

The 6th International
Conference on Business
and Management Research

The Business and Management Challenges
of the ASEAN Economic Community 2015

Proceedings

27 - 28 October 2011

Ateneo Professional Schools Building
#20 Rockwell Drive, Rockwell Center, Makati City

The 6th International Conference on Business and Management Research (ICBMR)

The Business and Management Challenges of the
ASEAN Economic Community 2015

Convened by Universitas Indonesia
in Association with the Ateneo Graduate School of Business and
Supported by Indonesian Embassy, Philippines

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Editors and Contributors

The Proceedings of the 6th International Conference on Business and Management Research on “The Business and Management Challenges of the ASEAN Economic Community 2015” was edited by Dr. Carolina S. Guina, Research Advisor, Ateneo de Manila University Graduate School of Business. Ms. Anna Marie Medrano, Assistant Coordinator for Research, provided editing support and overall assistance and coordination in the publication of this volume. The Abstracts of the Conference Papers were provided by Universitas Indonesia. Mr. Orlando Cruz designed the cover based on the visual identity of the Conference, which he also designed.

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Introduction

The vision of the ASEAN Community was declared on the occasion of the Ninth ASEAN Summit in Bali, Indonesia in 2003. It signified commitment at the highest political levels of ASEAN member countries to accelerate the economic integration process on account of dramatic changes in the patterns of industrial production and trade, as well as the redistribution of capital in the region, resulting mainly from the emerging economic dynamism of China and India. These developments compelled ASEAN to take a more aggressive step in consolidating its position as a regional production base. The goal of ASEAN integration would be achieved principally through the ASEAN Economic Community (AEC) to be realized by 2015. The AEC aims to establish a single market and production base where there is free flow of goods, services, investments, capital and skilled labour. It is envisaged that the unrestricted movement in the factors of production would maximize complementarities among ASEAN member countries to achieve economies of scale, higher labour productivity and production efficiency.

The integration of markets resulting from the dismantling of trade barriers and factor inputs will have significant implications on how businesses operate. Increased business competition will impose new challenges on business organizations --- the development of a highly competitive labor force, advancement in technology and innovation, and skillful management of diverse and rapidly changing settings, among others. At the same time, these challenges will spawn new areas for research that seek to understand how the globalization of business is changing the way various facets of business --- human resources, finance, marketing, production and operations --- are managed.

The 6th International Conference on Business Management and Research convened by Universitas Indonesia (UI), in partnership with and hosted by the Ateneo Graduate School of Business (AGSB) at the Ateneo Professional Schools, with the support of the Indonesian Embassy in the Philippines, provides a platform for policy makers, business leaders and academic researchers to address these issues.

In the morning of 27 October, an Opening Program was held where Fr. Jose Ramon T. Villarin, President of Ateneo de Manila University, and Prof. Dr. der Soz Gumilar Rusliwa Somatri, President of Universitas Indonesia gave their Welcome Remarks. It was followed by the Keynote Speech of H. E. Yohanes Kristiarto Soeryo Legowo, Indonesia's Ambassador to the Philippines, Dr. Alladin Rillo, Director and Chief Economist of the ASEAN Integration Monitoring Office of the ASEAN Secretariat, and Hon. Gregory Domingo, Philippine Secretary of Trade and Industry. The Open Forum was moderated by Mr. Ahmad Djauhar, Deputy Head of Bisnis Indonesia Daily. A Business Policy Forum was also held where high-level policy makers discussed the imperatives of economic integration, the public policy framework supporting this process, and how the Southeast Asian region's economic integration agenda is helping to keep its economies buoyant and robust. The panel of business leaders was composed of Dr. Jingjai Hanchanlash, Director of Loxley Thales Company, Dr. Dwi Soetjipto, CEO of PT Semen Gresik Indonesia, and Mr. Carlos Ejercito, Chairman and President of Northern Access Mining Corporation, Forum Cebu Coal Corporation. The panelists exchanged views on how they are responding to the challenges of heightened competition, the risks as well as the rewards, and the yardsticks of success and sustainability. The business forum was moderated by Dr. Cielito Habito, Head of the Economics Department of the Ateneo de Manila University.

Welcome and Opening Remarks

Address by
Fr. Jose Ramon T. Villarín, S.J.
President, Ateneo de Manila University

In the afternoon of 27 October and in the morning of 28 October, parallel sessions were held where scholars presented research papers on various topics, disciplines and functional areas of business including Finance, General Management, Economics, Innovation, Marketing, Human Resources, Strategic Management, and Operations Management among others.

Ladies and gentlemen, good morning.

I am not an economist and I have been trying to understand what the “ASEAN integration” means. Also, I have asked myself what such integration will mean, for example, in the case of our basketball team. The Ateneo de Manila University basketball team recently won the university championship and we wonder, if the Association of Southeast Asian Nation (ASEAN) member-country borders were dismantled, will we continue to be the champions? Or will we get better players? Or maybe our players will get to play in Indonesia?

My dear friends, the Ateneo de Manila University, in partnership with the Universitas Indonesia, take pride in hosting the 6th International Conference on Business Management and Research.

As the world begins to look more closely at Asia, and as “economic integration” in Southeast Asia unfolds, it has become more compelling to understand the many implications of integration on development, on our business bottom line, but most specially, on the lives of the poor who still compose the majority in most of our emerging societies in the world today. We can understand the wariness and the anxiety over the benefits of this economic integration. We see this enchantment with the Global Financial System that occupy Wall Street, the rage against the machine, the fears of another round of recession, even the insecurity over the events unfolding in the European community today. We are anxious not so much about the free flow of goods and services, labor and capital, and ideas, as we are about the geographically differentiated risks and rewards that this integration may bring. Moreover, when borders are dissolved, in the spirit of, or for the cause of globalization or regionalization, we cannot avoid calculating the social costs of this integration as balanced with the benefits of greater competition and productivity. In many of us among the ASEAN countries, we are still beginning to define who we are—our own national identities in the context of our cultural and historical diversity. These are daunting challenges, difficult challenges that can tempt us to retreat to our borders. We hope we can overcome these temptations and we hope we can resist this tendency if we are guided by a vision of a vibrant and an interconnected ASEAN. It will take leadership to shape and to share that vision with each other, in language that speaks to our aspirations for true, sustained, and lasting development.

We look to leadership to guide the operations, the complex operations that must come eventually from this vision of an integrated ASEAN. We are thus grateful that the Ateneo Graduate School of Business and the Universitas Indonesia’s Department of Management have joined hands to bring together policy makers, business leaders, and researchers to face head on the multidimensional challenges of economic integration. May this gathering help us discover the insights and the inputs we need to bring about an effective single market and a production base in the ASEAN region. May this gathering also enable business schools in the region to play an instrumental role in the emerging economies of a globally vital Asia. A globally vital Asia that promises to strengthen our business bottom lines would be meaningless, however, if we cannot defeat poverty and move millions of lives out of despair and misery. Hence, may our gathering today help build a globally vital ASEAN, a globally vital Asia.

My best wishes to you all and with prayers for a successful conference. Good day to us all.

Welcome Message

Address by
Prof. Dr. der Soz. Gumilar Rusliwa Somantri
President, Universitas Indonesia

Good morning everybody and welcome to this very important event. This is the 6th time that *Universitas Indonesia* has held this conference; the first time was in Bali in 2006. We have started working with partner institutions recently, and this year, we are very fortunate to be working with the Ateneo de Manila University.

At *Universitas Indonesia*, we have been working hard to achieve our goal of becoming a world-class university. One indicator of our progress in this regard is our ranking. In 2007, our Times/QS World Ranking was 395; this year, this rank has gone up to 270. We are also making significant improvements in other areas, including student enrolment, quality of programs, and enhancing international collaboration and exchange. We are able to get a regular flow of world-class speakers from government, business, and academe. The number of international conferences and symposia that we hold, such as this one, are also increasing. Business and government need good and quality information to make the right decisions and, in this respect, research plays an important role. Thus, we have made research as our priority. We have increased research funding by 500% since 2007, and this year, it has reached over Rp400 billion. Research outputs of our faculty are published in high-impact journals published both internationally and locally. In 2007, 57 articles were published internationally; in 2010, it was 403. We expect that some 450 research articles will be published this year.

We realize the importance of research as a means to share ideas and interact with colleagues at international forums. This is why our faculty in the School of Economics and Business had set up the International Conference on Business Management and Research (ICBMR). The ICBMR is a venue for research work to be presented to the academic community and to business and policy makers. ICBMR focuses on themes that are relevant and current. This year's conference focuses on the challenges faced by the business community with the establishment of the ASEAN Economic Community. The Association of Southeast Asian Nations (ASEAN) region, economic growth, and policy studies are all priority areas in our research agenda. A number of research studies that we have done are in the fields of management and business in the context of the ASEAN's economic integration. Some 73 researches in management and related areas have been receiving funding since 2007, and up to the present. From only 5 researches published in 2007 and 2008, the number has reached 55 in 2009 and 2010.

The ASEAN Economic Community or the idea of a single market of over 500 million people in the ASEAN region has been gaining momentum over the last few years. The first phase of a free-trade zone took full effect last year. To fully understand how this concept will work, we need to look at emerging and future trends. The world today is chaotic and ambiguous. Economic activity in the ASEAN is shifting to the east and to the south. Climate change and a growing population are posing major challenges. If one looks at the pace of ASEAN integration and the emergence of a common economic market by 2015, none of these areas are receiving enough research attention.

To prepare for economic integration, ASEAN countries would, first, need to share a common vision, politically and culturally, and be imbued with the spirit of community. We expect to see experts in the ASEAN coming together to discuss the development of an area of peace and cooperation, including

Keynote Speech

Address by

H.E. Yohanes Kristiarto Soeryo Legowo

Ambassador of Indonesia to the Philippines

in the South China Sea. The second is the need to acknowledge that climate change has already begun to impact our lives. The change will certainly impact business, finance, and trade. Research in business and management should pay attention to the issue of sustainable development and how it affects business strategy. The third is the need to develop a better understanding of the impacts of the financial and banking crisis in Europe and in the United States, which continue to unfold. Finally, if the ASEAN Economic Community is to succeed, countries need to ensure that the ASEAN that will emerge in the 21st century must not only be “marketable” to producers, but should also be beneficial to consumers and households, and must bring value to the wider community. In the next few days, our discussions will touch on important topics such as ASEAN capital market integration, and trade and investment, which we hope would be useful across ASEAN countries.

Finally, I thank our host and all participants for being with us in this conference.

I am grateful and privileged this morning to be part of this undertaking organized by the University of Indonesia and by the Ateneo de Manila University’s Graduate School of Business. I would like to congratulate the two universities for the successful holding of this 6th International Conference on Business and Management Research.

Just like Fr. Jose Villarín, I am not an economist. It is an honor for me to be one of your keynote speakers since this event is really a testament of how cooperation among us, ASEAN member countries, work and how we support each other’s causes. This event reflects, in particular, the strong partnership between the Republic of Indonesia and the Republic of the Philippines in advancing the ASEAN agenda, especially in transforming the ASEAN into an integrated community by 2015.

As we all know, it was a great vision by the ASEAN leaders that the community will be based on three main pillars, namely, economic, political and security, and sociocultural to guarantee the peaceful co-existence of ASEAN citizens in a single community. ASEAN has always been considered to be an important player in the global economy. Its strategic location and abundant natural and human resources have served as an advantage in the international trade and global investment. ASEAN accounts for 6% of total world trade and is the third-largest destination of foreign direct investment reaching 55% growth level since 2004. ASEAN countries’ combined gross domestic product has recorded a growth of 170% over the last 10 years. With moderate but steady growth, one could say that the ASEAN has successfully recovered from the global financial crisis.

According to the 2010 Organisation for Economic Co-operation and Development’s (OECD) Economic Outlook, the economies of the ASEAN’s six member countries—Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand—will grow by an average of 6.1% until 2015. To further stimulate economic growth, the ASEAN economic community would transform ASEAN into a single market and production base. The ASEAN economic community would result in a highly competitive economic region, with equitable economic development, and fully integrated into global economy. The focus on socioeconomic development would ensure that people in the region would share the benefits of an ASEAN economic integration. Integration would be made possible by the elimination of tariffs, the free movement of professional workers, and complimentary flows of capital, as well as streamlined customs clearance procedures. With these measures, doing business would become cheaper because the domestic market will become an ASEAN market. Production and distribution costs will also be lower. Companies can locate their production and distribution facilities to yield optimal costs through the setting-up of regional manufacturing clusters involving other ASEAN companies. Lower employment costs would be achieved through the free movement of peoples. The internationalization of production would enhance creativity and innovation.

From Indonesia’s standpoint, a solid ASEAN economic community would definitely complement the other two pillars—the ASEAN political and security community and the ASEAN sociocultural community. Since Indonesia assumed the chairmanship of the ASEAN in January 2011, the main plan of action has been to expedite the implementation of all the agreed commitments needed to transform

the ASEAN into an integrated community by 2015. Before and throughout 2011, Indonesia had always been people-oriented and people-centered by promoting people-to-people interaction. Together with other ASEAN member countries, we have tried to boost our people's living standards by developing and empowering small and medium enterprises, promoting investments, developing tourism, and nurturing cooperation among our ASEAN Dialogue Partners. With greater resolve, we have tried to identify our strengths and weaknesses, opportunities and threats, in order to optimize the use of what we already have and work on overcoming our deficiencies. With these, we hope to reduce complexities and realize more benefits.

As a member of the ASEAN, Indonesia has also taken measures to prepare itself for ASEAN integration. Indonesia's competitiveness is also getting better. For the past six years, Indonesia's performance in the Global Competitiveness Index has been improving steadily. Ranked 44th among the 139 economies in 2010, Indonesia has been improving its overall score annually since 2005. In fact, Indonesia registered the highest improvement in country economic performance among the G20 countries over the period. Democracy in Indonesia has matured in recent years, bringing more transparency and accountability in government. Political campaigns have promised to tackle corruption and the current administration has exerted full efforts to contain this. In this regard, I would like to mention the establishment of the Commission on the Eradication of Corruption in Indonesia, which has been given considerable powers to fight corruption. The perceived level of security has also improved compared to previous years. Robust growth and sound fiscal management have put Indonesia in a strong fiscal position. These improvements have been the key to Indonesia's economic vitality in the past years.

Despite these commitments, we are fully aware that the situation is not always promising. ASEAN member countries need to face many challenges—strengthen their competitiveness, improve the quality and standards of their products, establish better data and information systems, create more products, and tap more resources and support. In order to face the challenges of establishing an ASEAN economic community, Indonesia must increase its competitiveness in all aspects—in terms of institutions, infrastructures, macroeconomic environment, health and primary education, higher education and training. It also needs to enhance market efficiency, labor market efficiency, undertake financial market development, have technological readiness, market size, business specification, and innovation. We barely have four years to go before we embrace the biggest and most ambitious changes that our region could ever hope for—an ASEAN community and a community of nations. To succeed in these challenges, we need to research, study, report, and apply until we discover what is best for us, and still, it does not end there, because it is a continuous learning process.

Distinguished participants, the ASEAN economic community is just part and parcel of a bigger and brighter picture for everyone in the region, the ASEAN Community. As I have earlier stated, this community that we are aiming for stands firm on three pillars and we believe that the first must complement the other two, as one cannot stand alone without the other two. Indeed, it is very ambitious, but it is the best for all of us. With Indonesia as chairman of ASEAN in 2011, it will continue to lead the ASEAN with the support of all the member countries to achieve this goal of becoming a community by 2015. Before I conclude, allow me to remind everyone that the ASEAN was established 44 years ago based on strong desire to institute peace, build consensus, and promote stability through regional cooperation and integration. Against this background, Indonesia will continue to strive to be a model of peace, development, and cooperation in Southeast Asia and beyond, and on this path, we are happy and feel privileged that we have a strong partner in the region, the Republic of the Philippines.

Thank you very much for your kind attention.

Keynote Speech

Address by

Dr. Alladin D. Rillo

Director and Chief Economist, ASEAN Integration Monitoring Office

ASEAN Economic Community Department

ASEAN Secretariat

I am really pleased to be participating in this important event. I think it is quite appropriate that we, as stakeholders in the ASEAN community building process, are participating in this conference. On a personal note, I consider it a privilege to be back here, I had my first training at the Ateneo University in Quezon City back in 1983 before I went somewhere to do my further studies. What I plan to do in the next 15 minutes is to provide you with an overall idea of what the ASEAN Economic Integration is all about; in particular, where we are now in terms of the progress that has been made, and the challenges that we faced and still face in moving toward integration.

As you know, the ASEAN is trying to build an ASEAN Economic Community (AEC) by 2015. The approach that we are trying to adopt to pursue that integration is similar to the approach employed by the European Union (EU). The EU is an inspiration in our economic integration, but it is not actually the model integration that we want to follow because if you look at the ASEAN economic integration, we are not creating an external tariff with other members of the ASEAN, what we are talking about is a solitary unit here, which means that the regional integration we have in mind is more of creating a single market and production base that would enable the region to compete in the world. As you will see, the move toward ASEAN integration has undergone some sort of evolution. It actually started many years ago with such initiatives as the ASEAN Preferential Trading Arrangement in 1977 and the establishment of the ASEAN Free Trade Agreement (AFTA) in 1992. So when the ASEAN leaders decided to create an ASEAN Economic Community in 2003, the idea, basically, was to make the region more competitive through increased inter-regional trade flows. Another objective is to make the region an attractive area for foreign direct investment and, consequently, to narrow the development gap among the ASEAN member states. In essence, therefore, the AEC is the end goal of the Economic Integration in the ASEAN region. The aim is to transform each of the 10 members of the ASEAN into a single market and production base with free movements of goods, services, investment, and free flow of capital and labor. The integration envisions an ASEAN region that is highly competitive and able to address the perennial issue of equitable economic development. At the same time, we envision an AEC that is fully integrated into the global economy. The idea is that in the process of integrating the region, the ASEAN is also trying to move outwardly in terms of engaging with the rest of the world, and this is very much evident with the various free trade agreements that the ASEAN has developed over the years.

The ASEAN, in its move toward integration, subscribes to the basic principle of eliminating all borders, that is, eliminating all barriers and measures that restrict trade. Economic integration in the region is also consistent with the basic principle of harmonizing the different laws, regulations, and standards that would create an interlink among markets in the region. At the same, through regional integration, we are able to achieve some important goals, for example, an improvement in the lives of people in the region, an increase in productivity, an increase in real income. We also recognize that, to achieve a meaningful integration in the region, it is very important that resources are committed. At the same time, there has to be real connectivity within the region and this involves not only connectivity in

terms of hard infrastructure or physical infrastructure, but also interconnectivity involving interaction not only among people but also among different institutions in the region. In fact, the ASEAN leaders have endorsed last year the Masterplan in ASEAN Connectivity, which I think is a most important development as far as integration in the region is concerned, because through the Masterplan, we are trying to make integration a reality in terms of connecting the different countries through infrastructure and through other mechanisms such as people-to-people interaction and interaction among institutions.

So the question that is very relevant to us now is “Where are we now?” as far as integration is concerned. As I have mentioned earlier, the commitment to build an AEC was made in 2003. Since then, some initiatives have been developed to achieve the goal of AEC by 2015. I think the most important and most relevant evidence of our integration is in the area of goods. Since January 2010, the ASEAN has become a full free trade area, which means that import tariffs among six countries in the region, including Brunei and 5 ASEAN member countries are already zero or have been eliminated, while in smaller ASEAN economies like Cambodia, the Republic of the Union of Myanmar, Viet Nam, and the Lao People’s Democratic Republic, the import tariff rate is still within 0% to 5% but the idea is to eventually eliminate tariff permanently by 2015. The ASEAN has also enacted a number of legal agreements to ensure that integration would allow the free flow of goods in the region. This is very evident in two agreements that have been forged, one is the ASEAN Trade Agreement in Goods, the other is the ASEAN Comprehensive Agreement in Investment. These are very important agreements because they not only intend to liberalize the tariff measures in the region, they also aim for the removal of non-tariff barriers by enhancing the efficiency of customs among ASEAN member countries to enhance trade facilitation. So I think Integration has made a complete success in terms of facilitating trade in goods and services.

Another important component of the ASEAN economic integration is the liberalization of trade and services. By 2015, the ASEAN intends to achieve free flow of services as well. This particular objective is expected to be achieved through the ASEAN Framework Agreement on Services (AFAS). This agreement intends to achieve progressive liberalization of services by allowing free movement of services across ASEAN member countries and at the same time allowing increased foreign equity participation among these countries. For example, if you are a company in the Philippines and you want to establish a company in Indonesia, under AFAS, foreign equity participation can be up to 70%. Similarly, the ASEAN integration intends to achieve free flow of labor. Under this initiative, we have so far completed seven mutual recognition arrangements (MRAs) that would allow professionals to move on a temporary basis across countries in the region. So far, we have implemented two MRAs in the area of engineering and architecture, and there are other MRAs currently in the process of being implemented. But I think the most important development as far as free movement of labor is concerned is the development of this ASEAN agreement on the movement of natural persons. This agreement is actually going to be announced in November 2011 when the ASEAN leaders meet in Bali during the 19th ASEAN Summit, and again this is a very important agreement because it would really allow for greater integration of ASEAN by 2015 and beyond. As far as capital financial integration is concerned, the ASEAN is not as advanced compared to trade integration. In fact, if you look at current trends, the ASEAN is more financially integrated within the global economy than within the region. But I think the region has also made a lot of progress in financial integration. Let me just mention a number of initiatives here --- one is the Roadmap for Monetary and Financial Integration in ASEAN, where financial integration within the region is basically viewed in terms of three areas --- one is liberalization of financial services, which would allow the banking sector to open up with the rest of the region. Another component of this financial integration is Capital Market Development.

Here I can cite a very important example, the development of the Implementation Plan for Equities Market. In May 2011 the finance ministers launched what we call the ASEAN Exchanges, which is an initiative that allows for linking the different stock markets in the region. That particular initiative is now ongoing. At the same time, we are trying to deepen our regional bonds market. You may have heard of the Asian Bonds Market Initiative or ABMI, an initiative to create and deepen regional bonds in the region by issuing, for example, local currency-dominated bonds. In this particular area, one of the important results that has been made so far is the establishment of the ASEAN Credit Investment Facility. This is actually a trust fund being created by the ASEAN +3 countries. This trust fund is administered by the Asian Development Bank (ADB). The idea is to ensure that local currency-denominated bonds really flourish in the region.

There are actually four pillars under the AEC. The most important is the creation of a single market and production base. The other three pillars are (i) ensuring a competitive economic region, (ii) a region able to achieve equitable economic development, and (iii) a region fully integrated with the rest of the world. In this other three pillars, the ASEAN has also made some progress. Let me just mention a few. In the area of ensuring a competitive economic region, the ASEAN has developed a level playing field in terms of competition policy. We also have initiatives in the area of consumer protection. In the integration of infrastructure in ASEAN, one important development here is the establishment of the ASEAN Masterplan of Connectivity, which was endorsed by the leaders last year. In the area of integrating the region into the global economy, the ASEAN has completed a number of free trade agreements, not only within the region but also outside the region. We have free trade agreements with the People’s Republic of China, the Republic of Korea, and Japan, and also with Australia and New Zealand. Recently we have signed trade and goods agreement with India.

What does this imply for business? In terms of the objective of creating a single market and production base to make the region more competitive, the implication is that under the AEC, we expect an increased productivity for the business sector and an improvement in the living condition of the people. It is always interesting to know that every time we are engaged in discussion with the private sector, there are three issues that they always raise. These issues relate to the fact that the ASEAN is very small, the second issue is that if you invest in the ASEAN, there are a lot of unnecessary costs. The third issue is a complaint that doing business in ASEAN always has this element of unpredictability, therefore, of uncertainty. So when the ASEAN leaders decided to establish the AEC, their idea was to also ensure that these concerns of the business sector are addressed. So far, the ASEAN has been able to address these issues. For example, on the issue of the ASEAN region being a small market, the fact that we are creating the AEC by 2015, means that we are creating a very big market that would allow the business sector in the region to compete competitively. To address the issue of unnecessary costs, we have implemented the ASEAN Single Window that allows for single processing of customs documents in the region. We have also implemented measures to set standards for product conformity assessment. We also have implemented measures on competition policy, consumer protection, and so forth. Finally, on the issue of business unpredictability, we have implemented a number of initiatives, such as a dispute settlement arrangement that allows businesses to air their grievances whenever disputes arise. Also recently, we have created a Working Committee on Taxation that allows the region to address taxation issues such as withholding taxes and double taxation. What I am trying to say here is that under the regional integration, initiatives are being implemented to address different concerns. At the same time, if we look at the priority integration sectors that the ASEAN has implemented, we can develop road maps that can address the concerns of business. The idea is that by 2015 and beyond, we are able to build a competitive region that is able to address the concerns of both the consumers and producers.

So let me now talk about the challenges of the AEC. I think the most important challenge that confronts the AEC is, how do we implement the integration? To be honest, the implementation is not easy. As of July 2010, only 72% of our commitments have been realized. We have implemented a scorecard to allow us to keep track of what has been achieved in the integration. I think the main issue in the implementation of integration is that there are still regulatory barriers that prevent the ASEAN from fully moving toward full integration. There is also the issue of coordination in each country and among countries in the region. These are the existing concerns that we are trying to address. Monitoring is very important here. We have an existing monitoring mechanism in place. We have the AEC Scorecard. But, we feel that this is not enough because the creation of the AEC Scorecard was only a compliance tool. I think what we really want is to find out whether the integration has really created an impact on the business sector and on the households so that we are now in the process of reviewing the AEC Blueprint to ensure that the different measures under the blueprint are really effective. But I think the most important challenge here is how we engage with the different stakeholders and by stakeholders, we mean here that we are focusing mainly on the private sector because we believe that the ASEAN economic integration is a market-driven process. We only achieve integration if the markets are ready to integrate. But without the support of the private sector, I do not think AEC will become a reality by 2015 and beyond. So far, we have existing initiatives in place to support the private sector, to engage with the private sector, to ensure that they are able to participate in the various initiatives of the region. We are now also in the process of ensuring or exploring other mechanisms to ensure that there is greater engagement with the private sector. That is why ASEAN welcomes this kind of opportunity to engage with different stakeholders, including the private sector and the academe, because we believe that it is only through greater engagement with different stakeholders that we build an ASEAN economic community. AEC is not to be built alone by the governments and their officials. It is a collective effort by the different stakeholders in the region.

So let me conclude by stating some arguments here. Again, I think we have to be realistic here. We are not saying that by 2015, AEC shall be fully established because we are only talking here of 4 years. What we are simply saying here is that by 2015, some of the core elements of integration are already in place in terms of free movement of goods, free movement of services, free movement of labor, and free movement of capital. Obviously and definitely, those core measures will be there but not fully, but some of the key elements of integration will be there. That is why we believe that integration is still a work in progress and for me personally, I think there are four important issues that we need to address as far as building the AEC is concerned, and these issues are the following:

- One is the need, for example, to strengthen comparative advantage from regional production efforts. Again, even though ASEAN has made progress as far as eliminating border trade issues, I think a lot of work still needs to be done as far as removal of non-tariff measures. Trade facilitation is very critical because even though we have eliminated tariff barriers in the regions, a number of obstacles as far as trade facilitation still exist, and that is one priority that the leaders are now trying to implement.
- The second important element of integration moving forward is the need to ensure that financial integration moves hand in hand with trade integration. The problem with that the way we did integration in the early years was that we have put so much emphasis on trade integration and so little on financial integration. If we look at the practical side, trade and goods for example will only be realized if there is a corresponding flow of financial resources and this is why within the AEC, both financial integration and trade integration are being pursued hand in hand.

- Third, I think it is very important that we manage interdependency or connectivity. By connectivity, I am referring here to the actual integration which is happening in terms of physical infrastructure, in terms of connecting with different people in the region, in terms of connecting between institutions, and at the same time, considering what is happening in the world today, considering the increased interdependence of ASEAN with the global economy. We cannot afford to be just by ourselves, we have to make sure that the policies are effectively managed and that they complement with what is happening in the global economy and this is possible through policy coordination with the finance ministers, for example, meeting regularly to ensure that different policies are discussed, such as the implications of the current prices in the Euro zone, the implications of the sovereign crisis, as well as the weakness in the global economy.
- Finally, I think that in order for economic integration to work, we have to make sure that it really leads to more credible results in terms of enhancement of the lives of the many people in the world. As Fr. Villarin mentioned earlier, I think we have to ensure that integration is not only about market, integration is also about people and for the AEC to gain recognition within the region and with the rest of the world, we have to make sure that whatever we do today as far as integration of market is concerned, all these efforts should address the basic issues of poverty reduction, and the basic issue of ensuring that individuals are able to benefit from whatever market integration that we have at the moment.

I will be happy to answer questions later. Thank you.

Keynote Speech

Address by

Hon. Gregory L. Domingo*

Secretary, Department of Trade and Industry

Good morning everyone.

I would like to congratulate the Ateneo Graduate School of Business and the University of Indonesia, with the support of the Indonesian embassy in the Philippines, for bringing together such an eminent group of business executives, government officials, and academic leaders in this 6th International Conference on Business and Management Research.

The Philippines, just like Indonesia, is currently preparing for regional economic integration by 2015. As someone who is involved in this initiative, I am pleased to speak in this forum of global players about our support for the Association of Southeast Asian Nations (ASEAN) integration through fair and open trade and the business opportunities that will be opened in this dynamic regional setting. It has been 45 years now since the ASEAN was formed. From five founding countries that include both Indonesia and the Philippines, the ASEAN is now composed of 10 member states and has become one of the fastest-growing regions in the world. The last two decades were critical due to the advent of high technology that resulted in a highly integrated world economy and to the two global crises that challenged the region. The ASEAN rebounded from both of these—from the Asian Financial Crisis in the late 1990s and the recent global recession to post 7.6% growth in 2010—to strengthen its claim as an emerging regional economic powerhouse.

Regional cooperation and integration paved the way for a sustained growth for most emerging economies. We have seen how market-driven production networks, backed by unilateral trade liberalization, have benefitted the economies of Southeast Asia and provided the foundation for a shared prosperity in the region particularly through increased trade and investments. The ASEAN may not necessarily be a homogenous block as it is composed of economies of varying levels of developments and different systems of governance but aside from geographical location, what we share with our neighbors is the common aspiration to remain internationally competitive. As challenges arise from the emergence of new economic heavyweights in Asia, like the People's Republic of China (PRC) and India, and the difficulties that continue to rock our full economies like the United States, Japan, and the European Union. Thus, the ASEAN cannot simply remain as a group of 10 individual national economies that are independent of each other. It has to integrate into a single economic entity, the ASEAN Economic Community or AEC by 2015 to remain competitive in the rapidly changing global business landscape. The AEC envisions a single market and production base of 600 million population, a highly competitive economic region fully integrated into the global economy. The AEC will transform the ASEAN into a region with free movements of goods, services, investments, skilled labor, and capital. The AEC will be viewed as both a tough competitor and a huge market for trade and investment, sustaining the ASEAN's place as a dynamic center in Asia. Furthermore, the AEC is envisioned to be a zone of inclusive progress and the link that will bridge the development gaps between and among various ASEAN member states.

* Delivered by Assistant Secretary Glenn Peñaranda of the International Trade Group, Department of Trade and Industry.

Coming out of a remarkable economic performance in 2010 and moderate growth in the first half of 2011, the Philippines is presently well-positioned to leverage on the opportunities that will arise from such a regional integration. Right now, we are already enjoying the low tariff of other member states that ensured continued and enhanced market access for Philippine products, and at the same time, serving as price-competitive sources of inputs in areas where the Philippines lacks in supply. Philippine exports to other ASEAN markets enjoy substantial margin of preference (MOP) of as much as 50% over non-ASEAN exports. Our manufacturing sector benefits from duty-free importation of chemicals, plastics, paper, rubber, textiles, glass, aluminum, and steel from our ASEAN neighbors. We can see that both big business and small and medium enterprises (SMEs) stand to benefit from the ASEAN integration as this would mean improved access to ASEAN markets and ASEAN trading partners such as the PRC, Japan, South Korea, India, Australia, and New Zealand. The focus on SMEs is critical and thus a priority whether in the ASEAN or in the Asia-Pacific Economic Cooperation (APEC) meetings where we push the SME agenda. Putting SMEs in the forefront is addressing the matter of poverty's query as this brings down the benefit of free trade to the level of the general population and puts premium in our goal to generate jobs and bring food on the table.

We have identified focal industries where SMEs thrive. These are agriculture, agribusiness, and tourism. The Philippines is already known for its quality fruit exports such as pineapple, bananas, and mangoes. So I would like you to really make sure that you taste these fruits. World market demand for these fruits continues to grow and there is a need to provide and strengthen support for these first. And then there is agribusiness; we have not yet even touched the potential of agribusiness in the Philippines. An example is the coconut industry where huge global potential is currently brewing. From the husk to the shell, to coconut water, basically everything from the coconut can be processed into export products such as coco peat and coco fiber. Coconut water is fast becoming the hottest athletic drink abroad even replacing Gatorade in the US. As for tourism, it has been said that tourism opens the floodgates to business. It is the only industry that can employ both skilled and unskilled workers. In 2010, ASEAN visitors to the Philippines increased to 300,000 from 256,000 in 2009. We are already up by 13% as of August, in terms of tourist arrivals from the ASEAN. As a recognized provider of overseas workers to the world, the Philippines will also benefit from initiatives to develop better international remittances network under the ASEAN framework for equitable economic development. Hopefully, improvements in the international remittance system in terms of transparency, accessibility, and pricing will ease the cost of sending money to the Philippines. In terms of its volume of remittances share, the Philippines ranked 4th among the world's biggest recipient in 2010. How these funds are used in an economy that has been driven largely by domestic consumption indicate how important remittances are in policy making.

Gearing toward AEC 2015, indeed, the Philippines is aligned in interest and actions with the national and regional—in preparation for a fully integrated ASEAN region in four years time. I can say that the next wave of reforms is geared toward boosting our competitiveness, increasing our appeal as an investment destination, and better positioning ourselves to benefit from opportunities from this new global business landscape. The government is committed to providing a favorable business environment. Many of the regulatory impediments that hamper the free flow of trade and investment have already been dismantled. Specific to the Department of Trade and Industry, we know that the cumbersome regulatory system is costly in doing business, thus, we are implementing major initiatives that will do away with unreasonable and unnecessary costs and processes that can discourage economic activity. We are intensifying efforts to address issues that range from simplification of business registration and licensing, supply, and cost of power, to reducing red tape at the national and local levels. These will ensure better business environment and enhance our country's appeal as an investment destination.

We are also conducting a nationwide program called "Doing Business in Free Trade Areas" where we—officials from the Department of Trade and Industry, the Bureau of Customs, the Department of Agriculture, and the Tariff Commission all around the country—tell our clients, the businessmen, the consumers, and the nongovernment organizations, about business opportunities that opened up for them through the free-trade areas or FTAs. We also bring with us and share success stories from large, medium, and small enterprises that have been able to use the FTAs to their benefit in the hope that they will inspire and guide others.

In closing, I would like to mention, that the Ateneo Graduate School of Business and the University of Indonesia's joint convening of this event is a taste of how potent partnership among ASEAN member states can be. This is a little of ASEAN integration in action. These are interesting times, and more challenges than we wish for may be ahead of us, thus I will end my talk by encouraging you to direct some of your business and management research efforts toward incisive evaluation of how we at the ASEAN can best manage opportunities that the ASEAN integration will bring about.

Thank you and have a good day!

**The 6th International Conference
on Business and Management Research (ICBMR)**

27 October 2011

Ateneo Graduate School of Business
#20 Rockwell Drive, Rockwell Center,
Makati City, 1200 Philippines

Business Forum

The business forum on the economic integration of the Association of Southeast Asian Nations (ASEAN) was moderated by Dr. Cielito Habito, director of Economic Research Center, Ateneo de Manila University, and former Economic Planning Secretary in the administration of former Philippine President Fidel V. Ramos. Panelists for the forum included Dr. Jingjai Hanchanlash, director of Loxley Thales Company, Loxley Public Company Limited, Thailand; Dr. Dwi Soetjipto, chief executive officer (CEO), PT Semen Gresik, Indonesia; and Carlos Ejercito, CEO of Northern Access Mining Inc. and Forum Cebu Coal Corporation, Philippines, and former CEO and president of United Laboratories, Inc.

Dr. Habito gave the opening remarks, in which he noted that the aim of the economic integration of the ASEAN was to enhance the global value chains by expanding regional production and distribution networks. He said this objective can be achieved by opening up borders to promote increased trade in goods and services, as well as to promote investments.

Several panelists talked about the impact of the move toward economic integration of the ASEAN on their businesses and about the changes they made in their strategies. They also talked about the threats and opportunities brought about by this integration.

Dr. Dwi Soetjipto said many opportunities can be drawn depending on the strengths of each country. For example, Indonesia's rich natural resources and minerals have provided opportunities to develop industry clusters, such as in the case of the cement industry. The creation of synergy in the production of cement and cement products made his company the largest cement manufacturer in Indonesia. Cement products from West Sumatra were transported to Kalimantan, Bali, and Sulawesi. This network enabled his company to achieve efficiency in its distribution systems, in its manufacturing operations, and in the utilization and maintenance of its facilities and inventory. Problems in one plant can get support from other units elsewhere, thus maintaining an overall good performance. He recalled that one group was created in 1995 to develop the company, but it resisted the concept of regional community, resulting in poor coordination and conflicts until 2003 when the company started developing synergies, which enabled the company to increase its profit from Rp500 billion to Rp3.6 trillion in 2010 even without putting up big investment. He concluded that opportunities can develop from integration, but it can also bring many threats that the company has to address.

Dr. Habito noted that Dr. Soetjipto's company has performed better in recent years through intensified efforts toward integration and the establishment of regional networks.

Another panelist Mr. Carlos Ejercito, said there is no company today whose development and expansion does not run parallel to the developments in ASEAN. Mr. Ejercito was CEO and president of the

largest pharmaceutical company in the Philippines—the United Laboratories, Inc. (Unilab). Before Unilab, he was a professional manager for many years—starting with Procter & Gamble, then IBM, Citibank, and the real estate company Greenfield. In Unilab he read about the history of ASEAN, and he realized that every company in Southeast Asia developed and expanded according to developments in ASEAN. In fact, the history of Unilab runs parallel to the history of ASEAN. He said that when the concept of ASEAN started about 40 years ago, the founder and chairman of Unilab at that time started to open branches in Singapore, Malaysia, Thailand, and Indonesia—the first four major countries in the ASEAN. Unilab completed its expansion in all the ASEAN countries five years ago. When Mr. Ejercito left Unilab two-and-a-half years ago, they already have presence in Cambodia, Lao People's Democratic Republic (Lao PDR), Viet Nam, and Myanmar. Unilab's operations in these countries started 10 years ago. Today, Unilab is a regional conglomerate and is present in every ASEAN member country. It has reached the \$1 billion mark in revenue from just P7 million in 1997.

Today, he said, the flags of the 10 ASEAN member countries are displayed at Unilab's lobby—the only business lobby that displays the national flag of every ASEAN member state. The company's largest subsidiary is in Indonesia, the second is in Myanmar. Unilab simply used the political situation in Myanmar when, many years ago, the multinational companies in Europe and the United States (US) found it difficult to establish business there because the western governments were highly critical of the Myanmar regime. Unilab pursued business expansion in Myanmar, and today, it is where Unilab's second-largest subsidiary is located, followed by the subsidiary in Viet Nam, as the third largest. He said the ASEAN economic integration offers a vision that is consistent with their own vision of having a single production base and a single market. The company wanted, in the early years, to set up a single production base in the Philippines with the ASEAN as the single market. At that time, ASEAN had only five members; Brunei Darussalam joined later, and the rest joined afterwards. The company's strategy to have one, single production base in the Philippines was not achieved because of the differences in the regulations across the ASEAN member countries. At that time, a company cannot simply export to a country; it must put up first its own manufacturing plant in the country where it wants to export. During those years, Unilab had a plant in Malaysia, another in Thailand, and two in Indonesia. Today, Unilab has three plants in Indonesia, a plant in Viet Nam, and several plants in the People's Republic of China (PRC). When the PRC opened up, Unilab expanded its business there and it now has eight plants on biotechnology products in the PRC. The company is also trying to enter India.

Unilab's challenge then was how to set up a single production base, said Mr. Ejercito. It could not be done at that time because of the very complicated and complex regulations on pharmaceutical products. Today, the ASEAN has set up working groups on pharmaceutical products, and another working group on cosmetics. Mr. Ejercito thinks that the demand for cosmetic products is outpacing the demand for pharmaceutical products. A working group on traditional medicine and health supplements was also set up. These products, he said, need to be regulated specially in the Philippines, in view of the efficacy claims made in marketing these products. The ASEAN working groups on different product segments try to coordinate and harmonize the regulations in the different ASEAN countries.

An example of the difficulties encountered is when the company tried to file for a product certification or registration with the local Food and Drug Administration (FDA). The documents required Unilab to indicate all the materials used in its products, the origins of these materials, the stability studies conducted, and the clinical trials completed. Once the certification from the local FDA is issued, one cannot just go to Singapore and launch the product there, even with proper documents, because

Singapore's requirements are not the same as those in Manila. Neither can one go to Indonesia, nor to Viet Nam, because they will say the same. This is one of the technical barriers to the free flow of pharmaceutical products. He said there is some wisdom to this because every country has its own idea and set of regulations on product safety, product quality, and product efficacy. Even if today's rules have eliminated technical barriers, product quality, efficacy, and safety cannot be compromised.

Pharmaceutical companies in Southeast Asia follow three different major FDA standards—European, American, and Australian. The Philippines has adopted certain standards from the US FDA; other countries in Southeast Asia have adopted either European or Australian FDA standards. These FDA standards seem to be “competing” with each other as to who would require the most number of documents. He said that when Unilab opened a plant in Biñan, Laguna, in the Philippines eight years ago, they had to engage a consulting firm from Europe to help the company with the construction standards in order to comply with the requirements on water cleanliness, air handling, and other factors that can shift between negative and positive pressures over time. Another requirement is that a processing room should have a negative pressure; a negative pressure means that the product powder being mixed could not escape the room because there is a positive pressure from the hallway. This requirement was eventually changed because if this process continues, the contaminants in the hallway can sink into the product. Previously, the belief was that the product should not contaminate the hallway, today things have shifted. At present, the certification is done by the Europeans based on European standards, not the US Food and Drug Administration (FDA). The differences are miniscule, but certain standards still have to be complied with.

The ASEAN is trying to come up with standards that will apply to everyone. Unfortunately, this is not yet happening, said Mr. Ejercito. In Indonesia, where Unilab has the largest operations, pharmaceutical products manufactured in the Philippines are not accepted, although the Philippines accepts pharmaceutical products manufactured in Indonesia. So, there is no single production base. Because of constraints such as this, and because the company has large plants with excess capacity in Indonesia, Unilab is exporting from Indonesia to other countries to the extent that it creates excess capacity in Manila, Unilab exports from Manila, or from Thailand.

At one point, due to excess capacities, Unilab considered closing down the plant in Thailand, but this had not been necessary because the plant was small and the ASEAN market was not affected by the major “earthquake” that shook Thailand's pharmaceutical industry as a result of a political decision made by former Prime Minister Thaksin. His policy, encouraged anyone who is sick, for example, with asthma, or one needing a heart bypass to go to the hospital and pay only the same B30 for each ailment. When the Prime Minister was removed from office and the military took over, the amount of payment was reduced to zero baht. Thus, all the hospitals and medical care facilities expressed concern, saying they cannot survive if the medicine prices continue to go up. The pharmaceutical industry was badly shaken and Unilab had to make a decision based on prices. Unilab considered that Thailand is not the place where it wants to be. Unilab closed down the plant; exported what it could still export out of Thailand, or out of Indonesia, or out of Viet Nam, or out of Manila.

In the case of the PRC, Unilab's difficulty was in determining which products to sell in that market because it seems the country is producing everything it needs. It is the same problem that Unilab faced in India, which has 24,000 drug manufacturing facilities. India has mastered the technique of manufacturing drugs at the lowest cost because each of the 24,000 companies is competing for the

market. Competition is reduced somehow by closing down drug companies that do not comply with international standards. Mr. Ejercito said that about 15 years ago, Unilab's chairman had a vision and decided to open a biotechnology plant in the PRC. Biotechnology was then a new field. Today, that biotechnology plant in the PRC is the largest for one product—human growth hormones— which Unilab exports to the Middle East and South America from the PRC. Here, the “ASEAN plus China” is working for Unilab. One of the things Unilab observed was the potential demand for human growth hormones for such unexplained cases as dwarfism. Lately, human growth hormones have also been used by athletes who are trying to build muscles, or by aging people who want to look younger. One unique feature of the Chinese market is the rapid growth of the middle class. With the one-child policy, there came out “little emperors” with wealthy parents who cater to every need of their child. The human growth hormone is one of the products that cater to smaller Chinese kids who want to be taller. Unilab was also able to find a product in Brazil that can solve skin infections for adolescent boys.

Dr. Habito praised Mr. Ejercito for his “very generous” sharing of experiences. He said Unilab may have even preceded the ASEAN economic integration initiatives in terms of looking for opportunities to take advantage of regional production networks.

Meanwhile, panelist Dr. Jingjai Hanchanlash said the ASEAN Economic Community (AEC) 21015 is both an opportunity and a threat. He said the AEC offers huge opportunities for big corporations. For example, the Loxley Company, of which he is director, has much to gain from the ASEAN economic integration. As a company that has several lines of business, the Loxley group can import labor from neighboring countries, and can have more access to sources of raw materials, for example, from the mining industry in Lao PDR and Cambodia. The Thai seafood industry can also source marine products from Viet Nam, process them and export them to Europe, the US, and other ASEAN countries. But Dr. Jingjai says the case is different for small and medium-sized enterprises (or SMEs). He says that if economic integration is achieved by 2015, the AEC must avoid what he calls the “reverse Robin Hood syndrome”. In the legend, Robin Hood was an outlaw who robbed the rich to give to the poor. In the reverse syndrome, Robin Hood robs the poor to give to the rich. Dr. Jingjai says this could happen if the big companies are the only ones able to take advantage of the opportunities under the ASEAN economic integration and the SMEs are left out. He said this is already happening, at least in Thailand, but this is not intentional on the part of business, it is just the way the economy is structured, he said. So to avoid the reverse Robin Hood syndrome, the leaders of AEC should consider one important aspect in the economic integration—connectivity. He said Dr. Rillo has already mentioned several types of connectivity— physical or infrastructure connectivity, institutional connectivity, and people-to-people connectivity—as very important in the economic integration, but Dr. Jingjai says there is still one type of connectivity that is very important, and this is the administrative connectivity. An example of this is the ASEAN agreement on the free flow of goods and free transit of goods entering a developing country like Lao PDR and Cambodia. It is a good measure of removing nontariff barriers. The goods cannot really “freely” enter or transit because the trader needs to fill up 10 different forms before the goods can be allowed to pass. This can lead an entrepreneur into thinking that it might be easier to just pay “under the table.” This is the reality, he said, the day-to-day problems encountered by the private sector. One can talk, therefore, about logistics development or trade facilitation but one must also pay attention to administrative arrangements.

In administrative connectivity under the AEC, seven countries in the ASEAN mainland can be interconnected all the way from Viet Nam to Singapore, to Myanmar. However, there are also the

three archipelagic states—Brunei Darussalam, Indonesia, and the Philippines. One issue to tackle will be how to establish connectivity between these two groups.

Another important aspect of AEC 2015, says Dr. Jingjai, is competitiveness. Most of the time, people understand this to mean competition between ASEAN and non-ASEAN firms. But Dr. Jingjai said intra-competitiveness or competitiveness among ASEAN firms must also be considered. For example, one country exports mango and another also exports mango. Viet Nam exports rice and Thailand also exports rice. The Philippines exports coconut, but the other country does not import coconut. How can all these countries work together to have better product diversification within the region? Dr. Jingjai suggests what he called “coopetition.” Cooperation and competition at the same time.

Dr. Habito said the “coopetition” concept is something that the ASEAN member countries really have to do. Cooperation and competition need to coexist in the kind of integrated economy that the ASEAN is trying to form in the region.

Dr. Habito also took note of Dr. Soetjipto's position as head of a state-owned company. He asked whether the Indonesian government's policy on state-owned enterprises (SOEs) has changed as a result of the decision by ASEAN governments to integrate more closely with one another.

Dr. Soetjipto recalled an earlier question from the floor about some countries getting out of the economic integration. He said four ASEAN countries have a human development index (HDI) that is higher than that of the PRC—Brunei Darussalam, Malaysia, Thailand, and Singapore. These countries, he believed, would be ready to open their markets. Meanwhile some countries have HDI that is above the ASEAN HDI average. These are Indonesia, Lao PDR, the Philippines, and Viet Nam. Countries with HDI that is below the ASEAN HDI average are Cambodia and Myanmar. These countries, Dr. Soetjipto said, may be reluctant to fully take on the integration initiative because they fear that their inability to compete may create a negative social impact, for instance, loss of jobs. A big challenge, therefore, is how to develop the people's understanding and their preparedness to cope with the challenges of integration. This awareness, he said, will make them ready to eventually open up their markets.

Dr. Soetjipto said that in Indonesia, the total number of SOEs is now 142. Most of them reportedly have low profitability, with only 16 SOEs enjoying high profits and only the top 10 have high returns on equity. The present strategy of the Government of Indonesia is to revitalize the SOEs to make them more competitive and world class. Policies on restructuring and privatization are also generating synergy and cultural transformation. With restructuring comes right-sizing. The Minister of State Enterprises has identified eight non-profitable SOEs that will be transformed into subsidiaries of other corporations. The target is to reduce the 142 SOEs to just 80 in 2014 and to 30–40 in 2020. The remaining challenge for SOEs, said Dr. Soetjipto, involves legal aspects. SOEs would have to follow eight business regulations while a private enterprise only has to follow three. So it is difficult for an SOE to move to a world-class status. Dr. Soetjipto said the challenge for the government then is to push the SOEs to become regional and global players. This means, he said, having an open mind for these enterprises to cooperate or partner with foreign companies, among other things.

Dr. Habito said he had observed that under the ASEAN economic integration companies in the region are taking advantage of the preferential arrangements being made available to them. He said the firms

represented in the forum have been very active in taking advantage of the preferential schemes in ASEAN. He asked what the other companies intend to do, whether they too would take advantage of the preferential schemes. Are they interested to do it? Are they aware of the advantages of these preferential arrangements? He asked Dr. Jingjai for his opinion.

Dr. Jingjai said the big corporations are undoubtedly taking advantage of the ASEAN preferential arrangements. He said that with or without the AEC 2015, these corporations have resources to expand and compete in wider markets. He added that investment promotion has always been the priority of ASEAN countries. Essentially, the ASEAN countries have the same incentive policies for attracting investments. He said this could enhance the profit margins of big corporations, but the SMEs are not aware of these preferential arrangements. There is a lack of awareness among people in general about what AEC 2015 means for them. He said he does not know about the Filipinos, but in Thailand, people still do not understand what the AEC 2015 means for them. A lot still needs to be done for people to understand what AEC 2015 means—what free trade agreements between Thailand and Australia, and Thailand and the PRC means. This lack of awareness is common across the region, he said.

In response, Dr. Habito said that promoting awareness of AEC 2015 needs to be addressed by the ASEAN collectively, as well as by the individual member countries. They should also pursue policies for stronger SME development, he said. SMEs are not catching the opportunities due to lack of awareness.

Dr. Jingjai agreed about the need to focus on awareness. He reminded everyone to also not forget the need to promote administrative connectivity by simplifying business processes.

Meanwhile, Mr. Ejercito said he was wondering whether, in promoting awareness, the Philippine government is disseminating enough information about the ASEAN, about the opportunities and threats of a regional economic integration. From the point of view of a management practitioner, he said he did not get to see much of what the government is doing to push information about the ASEAN to the public. The ASEAN, he said, has a legal personality and all agreements signed by member countries are legally enforceable. As a business executive, he looks at this as a threat. Companies from other countries can now enter the domestic market with lower-priced products, produced with lower labor cost, electricity, and other elements of production, he noted. The products can enter at very low tariffs or zero duty. Businessmen, he said, would be concerned about this.

Mr. Ejercito also shared his analysis of what had been going on in the ASEAN after he looked at its Annual Report which showed the ASEAN calendar of activities for 12 months—from June 2009 to June 2010. He noted the different ASEAN bodies involved in the AEC; these included the Economic Ministers Meeting, the ASEAN Finance Ministers Meeting, the AFTA Council, the Council on ASEAN Integration, among others. These bodies, he observed, held 90 meetings and 84 consultations over a 12-month period. He counted which country hosted the most number of meetings because the host country would normally get wide media coverage. The more ASEAN meetings hosted by a country, the more information about the ASEAN will be publicized and disseminated to the general public. During the period 2009–2010, Viet Nam topped the list. It hosted 18 meetings. He said it is no wonder that Viet Nam is moving very fast in its economic development. It was followed by Indonesia, Malaysia, and Thailand—the top three countries in the ASEAN. The Philippines hosted only four meetings and, he said, they did not even get to hear about these meetings. Two of them were

held in Tagaytay City and he wondered what were discussed. He also related this experience: With little awareness of what was going on, he said he imported equipment from the PRC for the mining company that he now heads. While opening the letter of credit, he was surprised when a friend told him that he should fill out a certain form to get a very low tariff under the ASEAN + in the PRC agreement—he said he did not even know that. Nevertheless, he was able to save at least 10% in taxes on over a million dollars of importation. He said this is one case of lack of information despite the government's claim that it is keeping the stakeholders informed.

Dr. Jingjai said the lack of information is bad but misinformation is worse. The ASEAN, he said, needs to create something about the ASEAN to which people can relate. As an example, he cited the ASEAN song, and the Philippines has the best singers among the ASEAN countries, yet how many are singing or promoting the ASEAN song? To this, Dr. Habito remarked that he is not even aware there is an ASEAN song, and Mr. Ejercito said they should have actually played that song.

Dr. Habito said that creating awareness about the AEC is very important especially among the SMEs since they can potentially benefit from it. He then asked about the impact of the recent global crisis which led many analysts to say that there should be less reliance on the western markets—US and Europe—and to look more inwardly to markets within Asia. He asked both Dr. Soetjipto and Mr. Ejercito whether they saw a deliberate tendency by companies to move away from the traditional markets in the West toward the ASEAN and Asia in general as a result of the global crisis. He wanted to know if this shift was also conditioned by the integration initiatives.

Dr. Soetjipto said the ASEAN market is important by itself. Companies will go to the ASEAN markets if they see that this is beneficial to them.

Mr. Ejercito said there is a need to understand the global value chain. Every component of the value chain is a business—from the sourcing of raw materials, to semi-processing, and the final processing of finished products, and all the way to distribution. As a consequence of the 2008 global economic crisis, demand in the Western markets declined. In the developing economies of Asia, the increase in incomes is expected to create a very huge increase in demand. In the PRC, the number of families moving from low to middle income is running into hundreds of millions over a very short period of time, and this represents a lot of demand. On whether businesses are shifting from the European and US markets to Asia, he said this simply a case of demand increasing in Asia, and demand decreasing in Western countries. The more important question, he said, is how the ASEAN positions itself in the global value chain and how will it capture some elements of this value chain as the location of demand is shifted.

Dr. Jingjai agreed that the positioning in the value chain is very important. It is not a matter of giving up markets in the US or Europe and shifting to markets in the ASEAN or Asia as there are opportunities in both markets and businesses must take their position in the global value chain through various types of engagement. He said the 2008 economic crisis, has not really affected the private sector in Thailand as much as the crisis in 1997.

Dr. Habito said that the experiences from the 1997 crisis has probably helped countries to cope better with the 2008 crisis. He then asked what research areas should be pursued by business schools like the Ateneo Graduate School of Business and the Department of Business and Economics of the University of Indonesia in the context of regional economic integration.

In response, Dr. Jingjai said the research need of the private sector is totally different from that of the academe. Academic research seeks to expand knowledge but business research is more pragmatic. As a word of caution, he said that no CEO in the world will read any report that is more than 20 pages long, to which Dr. Habito agreed. He said that when he was in government service, he told his staff that reports should not be more than two pages long.

Dr. Jingjai added that one needs only a very good executive summary for business research to convey the key messages within the first two pages. There are systems in the US and in Europe, he said, that link industries and universities, as businesses would normally require “tailor-made” or “customized” research that could provide solutions to business problems. He said that an important research area in the present context is risk management. He said that in the case of Thailand and its experiences with floods, the need for risk management has already been pointed out—not only before but also after the crisis had actually happened. Studies on value-chain strategies, he said, should be specific and should involve complex assessments of transport, logistics, distribution centers, and others. The best way is for universities and business schools to have direct links with the private sector. He said that in Thailand, the Thai Chamber of Commerce has created a university—the Thai Chamber of Commerce University—which conducts researches based on the actual needs of the private sector. He also pointed out that the Ateneo de Manila University and the University of Indonesia are very well recognized and can easily partner with the industry chambers in their respective countries.

Dr. Habito remarked that the panelists, who are real business practitioners, had given the forum very valuable insights on how to go about the economic integration. He then went on to ask two final questions. First, if they had the opportunity to advise a potential investor to the ASEAN, what will be their most important piece of advice; and second, if given the opportunity to give a recommendation to ASEAN policy makers, what would be their “top-of-mind” recommendation?

Dr. Soetjipto said as a reiteration that, to open the market, there is a need for connectivity. He said connectivity will come ultimately from the mindset of people; but infrastructure is equally important since investors require good infrastructure. Unfortunately, he said, regulations in some countries can cause a lot of impediments to infrastructure development. For instance, in Indonesia, the law on land acquisition is still under discussion in Parliament. To realize the ASEAN economic integration, he said there is a need to reduce the resistance of people to the concept of opening up their economies; otherwise, without the proper understanding, social dislocations may occur, and this could put the AEC initiative at risk. The readiness of people is important, he emphasized, and this includes businessmen and many other stakeholders affected by the integration initiative.

By way of conclusion, Mr. Ejercito said governments must develop policies that would encourage the opening up of markets, policies that are conducive to the integration initiative. He stressed that the function of government’s policy is to enable, to support, and to facilitate. Those are the things that governments should do, he said.

Thematic Research Presentations

Category:
Finance

Analysis on Factors Affecting IPO Stock Underpricing and Their Effects on Earnings Persistence of Manufacturing Companies

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Abstract

This study examines the factors influencing the initial public offering (IPO) stock underpricing in manufacturing companies in Indonesia holding IPO over the period 1994–2006. The factors analyzed consisted of underwriter reputation, auditor reputation, size of company, age of company, and return on equity. The age of company has been proven to be negatively and significantly correlated with the level of underpricing. This study also examines the correlation between underpricing and earnings persistence where both of them have relationship to ex-ante uncertainty.

The result suggests that there is a positive and significant correlation between the level of underpricing and earnings persistence of operating income in one period after IPO, but on the second year after IPO, the correlation is negative and insignificant. On the first year, underpricing is positive and significantly related to earnings persistence. This indicates that the company tries to maintain investor's trust during its early period after IPO, while on the second year after IPO, value relevance information and the level of underpricing is becoming low and irrelevant to predict the level of earnings persistence.

Keywords:

IPO, underpricing, earnings persistence, ex-ante uncertainty

Market Price of Risk Analysis from Three Major Industrial Countries on the Stability of the Brennan-Schwartz Model

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Abstract

Market price of risk is a measure of the tradeoffs that investors make between risk and return. At any given time, market price of risk must be the same for all derivatives. Market price of risk is linked, in particular, to interest rate. The Brennan-Schwartz model is one of the stochastic differential equations for the interest rate under the risk-neutral probability measure. The Brennan-Schwartz model requires the real data to estimate the parameters of this model.

In this paper, the Maximum Likelihood Estimation method will be used to estimate the parameters of the Brennan-Schwartz model and iteratively using the Nelder-Mead algorithm. However, data are collected in the real world and their statistical properties characterize the distribution of interest-rate process under the actual probability measure. Therefore, parameter estimators are obtained by changing the measure, which is determined by the market price of risk. Hence, the market price of risk must enable the Brennan-Schwartz model to become stable as this is important in describing the resistance of the model to the perturbation in the initial state or in the parameters of the model.

This paper aims to analyze the market price of risk in three major industrial countries: the United States, Japan, and Canada. Data were obtained from Bloomberg during the period January 2001 to April 2011. This analysis can be used as a guideline in deciding the interest rate of these three major industrial countries using the Brennan-Schwartz model with Maximum Likelihood Estimation method and Nelder-Mead algorithm for its parameter estimation. Finally, the Brennan-Schwartz model will be visualized by using parameter estimators that depend on the market price of risk such that these parameter estimators belong to the stability criteria of the Brennan-Schwartz model.

Keywords:

Market price of risk, Brennan-Schwartz model, stability, maximum likelihood estimation, Nelder-Mead algorithm

Liquidity Premium Persistency in the Indonesia Stock Exchange

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Abstract

The study of liquidity in capital market has created many liquidity measurements. All the measurements try to capture the dimension of liquidity, which consist of trading quantity, trading cost, trading speed, and also price impact. In this study, the author introduces a new liquidity measure based on standardized turnover-adjusted number of zero daily trading volume in prior x month, called LM x , created by Weimin Liu (2006). The LM x measure tries to accommodate trading speed dimension of liquidity. In this research, the measurement of liquidity is LM6 and LM12. Research object is all the listed stocks in the Indonesia Stock Exchange (IDX) during 2006–2010, to prove existence of liquidity premium and to reflect the characteristics of liquidity in the entire Indonesian capital market.

With this new measure, stock can be classified based on the level of liquidity and the analysis of liquidity premium can be done through the portfolio return difference between portfolio B and portfolio S. Certain observations show that there is no sufficient evidence about liquidity premium phenomena in the Indonesia Stock Exchange.

Keywords:

Liquidity measure, Indonesia Stock Exchange, capital market

On the Robustness of the Extended Fama-French Three-Factor Model

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Abstract

This paper aims to examine the validity of the four-factor asset pricing as a comparison to the standard Fama–French three-factor model using the United States monthly stock return data for the period January 1963–December 2010. Monthly stock returns are constructed into 25 portfolios while the four-factor model includes the market factor (beta), the size factor (SMB), the book-to-market factor (HML), and the ‘momentum’ factor (MOM), which represents winners minus losers in terms of returns. Time-series regressions following Fama and French (1993) are employed, which includes the three-factor model as well as the four-factor model.

Results indicated that the four-factor model, to some extent, have significant capability in explaining the variations in average excess stock return, which is consistent with Carhart (1997). The r^2 from the four-factor model is just slightly higher than the three-factor model yet it provides an indication of the robustness of the model. Meanwhile, the January seasonals can also be absorbed by the risk factors, including the market, SMB, HML, and MOM. Since the four-factor model seems capable in explaining the variation of the stock returns, then the application of this model in emerging markets may provide guidance for investors in understanding the market condition.

Keywords:

Fama–French three-factor model, four-factor asset pricing, monthly stock returns

Measuring Systemic Risk in Indonesian Banking System: Structural Model Approach

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Abstract

High joint dynamics and correlations between individual bank portfolios will create a contagion effect on the banking system. Because of this contagion effect, the failure of a bank will impact on others that will lead to systemic effects. This paper aims to measure the risk of Indonesian banking system by estimating the joint dynamics and correlations between individual bank portfolios as suggested by Lehar (2005). The risk of the banking system is modeled as a contingent liability of each bank.

By implementing structural model, according Merton (1974), bank equity is considered as a call option on bank assets. Thus, the market value of a bank’s asset, asset correlation, and asset volatilities—as key inputs to the risk systemic index—are estimated using a time series of observed equity prices and balance sheet information of each bank. For the risk systemic index, the Monte Carlo simulation is used.

Banks in Indonesia during the period 2004–2001 are used as sample with the data consisting of equity and specifics of each bank, obtained from Data Stream.

Keywords:

Systemic risk, structural model, financial stability

Risk-taking Behavior of Indonesian Banks: Analysis on the Impact of Deposit Insurance Corporation Establishment

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Abstract

This paper looks into the risk-taking behavior of Indonesia's banking industry especially before and after the creation of the Deposit Insurance Corporation (IDIC). Risk-taking behavior is affected by various factors, such as ownership (Saunders et al., 1990), charter value (Galloway et al., 1997), capital (Lin & Wu 2005), and competition (Boyd & De Nicolo 2005). Jeitshcko and Jeung (2005) developed a unified theoretical framework, which shows that risk-taking behavior might change under different risk-return pattern and regulation.

Using a common set of explaining variables, various empirical schemes were designed to reveal the conduct of risk management by banks. In the spirit of BASEL II Accord, a closer look at the three types of risks behavior were undertaken, namely credit risk, market (interest rate) risk, and operational risk during the pre- and post-establishment period of the IDIC. Assuming a high-risk high-return environment and agency problems in relationships among deposit insurance, shareholders, and management, Jeitshcko and Jeung (2005) hypothesize that risk-taking behavior is decreasing if the regulatory perception is effective.

The hypotheses were tested using a panel data set of banks that were operational during the period 2000–2009. The data set consists of 121 banks with semiannual frequency (2,420 observations). Findings show that these variables worked quite well in explaining the three types of bank risk exposures. The implementation of the IDIC is altering the behavior of banks albeit in somewhat different ways than initially hypothesized.

The risk-taking responses also change according to bank types. State-owned enterprise (SOE) banks were found to behave differently from the rest of the types. Related to size, SOE banks behaved more conservatively after the IDIC event. On the other hand, the response risk measures to capital that were conditioned to the IDIC event seemed to suggest the contrary. The authors view the public pressure on this type of banks to have an influence on the way they managed the risk.

Keywords:

Risk-taking behavior, deposit insurance, high-risk high-return

Interest Rate Parity Between Indonesia and the United States, Japan, People's Republic of China, and Singapore

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Abstract

Based on *Indonesia's Balance of Payment*, a quarterly published by its Central Bank, the United States, Japan, the People's Republic of China, and Singapore were the top four largest countries in terms of export and import transactions with Indonesia for the non-oil and gas products. Those high amounts of transactions in the real sector generate interest to examine whether any cointegration exists between the countries in international economy relationship as these transactions allow other currencies to flow into the Indonesian financial market.

Interest rate parity is chosen as the tool to examine the international integration between two countries, because the analysis for the parity involves a major variable used in trading activities between countries. Interest rate parity analysis is conducted by using two sample T-test to see whether the forward rate resulting from the parity equation has a similar pattern with actual forward rate. The absence of interest rate parity will create an arbitrage opportunity. Furthermore, a cointegration analysis is required to be conducted in bivariate framework to give an extended analysis on the countries' integration. Variables examined follow the interest rate parity equation, which are forward rates, spot exchange rates, and interest rates in domestic and foreign country. Cointegration test is conducted with bivariate analysis by employing the Johansen Cointegration Test.

Keywords:

Interest rate parity, cointegration

The Role of Emerging Market Stock Analysts in Making Stock Prices More Informative

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Abstract

In Indonesia, an analyst normally works for a brokerage company that has many clients. In this study, company-focused reports—issued and documented by six brokerage companies—were hand-collected and analysis were focused on the revisions of stock recommendations, earnings forecasts, and price targets. This study also employed intraday stock transactions, daily stock closing prices, and the daily Jakarta Composite Index data.

This study aimed to investigate whether (i) the brokers' clients will benefit from the analysts' reports in the form of clients' abnormal return, (ii) the analysts' reports will make stock prices more informative, and (iii) improving price informativeness will tend to diminish market abnormal return. Price informativeness or price efficiency were measured by extending the Market Efficiency Coefficient, as introduced by Hasbrouck and Schwartz (1988).

The first result revealed that earnings forecast revisions do not show significant impact, while upgrade revisions, downgrade revisions, and price target revisions significantly influenced the client's cumulative abnormal return. The second result showed that downgrade revisions and earnings forecast revisions did not improve price efficiency, while upgrade revisions, price target revisions, and the client's cumulative abnormal return did influence price efficiency improvement. The last result supported the notion that price efficiency improvement tends to reduce market cumulative abnormal return.

Keywords:

Analyst, brokerage, price efficiency, price informativeness

Free-float Rule, Liquidity, and Speculative Trading in Asian Countries' Stock Exchange

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Abstract

This study examines the effect of free-float rule application to the liquidity and speculative trading in four stock exchanges in Asia, using the reference indexes that are LQ45 and BISNIS-27 from Indonesia, KLCI from Malaysia, STI from Singapore, and HKSE from Hong Kong.

Basically, there are two ways of looking at the free-float rule—first is minimum free float and the second is the free float adjusted. Does the free-float rule provide an effective way to increase liquidity and to mitigate speculative trading? The bid ask spread was used as a proxy for liquidity trading, and the abnormal return from Fama-French Three Factors model as a proxy for speculative trading.

Findings show that the free-float rule could increase liquidity trading and could be reducing the speculative trading. In addition, the study shows that excess return in Indonesia is the highest surplus from free risk-free rate among the sample countries. The big caps stocks have a higher return when compared with the small caps stocks in Indonesia, Singapore, and Hong Kong. In Malaysia, however, it had an opposite result.

Keywords:

Free float, liquidity, speculative trading, abnormal return

Holiday Anomaly in Jakarta Islamic Index

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Abstract

A capital market is categorized as an efficient market when none of its investors continuously gain abnormal returns; but a market, in fact, could show some anomalies that are contradictory theoretically to the concept of an efficient market hypothesis. A holiday anomaly is a type of seasonal anomaly in which the positive returns in the last day previous to the holiday and the average return were higher than after the holiday.

The purpose of this study is to examine whether abnormal returns are found during the long weekend holidays in Indonesia capital market, particularly for companies listed in the Jakarta Islamic Index (JII) in 2010. A sample of 21 firms meeting the criteria of sample selection were examined covering the period from 2 January to 30 December 2010. This study, designed to find out the difference of abnormal return on the days just before and after the holiday, used the non-parametric statistic's Wilcoxon Signed-Rank test.

The results indicate that the days after the holiday have higher abnormal returns than the days just before the holiday; in other words, there is evidence of abnormal return. The study concludes that the holiday anomaly is evident among Jakarta Islamic Index firms for the year 2010.

Keywords:

Abnormal returns, holiday anomaly, efficient market hypothesis, Jakarta Islamic Index

Tax Incentive, Public Share Proportion, and Firm Performance: Evidence from Indonesia's Capital Market

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Abstract

The Indonesian government has made legislative changes in taxation in 2007. The changes in tax regulations are characterized by the emergence of Government Regulation (PP) No. 81 of 2007 specifically on the Decrease Rate of Income Tax Taxpayers for Publicly Listed Company. The regulation says that taxpayers in the Publicly Listed Company can obtain the reduced rate of income tax—by 5%—which is lower than the highest rate of income tax for domestic corporate taxpayers. Such a reduction in income tax rates are granted to domestic corporate taxpayers in the form of publicly listed companies if their number of public shareholding reaches 40% or more of the total paid shares, and the shares owned by at least 300 parties. This lower income tax rate is expected to increase public ownership of publicly listed companies and improve the performance of companies in Indonesia.

This study aimed to find out the effectiveness of government regulation (PP) No. 81 of 2007 and to show empirical evidence on the proportion of public shareholding after the implementation of this tax regulation law. It also aimed to test the influence of public shares to firm's performance (ROI). This research used the Publicly Listed Company, which have rights offering in 2009–2010 and sample selection was performed based on purposive sampling method.

Keywords:

Government regulation, public share proportion, firm's performance

The Impacts of Ownership Structure and Affiliated Supervisory Board on Firm Performance

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Abstract

A capital market is categorized as an efficient market when none of its investors continuously gain abnormal returns; but a market, in fact, could show some anomalies that are contradictory theoretically to the concept of an efficient market hypothesis. A holiday anomaly is a type of seasonal anomaly in which the positive returns in the last day previous to the holiday and the average return were higher than after the holiday.

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Keywords:

Abnormal returns, holiday anomaly, efficient market hypothesis, Jakarta Islamic Index

The Effect of Intra-industry Competition and Market Openness Levels on the Degree of Capital Market Integration for Five ASEAN Countries in 2006-2009

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Abstract

With the integration of the ASEAN capital markets, diversification among countries of global investors becomes irrelevant because of the lack of differentiation in the degree of integration at the country level. Thus, global investors need to diversify among industries in the ASEAN capital markets with the consideration that there are different strategic risks in each industry. Strategic risk differences in each industry are expected to increase the benefits of international diversification because of the different degrees of integration at the industry level in the ASEAN capital markets. Meanwhile, the difference in the degree of integration at the industry level in ASEAN has not been widely studied so far. Due to the condition of time-varying integration in ASEAN, a further study on industrial level integration should be considered.

One way to measure the degree of integration—in addition to cointegration techniques that are already widely used—is the correlation. The use of correlation in this study is done not only to show the different degrees of integration at the level of country and industry but also to identify the factors that allegedly affect that correlation, i.e., the local push factors (LPF) and global push factors (GPF).

The first finding of this study is the different degrees of integration at the country and industry levels in the ASEAN, which reflect the differences in the benefits of international diversification among industries (countries); this supports as well as the concept of time-varying integration of Bekaert and Harvey (1995). The other finding is the effectiveness of the entropy index of Ruefli (1990) as a proxy for the level of intra-industry competition in Singapore. The implication is that global investors need to consider the dynamics of competition among firms within the industry in Singapore, especially industries that have dominant lower entropy. The last finding is that Malaysian bourse is still protective so that global investors need to penetrate more active by networking through a local brokerage, in accordance with the advice of Dvorak (2005).

Keywords:

Capital market integration, intra-industry competition, market openness, inter industry diversification, entropy index of Ruefli, SUR, LPF, GPF

An Examination of Herd Behavior in the Indonesian Stock Market

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Abstract

In this study, the herd behavior in the Indonesian Stock Exchange was examined using daily and weekly stocks return from 2007 until 2010. The cross-sectional standard deviation of returns (CSSD) methodology developed by Christie and Huang (1995) was employed, and the cross-sectional absolute dispersion (CSAD) methodology developed by Chang, Cheng, and Khorana (2000) was used to detect the presence of herd behavior.

Using daily and weekly CSSD, the nonexistence of herd behavior in Indonesian stock market was documented. However, using CSAD of either data frequency, the result demonstrates the presence of herd behavior, particularly on big capitalization and liquid stocks. The result differs from that of Chang, Cheng, and Khorana (2000) who find no different impact of herd behavior across size-based portfolios.

Keywords:

Herd behavior, equity return dispersion

Thematic Research Presentations

**Category: General Management/
Economics**

The Community Metaphor in ASEAN Discourse and Its Influence on Economic Integration

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Abstract

The drafting of the Association of Southeast Asian Nations (ASEAN) Charter with its three-pillar structure has provided the ASEAN with an institutional framework on which to regionally integrate, in terms of sociocultural, political and security, and economic issues. Each form of integration influences all actors within the region, but businesses are mainly affected by a Southeast Asian economic integration.

One way to study economic integration policy is to examine the way that it is produced in the context of the regional organization. Using the frameworks provided by organizational sociology, this paper analyzes ASEAN's discourse on economic integration, arguing that it is shaped by other aspects of the discourse that exists in the regional bloc. The discussion is couched on the idea that ASEAN is an organization, and as such, possesses an organizational culture, which consists of shared practices, symbols, values, and a shared way of understanding and articulating reality, that is, a common discourse. Organizational discourses indicate what is important in an organization, such that certain ideas recur and are thus emphasized in the discourse of the group, while certain ideas are marginalized.

This paper examines ASEAN economic integration policy and traces the way that it is influenced by organizational discourse. It is argued that the current manifestation of ASEAN economic integration policy is a reflection of a larger change in ASEAN's discourse about its identity and its functions as a regional organization.

Keywords:

ASEAN, economic integration policy, organizational discourse, regional organization

Political Leadership and Culture: Correlations Among Selected Latin American and Asian Countries and Implications for Development

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Abstract

Among empirical measures of culture, governance, corruption, and development, a number of studies have demonstrated that cultural factors directly affect development. It had also been shown rather extensively that corporate leadership powerfully influences corporate culture, and that the values and attitudes of employees significantly affect the exercise of corporate leadership. A look into the analogous relationship between political leadership and culture reveals their moderate to strong association. The Management Index scores of the Bertelsmann Transformation Index (BTI) are moderately correlated with the Traditional versus Rational-Secular scores of the World Values Survey (WVS). In addition, BTI's Management Index scores show moderate to strong correlations with a range of governance measures, and with the Human Development Index (HDI) scores. The study, which is limited to selected countries that are culturally related to the Philippines or that belong to the same region, indicates that political transformational leadership may vitally influence cultural change in the direction of development.

Keywords:

Culture, leadership, governance, development, Bertelsmann Transformation Index, World Values Survey, Human Development Index

The Effect of Exchange Rate Fluctuations on Rice Import in Indonesia

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Abstract

Some studies show that exchange rate has had an effect on international trade, i.e., exchange rate depreciation had a negative impact on economic growth. However, this is contrary to the basic theory which states that an exchange rate depreciation will have positive impact on economic growth through trade balance channel.

This study attempts to identify the impact of exchange rate fluctuations on rice export and rice import in Indonesia from 1999 to 2009. The proposed policy recommendations aim to (i) to assist the government in formulating macroeconomic policies, particularly on exchange rate, in order to have a positive impact on the real sector in the future; (ii) to monitor rice price stabilization policy, which involves evaluating exchange rates; and (iii) to evaluate carefully the implementation of short-term and long-term monetary policy.

Keywords:

Exchange rate, rice import and export, trade balance

Country Risk Analysis and Direct Foreign Investment with Their Rating in ASEAN

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Abstract

Studies on Country Risk Analysis (CRA) and Direct Foreign Investment (DFI) with the objectives of finding what kind of influence these may have on a specific country are regarded as vital studies especially in ASEAN countries. This research uses 6 of the 10 ASEAN member countries as samples, analyzing and evaluating each state using data of economic risk, transfer risk, exchange rate risk, location risk, governmental risk, political risk, and cultural risk—where after rotation of factor data of the International Country Risk Guide (ICRG), these become political risk, economic risk, financial risk, and cultural risk. Data of Political and Economic Risk Consultancy (PERC) become internal political risk, social disorder risk, external risk, systemic risk and cultural risk. The DFI data for the ASEAN were obtained from the United Nations Conference on Trade and Development's (UNCTAD) *World Investment Report*.

Research results—after using the analysis of simultaneous equation (ASE) method, Analytical Hierarchy Process (AHP), and qualitative approach of transplanted—indicate that all related risks have significant effects and their dominant influence vary from one state to the other. For Indonesia, Thailand, and Viet Nam, the dominant influence in their CRA is political risk, according to ICRG; while for Malaysia, Singapore, and the Philippines, the dominant influence in their CRA is economic risk. Based on PERC, Indonesia, the Philippines, and Viet Nam's dominant influence is systemic risk while Malaysia's is social disorder risk. On the other hand, Singapore's dominant influence is internal political risk and Thailand's is external risk.

Again from ICRG, if CRA and DFI are studied using the ASE method, Indonesia, Thailand, and Viet Nam's dominant influence is political risk while Malaysia, Singapore, and the Philippines' dominant influence is economic risk. From PERC, Indonesia, the Philippines, and Viet Nam's dominant influence is systemic risk; Malaysia's is social disorder risk; Singapore's is internal political risk; and Thailand's is external risk.

If CRA, DFI, and cultural factors are studied using the ASE method, all countries indicate cultural risk as their dominant influence on CRA, based on results from ICRG and PERC.

Using the AHP, rates vary among each state under study, in the ASEAN version of ICRG and PERC, and were hierarchically arranged—from best down to lowest. Study results show that Singapore and Malaysia are the best coordinators for DFI in the ASEAN.

Keywords:

Country Risk Analysis, Direct Foreign Investment, ICRG, PERC, culture

An Empirical Examination of the Relationship Between Corporate Entrepreneurship and Performance

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Abstract

Empirical research related to corporate entrepreneurship and performance is still rarely implemented in developing countries. Few studies have been conducted in developed countries. However, factors of competitive advantage have not been adequately explored by researchers.

This research aims to know the causal relationships among corporate entrepreneurship, competitive advantage, and performance. The study uses SmartPLS and respondents comprising the top-level managers of 57 state-owned enterprises (SOEs) in Indonesia as samples.

Results indicate that performance is affected by competitive advantage. By improving corporate entrepreneurship, competitive advantage will be subsequently developed. This study further shows that achieving a competitive advantage in entrepreneurship can, in turn, improve performance.

Keywords:

Corporate entrepreneurship, competitive advantage, performance

Indonesia's Business and Management Challenges: Achieving the ASEAN Economic Community in 2015

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Abstract

In 2015, it is expected that countries of the Association of Southeast Asian Nations (ASEAN) will have achieved more real and meaningful economic integration through the ASEAN Economic Community (AEC). In November 2007, during the 13th ASEAN Summit in Singapore, ASEAN leaders agreed on the AEC blueprint as a reference for implementing their commitment to the AEC. Once the AEC is achieved in 2015, the ASEAN will become a single market and production base whereby goods, services, investment, skilled labor, as well as capital flows will flow more freely among the ASEAN countries. The formation of a free, single market will open opportunities for Indonesia to increase its position in the ASEAN region.

This research aims to review the progress of Indonesia in meeting its commitments on the AEC based on the AEC blueprint. It also discusses the obstacles that may be faced by Indonesia in its efforts to support the achievement of the AEC goals.

Keywords:

ASEAN Economic Community, free trade, economic integration

Microfinance and Women's Microenterprises: Assessing the Impacts of Microfinance on Business Performance and Standard of Living

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Abstract

This study attempts to investigate the impact of microcredit program on business performance and on the standard of living of its clients. A survey was conducted among the female clients of a microfinance institution who own and run microenterprises in Surabaya, Indonesia using selected standards of living indicators. Data were analyzed using both quantitative and qualitative research methods and the study concludes that most of the indicators have significantly changed after the clients received the credit.

Results reveal that the microcredit distributed by microfinance institutions apparently gives a positive impact on the clients' standard of living. In the case of business performance, it seems that the microcredit could not greatly improve the clients' business performance. These results could be an indication that the credit had not been solely used for expanding the clients' businesses, but mostly for other purposes.

Keywords:

Microfinance, microenterprises, business performance, standard of living

Evaluating the Impact of Educational Decentralization: The Case of Indonesia

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Abstract

This paper aims to assess the implications and evaluate empirically the effects of educational services as a result of implementing education decentralization in Indonesia.

This study reveals that one impact of the reform of governance is a political paradigm shift—from centralized to decentralized governance, which was regulated in Law No. 22/1999 and was renewed into Law No. 32/2004 regarding Regional Government, and Law No. 25/1999 on Financial Distribution between Central and Local Government.

The education sector, as one of the basic service sectors, experienced a fundamental change with the implementation of regional autonomy and fiscal decentralization, both in terms of bureaucratic authority and education funding. A review of theoretical literature found no absolute superiority of centralization or decentralization in the provision of public services.

Keywords:

Decentralization, evaluation, quality education services

Accelerated Learning in Business Education

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Abstract

This study investigates the attitudes and quality of learning of students and alumni in the accelerated MBA program of the Ateneo Graduate School of Business and assesses these in comparison with those in the traditional MBA program. This is of particular importance because of the intuitive notion in higher education that learning is less effective when less than the traditional amount of time is devoted to it.

The profile of the students surveyed shows that those who take the accelerated programs tend to be older and have longer work experience as compared with those from the traditional programs, consistent with the findings of similar studies involving colleges and universities in the United States. The study indicates that, in general, the perceptions and attitudes of students and alumni in the accelerated MBA program and in the traditional MBA program are not significantly different, with both showing positive perceptions and attitudes with regard to motivation, instruction and materials used. In the case of the performance assessment of current students, which was based on summative evaluations in the form of problems and cases given at the end of the term, there is no significant difference between the mean scores of the students in the accelerated and traditional programs for two of the subjects that were selected, namely, Human Resource Management and Quantitative Methods for Managers. For Strategic Management, the other subject selected for the study, the mean score of students in the accelerated program is slightly higher than those in the traditional program. These findings are consistent with those of previous studies done on the subject matter. In general, one could say that those taking the accelerated program are able to do just as well if not better than those taking the traditional program.

Keywords:

Politically connected banks, excess profit, excess cost of capital, privileges, modified chop shop

The Ageing Population, Societal Response, and Their Implications to Business and Industry in Selected ASEAN Countries

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Abstract

In countries worldwide, populations are growing old rapidly. Lower fertility, coupled with decreased mortality rates across countries, have resulted in a higher number of older people. This demographic condition, also known as population ageing or demographic ageing, is observed globally, both in the developed and the less-developed regions of the world. Population ageing is one of the most prominent demographic trends.

While the proportion of senior citizens is higher in countries that are more developed economically, most of the global elderly population will be from the less-developed regions, in terms of absolute numbers. Because of the swift increase in the rate of ageing of populations, there is the possibility that developing nations will become old before they become affluent. Governments and social institutions in these less-developed nations may be burdened by the increased health care requirements and may not be ready to manage the demands of an older population if they are not able to prepare for this demographic transition.

This paper explored the factors related to this demographic trend and compared how Indonesia, the Philippines, and Singapore society have each responded to this demographic development in the ASEAN region.

The goal of this paper is to stimulate the industry to consider investing in business endeavors that address the issues related to ageing. It is hoped that the response of the business sector will supplement and complement existing societal response and interventions.

Keywords:

Ageing population, demographic ageing, ASEAN demographic transition

Development of a Poverty Information System by the Local Government Toward Information-based Decision Making

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Abstract

Regional autonomy offers good opportunity for poverty reduction efforts to be more comprehensive and to focus more on real issues of poverty among local communities. It is also the local government that could give more focus on local poverty issues that had been neglected in the national program of poverty reduction. If this is to be done, the readiness of local governments must be supported by a system that provides tools for identifying, planning, and formulating strategies for poverty reduction that are in accordance with local characteristics.

Local governments are also expected to be able to synergize all poverty reduction programs at the national and provincial levels, including those locally initiated programs. Therefore, it becomes a requisite to develop information systems for local governments so they could synergize the various poverty programs. A poverty information system can support in the preparation of a regional strategy for an integrated poverty reduction program.

Poverty reduction programs in the Pemalang District in Central Java Province have not been based on valid and complete information; hence, poverty alleviation programs could not be properly implemented and sometimes missed their targets. Efforts to alleviate poverty in the Pemalang District encountered many problems such as (i) lack of understanding by the central government, local government, the local parliament, and other development actors of the criteria of poverty, (ii) the fact that poverty criteria regionally vary in terms of sociocultural and regional characteristics and among local communities, (iii) all stakeholders in poverty reduction programs have yet to be integrated into the central population database.

This study aims to analyze the efforts of the Pemalang District, in Central Java Province in designing a District Poverty Information System. The study found that earlier efforts to develop information systems faced some challenges especially in the development of a population database as this also requires identifying or assigning the data agent for each village. The government has no data agent who is ready to supply real-time data. Whenever a poverty program is to be implemented, a new data collection has to be done and this often caused conflicts within the community. Although some government institutions already have a database of the population, these, generally, are collected only for their activities. There is yet no mechanism to integrate the fragmented population database into a single database that can eventually be used for various purposes—for instance for a poverty reduction program.

Keywords:

Local government, Poverty Reduction Program, information system

What Drives Hospitals to Expand? A Case of Private Hospitals in Palawan, Philippines

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Abstract

This study aims to determine the different drivers that would incentivize private hospitals in rural areas to expand. This study was conducted in seven private hospitals in Palawan, Philippines. Using key informant interviews (KII), results reveal that financing, government policies, human resources, and organizational issues may give positive or negative incentives to hospital owners and decision makers on whether they should expand or not. This study will guide policy makers in assessing the impact of existing hospital regulations set by the government. It may also provide insights on how the private sector can be harnessed to invest in health facilities especially in geographically challenged areas.

Keywords:

Private hospitals in Palawan, hospital regulations, private hospitals in rural areas, hospital incentives

Assessing the Privacy and Security of Electronic Health Information in the Philippines: Informing Philippine Compliance to the Expanded Trade of Health Care Services in the ASEAN

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Abstract

The expanded use of electronic health records is expected to happen as the Association of Southeast Asian Nations (ASEAN) moves toward a single market for health care services. Experiences in other sectors, particularly the banking industry, showed that once the electronic exchange of information took off, the banking market opened up with freer flow of services. Similarly, the health care sector needs the adoption of rules on the privacy and security of electronic health information. Not only would this address the need to maintain the physician-patient privilege, which has long been an established principle that governs health services information, but it would also help overcome persistent resistance of several stakeholders in health care to shift to electronically stored and transmitted health information. This resistance may be partly attributed to the fear that this would compromise physician-patient privilege and that personally identifiable health information will be used against the physicians and the patients. This study hopes to address these concerns by determining the current regime on the privacy and security of electronic health information in the country and the measures that may improve this regime.

Keywords:

Policy, privacy and security of health information

Carrying the Character Education Efforts to Improve the Quality of Education in Indonesia

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Abstract

Law No. 20 of 2003 on National Education System of Indonesia clearly states the function and purpose of national education—to develop the ability and character of the people, to nurture and preserve the nation's dignity in the framework of an intellectually developed nation, and to develop the potential of its citizens to become believers and devoted to God; to be noble, healthy, knowledgeable, capable, creative, and independent as a people.

Indonesia's weakness in the education system lies in its implementation system, which puts more emphasis on teaching rather than on education itself, with teaching and educating having different definitions. Teaching is a process of transferring knowledge, while educating leads to the formation of character, attitude, morals, and mindset. In this paper, the problems of the system of education in Indonesia are discussed, as well as the attempt to offer alternative educational systems that are more effective and efficient so as to open opportunities for learners to develop their potentials, their work, and their creative imaginations. The overall aim of this study is to improve the quality of education in Indonesia in order to shape a stronger, more competitive character of the nation's next generation of citizens.

Keywords:

Character education, alternative education, integrated education

The Relevance of an Undergraduate Thesis at the Faculty of Economics, University of Indonesia

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Abstract

The University of Indonesia requires its faculty to encourage bachelor students to conduct research to complete their study. Students are encouraged to do research in the area of corporate financial management, among others. Research students are also permitted to replicate published research reports of other researchers but they must replace some operational variables derived from some construct variables. For example, if the original researcher used "sale" as operational variable derived from a construct variable size, the follow up research must use other operational variables, such as total assets.

The paper aims to generate suggestions and recommendations, and to present other alternatives to enable bachelor students to become future, reliable researchers.

A core study of one student, Lida Vania, and its source of study—taken from a journal written by Jacelly Cespedes, Maximiliano Gonzalez, and Carlos A. Molina for a thesis study undertaken in 2010, is included in this presentation.

Keywords:

Relevance of undergraduate thesis, University of Indonesia

Parallel Currency in Southeast Asia and Exchange Rates Stability: An Empirical Examination

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Abstract

The study examines the empirical evidence of pursuing parallel currency that results in stable exchange rates in the ASEAN-5 countries (the Philippines, Thailand, Singapore, Indonesia, and Malaysia). The resulting exchange rate stability would promote intra-regional trade, simplify investment planning, and encourage cross-border participation in local bond markets. The approach to parallel currency is premised on the use of a common basket of extra-regional currencies (in practice dollar, euro, and/or yen). As the United States (US) and European countries are important trading partners for the ASEAN, the proposed Asian Monetary Unit (AMU) is quoted in terms of the weighted average of the US dollar and the euro. Further, with the exchange arrangements in place among the ASEAN countries, including three other countries (the People's Republic of China, Japan, and the Republic of Korea), the behavior of exchange rates was examined through the regression analysis technique by Frankel and Wei to identify which major currency or currency basket is chosen as an anchor for a particular country's exchange rate stabilization and how closely such a relationship can be observed. The findings reveal that pegging ASEAN currencies to the AMU will yield stable exchange rates. Hence, it can be said that exchange rate stability among Southeast Asian currencies can be had by pursuing a parallel currency or a common currency basket, but requires a managed float exchange rate system.

Keywords:

Parallel currency, exchange rate stability, ASEAN-5 countries, ASEAN currencies

A Foucaudian Reading of Organization and Management

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Abstract

This paper is a philosophical reading and interpretation of organization and management using Michel Foucault's discourses on subjectivation, discipline, panopticism, and power as power relations. The paper starts with a discussion on classical organization and management theories. These include Max Weber's bureaucratic organization, Frederick Taylor's scientific management, and Elton Mayo's human relations approach. The essential characteristics of these theories are discussed, such as Weber's impersonal order, Taylor's mental revolution and one-best-way, and Mayo's interpersonal and social relationship and interview program. According to these authors, these are the traits of an ideal organization and management.

Theories on organization and management in general were interpreted and explained in the light of Foucault's notion of subjectivation, discipline, panopticism, and power as power relations. Subjectivation is a form of power that transforms individuals to be a subject. Discipline trains and educates individuals through the use of observation, judgment, and examination in order to become assets and useful to the organization. Panopticism is a technology that makes individuals conscious that they are always being observed and examined, even though sometimes they are not, that is why they behave properly and accordingly. Power relations interpret power as a network of social relationship that exists and originates in different points.

Keywords:

Foucaudian reading, theories on organization and management

Transforming Higher Education: Exploring the Concept from World-class University to the World-class Civic University in the Developing Countries

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Abstract

Some aspects of globalization, such as compression of time and space, information technology, and dissemination of ideas have transformed the environment of organizations—in both developed and developing countries—into one of hyper competition. These aspects have implications for education in developing countries, especially in the higher education sector in Indonesia. The process of globalization is inevitable and must be responded to positively by universities in developing countries. The Indonesian government has committed to pushing some universities in Indonesia to become world-class universities. This is done as part of an effort to improve their ability to compete at the global level. Among developing countries, efforts to enter into the league of world-class universities is not easy. This was proven by the ranking of world-class universities where the top 20 universities came from developed countries.

As noted, universities in developing countries pursue higher ranking through international standards of excellence, research achievements, and international participation, which eventually result in improving aspects of society. This is part of what makes a world-class civic university important. Aside from achieving the desired international ranking, it needs to remain popular in the community by developing the science that is useful for the development of rural resources and local wisdom.

This paper describes how such a transformation can be done, and what role can be played by universities with world-class rankings. It also describes the role to be performed by a world-class university in generating civic-minded graduates who are ready to compete at the global market, participate in international events, conduct quality research for the development of national and rural resources, and enhance local knowledge and wisdom.

Keywords:

Globalization, world class university, transformation

De-radicalization Efforts Against Terrorism Through Economic Approach and Multicultural Education

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Abstract

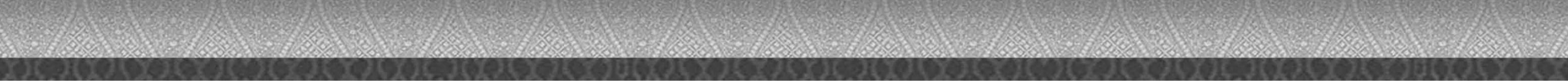
Religious radicalism had resulted in terrorist attacks around the world in the past decade, which were especially directed to countries that are considered to represent the West. Indonesia is regarded as one country that represents the West in the region, hence, it gets a lot of attacks and threats of terrorism. The government of Indonesia had made various efforts to reduce these threats and terrorist attacks, which included a range from security approach to a persuasive approach. Yet the success of the process of de-radicalizing terrorism is said to be more effective when done through a non-violent approach.

The roots of terrorism were found to be social issues among individuals, some of which cause feelings of hopelessness resulting in irrational thinking and prone to be affected by false religious teachings. This study found that non-violent efforts are considered to be the more effective ways of de-radicalizing terrorism—by improving the economy and providing multicultural education.

Economic factors and multicultural education are believed to be effective because they handle terrorism from its roots in a more fundamental and holistic approach. This paper discusses how to undergo the de-radicalization process by using such instruments.

Keywords:

De-radicalization, terrorism, multicultural education, economic factors



Thematic Research Presentations

Category: Human Resources

Conflict Approaches of an Effective Project Manager in the Upstream Sector of Oil and Gas Industry in Indonesia

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Abstract

Conflict can be functional or dysfunctional to an organization's performance. This study focuses on the relationship between conflict approaches implemented by the project manager based on a project team member's perception on the effectiveness of the project manager in managing the project's conflict.

Questionnaires were adapted and modified from Barker et al. (1988) to measure conflict management approaches and outcomes on managing project conflict. Data were gathered from 57 respondents who worked at the Engineering, Procurement, and Construction (EPC) contractors serving the upstream sector of the oil and gas industry in Indonesia. Using Pearson correlation, results of this study indicated that project managers were perceived to be effective in managing project conflict when implementing cooperative and confirmative approaches, but were ineffective when combining competitive and avoidance approaches. This study suggests that further research be undertaken to investigate the correlation between cultural dimensions with conflict approaches and the outcomes of managing conflict.

Keywords:

Conflict approaches, effective project manager, EPC contractors, upstream sector of oil and gas industry

Enhancing Employability of Tech-Voc Graduates: A Multiple Case Study

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Abstract

The Philippines continues to experience various domestic and global challenges that have adversely affected its human capital development. A growing number of analysts also believe that something more fundamental afflicts the country's human resource than merely misguided policies and flawed personalities. This realization is due mainly to the perception that fundamental change is needed but has not occurred, in spite of outward changes in leadership and nomenclature, high-flown campaigns for moral renewal and conversion, and a continuous stream of reports and analyses detailing policy failures and recommending reforms (Philippine Human Development Report 2009). On the education system, wise counsels for reform have harped on variations of the same theme since the turn of the 20th century, with little progress to show. PHDR also observed various political events—dictatorships, popular uprisings, elections, attempted coups d'état and various congressional inquiries—that seemed to have brought little by way of significant and lasting change to the society. The situation has, in fact, resulted in higher incidence of unemployment, underemployment, and an increasing rate of poverty.

Filipino families also continue to anchor their hopes for a brighter future in the education of their children. The prospects of a stable livelihood or employment, preferably overseas, have strengthened the family's resolve to provide their children with post-secondary education and training even if this meant being in debt. For many families, especially those belonging to the marginalized sector of society, tertiary education is the passport for employment or livelihood. However, sociopolitical and economic events and labor market changes, including the phenomenon on jobless growth (Habito 2010), have made it difficult even for graduates of post-secondary education and skills training to find meaningful, relevant, and sustainable work.

The Philippine education system, which has traditionally been responsible for preparing students for employment or livelihood, is faced with the challenge of changing its structure, curricular content, and delivery systems. Current employment trends, both local and international, point to an employment mismatch, which is associated with the quantity or the quality of available labor supply assessed against the requirements of the labor market (UACT-ILO-PCCI Report 2009).

This paper aims to determine what factors enhance the employability of graduates and how these factors interplay. The focus of the research is on post-secondary education specifically on technical and vocational education and training (TVET). Through a multiple case study of six higher education and technical vocational institutions, this paper aims to identify the critical factors or conditions that will help graduates increase their chances of getting employed and that would hopefully lead to productive and lasting careers.

Keywords:

Employability of tech-voc graduates, post-secondary education, technical and vocational education and training (TVET)

Organizational Justice and Workplace Deviant: A Scenario-based Experimental Study

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Abstract

Organizational justice, which is divided into three forms—distributive, procedural, and interactional—is essential in organization dynamics. It is the responsibility of an organization to treat its members fairly as organizational justice influences the occurrence of deviant workplace behavior.

This research aims to prove that deviant workplace attitude—which is divided into four classifications namely production deviant, political deviant, property deviant, and personal aggression—will be significantly different for members who belong to a fair organization from those members who belong to an unfair organization. It also aims to prove that the likelihood of engaging in deviant workplace attitudes will be higher for respondents working under an unfair scenario as compared to those respondents working under a fair scenario. Results firmly supported the research hypotheses.

Keywords:

Organizational justice, workplace deviant attitude, workplace deviant behavior

Analysis of the Formation of Perceptions of Voice: Case Study of a Trade Union in the Telecommunication Industry

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Abstract

This research tries to identify some of the aspects that contribute to the formation of perceptions of voice, or the concept of employees' willingness to contribute in grievance procedures as a result of dissatisfaction arising from differences between expectation and reality.

This study, which focused on one of the biggest trade unions in the telecommunication industry, employed the case study method to verify whether perception has any effect of on the workers' commitment to participate in the formation of perceptions of voice. This study relies on a specific framework, which is in the context of the Exit–Voice Tradeoff by Freeman and Medoff (1984), which makes perceptions of voice as a determining factor for workers to “voice” their grievances rather than take the “exit” route.

Keywords:

Perceptions of voice, employee voice, Exit–Voice Tradeoff, trade union

Developing Cross-cultural Competence in Adult Learning in the ASEAN Context

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Abstract

The rise of the borderless world and networked organizations, coupled with an almost irreversible phenomenon of increased movement of workers, students, visitors, and retirees to overseas destinations, has made cross-cultural competence a compelling proposition.

A review of the existing body of research on cross-cultural competence points to a limited discussion on the topic on adult and lifelong learning in the Asia-Pacific region. In the past 30 years, there has been a general push among higher education institutions (HEIs) in Europe, North America, and some parts of Asia, especially among business schools, to structure teaching, research, and service activities to international levels. While the capability of HEI faculty to handle cultural diversity in the classroom is being addressed through formal training and faculty exchange, the issue of cross-cultural competence among teachers in adult education, particularly in the fields of continuing education and vocational training in Southeast Asia, is subject to debate.

This paper clarifies the definition of cross-cultural competence in the context of adult learning and discusses the essential elements on how to become culturally competent. The relationship of cross-cultural competence to the new construct called cultural intelligence (CQ) is likewise discussed.

This paper outlines the basis why teachers in adult education have to be culturally competent. Among the reasons expounded is the need for teachers themselves to be culturally savvy so as to be more capable in facilitating the learning process of adults in handling cultural conflicts. Technical and vocational education and training (TVET), which is part of adult learning in Southeast Asia, needs to better equip would-be workers in overseas posting and such training includes learning modules in handling cross-cultural dynamics.

Keywords:

Cross-cultural competence, adult learning, cultural intelligence

Assessing the Korean Union Strategy

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Abstract

Trade unions have demonstrated their important role in the industry, including maximizing wages and salaries for their members and improving their working conditions. They have become dynamic actors in balancing the dominance of employers in workplaces around the world. However, the current global economic crisis points to a bleak picture for workers. Economic conditions are worsening, the unemployment level is increasing, and therefore, the bargaining power of workers and their ability to organize themselves are weakened. The strategies that unions adopt are critical to their effectiveness in preserving their existence, while adapting to the changing environment.

However, the literature on unions does not provide much data concerning measures of union strategy. This paper explores the implementation of a comprehensive framework of union strategy, which consists of four main elements—union objectives, methods, union tactics, and the level of strategy making (Gahan 1998). The analysis further employs the framework of Boxall and Haynes (1997) to investigate the dominant strategy pattern of the unions in explaining the relationships among unions, workers, and employers. Empirical data are provided from a qualitative study of seven enterprise unions in Korea.

Keywords:

Korean union strategy, trade unions, union strategy

The Mediating Role of Job Satisfaction in the Relationship Between Organizational Justice and Commitment: Evidence from the Hotel Industry in Indonesia

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Abstract

This study aims to test a model of antecedents of commitments. The model included a relationship between work-related perceptions (i.e., procedural justice and distributive justice) and attitudes (i.e., job satisfaction and organizational commitment) toward work.

A theoretical model was proposed to address this research question: What model accurately portrays the relationships among procedural justice, distributive justice, job satisfaction, and commitment? The model was drawn using a total sample of 342 employees taken from several hotels in West Sumatera Province. An examination of goodness-of-fit model using structural equation modeling (SEM) provided strong support so that the model fits well with the sample. Based on the findings, it was found that procedural justice and distributive justice have significant effects on job satisfaction. Job satisfaction was also found to have significant impact on the three types of commitment. The study contributes significantly to understanding the workers' attitude and behavior, particularly in the hotel industry in Indonesia.

Keywords:

Procedural justice, distributive justice, job satisfaction, commitment

Organizational Commitment: Loyalty and Neglect Model of Employees Response to Organizational Cultures

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Abstract

This paper proposes the model of Exit, Voice, Loyalty, and Neglect (EVLN) as manifestation of employees' organizational commitment (EOC) in responding to organizational cultures within the Malaysian setting. Structural equation modeling is used to fit the data provided by 150 office employees of manufacturing companies.

The best predictions are proposed for loyalty and neglect. Loyalty is expected to be found in organizations that value the organizational culture dimensions of teamwork, respect for people, stability, attention to details, and outcome orientation. The findings of this paper have important implications for practitioners who wish to improve the level of EOC among their employees, which in turn will enhance the level of loyalty contributing to improvements in productivity and growth in the Malaysia's manufacturing industry.

Keywords:

Loyalty, neglect, employee organizational commitment (EOC), organizational culture, manufacturing industry

Thematic Research Presentations

Category: Marketing

The Role of Product Design in the Market of Telecommunication Products in Indonesia

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Abstract

Indonesia, with its more than 6 million inhabitants, is a huge potential market for electronic-based products. It is estimated that in Indonesia, the potential market for electronic products will reach US\$11.45 billion for 2011. Telecommunication products, such as smart phones and tablet computers, are predicted to achieve the biggest sales and expected to contribute 40% of the total sales of electronic products in Indonesia. Huge market potential makes the Indonesian telecommunications market as one of the largest market in Southeast Asia, which attracts vendors of telecommunications products from around the world.

Such condition has an impact on the competition of telecommunications products by exposing Indonesian consumers to a wide variety of products. Before the decision to purchase is made, several considerations are usually taken into account, including the design of the products offered. Product design plays an important role in the decision-making process of Indonesian consumers because of its association to social prestige and the message that buyers want to display when using the product.

This quantitative research tries to explore the impact of product design in the consumer's decision-making process. The study was conducted in Jakarta, the capital of Indonesia, as a region with the highest penetration rate of telecommunication products in the country. The findings of this study indicate that the function of the product design may differ, based on the gender of the users/ consumers and the product characteristics, which can generate a unique configuration of the design function. One of the interesting findings in this research is that consumers tend to choose products that can identify and convey the message of themselves as members of particular social classes. These findings can help companies in their product planning processes to be better accepted by consumers.

Keywords:

Product, design, telecommunications, consumer behavior, buying decision

Examining the Consumer Ethnocentrism and Animosity on the Attitude Toward Malaysian and U.S. Products: Cross-cultural Comparisons

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Abstract

The objective of this paper is to present a conceptual framework and to examine the extent of the socio-psychological constructs (i.e., ethnocentrism and animosity) on the attitude towards of foreign products in the context of cross cultural comparisons. The paper contends that tension between the two countries (Indonesia and Malaysia, and Indonesia and the United States [US]) negatively affects the consumers' attitude toward foreign products. Product categories consisted of Malaysian and US food products.

This study used the survey method and was conducted in Pontianak, Indonesia, with 133 respondents. It made use of convenience and purposive sampling methods while structural equation modelling (SEM) was used for its data analysis. This study showed that product-country image has a positive influence on the attitude toward foreign products. Otherwise, results showed that animosity has a negative influence on consumers' attitude towards foreign products. In addition, animosity also has a positive influence on consumer ethnocentrism. The study however, does not prove the influence of consumer ethnocentrism on attitude.

Keywords:

Consumer ethnocentrism, animosity, product-country image, attitude, Malaysian products, US products, Indonesia, cross-culture

The Influence of Trust, Commitment, Communication, Conflict Handling, and Customer Satisfaction Towards Customer Loyalty of Telkomsel Cellular Service Provider in Surabaya

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Abstract

GSM technology is a global system for mobile communications, and has become one of the primary needs of modern society. Its massive market attracts tight competitions from cellular service providers, which try to outdo each other in maintaining and increasing the number of their users. This study examined the factors that significantly affect customer loyalty for Telkomsel cellular service provider in Surabaya, Indonesia. The variables that were tested were influence of trust, commitment, communication, conflict handling, and customer satisfaction toward customer loyalty. The study used the extended trust and customer satisfaction relationship toward customer loyalty.

A quantitative approach using regression techniques (multiple regression) through the program SPSS 15 was used. The non-probability sampling technique or purposive sampling was employed for a sample consisting of 100 respondents.

Results show that trust, commitment, conflict handling, and customer satisfaction have significant influence toward customer loyalty for Telkomsel; that there is significant influence of trust toward customer satisfaction for Telkomsel; and a proven direct influence of trust on customer loyalty that is greater than the influence of trust toward customer loyalty through customer satisfaction Telkomsel in Surabaya. In addition, communication has no significantly influence toward customer loyalty for Telkomsel in Surabaya.

Keywords:

Trust, commitment, communication, conflict handling, customer satisfaction, customer loyalty

One Size Can't Fit All

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Abstract

This study aims to identify major differences in consumer behavior of people from developed and emerging economies. It aims to prove that divergence still exists despite the strong force of globalization. Gem and Jewelry (G&J) was chosen to be the product example in this study while Austria and the People's Republic of China (PRC) were chosen to be representatives of developed and emerging economies, respectively.

Qualitative research methodology was used in the study. From the findings, four major factors—legal, economic, demographic, and sociocultural—were found to differentiate consumer behaviors in both countries. The unique feature of the People's Republic of China is its large size, resulting in many submarkets in the country.

Keywords:

Consumer behavior, Gem and Jewelry, Austria, People's Republic of China

The Role of Altruistic Value as Moderator in Building Customer Loyalty to the Company with the Cause-related Marketing Strategy and Corporate Philanthropy

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Abstract

Cause-related marketing (CRM) has, of late, been used by a lot of companies in Indonesia as one of their promotional campaign strategy in implementing their corporate social responsibility (CSR). This was proven by several studies that showed positive relationship between CRM and the consumer's outcome. However, many of these studies did not explain the influence of the consumer's altruistic values on another relationship in CRM.

The objective of this study is to examine the role of cause-brand fit, altruistic attribution, and brand credibility in building customer loyalty as well as the moderating effect of the customer's altruistic value. This study aims to see whether there are differences in the influence of high fit and low fit in assessing brand credibility and altruistic attribution, and whether altruistic values have moderating effects on altruistic attribution and brand credibility. This study is important in analyzing the motivation whenever a company does a CRM program—whether it is for corporate interests, social benefits, or pure altruistic. A customer with a high sense of caring for others gives a higher appraisal rating on the altruistic attribution. Furthermore, if the customer's altruistic values see sincerity, honesty, and social concern in the conduct of the CRM program, then this will influence one's decision in assessing the credibility and loyalty of the brands that are involved in the CRM program.

The research used experimental design and explanative approach. Through student-participants, the experiment is conducted between two subjects, by showing a scenario that is designed (framing) to obtain two groups of (i) fit (high and low), and (ii) altruistic values (high and low). The research is conducted to test the model of relationship influences within variables in this study. By using Structural Equation Modeling (SEM) and Two Independent Samples t-test to compare the average between two groups of cause-brand fit (high fit and low fit), and also two groups of altruistic values (high altruistic and low altruistic), into altruistic attribution and brand credibility.

The expected findings from this study are the role of altruistic values that build customer loyalty into products, which are marketed by companies that care about the environment.

Keywords:

Cause-brand fit, brand credibility, brand loyalty, altruistic values, altruistic attribution

Cause-related Marketing: Moderation Effect of Customer Values on the Influence of Cause–brand Fit, Firm Motives, and Attribute Altruistic to Customer Inference and Participation Intention

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Abstract

This study develops a conceptual model of cause-related marketing (CrM) to investigate the effect of cause–brand fit, firm motives and attribute altruistic motives to the credibility of the brand, the CSR perception, brand attitude, and intensity of participation moderated by customer values. The approach used in this research was quantitative. Data were collected through a survey conducted in five major cities in Indonesia, using the non-probability sampling technique also known as convenience and purposive sampling with 500 respondents. The sample comprised consumers of Bottled Drinking Water Aqua brand and data was analyzed through structural equation modeling and multi-group analysis to test the hypothesis of moderation on the model.

Findings show that consumers may use brand attitude before they participate in behavior intention that was formed through CSR perception, which promote the firm's social motives and brand fit with social cause in a CrM campaign. The results also confirm that the lower altruists among the consumers use mainly altruistic attribution to form their judgment on brand credibility. They also utilize cause–brand fit and firm motives to shape their decision on CSR perception in CrM messages.

To increase brand credibility and CSR perception in CrM messages, the CrM campaign managers should emphasize social cause–brand fit, firm's social motives, and altruistic motivations if their target comprises the lower altruists among their consumers.

Keywords:

Cause-related marketing, cause–brand fit, brand credibility, corporate social responsibility, firm motives, brand attitudes, altruistic values, participation intentions

An Exploratory Study in Recognizing Social Marketing in Business Practices to Achieve Better Performance in a Challenging Business Environment

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Abstract

This exploratory study tries to link the theoretical perspective of social marketing or social orientation with practices of business activity reporting. The reporting can be used as a starting point for the benchmarking of business activities. The study aims (i) to identify the motives of implementing social marketing, (ii) to understand the programs of social marketing, and (iii) to comprehend the dimensions of social orientation.

Social orientation in social marketing emphasizes the importance of an organization's activity on the well-being of consumers and society. Such an orientation goads an organization to put the long-term interest of consumers and society at large in the forefront of its corporate activities. It can also widen an organization's attention from short-term to long-term perspectives to address the well-being of consumers and that of society in the long term.

The concept of social marketing has been discussed by Kotler in 1972. Social marketing was articulated as a customer orientation backed by integrated marketing aimed at generating customer satisfaction and long-run consumer welfare. These aspects are included in social orientation or social marketing. This study tries to operationalize the concept of social orientation or social marketing.

Social marketing has been applied by the business sector for years in recognition of the importance of social orientation. The rationale and the demand of social orientation application have been recognized as important although its implementation varied.

This study used in-depth interviews with managers in the private sector and in state-owned enterprises. The interview focused on aspects of social orientation.

Keywords:

Social orientation, social marketing, consumer well-being

New Relationship Marketing Strategy For the Bottom of the Pyramid to Develop Entrepreneurship in Indonesia and Thailand

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Abstract

Based on facts, more than 15% of people living in South East Asia are still living in poverty. Indonesia, Thailand, the Philipines, and Viet Nam combined have more than 50 million poor people out of 400 million of the total population in South East Asia. According to the World Bank, the poor earn only US\$1–2 a day and have not been considered by many companies as potential customers because of their low purchasing power.

This paper discusses a research conducted in Indonesia and Thailand focusing on how companies in both countries tried to create a new relationship marketing strategy with those in the “bottom of the pyramid” that could leverage effectiveness and efficiency in distribution, promotion, and pricing to benefit the poor.

It is argued that this new relationship marketing strategy is best supported by good education and training, a motivation to become an entrepreneur, financial support to serve as capital, communication technology in the form of mobile phones or internet (e-mail or social media), and delivery or distribution of the products in a timely manner. Results will hopefully show the impact of this new relationship marketing strategy to those in the “bottom of the pyramid” in the future.

Keywords:

Relationship marketing, bottom of the pyramid, entrepreneurship, Indonesia and Thailand

An Investigation into the Determinants of Corporate Blog Connectedness

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Abstract

Many corporations, to date, remain cautious about the use of blogging as a corporate tool since they have this perception that the benefits to be gained are lower than the risks they have to face. Studies on corporate blogs are rarely conducted, hence, many companies still lack knowledge on the characteristic of this new media type.

The measurement of success in corporate blogs can be done through several perspectives, one of which is by measuring the degree of visitor connectedness in a blog. Blog connectedness represents a construct that describes an emotional relationship between visitor and blog. The stronger the emotional connection, the more positive is the corporate’s brand value in the eyes of the visitor.

The method applied in this study is a combination of netnography and online survey. Study results showed that there are three key factors influencing a corporate blog’s connectedness—the quality of content, interactivity, and control/censorship. A new factor found in the first stage of exploration was blogger’s credential, but this factor appeared not significant and this was proven during the later stage of the study.

Keywords:

Corporate blog, connectedness, netnography

**The Market Segment of Children as Consumers in Indonesia:
A Study of the Influence of Brand Credibility,
Emotional Bonding, and Autobiographical Memory
on the Intention to Consume**

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Abstract

This paper explores the influence of word-of-mouth, habituation, brand credibility, autobiographical memory, and emotional bonding towards children's intention to consume. The study also explores the internal and external environments of children and their influence on the adults responsible for purchasing the product items they wish to consume. This study focuses on soft drink consumption.

A conceptual model consisting of the drivers influencing the market segment of children as consumers was developed and tested employing structural equation modeling. Data were obtained from 151 children between the ages of 12 and 14 using a purposive sample. Three hypotheses were supported—the (i) influence of brand credibility in early age on children's autobiographical memory, (ii) influence of brand credibility on children's intention to consume, and finally, the (iii) influence of emotional bonding toward the product on their intention to consume a product.

The study suggests that a memorable product experience, emotional bonding toward the product, and branding are significant to the present and continued attachment of children to a particular product. It is hoped that this study will contribute to the understanding of some aspects that are worth considering by marketers when focusing on this market segment of children as consumers.

Keywords:

Kids market, word-of-mouth, habituation, brand credibility, autobiographical memory, emotional bonding, intention to consume

**Thematic Research
Presentations**

Category: Operations Management

Suppliers' Performance Improvement Through Vertical Partnership: A Study of the Astra Daihatsu Motor

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Abstract

This study investigates the sources of operating performance improvement in supplier partnership, which is an extension of the study of Kotabe, Martin, and Domoto (2003). Data from 75 suppliers of Daihatsu Indonesia were taken as samples. Suppliers' performance can be improved with time-bounded relational assets that are developed by buyers and suppliers through which the companies are able to exploit an efficient communication through the transfer of productive knowledge.

The impacts of technical exchanges, technological transfer, and link duration on the performance improvement of the suppliers were studied. Results indicate that supplier's performance improvement is only affected by technical exchange and supplier partnership does not improve supplier's technological capabilities.

Keywords:

Supplier partnership, exchange of knowledge, relational assets, link duration

Key Success Factors for a Big Enterprise-initiated SME Supplier Development Program for Quality and Productivity Improvement

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Abstract

This study measured the significant improvements that took place in 39 Toyota-nominated small and medium enterprises (SMEs) in EBES Phase 3 (2008), a Supplier Development (SD) program in which big enterprises enrolled their Tier 1 or Tier 2 SME-suppliers. An independent consultant-expert was assigned to help each SME to make tangible housekeeping and process improvements in its pilot area. Using both quantitative and qualitative techniques, the following three major success factors were identified:

- (i) The practices of the Big Enterprise (BE) customer that support SME-focused SD as a legitimate strategy to gain competitive advantage.
- (ii) The cooperation of the SME suppliers in BE-initiated SD programs to improve their competitiveness in terms of quality and productivity.
- (iii) The services given by the Support Institutions (including the outsourced consultants) to the SMEs.

The study recommends policies for BEs, SME-suppliers, and support institutions so that SD programs will have higher chances of success and sustainability in improving SME quality and productivity.

Keywords:

Small and medium enterprises, supplier development, upstream supply chain, customer–supplier partnership

The Production Efficiency of Small-scale Industry Batik Semarang

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Abstract

Production efficiency is an increasingly important determinant of the future of the small-scale batik industry. This study examined the productive efficiency of a sample of batik producers in Semarang, Central Java by estimating the constant returns to scale (CRS) and variable returns to scale (VRS) using the output-oriented DEA models. Results from the two models revealed that the average efficiency of the industry is 71.6 percent and 62.7 percent, respectively. These results indicate that there is still room for improving the efficiency of the batik industry for a better future.

Keywords:

Production efficiency, *batik* industry

Establishing Inventory Tracking System and Density-Order Index Rule for Warehouse for Location in Giardini Furniture Company

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Abstract

Decisions on stock location implementation have significant impact on the required storage space and product picking efficiency in a warehouse. This paper describes the approaches and methods used to improve the efficiency and reliable process of the inventory tracking in a furniture company.

Many rules have been proposed to help in designing such systems. The main contribution of this paper is to propose the more general Density-Order Index Rule for warehouse stock location in inventory tracking. To solve the problem of storage and change of storage locations, a multi-objective was formulated (i) to develop an LP Model for improving location layout and inventory tracking system, (ii) to locate fast-moving items to forward storage locations and slow-moving items to remote storage locations measured by effective distance, and (iii) to develop a system that will reduce the time in conducting periodic physical count. The results and layout obtained by Density- Order Index Rule is an optimal layout to the LP Model, represented by numerous equations. These will help the company to know the correct stock location and result in an accurate inventory record in the warehouse.

Keywords:

Density-Order Index Rule, inventory tracking system, stock location

Thematic Research Presentations

Category: Strategic Management

Manager Perceptions on Impact of Accountancy Information to Performance: Organizational Culture and Environmental Uncertainty as Moderating Variables with Partial Least Square Approach (A Case Study in Indonesia)

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Abstract

This study examines the effect of accounting information on managerial performance by examining organizational culture and perceived environmental uncertainty as the moderating variables. This research uses the Manager PT Shield On Services Indonesia as sample.

The 75 respondents were selected using the census method. Data were collected by distributing questionnaires. Of the 75 questionnaires that were distributed, 44 were returned, and were processed and analyzed. The hypothesis testing model used partial least square analysis.

Results indicated that accounting information is a factor that positively affects a manager's performance. Organizational culture also positively affects manager performance and its interactions. However, perceived environmental uncertainty negatively affect manager performance. The positive result in organizational culture is instructive for PT Shield on Service, pointing to more focus on orienting managers towards participatory decision making, and making them more responsible in their acts of decision making—from lower managers to top managers.

Keywords:

Accounting information, organizational culture, perceived environmental uncertainty, and manager performance

Self-organizing Systems in the Global Community

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Abstract

This paper discusses the concept of self-organization in a social institution. It is based on an empirical study that looked into the entrepreneurs' strategic actions, particularly among Chinese-Indonesians, especially when experiencing a situation with tensions/crisis. The study attempted to find a conceptual explanation behind these entrepreneurs' consistent behaviors—characterized by a high degree of environmental adaptation and ability to self-reproduce, regardless of milieu, as suggested by Redding. It is also based on a suggestion that the philosophy of life of the Chinese-Indonesian people is grounded on Confucian values.

This study employs complex adaptive systems and its self-organizing emergent property and link these to the anthropocosmic view of humanism. Primary data were collected through in-depth interviews, developed into narrative case studies, and analyzed to explain informants' trajectories in their life course. The findings support this Confucian view, which is practiced according to the law of nature. Chinese culture embraces the state of complexity, irreversibility, and unpredictability of the natural systems by learning and practicing wulun and guanxi social institutions as habitual and dispositional practices, including in business. By practicing wulun and guanxi, members are constrained by social rules, but at the same time learn to be adaptive; and at the same time have a feedback loop promoting continuous self-actualization and self-transformation through self-organization in a complex, dynamic, and unpredictable world.

This study finds that the conceptions of CAS and SOS, which have been developed and tested in natural sciences, are useful for studying social complexity. In this study, the conceptions were useful in providing the conceptual explanation behind the consistent Chinese adaptive behavior and ability to self-reproduce.

Keywords:

Self-organization, complex adaptive systems

Why Do Some Multimarket Firms Compete Without Using a Multimarket Style?

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Abstract

Multimarket competition—a context in competitive dynamics—is a battle among firms having more than one market, thus encountering competitors in several markets simultaneously (Porter 1980; Karnani and Werfernel 1985; Gimeno 1994). This research focuses on the impacts of multimarket contact on rivalry and performance, and the antecedents of the multimarket contact.

This research assumes that a multimarket firm would adopt multimarket competition style as its strategy. In reality, the firm has an option to act as if it faces a single-market competition, thus, fights its rivals market-by-market. This has been identified by Karnani and Werfernel as a defense strategy, where the firm responds only in the markets that are attacked. Whether this is a departure from the main theory or just a transition toward the multimarket competition pattern are important research inquiries.

The two leading research questions are: (i) How might a firm facing multimarket competition fight using a single-market competition style alone? (ii) Are there stages for a multimarket competition? Building a model based on two firms by two markets and defining the deviant while a firm competing using single-market competition style, this paper offers propositions to explain why a multimarket firm might not adopt entirely multimarket style strategies. First, the deviation from multimarket patterns is temporary. The deviant might persist if there is imbalance of power among firms. Second, without power imbalance, the competition tends to move toward the multimarket competition patterns.

This paper expands the understanding of multimarket competition concept. At the firm level, this clarifies why a firm uses a strategy that differs from those implied by the theory. At the industry level, this paper complements previous research in predicting the impact of multimarket contact on the intensity of rivalry.

Keywords:

Competition, multimarket, strategy

Building Corporate Image and Social Responsibility: A Cross-cultural Experience

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Abstract

Corporate image-building is all about activities employed by an organization to create and promote the goodwill it enjoys from its stakeholders. Many empirical studies have pointed out the correlation between social responsibility, corporate image, and an organization's performance. However, there is paucity in research on the linkage between social responsibility and business environment essential to an organization's performance. Questions that remain particularly to foreign investors include: (i) To what extent do social responsibilities build corporate image? (ii) What are the expectations of the host communities?

This study examined the effect of social responsibility (SR) on corporate image. It analyzed the existing SR policy in line with the organization's business environment. It also examined the SR practices and the extent of their impact on a company's image. Specifically, this study sought to surface and to analyze the expectations of the host communities.

The study was conducted among selected companies and their host communities in Nigeria. Primary data were collected from 129 purposively selected respondents from the host communities and 24 executive employees from selected firms that constituted the sample for the study. A questionnaire was administered to respondents from host communities and an in-depth interview was undertaken with the selected executive employees. Likert scale was employed to measure the attitudes and expectations in relation to SR; while nominal and ordinal were used to measure company policies and practices. The results revealed that variation in corporate image is explained by SR strategies. Community-based projects and infrastructure developments were found to have contributed significantly to peaceful working environment with the host communities, hence, the SR approaches employed were in conformity with the host's expectations.

The study concluded that building corporate image depends on SR. The strategies employed by the organizations were also found to be in conformity with the host community's expectations.

Keywords:

Corporate image, social responsibility, community-based projects, infrastructure development, business environment

The Effect of Image Compatibility and Escalation of Commitment on Decision Performance

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Abstract

This study aims to empirically examine the extent to which Image Theory—initially developed as a theoretical basis for selecting a strategy or a decision—can be a theoretical basis for predicting a decision performance in two opposite frames: positive and negative. Image compatibility is employed to operationalize such a theory, and the decision under study is progress decision—represented by escalation of commitment.

This study also examines the connection between image compatibility and escalation of commitment, as well as escalation of commitment as a mediator of the relationship between image compatibility and decision performance. The research context is the Indonesian Stock Exchange Market (IDX), which has suffered from the global financial crisis in the past year (negative frame), and yet has recovered recently (positive frame). The respondents are 229 individual investors in IDX. They are involved in day-to-day decision making (progress decision making) with regard to their investment portfolio. The results of this study show that high image compatibility tends to lead to better decision performance in both frames. However, image compatibility may only positively affect escalation of commitment in the positive frame.

Keywords:

Decision making, image theory, image compatibility, escalation of commitment, framing, investment, decision performance

**Analysis of Integration Pattern and Multinational Company
Post Acquisition Management Process:
Study of International Acquisition of the
Heidelberg Cement (Pt. Indocement Tunggal Prakarsa Tbk.)
and Holcim Ltd (Pt. Semen Cibinong Tbk.)**

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Abstract

Acquisition is a strategy used by multinational companies in their efforts to expand their market and to achieve a more optimal growth. This strategy meets the requirements of an integration and post-management acquisition to obtain a company's maximum performance. Most of the research done on this topic is to see the influence of acquisition on the performance of the company executing such acquisition (Morck and Yeung 1992; Markides and Ittner 1994; Anand and Kogut 1997; Datta and Puia 1995; Eun, Kolodny, and Scheraga 1996; Seth, Anju, and Pettit 2000; Anand and Delios 2002). However, the above researches have not specifically examined the integration process and post-acquisition management process from the perspective of the company being acquired.

Using a case study method, this research is done to examine the integration process and post-acquisition management process from the perspective of the company being acquired, and to see the strategic fit impact and organizational fit impact on a company's operational sector, innovation activity, and financial aspect. A case study each was made on two national cement companies: PT Indocement Tunggal Prakarsa Tbk. and PT. Semen Cibinong Tbk., which were acquired by Heidelberg Cement and by Holcim Ltd. in 2001. Two different strategies were used in the acquisition of these two companies. One used a multi-domestic strategy and the other used a global strategy and the differences were in the implementation of these strategies by both companies being acquired. The company that employed the multi-domestic strategy experienced changes happening to their key people and only in some parts of the organization, while the global strategy causes changes in all parts of the organization.

This study used an in-depth interview method, pattern matching, and within case analysis on the documents and various company information. It also identified two post-acquisition integration processes, namely, partial integration and holistic integration. Along with the changes made by the management of the acquiring company, several new methods were implemented, such as the use of alternative energy, product diversification, and new marketing methods.

Keywords:

Multi-domestic strategy, global strategy, acquisition, integration, post-acquisition management

**The Effects of Structural Differentiation and
Contextual Integration on Organizational Ambidexterity
and the Mediating Role of Absorptive Capacity**

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Abstract

This study discusses organizational ambidexterity, which is the ability of an organization to conduct exploration as well as exploitation in pursuit of sustainable competitive advantage. It is still being debated if exploration and exploitation be done by different units (structural differentiation) or the same unit (contextual integration), and whether the absorptive capacity has a mediating role in organizational ambidexterity. Based on these issues, this study tested the effects of structural differentiation and contextual integration on organizational ambidexterity and also the mediating role of absorptive capacity in 79 firms among Indonesia's innovative industries.

Keywords:

Organizational ambidexterity, absorptive capacity, sustainable competitive advantage

ISO as a Change Strategy for Companies in the ASEAN

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Abstract

The growing globalization, which has rendered trade and commerce virtually borderless, has created awareness of the need to standardize the quality of products and services purveyed in the global market. ISO 9001:2008 (ISO) has been widely used by organizations as a quality management system to standardize products and services for greater market acceptability. However, organizations vary in terms of results from the adoption of such a system.

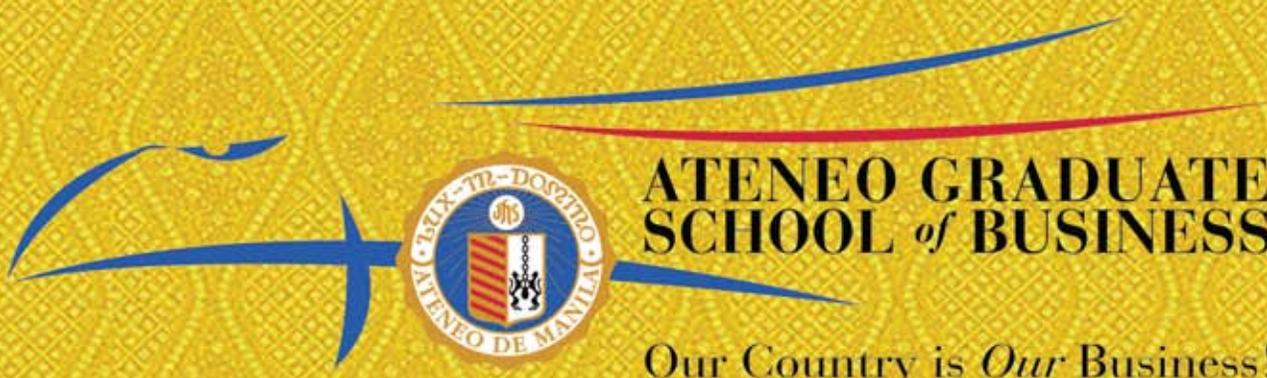
This study seeks to establish a correlation between ISO and organization development (OD) by examining principles and characteristics common to both. The study achieves two research objectives: (i) it tests the hypothesis that ISO 9001:2000 is similar to OD, and (ii) it measures the effectiveness of the quality management system as a change strategy especially as it relates to MSC, a medium-sized construction firm, and to selected construction companies in the Philippines.

Results showed that the implementation of ISO produced positive results, such as improvements in processes, greater marketability, better communications and coordination, customer focus, and accountability. The continuous improvement ethos inherent in the ISO quality management system also encouraged innovation and change.

As a general framework for managing and integrating organization-wide activities to achieve strategic goals and operational objectives, ISO is deemed useful. This study proposes a conceptual model to successfully implement ISO as a change strategy. In spite of its perceived benefits, ISO is not considered as a panacea. By itself it does not guarantee organizational effectiveness. It owes its effectiveness to management's commitment to support it.

Keywords:

ISO, organization development, standardization, organizations



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