**Further Exploring the Causes of Short-termism in Emerging Countries: The black sauce case in Vietnam**

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**Résumé :**

Recent economic events at a global level have reminded us that managers do not always make optimal or even rational economic decisions and hence may compromise value creation. Short-termism has often been cited as a cause leading to such sub-optimal economic decisions. Despite the importance of this topic, the related literature is still under development. Drawing on previous work, this paper aims at further developing the literature on the causes of short-termism and managerial myopia, more specifically in the context of an emerging country. Primary and secondary data collected on a short-termism incident -The black sauce case in Vietnam- reveals that this incident originated from poor corporate governance, myopic pressure of specific economic events, and misuse of managerial practices. Our findings also add new insights to managers' myopic behaviors in an emerging market.

**Mots clefs :**

complexité, gouvernance d'entreprise, international, rationnalité, théorie du management stratégique

# 1. INTRODUCTION

Meeting short-term targets is critical to the survival of any company whereas investing for the long-term is the source of competitive advantage. The right balance between the two is challenging, yet important to decision-makers. However, there is a lot of evidence that managers do not always make optimal or even rational economic decisions. Short-termism was defined as managers repeatedly overvaluing short-term rewards and undervaluing long-term consequences (Laverty, 1996).

Many studies have discussed the reasons why managers made such myopic decisions from an economic viewpoint, yet only a few of them shared common ground. Laverty (1996) stated that the debate should go beyond economic perspective. In other words, researchers should take into account individual and organizational dimensions in order to find the causes of short-termism and managerial myopia. A couple of studies that followed (Laverty, 2004; Marginson and McAulay, 2008) confirmed the suggestion that these two new perspectives would add more valuable insights to the understanding of this phenomenon. However, it is interesting to note that none of the existing literature took into account the specific conditions of emerging countries, where stock markets are recently founded, capital flow is strictly regulated, regulation systems are not very developed, etc… Although there are no fewer myopic incidents and examples of short-termism in these countries, the possible root causes may be different, and thus need understanding.

This paper aims at studying short-termism in the context of an emerging country, i.e. Vietnam. More specifically, the research question to be answered is the influence of economic factors onto short-termism and managerial myopia in this country. This research area is important because awareness of the issue and its causes may help decision-makers in Vietnam avoid making choices that are optimal in the short term but suboptimal in the long term, leading to the erosion of competitive advantage or even to catastrophic outcomes.

The study was inspired by a recent example of short-termism in Vietnam: the black sauce incident. This was one of the top 10 economic events in 2007 which had tremendous impact on the entire society, and led to the collapse of several well-established companies. By choosing an industry as the subject for empirical analysis, the study endeavors to go beyond analyzing company-specific conditions in order to achieve an accurate generalization at industry-level.

Field interviews with top managers at companies involved in the black sauce incident revealed several interesting findings. On one hand, they confirmed the suggestions of various scholars that economic causes of short-termism are: poor corporate governance, myopic pressure of special events, and misapplication of managerial techniques. On the other hand, some new factors were found to have contributed to the occurrence of short-termism in Vietnam, namely: misaligned corporate strategy, regulation loopholes, failure of internal communication channels, etc. The paper also agrees with Laverty (1996) that economic factors alone can not explain thoroughly the causes of short-termism, and that a multi-disciplinary approach is necessary when analyzing this phenomenon.

In the sections that follow, a review of literature on short-termism and managerial myopia will be presented. Next, the research methodology is developed. Background about the Vietnam's black sauce incident and the soy sauce industry will be introduced in the fourth section, followed by the presentation of field survey result and empirical analysis. Section 6 will be dedicated to the discussion. Finally, section 7 summarizes the article and presents the discussion.

## 2. REVIEW OF LITERATURE ON SHORT-TERMISM

### 2.1 Definitions And Characteristics

Although the debate on short-termism and managerial myopia started more than 30 years ago,[1] there are few universally-accepted definitions for either term. Many definitions do not provide a clear distinction between the two. For example, Laverty (1996) defined short-termism as an inter-temporal choice problem, 'a course of action optimal in the short term but sub-optimal over the long run'. Bushee (1998) defined managerial myopia as 'reducing investment in research and development to meet short-term earnings goals' while Bhojraj and Libby (2005) referred to 'giving up research and development projects with greater cash flows to report externally higher near-term earnings'.

Laverty (2004) pointed out that while both short-termism and managerial myopia could be used to refer to 'overvaluing short-term rewards and undervaluing long term consequences', their root causes were different. Managerial myopia would be caused by faulty decisions of managers while short-termism would originate from systematic characteristics of an organization, such as culture, processes, or routines. Marginson and

[1] Laverty (1996) cited many related articles dated in 1980.

McAulay (2008) distinguished managerial myopia as ‘short-term actions that extrapolate into optimal long-term consequences’; and short-termism as ‘short-term actions that are preferred at the expense of long-term value’. These two viewpoints were complementary to each other in that the former distinguished the concepts from an organizational perspective while the latter focused more on individual aspects.

### 2.2 Symptoms and historical approaches

Most researchers often measured research and development (R&D) expenditure-to-sales ratio as the main indicator of desirable long-term investment (Laverty, 1996). Therefore any reduction in thus expenditure to boost short-term earning would be viewed as undervaluing the future. Laverty (1996) pointed out that it was a flawed methodology because:

(i) R&D data in those empirical studies might have also included short-term projects;

(ii) If R&D projects destroyed rather than created economic value, they would obviously be dropped without any negative impacts to long-term profitability.

The conventional approach is to analyze the issue of undervaluing the future from an economic aspect. Recently, a few scholars have attempted to expand the debate to individual and organizational dimensions (e.g. Laverty, 1996, 2004; Marginson and McAulay, 2008). Empirical findings showed that these directions brought valuable insights to the research of short-termism. However, the theoretical frameworks might have been developed with certain presumptions about a very market-oriented economy and a highly efficient stock market typically found in well-developed countries such as the US. Their empirical evidence was mostly sourced from US-based global companies. Therefore the conclusions may not be completely applicable to business communities in emerging countries such as China, or Vietnam where competitive landscapes are quite different. However no related literature is found to have addressed this issue.

Hereafter, the review of existing literature on the causes of short-termism and managerial myopia will be presented.

### 2.3 Economic dimension

Many scholars attempting to measure the economic causes of short-termism in American companies (e.g. Hansen and Hill, 1991; Marginson and McAulay, 2008) often focused on analysing either stock markets or managerial practices.

### 2.3.1 Stock market: myopic or efficient?

There are two conflicting viewpoints about stock market pressure. The myopic institutions theory proposes that the stock market is driven by institutional investors who maintain highly-diversified portfolios of stocks. Managers of these investment institutions are under pressure from fund sponsors and their own desire for job security and advancement, thus trying to move capital instantly from depreciating stocks to appreciating ones. Their selling out in response to a bad earning result may lead to temporary undervaluation of companies, which make invested companies exposed to hostile take-overs. Consequently, firms' managers fear that external investors can over-react to short-term earning decline and under-react to the reduction of valuable R&D spending that artificially boosts short-term earnings, thus trying to achieve quarterly earning targets even at the expense of long term profitability (Hansen and Hill, 1991; Laverty, 1996; Bushee, 1998).

On the contrary, efficient market theory argues that maximizing stock price and maximizing long run value are identical. In a competitive market of managerial labor, managers are given incentives to maximize shareholders' wealth over the long-run. Furthermore, rational shareholders, especially professional institutional investors, always rate a stock based on all publicly available information about future cash flows. Therefore rational investors would not sell stocks of a firm which invests in value creating projects, and has had one bad quarter. However they would sell stocks of a firm investing in R&D projects which appeared to destroy value and reduce future cash flows (Woolridge, 1988; Hansen and Hill, 1991; Laverty, 1996; Bushee, 1998).

Several empirical analyses were conducted mostly in US-based companies. Woolridge (1988) found strong evidence supporting the efficient market theory while Hansen and Hill (1991) found evidence that this was merely sufficient to reject the myopic institutions theory, but not convincing enough to support the efficient market theory. Besides the methodological flaw that most research tried to measure R&D expenditure-to-sale ratio as the proof of long-term investment (Laverty 1996), there were two other assumptions:

- All institutional investors would have the same investment behavior;
- Perfect rationality would always be achievable.

Related to the first assumption, Michael Porter, cited by Bushee (1998), had argued that there were three types of institutional investors: Transient investors, dedicated investors, and indexing investors.

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Empirical evidence proved that large stock holding by dedicated investors reduced the likelihood of managerial myopia whereas large holding by transient investors increased this probability. In addition, even though indexing investors did not trade stocks as frequently as the other investors, their passive holding policy might allow transient investors to effectively exert more pressure over a firm's management.

The second assumption was that perfect rationality in stock valuation would always be achievable. Addressing this issue from an economic perspective, Bhojraj and Libby (2005) proved that when facing special events which significantly increased stock market pressure such as pending stock issuances, IPO preparations, or acquisition threats, managers would likely face more conflicts between short-term earnings and long-term cash flows. As a consequence, they would tend to undervalue long-term consequences and overvalue short-term gains even when they were deliberately acting in the interests of existing shareholders.

Highlighting these two flawed assumptions is critical to the study of short-termism from an economic perspective. On one hand, the interaction between different external stock holding parties may either increase or decrease the likelihood of undervaluing the future. On the other hand, special events in the stock market may increase information asymmetry between insiders and external investors related to future cash flows upon which investors base their rational valuation, and thus encourage overvaluing the short-term.

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Having analyzed the myopic pressure which might come from economic factors outside an organization, researchers turned to study causes of short-termism from inside. Misuses of managerial techniques were found as the other major driver of short-termism and managerial myopia.

### 2.3.2 Flawed managerial practices

Flawed managerial practices refer to the misuse or abuse of managerial techniques. Even if managers mistakenly commit bad practices without being driven by external pressures or organizational culture, their myopic behavior may be repetitive and hence fall into the scope of individual short-termism. Empirical findings of Christensen *et al*. (2008) showed three common misuses of managerial techniques in making investment decisions: The abuse of DCF technique; the excessive focus to earnings per share (EPS) ratio; and the misuse of marginal cost.

In using DCF technique, managers took into account all quantifiable future cash flows but often mistakenly ignored the intangible and hard-to-quantify payoffs such as brand value appreciation, future real options, and organizational learning (ibid.). Another assumption was that the present status of the company would persist indefinitely regardless of whether the investment in question was carried out or not. As competition became more and more intense, the firm's performance would deteriorate if they did not invest as effectively as their competitors or new entrants.

Managers' excessive focus on EPS as the primary measure of shareholder value creation had also led to myopic decisions. When compensation was tied to annual earning results, managers became more biased toward quick payoffs rather than long-term gains. The use of a higher discounting rate would make short-term cash flows significantly more attractive than long-term returns.

The third common flawed managerial practice is the misapplication of marginal cost. The cost of going on with existing technologies is often minuscule compared to the investment required for new technologies. Empirical analysis of Christensen and Bower (1996) showed that the main reason leading companies lost their market leadership to new entrants was because managers of the incumbent companies thought their existing assets and capabilities would still be competitive enough in the short term, and new investments could be postponed without any long-term consequences whereas managers of new entrants did not have this dilemma. When the new technologies took off, it was too late for the incumbent companies to catch up with the new entrants.

Hansen and Hill (1991) found a positive correlation between companies' R&D intensity and the industry's rules of thumb. This result implied that managers in the same industry hesitated to invest above a certain figure, fearing that investors who benchmarked companies' investments against industrial figures might punish them for over-investing. As a consequence, when there was a disruptive change in the environment which required incumbent companies to quickly acquire new capabilities, the longer it took these managers to step back from conventional business model, the more likely their companies would lose their market position.

In summary, common flawed managerial practices that may lead to short-termism and managerial myopia include: the abuse of DCF technique, the misuse of marginal cost, the excessive focus on EPS ratio, and the extreme attachments to rules of thumb.

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Laverty (1996) argued that economic factors alone were not convincing enough to explain short-termism in the corporate world. Seasoned managers assisted by professional advisors or consultants would be unlikely to fall into these simplistic economic traps. His explanation was that under certain circumstances, managers were no longer able to make rational and optimal economic decisions. We will now review some recent work of scholars looking at psychological aspects of individual decision-making processes, and the possible impact of organizational and societal culture.

### 2.4 INDIVIDUAL DIMENSION

Understanding how an individual makes a decision may add more insight into the study of short-termism. Katz and Kahn, cited in Marginson and McAulay (2008), indicated that 'uncertainty could be very stressful because it frustrated human needs for structure and clarity'. Empirical evidences from a US-based global company showed that managers would prefer reduction in uncertainty if short-term targets were achieved, even if there might be some impact to long term profitability.

#### 2.4.1 Sources of uncertainty

Marginson and McAulay (2008) identified 15 common sources of uncertainty and classified them into 3 main categories: role requirements, role conflict, and role overload (cf. Table 3).

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#### 2.4.2 Psychological traps

Theoretical and empirical studies identified many common psychological traps which would affect the way managers made rational decisions (Shefrin, 2005, p. 2-16). These traps can be seen as the link between sources of uncertainty and flawed managerial decisions.

The anchoring trap makes managers give disproportionate weight to the first information they receive, which would likely be historical data, or industrial records. When there are fast and radical changes, historical anchors lead to poor forecasts and bad choices.

The status quo trap drives managers toward maintaining the current situation even when better alternatives exist. For instance, managers may tend to exaggerate the efforts or the costs involved in switching to a new technology. In other words, they may become resistant to change.

The sunk-cost trap makes managers repeat past mistakes or hesitate to acknowledge serious problems. For instance, in the banking industry if a borrower's business runs into trouble, bank managers may feel tempted to provide additional funds hoping that the business can turn around, and be able to pay back its debts.

The confirming-evidence trap leads managers to seek out only information which supports an existing judgment and discount opposing information. For example, in mergers and acquisitions, warning results from due diligence processes may be ignored because top management just wants the deal to go through.

Framing trap is caused by gain/loss asymmetry. Psychological researches showed that managers may perceive losses to be more severe than gains. When long-term investments require short-term sacrifices, negative short-term outcomes may be perceived as disproportionately larger.

The recall ability trap leads managers to give too much weight to recent dramatic events when making decisions. For example, they exaggerate the probability of rare but catastrophic incidents and become too risk-averse or spend too much on preventing a worst case scenario.

The last two psychological traps are two opposing extremes. Over-confidence makes managers overestimate the accuracy of their forecasts while over-prudence leads them to be too risk averse.

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In summary, managers or investors always want to reduce uncertainty in their work in order to make rational decisions. Their decision-making process, however, may be biased by many psychological traps. This logic may add more insight into the study **of** why management can still fall for simplistic economic mistakes even though they are assisted by teams of advisors and professionals.

## 2.5 Organizational dimension

Laverty (2004) proposed that management systems might be the most important factor in studying short-termism. Marginson and McAulay (2008) found empirical evidence about the relation between socialization processes and short-termism. Chikudate (2002) described 'collective managerial myopia' as a situation in which 'the ownership of knowledge transfers from individual to collective level and hence members lose their autonomy in judgment and decision-making'. This definition explained the manner in which systematic short-termism might occur.

It is interesting to note the similarities between Ocasio's (1998) attention-based view theory, Chikudate's (2002) collective managerial myopia explanation, and Laverty's (2004) empirical analysis of systemic short-termism. The following paragraphs will provide a quick review and critique of these studies.

### 2.5.1 The attention-based view of the firm

Ocasio (1998) suggested that:

1. What managers do depends on which issues they focus their attention on;
2. Which issues managers attend to are determined by the situations managers are in;
3. Which situations managers find themselves in depend on how internal rules, resources, and relationships distribute issues and managers' attentions into specific procedural and communication channels.

This theory implies that if a firm makes its managers focus too much on meeting short-term goals, there is more likelihood of short-termism. Interestingly enough, a recent McKinsey survey showed that on average boards of directors spent only 13% of their meeting time on developing long-term strategy (Chen *et al.,* 2008).

### 2.5.2 Socialization, normalization and disciplines

Chikudate (2002) conducted an empirical study of Japanese organizational crimes and found that collective managerial myopia did not arise suddenly but had been cultivated through three organizational processes: socialization, normalization, and discipline. Socialization processes such as recruitment, on-the-job training, coaching and mentoring etc… helped an organization to achieve a certain level of homogeneity. Normalized members then became the instruments to impose conformity on others with their normalizing judgments. Abnormal members were disciplined and had to leave the organization or conform to the norms. Slight misuse of these processes accumulated over time and led to sudden disasters of collective managerial myopia, or organizational crime.

Chikudate (2002) proposed that Japanese 'samurai' culture might have some relations with collective managerial myopia in Japanese organizations, and suggested future research to analyze this point further.

### 2.5.3 Density, temporal traps, organizational trust and memory

'Density' was defined as the level of collective optimism about an organization's future, and was found to be negatively correlated with short-termism (Laverty 2004). Firms which have pessimistic beliefs about their own future tend to focus on maximizing short-term results and making fewer long-term investments. Density relates to organizational beliefs and assumptions, hence it is similar to Chikudate's (2002) socialization processes.

'Temporal traps' referred to the tradeoffs between short-term and long-term gains, and were found to be positively correlated with short-termism (Laverty 2004). In other words, if managers are shielded from the necessity to make tradeoffs between short-term and long-term objectives, they would be more likely to focus on long-term profitability. 'Temporal traps' are embedded in the context in which managers make their decisions, and the norms to which they must conform. This is quite comparable to what Chikudate (2002) defined as normalization processes.

'Organizational memory' referred to the manner individuals were rewarded over the long-term for their contributions as a whole even if short-term performance might be impacted. 'Organizational trust' referred to the implicit assumption that employees were working to achieve long-term objectives, and therefore should be empowered to progress even if they did not contribute to short-term goals. Organizational trust and memory were found to be negatively associated with short-termism (Laverty, 2004). These concepts were in accordance with Chikudate's (2002) view of organizational disciplines.

The major contribution of Laverty (2004) was to prove empirically that any studies of short-termism had to take into account organizational aspects which could be even more important than economic causes or individual's decision-making processes. However, this work looked at intra-group socialization processes but did not consider external socio-cultural forces.

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### 2.5.4. Cultural characteristics and managerial myopia / short-termism

There are many cultural frameworks but the most well-known one is Hofstede's with 4 initial dimensions: individualism/collectivism, power distance, uncertainty avoidance, and masculinity. Hofstede later added a new dimension called Confucian dynamism to this framework to describe Asian cultures under the influence of the Confucian school of thought, and recently renamed it 'long-term orientation'. Critiques of Hofstede's framework argued that:

1. Hofstede's original research samples came from a single global company (IBM) and hence the generalization was not accurate for many cultures. For example, the framework could not explain why individualism and collectivism are not always opposite (Ralston *et al.*; 1999).
2. Hofstede's methodology did not distinguish between cultural values (Should-be) and cultural practices (As-is) (House *et al.,* 2004, p. 139).
3. The newly renamed "long-term orientation" was not a true measure of long term orientation (Chhokar et al., p. 888).

The Global Leadership and Organizational Behavior Effectiveness Research Program (GLOBE[2]) inherited many well-known theoretical frameworks to develop a 9-dimension model as summarized in Table 4.

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The last two dimensions in the above framework might be relevant to the short-termism debate because they refer to the degree members of an organization manage uncertainty and long term planning.

Empirical evidence showed that societies that were future-oriented were likely to have organization members who were also future-oriented (House *et al.*, 2004, p. 332). In other words, the more stable and favorable the socio-economic, political and environmental

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[2] GLOBE is a ten-year research program (1994-2004) with the participation of 170 scholars studying societal culture, organizational culture, and attributes of effective leadership in 62 countries.

conditions were, the more common and useful future orientation practices would be. On the contrary, under unfavorable conditions, short-term operational planning would be more useful than long-term strategic planning.

Societies which had more uncertainty avoidance practices tended to promote flexibility and adaptability to changes. These societies were likely to invest more in science and research. Organizations in these societies also had a higher degree of formalization and decentralization in their structure (House *et al.,* 2004, p. 645).

Even though the GLOBE research project did not specifically address the issues of short-termism and managerial myopia, its theoretical framework and empirical evidences showed that the degree a society promotes uncertainty avoidance and long-term planning practices would significantly influence the short-term or long-term behaviors of organization members. A thorough analysis of short-termism from an organizational perspective should therefore take into account the societal and cultural characteristics of a company's operating environment.

In brief, existing literature has shown that the issues of short-termism and managerial myopia are complex and multi-dimensional. Therefore it would be best to analyze them using a cross-disciplinary approach, at least in three dimensions: economic, individual, and organizational (including intra-organizational and socio-cultural factors). Although these domains are closely related and complementary to one another, no single in-depth empirical analysis has covered the three dimensions.

In addition, even though there has been a lot of discussion on short-termism from all three dimensions, particularly the economic perspective, none of the existing literature has taken into account the specific economic conditions of an emerging country.

For instance, the stock market of Vietnam was only founded in June 2000 with two stock exchanges (one in Ho Chi Minh and the other in Hanoi), but it has already gone through several booming-bursting cycles. Vietnamese regulations of corporate governance and financial information disclosure have evolved significantly but are still very under-developed. This leads to considerable information asymmetry between external investors and company's managers. Speculating activities and herd mentality are also quite common in these immature markets.

As mentioned above, this research aims at identifying causes of short-termism and/or managerial myopia in Vietnam. Therefore three dimensionswill be the main subjects for empirical analysis: corporate governance, flawed managerial practices, and special economic events. In the next section, the choice of methodology and the design of empirical research will follow.

## 3. RESEARCH METHODOLOGY AND DESIGN

In order to eliminate as many firm-specific conditions as possible, and monitor any mutual myopic influences among the involved companies, an industry-focus case study rather than a single 'global company' as the approach of Marginson and McAulay (2008) would be most appropriate in this research. The choice of industry must satisfy the following criteria:

1. There was a major incident in that industry, having detrimental impact to the whole society. This incident involved several companies at the same time.
2. The level of concentration in the industry was low at the time the incident occurred. There was little sign of monopoly or oligopoly.
3. The incident had clear symptoms of short-termism or managerial myopia as defined in Table 1.
4. Access to information about the incident is available.

The first criterion may allow the study to focus on serious issues confronting many companies at the same time. The second criterion may ensure that no companies have dominant power to distort competition or influence the behavior of smaller competitors as often noticed in an oligopoly or monopoly market. The last two criteria are necessary to achieve a reasonable degree of relevance and accuracy for the empirical analysis.

The paper will rely on both primary and secondary data from legitimate sources to gain a solid understanding of the incident. Primary data is gathered from personal interviews with numerous insiders holding senior management roles in the companies when the incident occurred, or in organizations which had been key suppliers or partners of the companies involved. The sources of secondary data include authority publications, national newspapers, and business magazines in Vietnam. It is important to note that all national and business media in Vietnam are strictly censored and controlled by the government. Therefore, the information published in these sources will be quite official and legitimate.

To support the interviewing process, a set of 15 open qualitative questions drawn from the literature was developed to help understand the actual situations and the common issues of the industry, and why companies got themselves into short-termism. More specifically, five questions focus on corporate governance matters including relationship between shareholders and top management, level of empowerment, check-and-balance mechanism, and possible impacts of information asymmetry between the two groups. Six questions endeavor to identify flawed managerial practices which might be repetitive at these companies. The last three questions measure how special economic events might have distorted rational decision-making processes. A couple of pilot interviews were conducted to measure the degree of clarity and sensitiveness of these questions as well as to verify that the total duration of an interview would not exceed 1 hour. Names of companies have been changed for confidentiality reasons.

## 4. VIETNAM'S BLACK SAUCE INCIDENT

According to Saigon Times, one of the most respected business magazines in Vietnam, the "black sauce incident" was among the top 10 economic events in Vietnam in 2007. The withholding of information about soy sauce containing a cancer-causing substance showed serious problems at different levels, from internal management to corporate governance, and public administration.

### 4.1 BACKGROUND

Soy sauce is one of the two most popular seasoning sauces in Vietnamese daily meals (the other one is fish sauce). As of 2006, there were hundreds of small and medium soy sauce producers in Ho Chi Minh, varying from family-owned businesses to industrialized plants. Although some companies had better brand awareness and brand loyalty than others, the market was still very fragmented. The largest producer was SoyNam1 with around 10%-15% of market value in 2006. Two other major companies were MultiSoy and SoyNam2 Corp., each having around 10% of market value as of 2006. The majority of soy sauce producers were small niche players focusing on specific geographical areas.

From 2001 to 2006, Ho Chi Minh city department of health carried out series of tests on soy sauce samples taken from various market places and always found many which were highly contaminated with 3-MCPD.[3]

- In November 2001, all 15 samples tested were found to contain very high level of 3-MCPD, ranging from 23 to 5,644 times higher than the legally permitted level.

[3] 3 mono-clo propan-1,2-diol is a highly toxic substance which can cause cancer if consumed frequently at high level. Vietnam's food standard requires that 3-MCPD amount in food must be less than 1mg/kg. In the European Union, the equivalent standard is 0.02 mg/kg.

- In 2004, 33 out of 44 samples were found to contain too much of 3-MCPD.
- In 2005, 100 out of 137 samples failed the 3-MCPD safety test.
- In 2006, 28 out of 135 market samples were found to be dangerously contaminated.

From 2001 to 2006, the results of all these surveys were kept strictly confidential by the city department of health. No information was disclosed to public regarding where the tests were carried out, which product brands were sampled, how contaminated products were processed after the surveys, or how the companies with the unsafe products had reacted to these results.

In May 2007, some information was leaked to the press and sparked a public scandal. Pressured by the press and higher-level governmental administration for an explanation, the department's spokesman claimed that they were unsure of the accuracy of their previous surveys because the sample sizes were small, and therefore publishing such "uncertain information" might mislead customers to boycotting certain brands. Right afterwards, several high-ranking officers of the department of health were fired, and the results of several product tests conducted a few months earlier were disclosed. According to this, 16 out of 20 medium- and large soy sauce producers were found to have products which contained too much of 3-MCPD.

Surprisingly, even products of the market leader at the time, SoyNam1, were found to contain the 3-MCPD at 2,300 times higher than the permitted level (Vu Le, 2007). Although all contaminated soy sauce products were quickly withdrew from distribution channels, customers had already boycotted this brand, and even stopped buying their other product lines such as chilly sauces, and tomato sauces…which did not contain 3the -MCPD ingredient.

Only products of SoyNam2 contained absolutely no 3-MCPD substance. According to the press, the shared technology used by the majority of domestic soy sauce producers as of 2006 was more than 50 years old. SoyNam2 announced that they would be willing to transfer "clean soy sauce manufacturing technology" for free to any domestic producers if requested. However, until 2008 according to one interviewee, no company had ever approached SoyNam2 for this know-how.

After the incident, most consumers switched to buying SoyNam2 products even though many of the black-listed companies later claimed to have successfully upgraded their technology and produced only safe seasoning sauce products. As the result, SoyNam2 became the clear market leader by 2008. Its brand occupied 75% of market value. Although MultiNam enjoyed a significant increase of market share right after the incident broke out, its market position returned to 10-15% one year after. All other companies in the seasoning sauce industry shared the remaining 10% of the market. Many of them were still facing financial distress or were even at the brink of bankruptcy at the time of this study.

### 4.2 RATIONAL FOR CHOICE OF INDUSTRY

The 3-MCPD case in the soy sauce industry, also known as the black sauce incident, caught public attention in 2007 because soy sauces have always been part of Vietnamese daily meals. Millions of contaminated bottles had been bought and consumed for several years. Tens of soy sauce producers would have continued to freely distribute "black sauce" products if the information had not been leaked to the press in May 2007. Although the long-term impact of toxic substances found in black sauces to consumers' health had been scientifically proven, no consumers were able to prove that they had developed cancers due to years of consuming contaminated soy sauces. Therefore no company has been sued by any individuals or consumer protection associations. The only legal penalty to each black-listed company was a fine of approximately 10 million dong (equivalent to $700) for repeatedly producing food that failed Vietnam safety standards.

As mentioned above, the level of concentration in the seasoning sauce industry until 2006 was very low. Before the incident broke out, no companies seemed to have achieved abnormal economic profit from producing soy sauces. The after-tax profitability of this industry was around 10%, just slightly higher than risk-free interest rate in 2006. All incumbents faced similar constraints in terms of technology and marketing. None of them had the dominant power to influence the choice of strategy and technology of the others.

Was this incident a case of short-termism and/or managerial myopia or only a violation of business ethical conduct? All black-listed companies including the market leader at the time were using the same technology which had been developed in 1951. Managers of these companies clearly knew about the 3-MCPD short-coming of this technology and could foresee to a certain extent the unfavorable outcome if this information was disclosed to the public. However, the fact that they had not made sufficient investment to quickly enhance their technology for several years (at least from 2001 to 2006) indicated that they were still unable to assess thoroughly the competitive advantage of a newer and cleaner soy sauce production technology as well as the possible losses due to not having such an advantage. In other words, they were undervaluing the future of an upgrading project. As all companies were struggling to get a thin profit in this industry, it is possible that the reason they did not want to make considerable investment in the new technology was because such investment would lead to even lower profitability in the short-term. This case therefore has all the main characteristics of a short-termism incident.

Information availability is another reason for choosing the black sauce incident and the seasoning sauce industry for this empirical analysis. As the 3-MCPD incident caught public attention in May 2007, quite a lot of related information can be found in major media channels, and official publications. Social networks of the author could lead to personal meeting with knowledgeable people who used to be general managers, or heads of key functions at many companies in soy sauce industry right before and after the incident broke out.

## 5. RESULTS AND ANALYSIS

Six managers of three major companies were interviewed in an attempt to find out what were the specific constraints of the industry before the incident, and why so many companies repeatedly under-invested in clean technology even though they had known clearly the hazardous impacts of the old technology to consumers' health.

One multinational company (MultiNam) selling in Vietnam was importing the majority of their soy sauce products from manufacturing plants overseas. As Europe was a major importer of products, MultiNam had always paid a strict attention to the 3-MCPD issue for a long time, therefore its products always passed the safety standards of European Union (and obviously of Vietnam). Because the technology used to produce soy sauces was radically different from that used by Vietnamese companies, MultiNam did not face the same technical constraints as its Vietnamese rivals did. In addition, its market share Vietnam did not change much after the black sauce incident. Clearly, this company was not exposed to any impact nor took advantage of this incident and was therefore excluded from the analysis.

The below section will present and compare two companies: SoyNam1, and SoyNam2 in three main themes: corporate governance systems, managerial practices, and impact of special events to decision-makers. SoyNam1 is the representative of domestic companies involved in the incident as they faced similar market and technology constraints. SoyNam2 is worth analysing because its products had also been found contaminated with high level of 3-

MCPD by the European Union in 2005 and 2006,[4] but in the end the company turned out to be the ultimate market winner having the cleanest soy-sauce products (containing zero 3-MCPD).

### 5.1 CORPORATE GOVERNANCE MECHANISM

SoyNam1 was founded in the 1950s as a family-owned business. The owner invented the soy sauce first recipe in Vietnam. This technology was used by SoyNam1 as well as the majority of domestic soy sauce producers until 2006 with little enhancement. In 1975, the SoyNam1 plant was nationalized, and later transferred to be a subsidiary of Vietnam Co, a state-owned retailer with a network of more than 30 large supermarkets.

SoyNam1 was the only subsidiary of which the main competence was manufacturing in Vietnam Co. As a matter of fact, the internal value chain of SoyNam1 was quite different from that of any other subsidiaries which only focused on retailing. Furthermore, before the incident, SoyNam1's peak annual revenue was only around 24 billion Vietnam dong (or $1.4 million). This was not even comparable to the average annual revenue of the smallest retailing subsidiary of Vietnam Co. (60 billion dong, or $3.5 million). Even though the manufacturing arm had a 10% net return compared to the 3% return in retailing business, SoyNam1's profit contribution was just comparable to that of smallest retailing subsidiaries of Vietnam Co.

Both top management of Vietnam Co. and SoyNam1 plant agreed that it was not an ideal strategy to retain SoyNam1 as the unique manufacturing arm of the retailing corporation. Aware of this strategic misalignment, Vietnam Co. had for years requested the city public administration for permission to spin off this plant. In 2007, just before the black sauce incident, Vietnam Co. was working with an underwriter to prepare for SoyNam1's initial public offering.

At the beginning of each year, SoyNam1's revenue objectives and budget plans were set by Vietnam Co. Although the total annual budget was about 22 billion dong (~$1.3m), any unplanned expenditures exceeding 10 million dong (~$700) had to be escalated to top management of Vietnam Co. for approval. In other words, this control system allowed Vietnam Co. to set and review all strategic and major operational decisions before they were

[4] Two batches of soy sauce imported to Finland and Belgium were found unqualified with EU's 3-MCPD safety standards (Source: Vietnam Net)

executed at the plant. However in reality, because management of Vietnam Co. often spent more time on retailing business, plant managers found it difficult to get their attention and support in a timely manner. For instance, throughout 2006 SoyNam1 could not launch any marketing campaigns because the operating license had expired. Vietnam Co, as the owner of SoyNam1, was supposed to work with the city department of commerce to renew this license. According to two ex-managers of the plant, the license issue had been taken to the board of Vietnam Co. at the beginning of 2006, but its top management only paid attention to the issue at around the end of the year. This bottle-neck had tremendous impact on the launching and promotion of new product lines which also included safe soy sauce.

In addition to strict financial and budgeting control, SoyNam1 managers also had little power in managing their own workforce. As a subsidiary, its recruiting and staffing plans also had to be approved by Vietnam Co. Unions and government regulations also made it very difficult to fire employees with permanent contracts in public sector.

Whilst Vietnam Co. was reluctant to keep SoyNam1 plant as its subsidiary, SoyNam2 had a better relationship with its owners and external investors. Founded in 1997, the startup food company then received venture capital from one of the most professional investment funds in Vietnam, which held 15% of equity, and had two seats in the board of directors. The company also planned to go public in 2007. The board at SoyNam2 set revenue objectives and other key performance indices at the beginning of each year and then cascaded to lower management levels. Brand managers were totally empowered to choose their marketing strategy as well as to manage their operational budgets. Furthermore, they also had considerable control over other related departments such as manufacturing, and procurement which helped in budgeting and production planning. The board only intervened when lower management requested support, or only if there were critical issues which might impact the whole company.

Although corporate governance and investor relationships were very different in the two companies, both companies had never missed their revenue objectives until the end of 2006. Since none of the companies were publicly-listed, investors and owners could not easily sell or buy stocks even if they desired to. Therefore there was no evidence of investors and shareholders over-reacting or under-reacting to earning reports.

### 5.2 Managerial practices

It is interesting to note that neither SoyNam1 nor SoyNam2 used the discounted cash flow (DCF) technique to aid decision-making or project-screening processes. In fact, managers at both companies pointed out clearly that DCF is short-term biased and ignores intangible factors such as trademark or brand loyalty. Therefore they mostly made decisions based on personal experience and internal market intelligence.

Marginal cost and sunk cost obsession was more serious at SoyNam1 and traditional producers than at SoyNam2. At least since 2002, the 3-MCPD issue had been well-known among domestic soy sauce producers. Reasoning that food safety issues would make the company exposed to legal barriers especially when exporting to Europe, SoyNam2 quickly adopted a completely new production technology from Russia. By the end of 2006, it had been successful in closing the old technology and distributing only safe soy sauces to both domestic and exporting markets even though domestic sales were still not very encouraging. As mentioned previously, before the incident broke out, the domestic market share of SoyNam2 was still much less than that of SoyNam1.

On the contrary, SoyNam1 and other domestic producers were much more reluctant to change their old-age technology. Since 2002, SoyNam1 also worked with a leading university in Ho Chi Minh to develop a new production technology. Although safe soy sauce produced by this new recipe did not contain high level of 3-MCPD, its flavor was not widely accepted by consumers. Sample trials and pilot sales of the new product lines were so discouraging that SoyNam1 managers decided to keep the old technology for the time being in order to meet annual revenue objectives. According to an ex-manager of the plant, they were waiting for their laboratory to enhance the flavor aspect of the new recipe before making the switch. However, they made little progress on this fine-tuning effort and until 2006, as much as 95% of SoyNam1's soy sauce revenues came from the old product lines.

Obsession with rules of thumbs was another major issue. For years, they had relied on consumer behavior surveys which showed that housewives picked a brand after tasting its flavor and remained loyal to their favorites for tens of years as long as the taste did not change. Customer choices also depended on the product availability at distributors. Because soy sauce was a commodity, most distributors often stocked only popular product lines which had proven sale records, and hesitated to promote new ones. As a result, almost all domestic producers focused on enhancing product flavors and widening distribution channels but spent very little on advertising, or educating consumers to change their buying behavior.

SoyNam2 was in fact following a radically different strategy. The cost structure of SoyNam1 and SoyNam2 were contrasting on cost of goods sold and marketing expenditures.

In SoyNam1 as well as traditional soy sauce producers, the cost of goods sold was up to 70% of the selling price because the old production technology had a very poor yield and there was a lot of waste in order to achieve the desired taste. Their marketing budgets were also very small compared to direct manufacturing costs, and mostly focusing on basic promotions due to the perception that soy sauce was a commodity. On the contrary, after switching to the new soy sauce production technology, SoyNam2 had a very different cost structure: only 10% of the selling price was cost of goods sold whereas marketing expenditure occupied up to 75%. Aware of the bad taste short-coming of the new technology, SoyNam2 did not attempt to enhance the taste of safe soy sauce. Instead, it spent heavily on advertising to educate buyers and tried to change their shopping habits.

As privately-held companies, both SoyNam1 and SoyNam2 linked management bonus to revenue objectives. Although SoyNam1 was the market leader till mid-2007, managers were compensated in accordance with governmental salary ranks as defined in the public sector. Their total labor cost to revenue ratio was 50% higher than other domestic rivals because the workforce was much more numerous and on average, much older. Many employees had worked for the company for more than 20 years. On the contrary, even though SoyNam2 was a startup, most of their brand managers were the highest paid in the soy sauce industry. Their workforce was much younger on average and a lot more productive. Therefore the total labor cost to revenue ratio remained very competitive.

### 5.3 Special economic events

The forecast that Vietnam would be able to join World Trade Organization at the end of 2006 became a major push to the capital market and investment environment. As the stock market started booming from early 2006, many companies rushed to go public in 2007. This was also the case for both SoyNam1 and SoyNam2. However the way their managers responded to this special event was quite different. When SoyNam2 encountered the 3-MCPD issue with the product batches exported to Europe in 2005, they quickly invested in the clean technology. In fact, their managers had to take a major risk that investing into safe soy sauce technology might not have positive profitability in the short run because market reports at that time were all showing product taste and distribution channels as the key success factors. Shareholders and venture investors of SoyNam2 at that time also took on this risk because if the earning results were not good enough, the firm valuation might be impacted when going public.

On the contrary, SoyNam1 managers invested heavily to increase the plant capacity during the period 2005-2006. As the SoyNam1 brand had been well-known for more than 50 years, and because the soy sauce market was still quite fragmented before 2007, managers at SoyNam1 and Vietnam Co. believed that the plant expansion would facilitate a better market penetration in the future, and this would also be a positive signal to external investors before the IPO. At the same time, Vietnam Co. increased significantly the depreciation cost of SoyNam1's new plant to shorten the pay back period, and spent very little on research and development activities. As a consequence, the project of fine-tuning the product taste aspect of the new technology made little progress during 2002-2006.

## 6. DISCUSSION

As the series of interviews have revealed, causes of the black sauce incident in Vietnam originated from all the three areas: corporate governance, managerial practices and myopic impacts of special events (in this case the rush for IPO). However the manners these issues occurred in the black sauce case were quite different from what might have been observed in a Western country.

In terms of corporate governance, existing literature pointed out that pressure to short-termism on top managers might arise from the conflict of interests between different types of investors, namely: dedicated investors, transient investors, and indexing investors. Many empirical analyses (e.g. Woolridge 1988; Hansen and Hill 1991; Bushee 1998) found that most dedicated investors were professional investment institutions which often had a long-term view of the invested companies, and made rational economic decisions. The presence of dedicated institutional investors therefore helped to reduce the likelihood of managerial myopia and short-termism. However, this finding was made in the context of a free capital market in which equity could move freely and instantly. Investors were known as dedicated shareholders if they chose to stay with the invested companies for a few years and pro-actively guided top management toward maximizing company long-term value. In the black sauce case, SoyNam1 also had a dedicated institutional investor, Vietnam Co, for more than 25 years (1981-2008). However the latter was in fact requested by the city administration to own the former and as mentioned above, this acquisition led to misalignment of strategic focus and opposition of organizational practices. This issue was not specific to Vietnam Co.

or SoyNam1 only. In Vietnam and China, local government such as city councils, committees of people etc… exert significant influence on boards of directors of state-owned companies. The boards may not necessarily have the right to set the strategy of their companies, or to appoint key managerial positions.

Another issue related to corporate governance is the myopic pressure of special events. Existing literature suggested that special economic events which increased or reduced the conflicts between long-term and near-term cash flows might increase or reduce managerial myopic behaviors respectively (Bhojraj and Libby, 2005). This viewpoint is completely accurate in the case of SoyNam1 and SoyNam2. The rush for IPOs turned out to have negative impacts to the former but positive influence to the latter. As mentioned above, when facing the IPO pressure, SoyNam1 paid attention to plant capacity upgrade which could immediately increase near-term asset valuation, and deferred the technology enhancement which was a long-term intangible competitive advantage. Start-up SoyNam2 on the other hand sacrificed near-term revenue to go for the new technology, and in the end achieved a better market position.

In Western countries, especially the US, corporate governance mechanisms are more developed than in emerging countries like Vietnam. Legal environment is also more sophisticated, and effective in warning companies which might attempt to violate rules and regulations. For instance, it would be normal for a board of directors in the US to approve a product recall if many samples were found not to conform with safety standards. This would not only save the company's image, but also protect itself from potential legal disputes or costly penalties. These factors might have been taken for granted because little existing literature on short-termism mentioned poor governance mechanisms and regulation loopholes as causes of managers' myopic behaviors. However, these factors could be critical in emerging countries. Food safety regulations in Vietnam only imposed a fine of less than US$1000 per company per incident, and therefore failed to give any serious warning. The stock market was quite young, with only 286 listed companies in total on both exchanges. Because none of the companies in soy sauce industry had gone public, they could not tap in modern managerial know-how which would be brought in by professional external investors. As a consequence, corporate governance mechanisms in these companies remained the same as they had been for a long period of time. New industrial problems were known only to insiders, or not even acknowledged properly. Evidence from the soy sauce case showed that a majority of domestic companies were found making 3-MCPD contaminated products using the technology founded 50 years ago even though better technologies were quite popular overseas. Managers in these companies did not realize how critical the issue was, and how urgently they had to resolve it. Even when one company offered the clean technology for free after the incident, none of the black-listed companies wanted to adopt it. Most companies, including SoyNam1, chose to stay with the same technology, and only added a 3-MCPD processing phase into the production line to eliminate this chemical in finished products.

Delegations and internal communication channel are other areas where myopic behaviors may have originated in this case. In SoyNam1, as well as typical privately-held or state-owned companies in Vietnam, managers were often not empowered effectively. Their owners intervened frequently and deeply in company operations. Several layers of reporting, check and balance mechanisms were useful for micro-management, but at the same time created a bureaucratic culture. As a result, managers in those companies found it easier to focus on delivering short-term objectives such as revenue targets or market share rather than to communicate extensively with owners about the need for long-term or radical changes. As in the soy sauce industry, SoyNam1 started working on the 3-MCPD issue as early as 2002, but could not arrive at a solution before the incident broke out in 2007 partly because there were too many bottle-necks in the communication channel between the managers and the owners. The issue was lost among numerous short-term matters which caught the owners' attention. SoyNam2 on the contrary, had pioneered the empowerment of their brand managers to perform both strategic and operational tasks. These managers were also rewarded at a premium in the labor market, and were therefore highly motivated in not only delivering short-term targets but also willing to convince shareholders for long-term changes. Thanks to a more effective internal communication channel, SoyNam2 was much less resistant to changes. Until 2005, their soy sauce was still found to be contaminated with high level of 3-MCPD in a batch exported to Europe, yet by 2007 the company had been the only domestic soy-sauce producer with zero 3-MCPD.

In terms of managerial techniques, existing literature listed the four most common causes of short-termism: misapplication of the DCF technique, excessive focus on EPS metric, misuse of marginal and sunk cost, and obsessive attachment to industrial rules of thumb (Christensen and Bower 1996; Hansen and Hill 1991; Christensen et al. 2008). These observations were made in a very mature, well-developed capital market. Their empirical analyses were carried out on American public companies, which, by law, had to disclose financial reports to shareholders every quarter. In the soy sauce case, none of the surveyed companies relied on the DCF technique to make investment decisions, nor used EPS as a performance indicator. Although the interviewees said they wanted to avoid certain short-coming of these tools, it is also possible that in their industry, financial tools and metrics were not commonly used. This context might change if these companies went public, and were obliged to present operating results from a financial perspective. However, at the time of this study, there was no evidence that the myopic behavior was caused by the misapplication of the DCF technique or extreme focus on EPS.

In an emerging market like Vietnam, rules of thumb and sunk costs may be more critical in old industries like the soy sauce sector. As the evidence indicated, a majority of companies were exposed to the same issues, and had quite similar myopic behavior. Even after the incident broke out, many companies still did not see the need to change their managerial practices. Rules of thumb had been so well-established and so proven over the past 50 years that companies found it difficult to reject or replace them.

## 7. CONCLUSION

This study was carried out to further explore short-termism in the context of an emerging country, more specifically, the soy sauce industry in Vietnam.

The first finding is that in an immature capital market dedicated investors do not necessarily favor a long-term vision for the invested companies, especially if they cannot easily divest or adjust their investment portfolio. This is slightly different from Bushee's (1998) observation that dedicated investors reduced the likelihood of short-termism whereas other types of investors: (transient and indexing) would be likely to push managers toward myopic behaviors. Possible advice to managers and policy makers is that they should eliminate misaligned strategies in state-owned conglomerates, and free up capital movement in order to reduce potential short-termism.

The second finding is about possible myopic pressure of special economic events. As an implication to managers and policy makers when facing a special economic event, the more transparently they can communicate with shareholders about the potential conflicts of near-term and long-term interests, the less myopic pressure there will be on management. In other words, reducing information asymmetry can reduce or eliminate short-termism.

Thirdly, there is little evidence about managers' extreme focus on the DCF technique or EPS metric as the causes of short-termism in Vietnam. However, in traditional industries, excessive attachment to rules of thumb and industrial status-quo are more likely to erode the adaptability of companies in a fast-changing environment. This is also one of the main reasons why companies in the soy sauce industry failed to meet new customer expectations and lost their market shares.

One possible area for future research is assessing the causes of short-termism from the organizational dimension in Vietnamese companies. This is about managerial empowerment and internal communication channels as Laverty (1996) had mentioned. Proper delegation and open communication will support a culture of trust in which managers would be willing to convince shareholders about needs for long-term vision or radical changes. On the contrary, lack of empowerment and trust may push managers toward meeting short-term targets and neglecting long-term issues, which consequently become potential sources of myopic incidents.

Socio-economic conditions are also important areas to look at in future studies on short-termism. As found in this study, poor corporate governance systems and regulation loopholes were critical environmental conditions in which myopic behaviors could occur and accumulate to become a major incident. Policy makers should enhance the regulation systems to keep companies from taking advantage of these loopholes. Managers and shareholders should adopt advanced corporate governance mechanisms to build up better check-and-balance systems which may prevent the occurrence of managerial myopia.

There are several limitations associated with this study. Firstly, the size of interviewee pool was quite small, which might impact the generalization of the findings. Secondly, as this was an exploratory analysis on short-termism in Vietnam, the authors' limited industrial experience might also impact the manner in which the research was conducted.

Future work on short-termism topics should analyse more deeply the specific situations in emerging countries because of their rising importance in the world economy nowadays. A multi-disciplinary approach which can cover economic, individual, and organizational dimensions will help gain a more thorough understanding of myopic behaviors of companies and managers individually in these markets, and therefore provide valuable suggestions on how to avoid or eliminate short-termism.

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**Table 1 Characteristics of managerial myopia and short-termism**

| | Managerial myopia | Short-termism |
|---|---|---|
| Laverty (2004) | Faulty, non-repetitive decisions | Structural or systematic causes |
| Marginson and McAulay (2008) | Managers are unable to assess long-term consequences | Managers are able to assess long-term consequences |
| Similarity | Overvalue short-term rewards, undervalue long-term consequences | |

**Table 2: Different types of institutional investors**

| | Transient investors | Dedicated investors | Indexing investors |
|---|---|---|---|
| **Investment policy** | High diversification, high portfolio turnover | Low diversification, low portfolio turnover | High diversification, low portfolio turnover |
| **Implications to management** | Aggressive short-term focus, may under-react or over-react to accounting information | Long-term focused, selective investment | Passive stock buying and holding, exposing to only market risks |

**Figure 1 External pressures and short-termism (Economic dimension)**

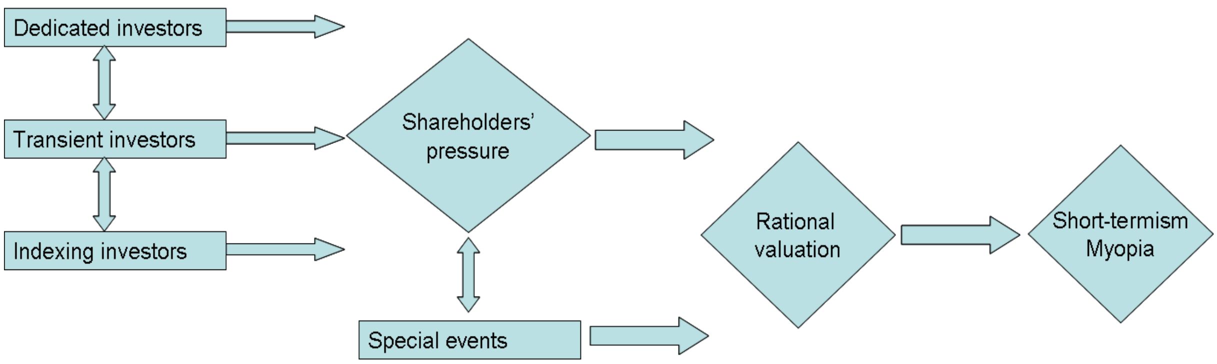


**Figure 2 The DCF trap (Source: Christensen et al. 2008)**

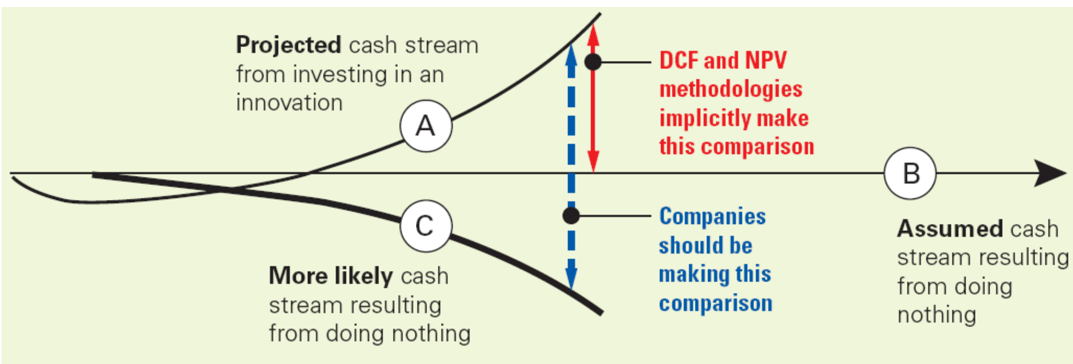

**Figure 3 Flawed managerial practices and short-termism (Economic dimension)**

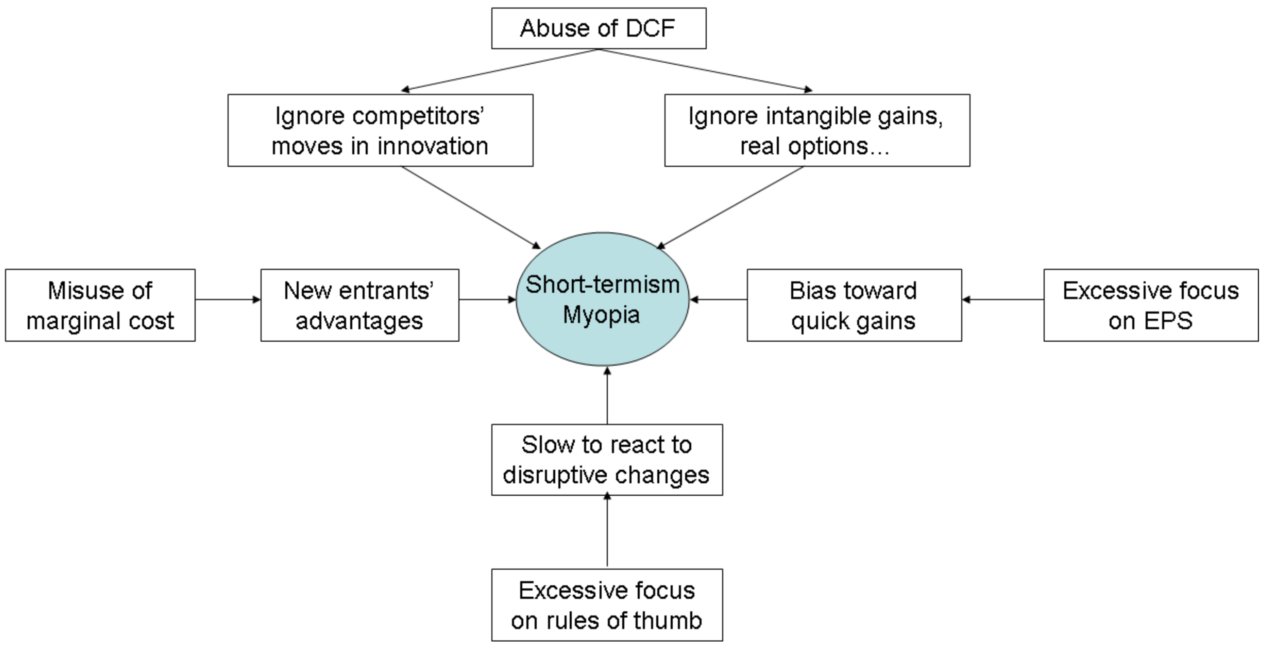


**Table 3 Empirical findings about sources of uncertainty**

| Role ambiguity | Role conflict | Role overload |
|---|---|---|
| Too little authority | Conflicting demands | Too heavy a workload |
| Unclear on scope of responsibilities | Not fully qualified | Amount of work interferes with performance |
| Not knowing about opportunities | Deciding things that affect others | |
| Not knowing about superior's view | Not being liked by work colleagues | |
| Cannot secure information necessary to the job | Unable to influence line manager's decisions | |
| Not knowing what is expected | Having to do things against better judgment | |
| | Job interferes with family life | |

**Figure 4 Uncertainty, psychology traps and short-termism (Individual dimension)**

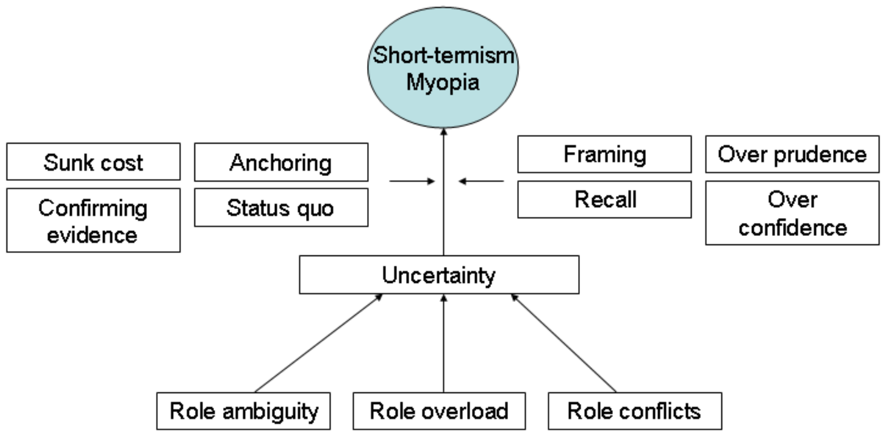


**Figure 5: Organizational processes and short-termism (Organizational dimension)**

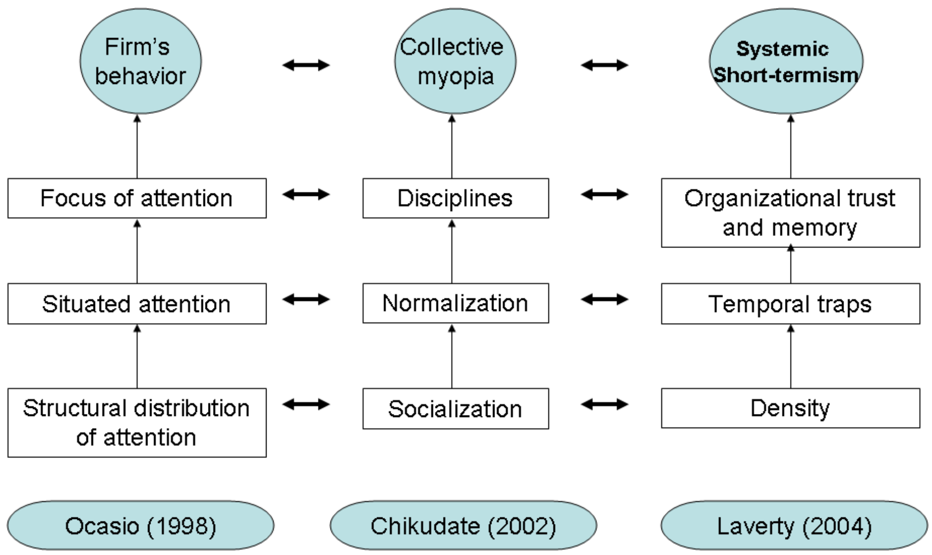

**Table 4: GLOBE Cultural Framework**[5]

| | |
|---|---|
| Assertiveness | The degree to which individuals are assertive, dominant and aggressive in social relationships. |
| Gender egalitarianism | The degree to which an organization or a society minimizes gender role differences while promoting gender equity and gender equality. |
| Humane orientation | The degree to which individuals are encouraged and rewarded for being fair, generous, and kind to others. |
| Performance orientation | The degree to which high level members of an organization encourage and reward group members for performance improvement and achievement of excellence. |
| Power distance | The degree to which individuals encourage and reward unequal distribution of power with greater power at higher levels. |
| Institutional collectivism (Collectivism I) | The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action. |
| In-group collectivism (Collectivism II) | The degree to which individuals express pride, loyalty, and cohesiveness in their organizations, families, and circles of close friends. |
| Uncertainty avoidance | The degree to which individuals strive to avoid uncertainty by relying on established norms, rituals, and bureaucratic practices to decrease the probability of unpredictable future events that could adversely affect the operation of an organization, and also to remedy the potential adverse effects of such unpredictable future events. |
| Future orientation | The degree to which individuals engages in future-oriented behaviors such as planning, investing in the future, delaying individual or collective gratification. |

[5] Adapted from (Chhokar et al., pp.3-4)