
1998	1845	13	17.2	30	16782	16	378.8	17	3252	26	791.6	24
1999	1934	14	18.5	41	17865	17	395.2	16	3386	24	824.8	24
2000	2049	15	20.1	41	18599	17	418.9	16	3562	20	874.5	25
2001	2158	15	21.5	47	19660	17	441.5	18	3636	19	866.9	26
2002	2252	15	23.8	37	20428	18	442.2	17	3745	20	912.5	24
2003	2371	15	25.5	34	22148	19	459.6	15	3922	20	967.3	22
2004	2521	15	27.3	30	23783	17	481.8	15	4214	18	1016.8	23
2005	2669	15	29.1	35	26030	15	499.5	15	4593	18	1080.4	24
2006	2845	15	30.9	33	28567	15	518.3	15	4859	20	1162.8	24
2007	3029	14	37.5	29	31130	16	537.4	16	5179	22	1242.0	23
2008	3216	17	39.0	35	33468	18	560.5	17	5359	24	1315.6	22
GE/GDP	15		40		18		18		25		28	
Six Country Average (GE/GDP Ratio)												24

*Note: Unit of Measurement for GDP Values of the respective countries:*

Bangladesh (Taka in billions); Bhutan (Ngultrum in billions); India, Nepal, Pakistan and Sri Lanka (Rupees in billions of respective countries' currencies).

<sup>5</sup> Share in percent of GDP of the respective countries by respective years in real price.

# **Inventory Management in Malaysian Construction Firms: Impact on Performance**

Salawati Sahari, Michael Tinggi and Norlina Kadri

## **Abstract**

*Managers act rationally in managing their inventory efficiently if they are convinced that the practice enhances firm performance. However, extant research in operations management has revealed divergent insights into the inventory-performance link. This study empirically examines the relationship between inventory management and firm performance and capital intensity on a sample of financial data for 82 construction firms in Malaysia for the period 2006–2010. By employing regression and correlation techniques, it was found that inventory management is positively correlated with firm performance. In addition, the results indicate that there is a positive relationship between inventory management and capital intensity.*

**Keywords:** *capital intensity, construction firms, firm performance, inventory management, JIT.*

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## 1. Introduction

In traditional settings, inventories of raw materials, work-in-progress components and finished goods were kept as a buffer against the possibility of running out of needed items. However, large buffer inventories consume valuable resources and generate hidden costs. Consequently, many companies have changed their approach to production and inventory management. Since at least the early 1980s, inventory management leading to inventory reduction has become the primary target, as is often the case in just-in-time (JIT) systems, where raw materials and parts are purchased or produced just in time to be used at each stage of the production process. This approach to inventory management brings considerable cost savings from reduced inventory levels. As a result, inventories have been decreasing in many firms (Chen *et al.*, 2005), although evidence of improved firm performance is mixed (Fullerton *et al.*, 2003; Cannon, 2008; Kolias *et al.*, 2011).

Nevertheless, most of the studies focus on American firms in the manufacturing sector because of the many revolutions in inventory policies in 1970s and 1980s. Chen *et al.* (2005) observed that the extent of emphasis on inventories among American firms reaches to the financial markets, where there were rules that would reward firms that cut inventories and punish those that did not do so. This is because, during the 1970s, Japanese manufacturing companies made substantial market share gains in the U.S. markets in a range of industries, including most notably the automobile industry.

However, for construction firms, the importance of proper management of materials is highlighted by the fact that they account for substantial portions of project cost and time. Expert estimates and historical data analysis indicate that materials account for 50–60% of project cost and control 80% of its schedule (Ibn-Homaid, 2002). Major projects are characterized by many items of different nature, overlapping construction and degree of changes. These features have

exposed and attenuated shortcomings of the traditional clerically-oriented price-focused approach to managing project materials. For instance, non-availability of items when needed on site is identified as the major and most common and frequent cause of delays in projects. The situation is succinctly put in the form of a question reported to have been repeatedly asked by leaders in the industry: “How do we achieve effective materials management?”

Since performance measurement remains a surprisingly unsettled area in contemporary management (Ghalayini *et al.*, 1997) inventory improvement effect on performance merits empirical examination. According to Chen *et al.* (2005), firms with abnormally high inventories have abnormally poor stock returns. On the other hand, firms with abnormally low inventories have ordinary stock returns. In addition, firms with slightly lower than average inventories perform best over time. Their study (Chen *et al.*, 2005) uses Tobin’s q as a measurement for performance and number of days in inventory as a measurement for inventory management.

In this study, we follow a similar hypothesis as Chen *et al.* (2005) in order to test the inventory-performance link using construction firms listed in Bursa Malaysia for the period 2006–2010. Additionally, we will also measure the relationship between inventory management and capital intensity as emphasized by Koliass *et al.* (2011), which found that there is a positive correlation between inventory turnover and capital intensity as a result of the nature of investments.

The remainder of this paper is organized as follows. In the next section is a review of the relevant literature, where the relationship between inventory management with performance and capital intensity are discussed. This is followed by the methodology where hypotheses are introduced and this paper concludes with a discussion of the results.

## **2. Literature Review**

### **2.1. Inventory Management and Performance**

As mentioned earlier, inventory management leads to inventory reduction, as is often the case in JIT, where raw materials and parts are purchased or produced just in time to be used at each stage of the production process. Several studies have found that this JIT inventory management has a positive impact on firm performance. A study by Fullerton *et al.* (2003) provides empirical support that firms that implement higher degrees of JIT manufacturing practices should outperform competitors who do not; it was also found that a positive relationship exists between firm profitability and the degree to which waste-reducing production practices, such as reduced set-up times, preventive maintenance programs and uniform workloads are implemented. These findings indicate that enterprises employing JIT manufacturing techniques are consistently more profitable than their counterparts.

Another study suggesting a positive relationship between inventory management and performance was Eroglu and Hofer (2011), which used the Empirical Leanness Indicator (ELI) as a measurement for inventory management. They argued that inventory leanness is the best inventory management tool. Lean production itself considers inventory as a form of waste that should be minimized and it has become synonymous with good inventory management. Their study on US manufacturing firms, covering the period of 2003–2008, found that leanness positively affects profit margins. According to Eroglu and Hofer (2011), firms that are leaner than the industry average generally see positive returns to leanness. They found that the effect of inventory leanness on firm performance is mostly positive and generally non-linear. Their study also implies that the effect of inventory leanness is concave, which is in line with inventory control theory that there is an optimal degree of inventory leanness beyond

which the marginal effect of leanness on financial performance becomes negative.

On the other hand, a study by Cannon (2008) introduced contradictory findings. That study focused on assessing the relationship between inventory performance and overall firm performance and it was argued that inventory performance should not be measured as a robust indicator of overall performance. In doing so, it tested the incorporation of firm's annual percentage change in inventory turnover as a measurement for inventory management towards return on assets (ROA) as a measurement of performance. The study (Cannon, 2008) indicated that when the effects of time were taken into account, turnover improvement on average had a slightly negative effect on ROA. Additionally, turnover improvement exhibited a prominent random effect, with result indicating that approximately 95% of the firm's turnover-improvement slopes would fall within a negative range. This was interpreted as evidence that substantial variability existed across firms with regard to turnover improvement and its performance effects, with some turnover improvement associated with increased ROA and other turnover improvement associated with decreased ROA. Moreover, Cannon (2008) also further explored the turnover-ROA dynamic by including capital intensity as potential source of variability. It was found that capital-intensive firms tended to be below average with regard to ROA and the variable's presence in the model did not significantly alter the relationship between turnover improvement and ROA over time. Hence, this lent additional weight to the conclusion not to support the hypothesis that improved inventory performance will be associated with improved overall firm performance.

Consistent with Cannon (2008), another study (Kolias *et al.*, 2011) found that inventory turnover ratio (as a measurement of inventory management), is negatively correlated with gross margin. Kolias *et al.* (2011) is based on an econometric analysis conducted on a sample of financial data for Greek retail firms for the period of 2000–2005. They

found a negative relationship between gross margin and inventory turnover. This implies that retailers' trade off gross margin for inventory turns to achieve similar return on inventory investment since, if inventory turnover ratio is lower than targeted given the level of gross margin, then management should be alarmed with this inefficiency. Consequently, it was likely that the coefficient of gross margin differs between sectors.

## **2.2. Inventory Management and Capital Intensity**

According to Cachon and Fisher (2000), the positive correlation between inventory turns and capital intensity results from the nature of the investment. Capital investment includes investment in warehouses, equipment, information technology (IT) and logistics management systems. These capital investments lead to better inventory allocation as well as to a more efficient implementation of customer orders, thereby increasing inventory turns. Additionally, a positive influence of IT on inventory performance is well supported at the firm level. For an instance, prior studies (Frohlich and Westbrook, 2002; Vickery *et al.*, 2003) found that an increase in IT investment results in higher inventory returns and lower inventory holding costs.

Investments in IT have helped firms to cut back on the volume of inventory as a precaution against glitches in their supply chain or a hedge against unexpected increase in aggregate demand (Ferguson, 2001). In addition, IT investments may increase inventory turns due to improvement in the replenishment process. Clark and Hammond (1997) show that with the adoption of a continuous replenishment process by food retailers, their inventory turnover increased by up to 100%. However, automatic replenishment is not limited to the grocery industry: apparel retailers utilized automatic replenishing programs to improve inventory efficiency (King and Maddalena, 1998).

Another study (Kolias *et al.*, 2011) on the Greek retail sector found that inventory turnover was positively correlated with capital

intensity. The coefficient in their study for the supermarket sector is relatively higher than those for other sectors, indicating the importance of the investments in IT in that sector where supermarkets may experience improved product availability associated with the reduction of stock-outs and they can thereby carry less backup inventory leading to lower inventory levels. Hence, with lower inventory investment, inventory turnover may be higher.

### 3. Methodology

The aim of this study is to investigate the relationship between inventory management with performance and capital intensity. This study, therefore, hypothesizes that there is a positive relationship between inventory management and firm performance and, also, with capital intensity.

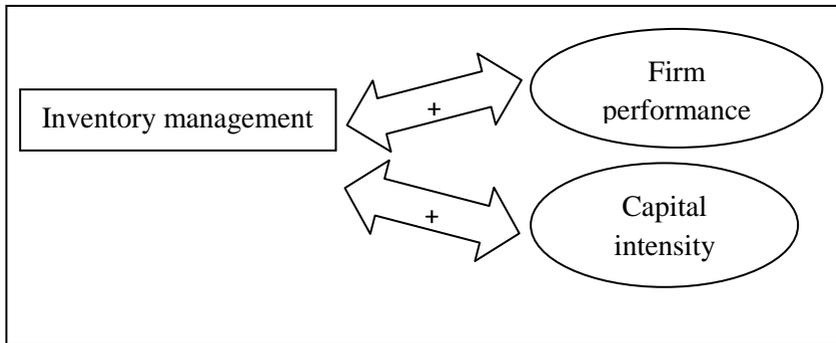


Figure 1: Theoretical Framework

#### 3.1. Measures

There are various different inventory ratios that may be considered and the appropriate measure depends on the purpose. Inventory management in this study was measured by using inventory days. A similar measurement method was used by Chen *et al.* (2005), in which

from an operations management point of view, the authors are most interested in how long inventory is held. Moreover, it is important to have productive inputs available when needed. However, as stressed by the advocates of JIT, holding inventory takes up space and can permit slack attitudes to become pervasive with damaging effects overall.

Inventory days (ID) measures how many days on average it takes for the inventory to turn over. In year  $t$ , the formula used to calculate inventory days for a firm  $i$  would be

$$ID_{it} = \frac{\text{Inventory}_{it} \times 365 \text{ days}}{\text{Cost of goods sold}_{it}}$$

Hence, the lower the number of ID, the better the inventory management and this may cause better firm performance.

As for the independent variable capital intensity, this study uses a similar measurement to Koliass *et al.* (2011), which defined capital intensity (CI) as the ratio of net fixed assets (NFA) to the sum of inventories (I) and net fixed assets (NFA) at year  $t$  as follows:

$$CI_{it} = \frac{NFA_{it}}{NFA_{it} + I_{it}}$$

Firm performance is measured by financial performance using ROA, which is calculated as a firm's reported net income divided by net value of its total assets. According to Cannon (2008), ROA is a strictly accounting-based measure and he used the same measurement to study inventory improvement and financial performance among US manufacturing firms.

### 3.3. Sample, Data and Study Period

The sample frame for this study was obtained from the Datastream database, which consists of financial statements of listed firms in BursaMalaysia. The sample consists of construction firms which had data available for the study period of 2006–2010. Some firms with missing data were discarded; thus a balanced panel set of 420 firm-year observations were obtained, with observations of 82 firms over the 2006–2010 period.

## 4. Results and Findings

### 4.1. Descriptive Statistics

Table 1 (below) provides basic descriptive statistics for the three variables utilized in the study, namely inventory days (ID), return on assets (ROA) and capital intensity (CI). ID, as a measurement of how many days it takes for the inventory to turn over; is on average 242 days, with a maximum of 11,769 days and a minimum of 1 day. It should be noted that the sample firms were construction firms where the inventory to be held includes raw materials, work in progress and finished goods. Hence, the number of days the inventory being held varies with the type and the number of projects held by the firms.

	ID	ROA	CI
Average	241.917	3.074	0.662
Std Deviation	773.342	14.064	0.204
Minimum	1	-121.370	0.047
Maximum	11,769	146.310	0.998

Table 1: Descriptive Statistics; source: Original Research

As for ROA, which measures firm profitability, the average is 3.07%, with a minimum of loss 121% and maximum return of 146%. Another variable, CI, as a measurement of the ability of a firm to use its fixed

assets effectively is on average 66.2%, with a minimum of 4.7% and a maximum of 99.8%.

#### **4.2. The Impact of Inventory Management on Performance**

A critical argument on behalf of effective inventory management is the claim that it will improve the financial position of a firm. If the claim is true, then the market should value the firms that have already reduced their inventories more highly than they value firms that have not reduced their inventories. Is this argument empirically valid? A common way to answer this type of question is to ask whether the factor of interest is associated with the financial performance of the firm measured by ROA. This is tested with a simple regression,

$$ROA = \alpha + \beta ID + \varepsilon \quad (1)$$

where:

ROA is return on asset as a measurement for financial performance

$\alpha$  is the regression constant

$\beta$  is the beta coefficients

ID is inventory days as a measurement of inventory management

$\varepsilon$  is error

The result from (1) is  $ROA = 0.092 - 0.092 ID$ , where  $R^2 = 0.092$ . The F statistics are 3.559, with the 0.060 significance level. This indicates that the impact of efficient inventory management towards financial performance among construction industries is not significant. This is consistent with prior studies (Chen *et al.*, 2005; Cannon, 2008) even though they used different measurement on the firm performance such as market-to-book ratio, Tobin's q as market performance, ROI (return on investment) and different measurements for inventory management.

### 4.3. Correlation Analysis

In order to examine the relationship between the two variables, a Spearman correlation coefficient was used to test both hypotheses. The Spearman correlation is used because, even though the data are numerical in nature, they are not normally distributed and there are several extreme scores which meet the criteria for non-parametric testing (Saunders *et al.*, 2009). In efficient inventory management, it would be expected that the number of inventory days will be lower where it will increase firm performance.

Table 2 (below) shows the result from the Spearman correlation coefficient matrix between ID, ROA and CI. The table indicates that there is a significant negative relationship between inventory days and return on assets ( $\rho = -0.277$ ; significance at 0.05 level). This finding explains that the lower the number of days the inventory is held in a firm before its turnover, the better the performance of the firm. In other words, the better the inventory management, the better would be the firm performance. This finding supports the hypothesis of the study in that there is a positive relationship between inventory management and firm performance.

	ROA		CI	
	Correlation coefficient	Sig. (2-tailed)	Correlation coefficient	Sig. (2-tailed)
ID	-0.277**	0.00	-0.381**	0.00

Notes: \*\* Correlation is significant at the 0.05 level.

Table 2: Spearman Correlation Coefficients Matrix; source: Original Research

In addition, Table 2 also shows that inventory days are negatively correlated with capital intensity at a 0.05 level of significance. This means that construction firms with better capital intensity tend to have lower numbers of days holding their inventories. Kolia *et al.* (2011)

indicates that a firm with a higher coefficient for this relationship indicates the importance of investments in IT and other CI in the firm. In this case, the firm may experience improved product availability associated with the reduction of stock-outs while they can carry less backup inventory to stay in stock. Hence, inventory levels are lower and, with lower inventory investment, the number of days to hold the inventory is higher. This indicates that, with higher CI, the firm may improve its inventory management. Consequently, this justifies the hypothesis that there is a positive relationship between inventory management and CI.

## **5. Conclusion**

This study attempted to investigate the relationship between inventory management, firm performance and capital intensity. Three measurements were used in this study, namely (1) ROA as a measurement for financial performance, (2) ID, number of days inventory was held as a measurement of inventory management and (3) CI, the capital intensity measured by dividing fixed assets by the total of fixed assets and inventory. Prior research (Fullerton *et al.*, 2003; Cannon, 2008) concerned samples of manufacturing industries using different performance measurement variables such as market value and different measurement variables for inventory management, such as inventory turnover. However, inventory turnover used for manufacturing firms involved with JIT procedure is not much used in Malaysian construction firms. This study was conducted on a sample of financial data for 82 firms over the period of 2006–2010. By employing regression techniques, the impact of inventory management on performance was found to be insignificant in this study. However, the relationship between inventory management and financial performance of the firm was found to be significantly positive. This is consistent with prior studies (Fullerton *et al.*, 2003; Eroglu and Hofer, 2011). As for the relationship between CI and inventory management, this study found that there is also a significant

positive relationship which is consistent with prior research by Kolias *et al.* (2011).

### ***Acknowledgements***

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# **Cross-Cultural Competency Dilemmas: Thai Automotive Companies**

Mahmoud Moussa

## **Abstract**

*Today, those in managerial positions have become increasingly aware of the importance that cross-cultural understanding plays in enabling their staff, wherever located, to work positively. Such knowledge will become increasingly important as a result of increasing globalization. Competency is a problematic notion encompassing attitudes, values and knowledge affecting job performance. The possible lack of intercultural competency may be a possible hurdle for multicultural organizations in Thailand, in particular those with aspirations to become global in the future. The purpose of this study is to identify the competencies required by those involved in services of an intercultural nature. Obstacles need to be identified and addressed according to the differing cultures in such companies. Interviews were conducted with nine participants in top management from four international automotive companies in Eastern Thailand. The data was collected through in-depth, semi-structured interviews. Several issues were highlighted, including the need to orientate foreigners about Thai culture; the varying range of differences in working styles, apropos to their cultures; the barriers experienced by competing cultures; the perception of success in an intercultural environment and, finally, how diversity can strengthen team building.*

**Keywords:** *Culture, Intercultural Research, Thailand, Work*

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## 1. Introduction

Recently, as Wheelen and Hunger (2004) noted, there has been a move towards awareness of the higher levels of competency needed in the global business environment and among human resource development (HRD) practitioners, thereby facing up to the challenges of a global business environment. Some have argued that there is a high demand for international experience among multinational firms, across a plethora of industries, because employees with global experience are dealing with diverse cultures as never before. Daft (2008) observed that those in senior management positions are now considering how HRD can have an impact on intercultural perspectives and whether it is cost effective to pursue further training in such spheres. It is imperative, therefore, that participants in multicultural organizations be fully aware of the part cultural influences play, both positively and negatively, in influencing company practices and management.

Hager and Gonczi (1996) proffered the notion, when describing competency, that the task description should not be the sole focus, as direct observation is impossible. However, high job performance can define competency (Park, 2003). The leaders in the globalized world try to focus on sustainability, albeit that such a difficult task inevitably involves competition. It can be argued that the concept of a 'workforce diversity team' is an all encompassing statement referring to different people in today's world (Jackson and Schuler, 2002). Furthermore, as Gomez-Mejia *et al.* (2004) asserted, HR strategies can be utilized by organizations to fulfill desired goals. Finally, Jones and George (2003) concluded that a global perspective is what businesses primarily need to focus on, given the conflicting forces that challenge them in the 21<sup>st</sup> century.

The three main purposes of this research, therefore, are: identification of required competencies by intercultural consultancy service managers in Thai automotive companies, in order to optimize the

consequences of cultural diversity; further investigation of paths that permit such diversity to be effective and, finally, to pinpoint obstacles confronted by varying cultures in international companies. In doing so, it is necessary to answer this research question: what competencies are needed by managers providing services in the intercultural field and how do they use them effectively in the Thailand scenario? Attempts will also be made to answer the following questions: what are the main competencies for managers providing services of an intercultural nature? What ways could be identified to show how diversity works effectively? What are the obstacles encountered by international automotive companies in dealing with cultural diversity?

## **2. Review of Literature**

As a plethora of companies restructure their organizations in the competitive global market, HRD practitioners consider the meaning of competency and evaluate the efficacy of its expectations by determining individual employees competencies as a vital component in reaching their optimum targets (Gomez-Mejia *et al.*, 2004). Yang (2003) asserted that the concept of culture needs to be understood to gain insight into managerial practices and, in particular, to teams operating in differing cultural backgrounds. Adler (2002) commented that the effectiveness of cultural diversity is the prime objective of these diverse teams. Hewapathirana and Pruetipibultham (2006) put together some objectives for achieving success: a skilled workforce; the development of global business surroundings; encouragement of foreign investment; flexibility and co-operation in interacting with other countries and positive response from customers vis-à-vis, service and quality. By way of contrast, their conclusions found some other challenges, including a workforce ignorant of overseas cultures and markets, variations in theoretical models and differing management styles.

Managers who operate in an international environment must become familiar with local laws and learn to respect and value local customs;

otherwise, not knowing how to act in a foreign country can cause them embarrassment and to miss out on business opportunities (Ghillyer, 2012). Ferrell and Ferrell (2009) found that effective leaders build, maintain and revise systems that support integrity in the organization, are knowledgeable and experienced enough to make wise decisions that are likely to produce an ethical culture based on shared values and forms of behaviour. However, different societies are confronted with different constraints and to cope, each community develops a unique culture and standard of ethics (Rodrigues, 2009). Consequently, Rodrigues concluded that managers of international enterprises are increasingly finding themselves with conflicting ethical responsibilities.

McFarlin and Sweeney (2006) synthesized some aspects that should be taken into account to maximize the performance of multicultural teams: the selection of relevant tasks; explicit identification of differences among members of different cultures; a clear mission/vision; provisions for equal status among team members and frequent feedback. Ivancevich *et al.* (2008) recommended that managers provide employees with greater opportunities to exercise discretion by providing direct feedback, new learning, delegation of scheduling, providing unique job characteristics, providing control over resources and encouraging personal accountability. Meanwhile, Nelson and Quick (2006) observed that managing a diverse workforce and bringing together employees of different backgrounds in work teams require good character, ethical behavior and personal integrity. Rodrigues (2009) found that Japanese managers are members of a group, avoid confrontation, prefer to use top-down, bottom-up communication and their authority and responsibility limits are not specified. By contrast, American managers lead a group, are more confrontational, and use top-down communication, while their authority and responsibility are determined and limited. In other words, there are differences of emphasis and opinion depending on which sample has been studied.

Perhaps surprisingly, Thomas (2008) argued that organizations seldom rely on technical expertise or competence as the most fundamental selection criterion for success in an overseas assignment. Instead, what was important was the development of global managers and their careers, which depended on the development of skills and abilities related to effective intercultural interactions and the role of bicultural individuals.

Snell and Bateman (2011) found that business knowledge, the courage to take a stand, the ability to bring out the best in people, integrity, insightfulness, commitment to success and a willingness to take risks are all indispensable competencies for international executives. Accordingly, they recommended that effective managers of diverse organizations must be capable of surmounting a number of challenges such as unexamined assumptions, lower cohesiveness, communication problems, mistrust, tension and stereotyping. Most importantly, a number of factors have proven to be effective in managing culturally diverse groups and these include: careful selection of members; identification of the group's goals; establishment of equal power and mutual respect among the participants and delivering positive feedback on performance (Luthans & Doh, 2009). Yi (2011) studied the essential structural themes of the intercultural leadership experiences of Chinese expatriate leaders working in Thailand and nine major themes resulted from this research: awareness of being different; collaboration with others; self-discovery; continuous learning; growth/development; adjustment; selecting and developing an employee; communicating actively and effectively; motivating and leading.

Unsurprisingly, individuals conducting business across cultures and languages often face communication difficulties, since meanings and interactions differ from one nation to another (Rodrigues, 2009). Thus, international business people must develop their ability to adapt to these differences in order to communicate effectively across cultures. Moreover, differences in status between the sender and the

receiver of communications, content of communications, differences in goals and face-saving tendencies, the role of ideology versus pragmatism, associative versus abstractive modes of thinking and the role of symbols are frequently considered obstacles to proper communication across national borders and cultures (Phatak *et al.*, 2009). Nelson and Quick (2006) presented five communication barriers in such a situation: the physical separation of people in the work environment; status differences; gender differences; cultural diversity and language.

Finally, Robbins and Coulter (2005) provided insights into the characteristics associated with effective teams: clear goals, relevant skills, mutual trust, unified commitment, good communication, negotiating skills, appropriate leadership and internal and external support. Clarity on goals and deliverables, careful choice of team members and the building of relationships and trust from the outset were found to inhibit the establishment of effective cross-boundary teamwork (Evans *et al.*, 2011). Concisely, Cummings and Worley (2009) suggested that an organization's diversity approach is a function of internal and external pressures for and against diversity, including age, gender, race, disability, cultural values and sexual orientation.

### **3. Methodology**

The initial concept of the researcher was to identify a problem, write further about problems connected with the research and utilize knowledge from apposite areas of literature. Following that involved a constructivist research paradigm whereby, during the study, human behaviour was explored in the context of operations in a multicultural environment. The principal source of data was semi-structured personal interviews conducted on an in-depth basis with key informants.

Crabtree and Miller (1992) observed that, in a qualitative case study, researchers should attempt to pick a small number of informants who provide the knowledge needed to complete the study. Consequently, the researcher adopted a non-probability sampling or criterion-based sampling approach. However, David (2006) concluded that the common criticism of the case study is that the sample is small, which will not allow multiple hypotheses to emerge and hinders generalizability. Additionally, there are no fixed numbers as to how long interviews should be or how many interviews are needed to collect enough information; although Glesne and Peshkin (1992) found that short and few interview sessions characterise those who are inexperienced and incompetent investigators. Hence, with experience and competence, the number of interview sessions will probably increase.

Creswell and Clark (2007) suggested that qualitative research is not only to explore many settings or individuals but also to gather inclusive details about each site or individual. Merriam (1988: 86) discussed the pros and cons of interviewing as a technique and stressed the benefits from conducting it properly. Further, triangulation of data sources assists to help guarantee the dependability of a study. It can establish consistency and confidence in illustrating data and analyzing the findings, as well as setting it in the context of new emergent research questions (Freeman, 1998: 98). It also helps to minimize bias in findings (Miles & Huberman, 1984) and adds reliability (Richards and Morse, 2007: 91). This approach has been followed in this study.

Triangulation has also been sought by the development of three forms of data analysis, which are 'direct interpretation,' 'pattern identification' and 'naturalistic generalization.' In direct interpretation, Stake (1995) noted that the investigator can explore a single event or situation and interpret it without the need for multiple cases. By patterns, Stake means that the researcher develops some categories, charts or tables to show differences among data and this

process is sometimes called data display. Finally, Stake observed that researchers may develop naturalistic generalizations through analyzing the data, so that readers can learn from the case, as well as apply it elsewhere. Moreover, the researcher did not use documentation or observations as supplementary tools to triangulate the findings but, instead, the use of multiple strategies with interviews, such as field notes, reflexive journals and e-mail interaction with participants, resulting from the formative and rich information taken from the participants of this study. Hence, the analysis segment permitted those involved to review their information from the recorded interviews (some were translated from Thai to English) to check for accuracy and reliability. It further allowed the researcher to organize data according to the issues raised in a coherent order and to develop some codes from the replies given. In addition, comprehensive descriptions and illustrations were made and categories were developed with summaries after each session. The differing data was compared and contrasted with the purpose of synthesizing the documents into an inclusive portrayal of the completed process by drafting and redrafting. Moreover, considerations about the ethics and trustworthiness of the study were paramount. Research was carried out in four international automotive companies in Thailand's Eastern Seaboard, with leaders from nine such firms who are senior managers. Eight participants are Thais and the other Korean. However, Thais and Koreans are working with Americans, Japanese, Czech, and French at the companies where the interviews took place. Finally, the researcher disseminated the findings with input on specific information decided in collaboration with the participants themselves.

Gaining the trust of participants by a direct and honest approach was a prerequisite to eliciting vital information and giving a bona fide rapport to the research process. Furthermore, subjective or common sense notions were disregarded in favour of constructive, trustworthy ideals.

## 4. Findings

Altogether, nine themes emerging from the research will be discussed. These are presented in Figure 1, which described the features of an intercultural environment.

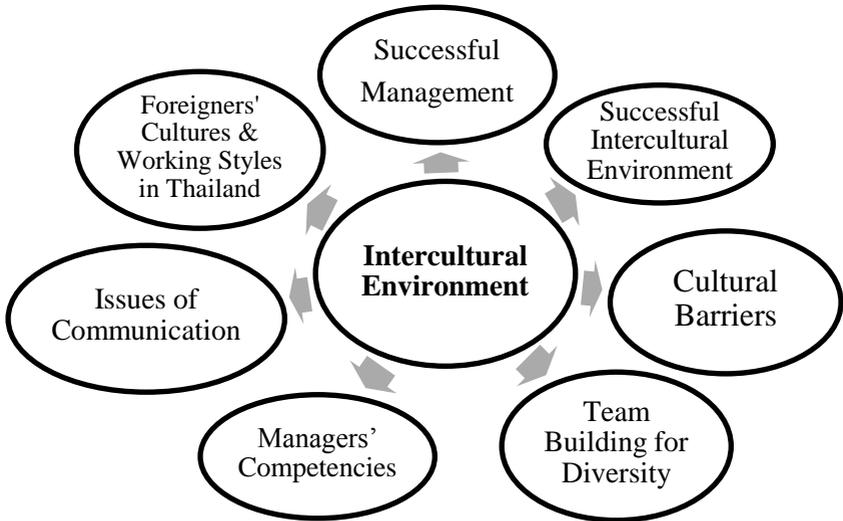


Figure 1: Intercultural Environment; source: Original Research

### 4.1. Managers' Competencies

The researcher found the prime competencies or characteristics for those leading international automotive companies to be: open-mindedness; global vision; specialist knowledge; skills in both management and leadership; conceptual understanding of HR and HRD; experience in working with foreigners; a broad-minded attitude to differing cultures; adaptability; maturity; innovation; responsibility; fairness and competence in foreign languages. Furthermore, one

participant felt that a fundamental improvement to competencies could be gained by demonstrating respect for people's differing cultures in the workplace and abhorring an ethnocentric attitude, even to the extent of showing a willingness to understand a different culture and its positive and negative aspects, as well as the willingness to adapt to cultures and traditions. Further interaction revealed that managers should be open-minded, accepting of others' points of view and even learning from them regardless of their position in the company. Motivation seems to be a key word in developing intercultural consultancy services. Managers should, therefore, be constantly looking for ways to urge on staff so that they can work more effectively. This will involve them and promote excellent communication and presentation skills.

People should be given room to communicate effectively by the manager, so that he/she can facilitate open, concise and frank discussion with Westerners. On the other hand, Westerners need to interact with indigenous workers in a systematic style, full of information and an awareness of their need to 'save face.' Furthermore, managers were respected if they were seen as mature and had been coaching and mentoring the necessary skills in their employees. Another participant talked of maturity as being the experience and length of service possessed, their adaptability and motivational skills.

#### **4.2. Team Building for Diversity**

It was concluded that various factors were necessary for the effective management of diversity or the development of intercultural teamwork, such as through joint projects. These include: listening to others; respecting and accepting them; seeking others' views; reaching a consensus; effective group/team working and activities; harmonious relationships built on trust; following the rules of the organization; cultural exchanges including family days and outings; staff education and development; creating values of sympathy; empathy, love and

loyalty. Furthermore, clarity and the nurturing of others' skills were also cited. Upon completion of the study, the participants believed they positively encouraged both local people and foreigners to work together harmoniously, whatever their status in the company, and empowered the staff to work as a team, co-operated interdepartmentally and observed each other's culture and language during On-the-Job-Training (OJT) programmes. The researcher noted during the study that there was an immediate need for bonding via such vehicles as company trips and family days to foster empathy and sympathy. One respondent observed:

“I firmly believe that Thais and foreigners would do better if more sympathy and empathy were shown. Learning local ways through outings and observing cultural practices first hand can only be to the benefit of both parties.”

#### **4.3. Barriers Attributable to Differences in Culture**

Various respondents proffered their thoughts quite voluntarily that such stumbling blocks as disrespecting others, blocking people's thinking, inequality, nepotism, bias, ethnocentric attitudes, inappropriate behaviour, incompatibility, irresponsibility, lack of integrity, ambiguity, bossiness, misunderstandings, language barriers, unfamiliarity and historical events have occurred in their organizations. Where purposeful interaction was not succeeding, respondents remarked that some workers were not working well together. There were unresolved issues just below the surface whereby they felt they could not talk freely for fear of conflict. When Thais smile, for example, some foreigners interpret this as being looked down on and resent it. Different attitudes cause further friction. For example, Thais may suggest an appointment to which a foreigner may agree, whereupon on the said day the Thai will abrogate responsibility for not keeping the obligation on the premise that the appointment was not confirmed, causing annoyance and confusion.

Additional obstacles that were highlighted included nepotism. In such cases, it was perceived that those in positions of power would appoint family members over others unfairly. When the Japanese wanted to move someone to another department, for example, they did so without consideration of their abilities. Overseas appointments to Thailand seemed to be made in a similar vein, giving rise to disrespect and creating potential for conflict. Behavioural discrepancies were also noted, including irresponsibility at work, which means Thais might not accept their own mistakes but rather blame others. This can be more troublesome when interacting in an intercultural setting. Furthermore, inequality was cited as problematic. The Japanese were often perceived as having more authority than Thais. Important decisions were made without consulting the Thai staff and where a Thai might be in a position to have a certain degree of autonomy, too often he or she would be obliged to defer to their Japanese colleagues to gain final approval. As one respondent observed in this context:

“Because the Japanese own the company they have more opportunities than Thais, often controlling the organizations hierarchy which in turn becomes contentious, particularly as the Japanese will never accept being thought of as less than the Thais in status.”

The explicit and implicit rules within which the company operates are foreign ones. The local culture and environment are too often ignored, as another respondent observed:

“We are obliged to accept the rules from our Japanese bosses, for example over salary systems. In Japan, a step or rules system governs salary structure but in Thailand that sort of system does not operate, yet they impose it universally here.”

#### **4.4. Successful Intercultural Environment**

Success factors collated from this study included foreigners' introduction of improved technology accompanied by a plethora of innovation and new knowledge. Further examples were foreign investments, use of high quality materials, stable financing, globalization, exchanging work practices and experiences, sustainable development and welfare benefits. It was also noted that, overall, there was an enjoyment of working with foreigners in an international company. Good attitudes persisted, with a mutual respect and trust of each others' beliefs, fostering unity and harmony. The respondents noted how their organization achieved low costs and efficiency by sourcing materials worldwide and achieving cost savings seldom met by indigenous manufacturers. The fact that foreigners were a part of the workforce meant, in negotiating with contacts overseas, a rapport was built up with those from a common background.

Further mention was made of the value of diversity. In areas of foreign investment where a country, such as Korea, was able to introduce new foreign capital to the company, it was evident that the company became stronger than a competitor who only had access to finance from their home resources. There was recognition of the benefit from the interchange of ideas. Staff, who could accept the differences, learn, respect, and take the good points from each other's ideas were also seen as contributing to the greater good of the whole.

#### **4.5. Foreigners' Cultures and Working Styles in Thailand**

The working styles of the Japanese and Koreans were compared to those of the Thais, as were those of the Europeans and Americans. The Japanese approach to dissemination of commands from their superiors was just to listen passively. They in turn, expect Thais, who they perceive to be less knowledgeable, to act in a similar way. The notion that Thais may know better is not considered. One respondent noted:

“The Japanese just listen to their bosses never questioning with the workers, likewise, implementing immediately and unquestionably, what has been designated to them.”

Korean perceptions were often seen to mirror that of the Europeans. The Korean work ethic of being on time is sacrosanct, whereas the Thais were seen as dilatory, often arriving late. Furthermore, the Korean work rate is impressive. They are highly responsible, self-disciplined and think logically. In like manner, Koreans talked loudly, which was contrary to their Thai colleagues whose softly spoken tones indicated politeness and respect. In such cases, the foreigner’s manner could be perceived as aggressive or implying dissatisfaction in some way. Koreans engaged in discussions might suddenly put their feet on a table, which would offend Thai culture, in which showing the soles of a person’s shoes is considered highly rude. The respect for seniority is important for Koreans too. Should a worker have finished work, it would be seen as improper to leave before the boss. The same protocol applies when dining with your superior in that they must initiate the leaving.

## **5. Major Study Findings and Observations**

### **5.1. Managerial Competencies**

Certain relevant competencies were noted by the researcher as being a prerequisite for leaders in the top management of international companies. The most relevant were having a global perspective, leadership and managerial skills, coupled with open-mindedness in working with foreigners. Other useful competencies were HR and HRD concepts, a non ethnocentric attitude, being perceived as fair and responsible, having foreign language competence and being eager to learn. Maturity, problem-solving skills and being innovative were also important.

Gibson (1998) suggested the importance of being willing to monitor one's own ethnocentrism and adapting oneself to different cultures. He added that flexibility in intervention techniques and strategies appropriate to the situation was necessary. Other studies emphasized the necessity of being open-minded and responding quickly to contingencies to achieve the target, while being able to interact in a positive and friendly way. Managers need to be able to deal with the complexity of problem-solving without obvious anxiety, building trust and confidence in others, often empowering and motivating them at the same time, which may involve a degree of teaching too. Other previous studies have found that managers need first to develop their own personal characteristics to manage and support diversity. Professionals in all fields need to develop positive mindsets, as well as knowledge and competencies, now that HRD has had such a significant role in the East Asian region.

## **5.2. Team Building for Diversity**

The respondents in the research reported their willingness to try to foster harmony between themselves and Thai workers, and vice versa, and to be seen as neutral in dealing with them regardless of who was the superior. Furthermore, empowering the employees to work in co-operation with each other in a team within the various departments, imbibing the culture and language too whenever possible such as in OJT programmes, was a goal of all concerned. They conceded that their leaders should try to foresee and avoid problematic situations wherever possible, ignoring minor irritations while having the humility to talk reasonably together when matters might come to a head, so as to reach the company's objectives and visions.

Previous studies, such as those by Zakaria *et al.* (2004), found successful outcomes were more likely when effective team leadership was created which could deal with conflicts among global teams. This, they argued, would come about when trusting relationships, aware of cross cultural differences, were pursued. There were

substantial challenges to be noted. Marquardt and Horvath (2001) in maintaining communication and handling co-ordination and diversity whilst attempting to manage cultural differences. A further insight was offered by Van Der Zee and Oudenhoven (2000). who observed four intercultural competencies necessary for the development of specific training, which can be arranged in various ways according to the participants' requirements. For each competence, the authors developed specific training that can be mixed in different ways, depending on the needs of the individual or group. For managerial functions, for instance, building commitment should be the key, while for non-managerial functions, intercultural communication will take place. Managing uncertainty depends on the cultural group involved in the task. Finally, intercultural sensitivity should always be trained but it depends on whether we are dealing with an existing multicultural group or with individuals who are not working as a team. It was strongly noted by the researcher that the need for factors such as empathy and bonding, as experienced in family days and company trips, was evident, while team-building was most successful when effective communication and trusting relationships were fostered.

### **5.3. Cultural Barriers: Examples**

Cultural diversity affects different management styles whereby the rules, communication styles and relationships can produce workplace friction, not least of which being stress among team members, mistrust and stereotyping (Chesla, 2000). The cohesion hoped for is not easily achieved when leaders bring their own perceptions and values to intercultural teams. One of the study's participants commented on the difficulty of compromise and finding the middle way when Thais and foreigners interact. In an attempt to apply this to his company, differing cultural approaches did not allow an effective working environment. Adler (2002) highlighted this, citing the problematic nature of intercultural teams, including mistrust and stress, resulting from miscommunication. Lower attractiveness,

inaccurate stereotypes and their reinforcement, Marquardt and Horvath (2001) noted, were symptoms of mistrust. Miscommunication and attempts to correct this by speaking unnaturally slowly, caused language barriers. They further commented that a lack of cohesion resulted in ineffective and inefficient cultural teams, caused by lack of positive action when consensus was not achieved.

Adler (2002) added that disagreement on such issues as content made for tension, resulting in stress. These factors in total produced conflicts and unacceptable behavioural symptoms amongst individuals. These challenges, Greenberg (2005) noted, illuminated some issues which challenged researchers in cross-cultural communication. Firstly, vocabulary does not always have the same meaning in interaction when one word has several meanings in differing cultures. The Thais' basic English was thought to hamper effective communication, as did differing behavioural gestures, such as the Thai propensity to smile, which some foreigners interpreted as them 'looking down' on the foreigner. However, there were common challenges to international cross-cultural management in such areas as 'ethnocentrism' and cultural diversity. Holden (2002) observed that this does not address, in itself, why conflicts arise. Where there was ignorance of cultural diversity in the workforce and of foreign markets to be considered, a possibility of differing managerial styles and varying theoretical models and practices showed the need for education in these areas (Hewapathirana & Pruetipibultham, 2006).

The research reported here further emphasized how nepotism was seen as divisive. One participant cited how the Japanese manager wanted to move a friend to another department without consideration of the individual's ability in the new role. Thai reluctance to be responsible for their actions and behaviour, preferring to pass responsibility to someone else, was also seen as a problem. This in part might stem from the way foreigners were perceived as managing by their own systems and rules, which did not take into account local traditions and customs. Finally, research suggested Thais often have

negative feelings towards their neighbours in nearby countries, which is often the result of historic events that had a great influence on their inter-cultural perceptions.

#### **5.4. Positive Intercultural Environment**

There were some successful factors which emerged from this study and which were highlighted by previous research. Van Der Zee and Oudenhoven (2000) conducted a Dutch study that offered five dimensions for analyzing the success or otherwise of intercultural work environments, based around personality factors for the adjustment and performance of expatriate workers. Factors included, for example, how well cultural empathy was exercised in interactions with people from differing backgrounds, how flexible the worker was in adapting to changing situations, their open-mindedness in dealing equally with a diverse workforce, their emotional stability in dealing with stressful situations and, finally, being socially proactive in initiating events for integration of employees. Wiersinga (2003) argued these factors may carry different weights, depending where, geographically, they take place. However, Adler (2002) found that good management of cultural diversity would allow teams to outperform those operating in a homogenous culture.

The more an organization is globalised, the more diversity exists and the more that consequent global business practices are based on these intercultural teams. Marquardt and Horvath (2001) highlighted further advantages to intercultural teams, including the ability to reduce costs by consequent economies of scale, the recruitment of talent from worldwide organizations and that of the organization's future leaders, better solutions to twenty-first century problems, the promise of logistical efficiency, making the organization truly global while giving a personalized service to customers, opportunities to force alliances, gain knowledge and information, and to have the increased ability to become a global learning organization. Their findings demonstrated common criteria for effective teams. According to their study, these

criteria include technically based activities or others supporting environmental issues, while yet others may focus on the social relationships between individuals. This corresponded with the participants of this study, who proffered opinions on how their companies achieved low costs by sourcing materials from suppliers they knew from other countries. Furthermore, the staff in those countries are able to negotiate on a more personal level, thereby obtaining further cost savings.

Successful engagement by international companies was further evinced by positive surroundings for global business, a highly skilled workforce and the encouraging of foreign investment. Hewapathirana and Pruetipibultham (2006) further found that a flexible and co-operative approach when dealing with clients met with positive feedback about the level of service and quality on offer. Participants of this study were keen to point out the benefit of joint ventures whereby Koreans, for example, were able to secure a large amount of foreign investment for the company through the diversity of their operations. Further, success was noted where unity and harmony were implicit in the intercultural environment, for example when working as one and listening to each other's opinions with no differentiation between Thais or foreigners. In addition, the concept of learning from one's colleagues was evident. When Thais were more diligent than Koreans, the latter had superior knowledge of technology which, when shared, contributed to the mutual benefit of all involved, not least the company itself. Smith (1995) concluded that acquaintance with one's colleagues and adaptability to cultural changes lessens any cultural shock, since people can more quickly adapt and be flexible in negotiating values between competing cultures.

Many studies have shown that diversity can indeed promote innovation and creativity, which are the hallmarks of a successful company. Cox (1991) identified how cultural variations influenced a group's co-operative and competitive behaviour. It was noted that, where workers were familiar with a diverse cultural environment,

there was far more co-operation compared to the much more competitive culture where a monoculture existed. A study of Microsoft by Ivancevich and Matteson (1999) highlighted the success of diversity where employees with differing talents and backgrounds assimilated to the effectiveness of the company by producing products suitable to the needs of a diverse world. In conclusion, this study concurred with findings in other, previous studies, that successful global organizations were so because of dedicated intercultural teams. Twenty-first century challenges are better served by companies who have integration and are striving for a cohesive workforce committed to a common purpose of sustainable development.

### **5.5. Working Patterns and Cultural Anomalies**

The respondents to this study perceived how the Japanese passively listened and then unquestionably acted on orders from their bosses. Further, they perceived themselves as secondary to managers from Europe or America. The Koreans, initially more open minded, particularly when they first came to Thailand, would be more open to Thais' abilities and let them manage operations whilst acting in a more specialist or consultative role. In a study of Korean secretaries, Yoo (2000) found their preference was to work in an intercultural environment, despite there being cultural differences, they were prepared to accept the challenges as they perceived a chance to learn other cultures and different work procedures.

These studies' respondents realised the importance of cross-cultural adaptability. The Thai propensity to 'always smile' was often disarming in tense situations and helped in fostering corporate social responsibility. Smith's study (1995) too found that success came from getting acquainted with the behavioural norms of co-workers and being ready for cultural shocks along the way. Success comes from being willing to emerge, adjust and be flexible to various cultures. Holden (2002) added that having positive reactions and developing intervention skills was also useful.

## **5.6. Issues of Communication**

The perennial difficulty of communication was frequently mentioned by respondents. Tensions could arise if employees were not dealt with equally and fairly, whether in meetings, orientations or in general interaction. Foreigners need to talk succinctly, systematically and directly to work together successfully and a similar approach is effective with Thai managers too. This was noted in the study by Zakaria *et al.* (2004), where competence in intercultural communication should be a consideration in implementing global teams.

## **5.7. Successful Management**

Standards in management were of concern to respondents. Employees were deferential to those managers who had earned their position solely through merit and were able to offer genuine methods and tools to facilitate their work. Thais were often willing to help foreign personnel with issues of understanding culture where adaptations could be made and, when they could not, how to live with the differences. Foreigners need to be wary of trying to impose their culture as standard. Consequently, a better awareness of the foreigners' culture through cultural exchanges, for example, would foster a mutual respect of both. Apart from Colignon *et al.* (2007), the researcher found little research has been done regarding this topic in developing countries as most has been conducted in developed nations.

## **6. Conclusion**

The purpose of this study was to identify the competencies required by those involved in services of an intercultural nature and investigate avenues which allow such diversity to work effectively. Furthermore, the study analysed obstacles stemming from the different cultures in international automotive companies in Eastern Thailand. Based on this

extensive research, several issues emerged as follows: managerial competencies; team building for diversity; barriers attributable to differences in culture; successful intercultural environment; and foreigners' cultures and working styles in Thailand.

A qualitative approach was selected as the basis for this study, being thought the most appropriate for diversity in multicultural organizations. However, for additional research in the cross-cultural workplace, a mixed method approach might be necessary given the need for an authentic assessment to evaluate the advancement of both skills and attitudes in this sphere. However, a quantitative approach, using both random and non-random sampling in future studies, would give equal opportunity to participants.

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## **CONFERENCE REPORT**

## **IFRD Bangkok, 2012**

Professor N.T. Ran, Chairman, International Foundation for Research and Development (IFRD), Dubai, UAE.

The International Foundation for Research and Development (IFRD) provides a unique platform to scholars, academicians, practitioners and business managers to share their valuable knowledge and experience with each other. IFRD organizes conferences, seminars, workshops and publishes diversified research journals to support and promote education and research (<http://www.ifrnd.org>).

The International Conference on Global Business Environment (ICGBE): Role of Education of Technology (ICGBE-2012) was organized by IFRD on 17<sup>th</sup>-19<sup>th</sup> February, 2012 in Bangkok, Thailand. The conference aimed at discussing the wide range of problems encountered in present and future technologies and business. The ICGBE 2012 was organized in collaboration with Yildirim Beyazit University, Turkey, Shinawatra International University, Thailand and Pertre Anderi of IASI, Romania and provided an opportunity for researchers from around the world to present their work. The conference committee was itself quite diverse and truly international, with membership from around the world.

The proceedings record the fully refereed papers presented at the conference. The main conference themes and tracks were Education, Technology and Business. The conference aimed to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event was to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

The conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. It received more than 200 papers from across the world. All the submitted papers were peer reviewed by reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance and clarity for the purpose of the conference. A total of 80 papers were accepted after scientific and thematic review. As mentioned in the conference announcement, selected high-quality papers will be published in the diversified research journals of IFRD. The conference program was extremely rich, featuring a number of high-impact presentations.

IFRD is organizing its next conference in Istanbul, Turkey on 15-17 June, 2012. Future conferences in Bangkok and Penang in Malaysia are also being planned.

The Editor adds: I was particularly pleased with the response from SIU School of Management doctoral candidates who presented papers with success, including Mr. Pornsakol Na Srito, Ms. Alin Chintraruck, Ms. Supitcha Cheevapruck and MBA thesis student Ms. Lay Su Yin. Their presentations were enjoyable and well-conceived. Conferences such as this represent important opportunities for doctoral candidates in particular to make connections with other scholars, to present their ideas and receive feedback and, also, to measure their level of achievement to date with candidates from elsewhere.

## **COMMENTARY**

# **The Opening of Myanmar and Dawei Industrial Estate**

John Walsh

## **Abstract**

*The Dawei Industrial Estate is set to be the largest in Southeast Asia and it is intended to become the means by which Myanmar will become a modern nation, one which sweeps away the legacy of the colonial past and carries the people to a new, better and more modern world. What is the meaning of this?*

**Keywords:** *Alienation, Burma, Dawei, Industrial Estate, Myanmar*

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Although Daw Aung San Suu Kyi's progress around the capitals of the western world seems to be the human face of Myanmar's opening, a perhaps more important aspect is the creation of the Dawei (Tavoy) Industrial Estate in the southern part of the country. This estate is set to be the largest in Southeast Asia and will combine deep sea port facilities with hydrocarbon processing facilities and plenty of space for factories to produce any amount of consumer or business goods. Building the estate is a significant undertaking and principal contractor Italian-Thai Development (ITD) has been selling stakes in other large regional holdings in order to ensure sufficient capital to complete the task (Wiriyapong and Wongruang, 2012).

## **Special Economic Zones**

Theoretical support for the benefits of geographical proximity of industrial activities dates back at least to the work of Alfred Marshall, if not to Adam Smith. Proximity stimulates the creation of positive externalities: people from different and perhaps complementary commercial activities come to know each other, communicate with each other and help to create additional value on a shared basis. The physical proximity also has benefits in terms of reduced transaction costs in transportation, communications and establishing trust. It is not surprising, therefore, that transnational organisations such as the World Bank, the International Monetary Fund and the Asian Development Bank have all demonstrated their support for building and supplying industrial estates and all the related forms of special economic zones. China's spectacular rise, for example, has depended to a significant extent on the creation of such zones and filling them with factories and workers producing goods for export. Just about every country in the world has its own complement of industrial estates, even the remote and closed country of North Korea has recognized their potential in stimulating economic growth and modernization (Park, 2004).

It is important to bear in mind that it is both growth and modernization that takes place within the confines of an industrial estate. This may not be the initial intent of the government officials who set up such schemes or the international bankers who help finance them. After all, building and populating an industrial estate is an undertaking that demonstrates the intent of politicians and bureaucrats, provides a physical and quantifiable measure of progress and the use of funds and helps to promote the interests of domestic and international capitalists, who are known to be close to many government agencies and individuals. Building an estate in Greenfield territory is a particularly attractive undertaking, not just because of the opportunity it provides to realize profits from land deals but because it demonstrates the developmental goals of any government by bringing fresh land into productive use. Putting apparently unused land to industrial production is a potent symbol of becoming modern and has fuelled the poetic imagination from Goethe's Faust to Blake's Dark Satanic Mills and beyond. Building an estate in a Brownfield site may be a much more beneficial option when it comes to dealing with pollution and environmental issues, as well as urban blight and related ailments; however, it is quite literally a messy option and one which means dealing with the legacy of the past, a legacy which can lie like a nightmare on the brains of those deputed to solve its problems.

## **The Human Factor**

The people who will be most affected, of course, will be the workers, those drawn from their previous occupations to take up the new jobs available in the opening factories. They are the ones who will be present when economic development and modernization takes place in a country. In this case, it is Dawei in Myanmar where these changes take place. Workers taking these jobs will almost certainly obtain income beyond anything they could hope to earn in the lives that they leave behind. That income may not seem much in the developed world: the greatly increased minimum daily wage introduced in Thailand this year has been 300 baht per day – less than US\$9. In

Myanmar, workers will be fortunate to earn half that much. Yet this is still a good wage for many millions of people and will offer them the dream of making better lives for themselves and their families.

Yet there are prices to pay: there is the physical cost of migration, moving away from family and community to take up employment in a dormitory community with strangers and to substantiate personal identity through the amount of remittances that can be sent home. The price is also evident in terms of alienation – moving from occupations which are likely to be seasonal and dependent on local wisdom and learning to new occupations which are governed by the factory clock and the manual of operations. There are also many social changes involved in moving from traditional, culturally-rich lifestyles to the modern lifestyles of anonymity, with identities determined by a considerable extent by the ability to contribute to a market economy and to benefit from it, as symbolized by their ability to provide consumer goods for themselves and for their family members. This change very often acts more stressfully on women, since this movement means a very significant reduction in their ability to provide the emotional labour and care for dependents that characterizes so much of women's labour.

The nature of work that people find themselves doing in industrial estates also represents a change from pre-modernity to modernity. Modern work, as evident from the work of Frederick Taylor and the famous film starring Charlie Chaplin, shows workers becoming subservient to the factory-machine, which must be serviced at all times and anyone who fails to keep up with the pace can expect, at best, to be sacked and, at worst, to suffer injury and death as a result of those machines. It is not surprising that the very limited amount of education provided to those destined to feed the factory age is insufficient to equip the workers with the means to cope with the alienation they can face. Some flourish, of course – indeed, the factory age has brought considerably better livelihoods to millions of people across Southeast Asia and beyond – but others do not, as

demonstrated by the Sudden Unexplained Death Syndrome suffered by Thai migrant workers in Singapore and elsewhere (Goh *et al.*, 1993) and the numerous undocumented stories of people facing personal and societal stress.

## **Dawei Industrial Estate**

In the case of the Dawei Industrial Estate, it is expected that many of those who will become workers are migrants currently in Thailand or others who have been or might be migrants. As a result, it can be expected that most such people will have at least some experience of factory living and, consequently, should not be so badly affected by it. Yet an industrial estate of the size of Dawei will, if it really does come into operation on the scale envisaged, will eventually draw in many tens of thousands of workers who have not previously taken part in the factory age. They too will participate in the process of modernization. They will be able to witness at first hand the creative destruction of capitalism. Some will thrive and others will fail. All will face the changes of modernization: the essence of modernization is, as described by Berman (1988), that all bonds are loosened and dissolved, to be replaced by new relationships dominated by the market place. Whether it is kinship or family relationships, culture and customs, even physical appearance, everything must be changed to deal with the new situation and everything that is solid melts into air.

Before the period of military tyranny, Myanmar was known as one of the richest if not the richest countries in Southeast Asia. Yet much of that wealth was the result of resource extraction and commercial activities organized under imperial British control. This control was, understandably, much resented and attempts were made to develop an authentically local approach to economic and social development. That these attempts failed is self-evident. Now the government, with a partial form of democracy that may or may not persist, is seeking to follow its neighbours into the Factory Age and embracing the neoliberal idea of late capitalism. The impact may, if the plan is

brought to fruition, be region-wide. Thousands of workers in Thailand are likely to return home, leaving a vacuum in the labour market to the east. High value jobs, if they are created, may take advantage of the easier migration of skilled workers and professionals under 2015's ASEAN Economic Community. New classes of bourgeois and middle-class Myanmar citizens will be created and will have their opportunity to experience capitalism's creative destruction.

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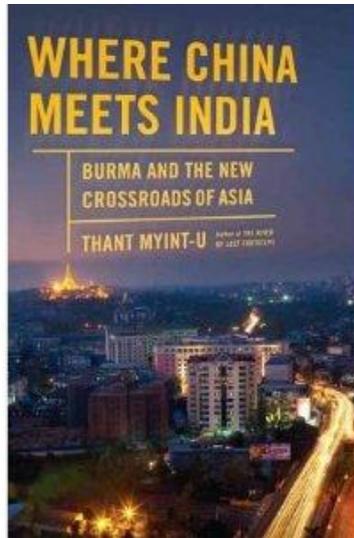
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## **BOOK REVIEWS**



Where China Meets India: Burma and the New Crossroads of Asia

Thant Myint-U

Farrar, Strauss and Giroux: New York, 2011. ISBN: 978-0-374-98408-3

363 + XIX pages

Reviewed by John Walsh, Editor, *SIU Journal of Management*,  
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The rise of China and India has been endlessly debated; the impact of nearly three billion people entering the modern world via the processes of globalization, industrialization and modernization will clearly have significant importance upon themselves and their own societies and, also, plainly, on the rest of the world. Change will come in terms of production and consumption of goods and resources, upon

the environment within specific territories and in the world as a whole and on the imaginations of billions of other people. Here in the Mekong Region we are increasingly familiar with the rising impact of China and Chinese organizations on daily life as Chinese capital and labour builds the roads linking locations within the region with international markets, as Chinese consumer goods become increasingly common in supermarkets and department stores and as more and more young people decide to learn to speak Chinese as a prudent investment in their future careers. The role of India has been less prominent but, then, India is not a direct neighbour of most of the Mekong Region. It is, however, a direct neighbour of Burma [this book is published by an American company and Burma is preferred to Myanmar in that country]. Indeed, Burma has extensive land borders with both China and India and, of all the countries of Southeast Asia, has perhaps been the most directly influenced by both giant neighbours (not to mention by British imperialism). Cambodia is known as the most Indianized of the Mekong Region states but that influence is in the form of regal, religious and political institutions: in Burma, the influence is also evident in the presence of ethnic Indian people and organisations in the streets of the country's towns and cities. Owing to the nature of the supply of oil and gas in the Gulf of Martaban and the demand for that energy in China and India, the centrality of Burma to the increasing international influence of the two giants is set to increase even further. Chinese money is building the infrastructure which is supposed to lead to the 2015 opening of a pipeline to take oil directly from Chinese tankers keen to avoid the Straits of Malacca to Kunming. It is, in other words, an opportune moment to reassess the position of Burma as a mutual neighbour of China and India and to reflect on the shared histories and societal and cultural links that unite them.

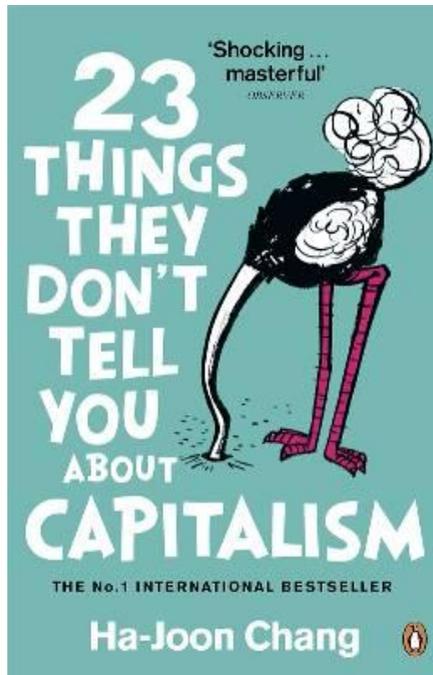
Author Thant Myint-U has attempted to provide exactly this sort of an overview. Drawing upon his own experience and what is evidently a rigorous criss-crossing of the country by the various modes of transportation possible, the author has set his accident as a combination of personal anecdotes with solidly researched history, interspersing the changes wrought from the past to the present as a means of helping to understand the changes likely to occur between now and the future. The style combines popular science with intelligent journalism and the book is both well-written and very readable.

The first section, 'The Back Door,' locates Burma in terms of long-term historical and social change resulting from interest in the country and its people from outside, whether Chinese, Indian or British. The highlight of these competing interests may have been in colonial Rangoon (now Yangon), which appears as a genuinely multicultural urban development recognized as such by the observant travelers and writers of the time. Thant Myint-U balances quite well the history of his country as one which has absorbed cross-border influences and one which has not only modified those influences for local consumption but, also, to exert cultural and political influence of its own in the international world systems of the time. Establishing a proper balance – the exact nature of which can vary considerably as a result of rival ideologies – has been problematic in writing about Southeast Asia in general since as long as people have been writing such things. Thant Myint-U's Burma is one full of mostly calm and compassionate people, albeit people capable of sharp action from time to time. They absorb influences from outside and slowly and patiently adapt them for local consumption. The pace of change, which has now intensified in the age of globalization, has provoked a more rapid change in behaviour and aspiration from those capable of benefiting

from it but, even so, some of the pace of change is removed by virtue of it coming to Burma. This interpretation of events would, no doubt, be challenged by some observers, whether Burmese or not.

The second and third sections, 'Southwestern Barbarians' and 'The Edge of Hindustan' focus on the interactions between Burma and China in the first case and India in the second case. These sections, too, are rich with persuasive and charming detail, informed by a reasonable basis of historical knowledge. This is a book with a minimum of footnotes and scholarly apparatus and readers interested in looking up references will need to search through the small print at the back. These references range in nature from more or less contemporaneous accounts to academic papers to website stories. This appears to be a good mix of sources for a book of this sort although, of course, it will not suit every taste.

It is, of course, possible to criticize the author for writing the book he has and not another book altogether: the activities of the junta and the Tatmadaw are treated lightly, commensurate with an author who would not want to be banned from his own country or to place his sources (anonymous as they remain) in any danger. Readers wanting a hard-hitting account of abuses and violence against the people will need to look elsewhere. That is not the focus of the book. It will be interesting to see what the author will be writing in five years' time, assuming that the current half step towards openness and democracy is maintained.



## 23 Things They Don't Tell You about Capitalism

Ha-Joon Chang

Penguin Books: London, 2011. ISBN: 978-0-14104-797-3

286 + XVIII pages

Reviewed by John Walsh, Editor, *SIU Journal of Management*,  
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As an eminent development economist and economic historian, Ha-Joon Chang is skilled in both analyzing economic issues and presenting them within a coherent historical context. It is an

unfortunate aspect of the contemporary world that these qualities seem to set him apart from the great majority of economists in the public eye who have turned away from intellectual honesty to promote a shameful brand of right-wing populism aimed at promoting the tax cuts for the rich and austerity for everybody else which is doing so much to blight the lives of millions of people and storing up so much damage for the future. That Chang remains consistent to genuine economic analysis and can present his findings in a concise and striking manner has been enough for him to become an international bestselling author in addition to his academic success and prominence as an emergent public intellectual.

As a South Korean, Chang grew up during the period of rapid economic development in that country and could see at first hand the relentless way in which the government organized growth and the endless labour of a generation of workers who contributed so much to what is often glibly referred to as a ‘miracle,’ as if it were some blessing rained down from heaven on people who did little if anything to deserve it. A formative intellectual experience for anyone involved in East Asia during this period was the contemporaneous effort by bodies as eminent as the World Bank to describe the events as if the role of governments and workers was peripheral or at least unrepeatable and that it was all really the work of the markets which had suddenly brought forth periods of unprecedented economic growth. This too was a political event and coincided with the opposition in the USA to President Clinton and, via money politics, the start of the institutional corruption of economics as a means of making sense of the world and, thereby, using it to create worthwhile policy initiatives.

Since that time, a number of other dishonest or at least mistaken interpretations of history have entered into common currency, from the supposed benefits of the Jack Welch ‘shareholder value’ model that has contributed so much to the dangerously rising income inequalities in western countries to the current obsession with what Paul Krugman has called the ‘confidence fairy’ which European governments and the American Republican Party profess to believe will suddenly arrive from the private sector to drive growth at a time of economic crisis that requires significant government stimulus. Ha-Joon Chang’s task in this book is to skewer as many of these falsehoods as possible, pointing out the reality underlying the rhetoric of those misinterpreting the dismal science. In doing so, he remains in common with Krugman resolutely within the confines of bourgeois economic thought – these are not left-thinking people and it is a sign of just how far the political landscape has been wrenched to one side that their mild, centrist views could be portrayed as anything else.

The book is organized into 23 chapters or ‘things,’ each of which takes an element of economic thought and tries to explain what the economics of the situation really is. Most of these are, in fact, quite obvious to people with an intellectual interest in the world and a reasonable degree of observation: Thing 15, for example, rests on the presumption that people in rich countries are more entrepreneurial than those in poor countries and this explains the distribution of wealth. It would take a very willfully blind person actually to visit a less developed country and walk its streets and still think that people were anything other than entrepreneurial – they have to be, after all, in order to survive. Thing 6, meanwhile, is concerned with the idea that the world has become more stable now that inflation, the arch-devil of all economic phenomena, has been tamed. Well, there are few people

who would honestly claim such a thing in 2012, although no doubt it will start to creep back in by 2015.

That these elements of so-called common sense are so easy to dispel makes the book easy to read but perhaps makes it less likely that it will actually make any difference: those people interested in evidence and rational consideration presumably know that most of these things are true and those who reject them do so because of emotional or ideological reasons. It is no surprise, of course, that education for the working and middle classes has been under attack throughout most of the developed world over recent years. This has entailed not just cuts in funding but the continual smearing of academics and academic research in the popular media (although there are in truth plenty of papers and books worthy of being so traduced). There is also the role of the religious right as part of an attempt to substitute intuition or common sense above the ability to make decisions based on the best-available data. It seems hard to believe that such blatant efforts at persuading people to act against their own interest could possibly work in the twenty-first century but the success of this book perhaps indicates the need for a reassertion of the intellect.

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### Historical Background

The idea of establishing a private university to support private sector development in Thailand and the region was initiated in 1996 by Dr. Thaksin Shinawatra and Professor Dr. Purachai Piumsombun. This was followed by the design development of an environmentally friendly campus by Dr. Soontorn Boonyatikarn in 1997. A year later, the innovative plans were presented to Her Royal Highness Princess Mahachakri Sirindhorn, and then to the Ministry of Universities which granted the license for operation towards the end of 1999. The first Shinawatra University Council Meeting was held on May 19<sup>th</sup>, 2000, marking the initial milestone of the long road to becoming an accomplished private university. In September 2002, the first batch of students was admitted, and the venture of creating and nurturing a prospective university had begun.



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The University's coat of arms represents the sun, which symbolizes the source of knowledge. It radiates an abundance of ingenuity and innovation through research. It contributes to the foundations of learning including ethical, moral, physical, and religious aspects.



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