

Comments from the Editor

Editorial: the Link between Culture and Management

It is interesting to the publishers of *Insights*, how, almost by chance this issue's articles have all addressed in some form or other the inextricable link between culture and management, and illustrate from various angles how important it is to consider the cultural/global context when doing business in or with a different society, even in this era of massive globalization. In one of the main articles, the likelihood of Japanese business undergoing major changes in their well-known participative, consensus building management style with its long term focus, is discussed, and dismissed as unlikely due to the underlying Japanese culture. Even the other main article on China's accession to the World Trade Organization, while focusing on macro economic issues, points to the importance of the Chinese culture and its resistance to change, in determining how far China is likely to go with opening its markets and liberalizing regulation. The article of virtual teams talks about the need for face-to-face meetings to facilitate real progress, which I think is a function of the human need to actually see and interpret body language and other signals to feel they understand where others in the group are coming from. The Culture Notes point to some obvious faux pas in business that result from ignoring cultural norms and ways of doing things and finally even the teaching note suggests that local cases provide a way of demonstrating management theory in a culturally familiar context, that allows the student to identify and understand that theory more easily. The "insight" is clear, think locally but act globally!!



Betty Jane (BJ)
Punnett, Editor

Comments and suggestions should be sent to the Editor

Please send articles and classroom material to the editor for consideration for upcoming Insights - consider reprints of speeches you have made

Readers are encouraged to submit comments, for possible inclusion in future Insights

Insights provides an outlet for short, topical, stimulating, and provocative articles. Please submit materials for consideration to the editor - Betty Jane Punnett

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Submissions are reviewed by the Advisory Board

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- For consideration for specific editions, submissions must reach the editor by the following dates:

1st Quarter: December 15

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- Articles should be approximately 2-3 printed pages.
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We look forward to your comments and submissions.

- BJ

Japanese Corporate Management in Transition: Will it converge with the US?

By Ilan Alon

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Despite the economic slowdown of Japan in recent years, Japan is still the second largest economy in the world, based on its gross domestic product. Kono and Clegg (2001) argued that the economic problems of Japan are based on its financial and bureaucratic systems and not on its managerial systems. They also argue that the Western business world can still learn much from Japanese management practices. Management systems in Japan have exhibited unparalleled dynamism throughout history and have been studied around the world.

Japan's economic influence over the past decades has led to substantial interest in Japanese management practices. Further, many ask "will the Japanese management system become more like the one in the United States or will it remain a hybridized system of management embodying a mix of Eastern and Western cultural elements?" For example, some authors have contended that Japanese and Western approaches to corporate governance are converging (e.g., Simeon, 2001), while others have contended that, despite recent changes in Japanese management style, important differences continue to exist (e.g., Kono and Clegg, 2001).

In their book, *Trends in Japanese Management: Continuing Strengths, Current Problems, and Changing Priorities*, Kono and Clegg (2001) suggested that in the last decade significant changes have taken place in the

Japanese system of management. Among them are: the empowerment of shareholders, the emphasis on value added economic activities, the development of career paths and skill enhancement in young managers, the introduction of merit pay, the decentralization of decision making, and the formation of alliances outside the boundaries of the traditional *keiretsu*. This suggests that Japanese management approaches are changing.

Masui and Kakabadse (2002) reported on the changes in the decision-making process that need to occur in Japanese companies. According to these writers, Japanese organizations need to overhaul their management systems including shareholders' meetings, introduce an officer system to reduce the number of board members, abandon the seniority system and identify young professional at an early stage, and accept individual responsibility in decision making. This suggests a need for change, rather than ongoing change. (One wonders also whether the authors are suggesting implanting a Western concept of management onto the Japanese corporate culture).

In contrast to these views, there is evidence to suggest that management practices are unlikely to change, or will change only slowly:

- Japanese firms operate in a special cultural context, one that is based on complex rules, interpersonal relationships, a unique history, a homogeneous

population, distinctive political, educational, and institutional systems, and a hierarchical structured culture (Nishiyama, 1999). To explain the unique nature of Japanese institutions, corporate networks, and management, Bhappu (2000) used an anthropological approach. Her research suggests that the Japanese management systems can be traced to the evolution of the Japanese family, and that social capital is instrumental in the development of political and business environments and the persistence of the Japanese management system

- Decision-making processes are quite different in Japanese organizations when compared to Western firms. Ala and Curdier (1999) wrote about the Japanese philosophy of *ringiseido*. According to this philosophy, participative decision-making is preferred utilizing opinions from multiple levels of management. The *ringi* decision making process stimulates group harmony, conformity and togetherness, provides a feeling of participation and moral suasion for enforcing group compliance, and creates a sense of hierarchy and loyalty to the group. In contrast to Western management, where one person in control exerts strong influence over the direction of the company; the Japanese management system places limited responsibility on individual decision makers.

- Research and Development (R&D) is another area in which Japanese companies differ from their Western counter-

parts. Using citation analysis in a cross-national study of a high-technology industry (flat-panel display), Spencer (2001) found that Japanese university research is less influential than Japanese corporate research as compared to the US, where University and corporate research showed a marginal difference. The Japanese seemed to be focused more on applied rather than basic research when compared with the United States. Matsushita, for example, has shifted toward applied research over the years. In 1984, 54% of its R&D was basic research, compared with 25% in 1995. Interestingly, much of the research in Matsushita has become contract-based (Nathan, 1999).

- The applied orientation pervades the human resource development aspect as well. In an interview with Sony's

Yoshihide Nadamura, Beamish (1999) reported that while Sony provides opportunities to their employees to pursue graduate education, the company prefers on the job training and development as a general guiding principle. Japanese management systems remain unique in that they focus on longer term strategies, they emphasize human resource investment, and they balance shareholders' value with that of other stakeholders of the organization, such as employees, banks, suppliers, and customers (Kono and Clegg, 2001).

While the Japanese management system may adopt, and adapt, certain practices from the United States, and the United States may do the same with Japanese practices, it seems unlikely that management practices will converge. The evidence suggests

that Japanese culture has been slow to change and that it has a pervasive and persistent impact on the political and economic institutions of Japan. These, in turn, have a pervasive and persistent impact on organizations and their management practices. Japan has been different and will likely remain different for the foreseeable future. It is important to recognize that Japanese organizations remain among the most competitive in the world, and much can be learnt from them on issues of human resource management, organizational structure, global management, and R&D development. The recent negative developments in the Japanese economy should not be used as a reason to dismiss the management systems and global strategies, which the Japanese employ.

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Some Implications of China joining the WTO

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China's accession to the World Trade Organization in December 2001, a milestone in its reintegration with the global economy, is beginning to change the economic landscape of East Asia, and have a profound impact not only on China and East Asia, but the rest of the world. The excitement, uncertainty, and fear this has generated are due not only to the sheer size of China's economy, but also to the speed of its economic expansion.

It may be useful to present a few numbers to see the enormous growth, and understand the implications at both the macro and the firm level. Since economic reforms began in 1979, the economy has grown by about 10 percent a year. Trade has grown faster, at about 15 percent a year, with exports rising from \$50 billion in 1990 to \$ 250 billion in 2000 and \$325 billion in 2002. Foreign direct investment has grown even faster, from \$4 billion in 1990 to \$40 billion in 2000 and \$53 billion in 2002; in fact, according to a UNCTAD studyⁱ, China is very likely to have overtaken the United States as the biggest recipient of FDI last year. In 2002, China replaced the U.S. as the major exporter to Japan, and at the firm level, surpassed the U.S. as the major foreign market for Volkswagen. While statistics on China's economic growth can be mind numbing, I will provide one more to show the impact of this on the standard of living: in 1980, the country produced 400 washing machines; in 2001 the figure was 10 millionⁱⁱ. This is what has given legitimacy to a government that remains autocratic, opaque, and unaccountable to its people.

The primary cause of China's astounding economic performance was that after Mao's death, the "second generation" leaders headed by Deng Hsiao Peng recognized the economic success of South Korea and Taiwan, and instituted a new economic policy promoting a market economy and a partially open door to foreign trade and investment, though no challenge to the Communist Party was to be tolerated. Initially,

Deng established free markets in agriculture, and abolished collective farms; then the private sector was slowly allowed into services and industry. In trade, the goal of autarky was quickly abandoned, and comparative advantage began to be the dominant factor in export and import patterns.

The partially open door to foreign trade and investment is expected to be opened much wider with admission to the WTO and acceptance of its rules. I should note that China had applied to join the WTO's predecessor, the GATT, as early as 1986, and went through 15 years of difficult and fraught negotiations. Its keenness to join has two reasons. The obvious, external, one is that it provides assured access to world markets for its exports. As a WTO member, China's products are assured of "most favored nation" treatment in the U.S., and subject to an average tariff of 8 percent; without MFN treatment, the average tariff would be a prohibitive 40 percent. This can explain why China is willing to subject itself for the first time to WTO

rules and disciplines. A more subtle reason is internal: the "third generation" economic leadership under the Prime Minister, Zhu Rongji, realized that a lot of inefficient state owned industries needed forced change. WTO accession is being used by reformers to improve competitiveness; it is also being used as an excuse to attempt to transform government behavior. "WTO offices" have been set up in major cities, with the goal of educating the public and government officials used to a planned economy about rules of a market economy. In the eyes of some representatives of these offices, "WTO" is completely intertwined with overall economic reformⁱⁱⁱ.

China's eagerness to be admitted has led it to make the most far-reaching commitments in the history of WTO negotiations. On the import side, it has agreed to swiftly lower tariffs. As an example, tariffs on cars are to be reduced from 80 percent in 2001 to 25 percent in 2006, while tariffs on auto parts are to fall from 20 percent to 10 percent. Non-tariff barriers in the auto industry, like local content require-

ments, are also to be eliminated by 2006. While very few service imports were allowed before 2001, now foreign banks, insurance companies, retailers, and distributors, will be permitted to operate, as will foreign telecommunication firms. On the export side, direct export subsidies will be eliminated, and China has agreed that its trade partners can use "safeguards" against a surge in imports from China for 12 years—an extraordinary concession. China has also agreed to abide by international rules protecting intellectual property, provide national treatment for foreign investors, and develop a uniform commercial code.

Research by the World Bank, the US International Trade Commission, and the Development Research Center in China conclude that WTO accession will raise China's growth by about half a percentage point a year^{iv}. This, of course, provides both opportunities and threats to firms in other countries. China's exports as well as imports are expected to increase significantly; the table below gives an idea of the impact of the accession:

	China's exports as a share of world exports (%)			China's Imports as a share of world exports (%)		
	1995	2005		1995	2005	
		Without WTO	With WTO		Without WTO	With WTO
Apparel	19.6	18.5	47.1	1.0	1.1	3.7
Textiles	8.4	8.8	10.6	13.4	18.0	25.5
Beverages & Tobacco	2.4	1.0	1.0	0.9	1.3	16.2
Automobiles	0.1	0.7	2.2	2.0	1.8	4.8
All Products	3.7	4.8	6.8	3.4	5.3	6.6

Source: Ianchovichina et. al., 2000.

While the overall impact is clearly positive for China, the benefits will be distributed unevenly. The strongest impact is that institutional change is accelerated, with laws and regulations becoming conformant to those of a market economy. But there are significant costs as well, with the biggest concern being unemployment. Already more than 10 million workers have been laid off from state owned enterprises (SOEs), breaking the "iron rice bowl"—the implicit social contract under which workers gave unquestioning obedience to the Communist party in exchange for economic security. The WTO accession has increased the pressure in two distinct areas. First, agriculture, which is quite inefficient by world standards, will experience a shock, and agricultural imports will make farmers redundant, precipitating a movement to the cities. Second, there will be a great deal of pressure for streamlining industry. As an example, the fragmented auto industry, which had 118 assembly firms in 2000, will need to undergo a drastic consolidation.

There will also be uneven effects on different parts of the country. The "rust belt" in the northeast will clearly be a loser. This is where the heavy capital-intensive industries like steel and chemicals are concentrated. Moreover, 70 percent of the employment is in SOEs, which have already experienced large layoffs, leading to rare demonstrations in 2002. Shanghai and the surrounding area will do well, since the economy is more knowledge based, with the largest concentration of educational institutions. The big gainer is Guangdong province adjacent to Hong Kong, and specially the Pearl River delta, which is rapidly becoming one of the world's greatest manufacturing centers. This region has the advantage of not only proximity to Hong Kong, but also being one of the

first areas where a market economy was attempted under Deng's reforms; today only 30 percent of employment is in SOEs.

Will the projected reforms actually be carried out? That is a difficult question, specially considering the change in leadership China is going through. The current government, and specially Prime Minister Zhu Rongji, seem sincere in their commitment to reform. As an example, in December an appeals court upheld a patent infringement complaint by Phillips Electronics against Chinese designed electric razor, the first time a western company has won such a case. This can be seen as evidence that intellectual property laws are being respected. However, counterfeiting remains rampant within the country, with a street market devoted to Rolex watches, Gucci handbags, Eddie Bauer jackets, etc. flourishing within walking distance of the American embassy in Beijing. Moreover, a "fourth generation" is in the process of taking over, and very little is known about Hu Jintao, who assumed the position of general secretary of the Communist party in November 2002. What is known is that there is a lot of resistance to reforms at the local level, and local governments can thwart the promise of open markets. As an example, all taxis in Shanghai seem to be Santanas; it is an interesting coincidence that the Santana is produced as a joint venture between Volkswagen and the Shanghai Automotive Industrial Corporation.

It is also important to note that some changes are less than what they seem. While foreign banks were very excited at the idea of being able to offer services to Chinese customers in RMB (the local currency), each foreign bank is allowed to open only one new branch a year. The Bank of China, in contrast, has thirteen thousand branches. Similarly, the telecom-

“Already more than 10 million workers have been laid off from state owned enterprises (SOEs), breaking the "iron rice bowl"—the implicit social contract under which workers gave unquestioning obedience to the Communist party in exchange for economic security.”

munications industry is being opened to foreign firms through joint ventures, but the partner must be one of the current four state owned telecoms companies. And the regulator directly owns two of these.

Finally, while I have been dealing primarily with economic changes, there are very important socio-political issues to be kept in mind. One is unemployment, already referred to. The other is rising inequality. Most of the growth has been in the east coast, and the stark contrast between the wealthy and poor regions can be seen by comparing Shanghai and China as a whole. In the year 2000, 1 percent of Chinese

households owned a personal computer, compared to 26 percent of Shanghai households. For cell phones, the figures are 3 percent vs. 30 percent. If this growing inequality leads to serious social unrest, the consequences would be very unfortunate.

It is, of course, foolhardy to make predictions about China, but there is a clear consensus that China's accession to the WTO, and its engagement with the rest of the world, will benefit the world economy, if China is able to comply with its commitments. Low price, high quality Chinese products help consumers throughout the world (albeit with adjustment costs). At the

same time, open markets and rules based trading provide opportunities to not only industrial countries engaging in FDI and exporting high tech products, but also to developing countries with a comparative advantage in agriculture, energy, and natural resources^v. The danger is that social stability may become a constraint to reform at the best, and that unrest may lead to a political as well as an economic crack-down at the worst. A rapidly growing China, opening itself to the world under WTO rules, can only be beneficial for the world economy.

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End Notes:

- ⁱ "UNCTAD Predicts 27% Drop in FDI Inflows This Year", UNCTAD press release TAD/INF/PR/63, Oct. 24, 2002. It should be noted, however, that this was primarily due to a huge fall in FDI into the US from its normal levels.
- ⁱⁱ Briefing at International Bank of Asia, Hong Kong, Mar.22, 2002.
- ⁱⁱⁱ Briefing at WTO Affairs Office, Shanghai, Mar. 29, 2002.
- ^{iv} World Bank, "Economic Impacts of China's Accession to the WTO", Dec. 2002; USITC, "Assessment of the Economic Effect on the United States of China's Accession to the WTO", Aug. 1999; Briefing at Development Research Center of the State Council, Beijing, Mar. 25, 2002.
- ^v While there is considerable unhappiness in the United States about its bilateral trade deficit with of \$100 billion with China, China's overall trade surplus was only \$27 billion in 2002—a little smaller than Canada's, and has been falling. Moreover, China currently has a trade deficit with East Asian countries like Malaysia, South Korea, and Thailand.

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A Note on Two Virtual Teams

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The last issue of *Insights* included two articles describing two different virtual teams. One team called “Successful Women Worldwide” (SWW), the other the “International Organizational Network” (ION). I have the good fortune (sometimes I think the challenge) of belonging to both of these virtual teams. It is good fortune because both teams are doing interesting and exciting work. It is a challenge because I sometimes find that the obligations to each are in conflict, and that my ‘real’ time can also be in conflict. Managing both real work and virtual work can certainly be challenging. Virtual is fascinating and tempting, because it allows one to be involved in a greater array of projects than previously possible, and virtual interaction is exciting, because one can be productive without ever leaving home. My experience suggests, at the same time, that one has to select the virtual projects that one joins with care – they take much time and effort, and they need effective leadership, if they are to succeed. In addition, my experience with both teams has been that we accomplish substantial breakthroughs when the team meets in-person, thus, *real* (face-to-face) interaction remains critical to completing virtual projects successfully.



The two teams share similarities, but there are also differences between them, and the differences have had a noticeable impact on how they operate. Following is a short description of the two teams, with a summary of some similarities and differences. I conclude with what I feel is an important insight on managing virtual academic teams.

- The SWW team consists of a small core of individuals, and a growing network of associates, tightly focused on one major research project. The SWW core group, and associates, is guided by relatively well-defined protocols. The SWW team has no strong leadership. The SWW group chose not to have a ‘leader’ or group of leaders, and members of the core group agreed to take on various leadership tasks, thus, insofar as leadership exists in this group, it is dispersed. For this to work, the group needed to identify appropriate substitutes for leadership, and well-defined protocols served this purpose.
- The ION team is a larger, more loosely organized group, with fluctuating membership, continuously seeking, and working on, relevant projects. The ION group is guided by evolving expectations, depending on the projects its members choose to embrace. The ION concept was developed by a small enthusiastic group of people, and this group has become the dedicated leaders of ION. This dedicated group of leaders (which will evolve over time) provides cohesion for a loosely coupled team.

The next page presents a comparison of the two teams on a number of salient dimensions.

COMPARING TWO VIRTUAL RESEARCH TEAMS

Membership	The SWW team consists of about ten members, and expects this number to grow. The ION team consists of about fifty members and wants this to remain stable, while finding ways of providing access to other interested persons.
Leadership	The SWW team has no formal leaders, and has not identified such a structure. The ION team has a leadership structure and is considering formalizing this.
Size	The SWW team (core members and associates) is small, but flexible in terms of size. The ION team is larger, and concerned with identifying an optimal size.
Makeup	The SWW team is largely female. The ION team is mixed in terms of gender. Both teams include members from a variety of countries.
Funding	The SWW team has relied on individual members to access locally available funding for local research, and have met opportunistically at academic conferences. The ION leaders have identified funding for in-person meetings, and have organized meetings separate from other conferences.
Objectives	The SWW team has a specific academic research project to complete, and intends to disseminate results in traditional academic outlets. The ION team has objectives that include understanding of processes, greater interaction with international business managers, and dissemination of results in a variety of outlets.
Communication	Both teams communicate in a friendly and supportive manner. One of the most positive aspects of a globally dispersed team is the apparent support that team members receive from others.

One reason that the two teams have evolved differently, from my perspective, is that the ION team grew from the initiative of a couple of people, with a group of supporters. This founding group became ION's leaders, willing to assume management roles (e.g. planning, organizing, staffing, directing, controlling). The SWW team evolved from a research workshop, with a specific focus, but no similar leadership structure. Without a leadership structure, individuals in the SWW team accepted tasks, but the management roles were not clearly covered. To make up for this, well-defined protocols were needed (ie, substitutes for leadership). This suggests that leadership is a critical issue for any virtual group to address and understand. The somewhat different leadership approaches adopted by these two teams have each worked well, and both groups are currently functioning effectively. Many approaches may work, but I believe that leadership is essential in every virtual team.

CULTURE NOTES

The following examples show why it is so important that people doing international business understand that others do not necessarily share their cultural values and norms. International business people need to take the time to research and understand values and norms before attempting to do business in new countries.

- "Apart from English speaking countries there are few countries where business people address each other by first names after a short time. For example, in Germany even longstanding business partners may choose to address each other by their surnames. A German relative (of the author) who has worked at the same company for 25 years still only addresses two of her co-workers by their first name. She was insulted to receive an email from a US representative addressing her as Dear Helga. She had addressed her email to Dear Mr XXX and expected the same courtesy in reply. She said: "I have no respect for this man as he has shown no respect to me." Her impression of anything contained in the email was clouded by the first cultural blunder."¹
- One Canadian spent enormous time and energy on his presentation to a Southeast Asian government agency. His initial excitement over the packed auditorium later turned to disappointment when he discovered that the room was filled with individuals whose attendance was mandatory. The audience had neither expertise in the field nor decision-making authority.
- In France, India and Iran, where history is particularly valued, one successful international presenter captured the audience's attention by talking about past successes. In contrast, when in the United States, the same presenter emphasized prospects and future potential.
- A Canadian consultant who introduced herself to a Korean audience by emphasizing her personal experience and education, failed to maximize her credibility. In countries like Korea and Japan, it is important to tie in your status with your company. Her credibility as an individual was unimportant compared to the reputation of her company, and her position within it.²

¹ Taken from www.aushomepage.com.au/article/48/, written by Kerry Dujmovic, 17th March, 2001

² Taken from <http://exportsource.gc.ca/pdf/epeng.pdf>, "Speaking Globally: An Exporter's Guide to Effective Oral Presentations"

TEACHING INSIGHT

A Case for Writing Local Cases

Donald M. Wood

Cases bring reality into the classroom and stimulate student interest. They allow students to focus on making decisions in a real context and to formulate practical and applicable ideas. The challenge in the Caribbean (and likely in many other places) is that there is little locally-based teaching material, with which local students can identify. Most texts and cases have been written for the North American and European markets, and it is difficult to identify appropriate cases for other locations. Students can, and should, analyze traditional Harvard and Ivey cases, but they cannot relate completely with the situations portrayed in these. This has the effect of diminishing interest and enthusiasm for case situations, and leads to students' viewing them as interesting from an academic point of view, but not relevant to practicing managers.

A recent workshop (put on by The Ivey School, University of Western Ontario) on writing business cases answered this challenge for me. I realized that I do not need to screen hundreds of cases trying to find one that is somewhat relevant to my objectives and local conditions. Instead I can write my own case to illustrate specific concepts, from a local perspective. The workshop provided the discipline and structure to develop a good local case that would withstand questions from eager and bright students, and stimulate class discussion and participation.

I believe in using cases for teaching, but until now I have been frustrated by the lack of materials clearly focused on the specific course elements that I want to illustrate, and the lack of locally relevant material. The teaching insight from this experience is "when you can't find exactly what you want, write your own case" (the epitome of the make or buy choice). This should not suggest that writing a case is a simple undertaking – writing a good case takes time, effort, and discipline. I have discovered that it is possible, however, and this experience has encouraged me to consider developing additional cases, to suit varied teaching objectives, as well as the local environment. I would encourage others to consider doing the same.