



# GLOBAL MANAGEMENT JOURNAL

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The Global Management Journal (GMJ) is committed to the publication of original papers ranging from empirical scholarly research to theoretical or speculative articles, all on a variety of topics under the category of business management with a global context. In addition to the global management focus, however, the GMJ seeks submissions for publication with a decidedly social science application or approach; that is, writing on global management predominately connected with the subfields of the social science, and management fields such as:

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The GMJ, while desiring to publish works which may have an important impact on the field of management, also encourages new approaches, ideas and perspectives on well-established theories and existing research.

- 5/ CASE STUDIES OF KNOWLEDGE MANAGEMENT IN INDIA. *Nilay M. Yajnik*
- 13/ "REVIVAL OF THE RELICS": HOW TO FIND GOLD IN THE BRAND CEMETERY? *Shivakanth Shetty, Raghavendra A. N., Jyothis Mathew*
- 22/ THE IMPORTANCE OF MEETINGS AND INCENTIVE TRAVEL IN TIMES OF ECONOMIC GROWTH FOR INDIA AND POLAND. *Krzysztof Celuch*
- 31/ A SYSTEM OF COUNTRY MARKET AND ENTRY STRATEGY CHOICE: A NEW HOLISTIC MODEL OF INTERNATIONALIZATION. *M. Deutschmann*
- 43/ INNOVATION ECONOMY AND HIGHER EDUCATION IN UKRAINE. *Yuriy Shvets*
- 48/ THE MEASUREMENT OF IMPACTS OF EXTERNAL FINANCING ON THE RISK LEVEL OF VIET NAM REAL ESTATE INDUSTRY DURING AND AFTER THE GLOBAL CRISIS 2007-2011. *Dinh Tran Ngoc Huy*
- 61/ SIMULATION GAMES IN OPERATIONS MANAGEMENT: THE IMPORTANCE OF IMMEDIATE POST GAME ANALYSIS. *George Onofrei, Simon Stephens*
- 65/ INTEGRITY MANAGEMENT AND ANTI-CORRUPTION ACTIONS IN AN ORGANIZATIONAL CONTEXT. *Piotr / Peter Odrakiewicz, David Odrakiewicz*
- 74/ THE IMPACT OF FIRM SIZE AND ITS OWNERSHIP ON INNOVATION ACTIVITY IN MEDIUM-HIGH AND HIGH TECHNOLOGY SECTORS. *Piotr Dzikowski*
- 82/ EFFECTIVE BUSINESS ENGLISH TEACHING AND LEARNING. *Joanna Kic-Drgas*

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## LETTER FROM THE EDITOR PETER ODRAKIEWICZ



The 2014 issue of the Global Management Journal presents the results of various studies contributing to new solutions to ever-changing management and business education challenges.

First, in ‘Case Studies of Knowledge Management in India’, Professor Nilay M Yajnik presents an examination of knowledge management techniques in India by way of assessing a consumer goods company, as well as a chain of retail stores. Since some of the companies in older sectors (non-IT sectors) are not very mature in managing knowledge, this is a much-needed study that examines the challenges that must be overcome in implementing knowledge management. Furthermore, it highlights the future plans that these organizations are putting in place to advance in this area.

Secondly, Professors A. Shivankanth Shetty and Raghavendra, A.N with with Jyothis Mathew (Assistant Professor, Krupanidhi School of Management, Bangalore, Karnataka, India), discuss the phenomenon of a recent and remarkable trend in corporate India, that of brand revival, in ‘Revival of the Relics: How to Find Gold in the Brand Cemetery?’ The authors discuss the complexities involved in choosing which dormant brands are most likely to be sustainable and successful. They provide an informative analysis of the techniques used by businesses that wish to identify the right brand from amongst a plethora of retro choices.

Third, Professor Krzysztof Celuch analyzes the emerging importance of incentive travel to the tourist industries of both Poland and India in ‘The Importance of Meetings and Incentive Travel in Times of Economic Growth for India and Poland’. Recognizing both the parallels and contrasts amongst these two robust and thriving countries, and by gathering valuable data from both interviews and conference calls, Professor Celuch outlines the advantages as well as the challenges involved in promoting incentive travel as part of the meetings industry.

Following Celuch’s in-depth study, we have M. Deutschmann’s rigorous analysis of foreign market entry strategy in the study entitled ‘A System of Country Market and Entry Strategy Choice: a New Holistic Model of Internationalization’. Building on the conceptual model based on the learning theory of internationalization, and by highlighting other relevant theoretical perspectives, the author provides an extended and integrated explanation of country market selection and choice of entry strategies of companies seeking to expand outside of their countries’ borders.

Next, Dr. Yuriy Shvets explains the challenges involved in innovative development of the economy and higher education in 'Innovation Economy and Higher Education in Ukraine'. As Dr. Shvets points out, many economies have dramatically shifted from a resource-based economy to that of a knowledge based economy. Since these changes place demands on training highly qualified professionals, significant consequences are felt in higher education, and this paper provides a detailed analysis of these consequences in Ukraine.

Following Dr. Shvets study, Dinh Tran Ngoc Huy, MBA, provides us with an in-depth analysis of external financing on market risk in the Vietnamese real estate industry in 'The Measurement of Impacts of External Financing on The Risk Level of Viet Nam Real Estate Industry During and After The Global Crisis 2007-2011'. Using quantitative methods and by experimenting with different scenarios of changing leverage, this paper determines in which situations risk level increases and in which it decreases. Hence outcomes are revealed that could provide companies and government with more evidence in establishing policies.

Additionally, in their paper 'Simulation Games in Operations Management: the Importance of Immediate Post Game Analysis', Dr George Onofrei and Dr Simon Stephens build on earlier studies in their analysis of the ways in which the beer game enhances understanding of supply chain dynamics. These researchers use a three-part collection of data, focusing especially on the importance of post-game analysis, to determine the specific learning value of the game and to suggest tips for improving the use of such simulation games.

Next, in 'Integrity Management and Anti-Corruption Actions in an Organization Context', Peter Odrakiewicz Phd, V.Prof, in conjunction with David Odrakiewicz PhD cand., Asst Prof, provide an explanation of how organizations can build innovative concepts of integrity management while at the same time preventing corruption. The paper provides a comprehensive overview of the breadth of corrupt practices and addresses impediments to organizational integrity; it explains the role of managers in the integrity process; it examines the use of ethics rationalization in the workplace and explains how case studies can be used in ethics education training. Recognizing that, thus far, simply following CSR policies and implementing mandatory ethics training programs has not successfully combated corruption and built integrity competence, this study aims to facilitate the creation of corruption-free organizations that benefit their owners, shareholders and community stakeholders. It considers the significance of the rapidly emerging multicultural profile of many business organizations in the global context.

Following, Dr Piotr Dzikowski, Adj.Professor gives us an in-depth look into the relationship between innovation and firm size and ownership status, with a comprehensive and highly detailed study entitled 'The Impact of a Firm's Size and its Ownership on Innovation Activity in Medium- High and High Technology Sectors'. Dzikowski, from Poznan University School of Business, analyzes the extent to which size and foreign ownership versus national (Polish) ownership influences a firm's probability of using innovative methods such as modernizing computer software and other technological elements of the business, collaborating with universities, investing in research and development and utilizing new production processes. This study tabled data from over 500 technological firms in five different regions of Poland and analyzed them based on four different size categories and whether they were foreign or nationally-owned.

Finally Dr Joanna Kic-Drgas in her paper 'Effective Business English Teaching and Learning' investigates challenges and discusses the possible solutions related to Business English teaching and educational services market.

On the behalf of the Editorial Board and the Organizing Committee I would like to thank our reviewers for their expertise, time and valuable remarks concerning the papers submitted and accepted for the double issue of the Global Management Journal.

*Peter Odrakiewicz PhD, V.Prof  
Editor  
Global Management Journal*

## TABLE OF CONTENTS

NILAY M. YAJNIK – Case Studies of Knowledge Management in India.....	5
A. SHIVAKANTH SHETTY, RAGHAVENDRA A.N. JYOTHIS MATHEW–“Revival of the Relics”: How to Find Gold in the Brand Cemetery?.....	12
KRZYSZTOF CELUCH – The Importance of Meetings and Incentive Travel in Times of Economic Growth for India and Poland .....	22
M. DEUTSCHMANN – A System of Country Market and Entry Strategy Choice: a New Holistic Model of Internationalization.....	31
YURIY SHVETS – Innovation Economy and Higher Education in Ukraine.....	43
DINH TRAN NGOC HUY – The Measurement of Impacts of External Financing on The Risk Level of Viet Nam Real Estate Industry During and After The Global Crisis 2007-2011.....	48
GEORGE ONOFREI, SIMON STEPHENS – Simulation games in operations management: the importance of immediate post game analysis.....	61
PIOTR / PETER ODRAKIEWICZ, DAVID ODRAKIEWICZ – Integrity Management and Anti-Corruption Actions in an Organizational Context.....	65
PIOTR DZIKOWSKI – The impact of firm size and its ownership on innovation activity in medium-high and high technology sectors.....	74
JOANNA KIC-DRGAS – Effective Business English Teaching and Learning.....	82



# Case Studies of Knowledge Management in India

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**Abstract:** India is one of the emerging countries of the world. It is a well-known fact that the Indian Information Technology (IT) industry is very well established in India and has also given India a place on the global map. The Indian IT industry has shown that it is capable of an extremely high quality of services and processes. Since knowledge is at the heart of this industry, the industry has very well defined practices for the creation, capture and dissemination of knowledge. However, in India there are several industries in the old economic sectors which are contributing substantially to the Indian economy. These industries also require the management of knowledge in their organization. As an example, a company in the steel manufacturing business needs to manage the knowledge on the technology of steel manufacturing processes, a bank needs to capture and use the knowledge of its customers and an airline needs to capture and disseminate the expertise and experience of its pilots.

This paper therefore attempts to understand the knowledge management practices and experiences of a few companies in India in the non-IT sector. Many of the companies in India in the non-IT sector are not very mature in the practice of formal knowledge management. However there have been some progressive companies which have been experimenting with knowledge management in their organizations. This paper will comprise a study of knowledge management practice in two Indian companies in the non-IT sector.

**Key Words:** knowledge economy, knowledge management, professionalization, progressive strategy, management practice

## I. INTRODUCTION

One of the companies which has been singled out for study is a leading organization in the fast moving consumer goods (FMCG) industry in India. This company is an Indian company which has been in existence for several decades. It was originally a family run company. The current chairman of the company, who is also from the family, has been very keen on professionalizing the company. He has therefore constituted a professional Board of Directors and has recruited professional managers to run the company. The company has embarked on a knowledge management exercise in various functions of the company.

Another organization which is discussed in this paper is a leading chain of retail stores in India. Organized retail in India is an emerging sector. Since this is a new sector in India, the players in this sector do not have a legacy of past processes to deal with. The organization in this case study has multiple formats and lines of businesses. The company has embarked on a knowledge management process in several areas of the organization.

In all these case studies, the researcher attempts to bring out the various stages of knowledge management in these organizations. The author also highlights the problems, issues and concerns that come

with implementing knowledge management in these organizations and draws attention to the future plans of these companies to move forward in the areas of knowledge management. The paper attempts to look at the knowledge management experiences in these companies from a variety of perspectives (HR, IT, Strategy).

## 2. KNOWLEDGE MANAGEMENT IN A TOP RETAIL CHAIN: ORGANIZATIONAL BACKGROUND

This organization is one of the oldest and largest retail store chains in India. This Retail chain was established in 1991 by a leading real estate group. From a single brand shop the retail chain grew to a fashion and lifestyle chain of stores. The significant milestones in the history of this retail chain are as follows:

1. In 1991 the first store opened in Mumbai (Western part of India) and included only Men's wear in its portfolio.
2. In 1992 Ladies wear was introduced in this store.
3. In 1993 Children's wear and non apparels were introduced.
4. In 1995 the second store of this retail chain was opened in Bangalore (South India).
5. In 1998 the third store was opened in Hyderabad (South India).
6. In 1999 the company introduced JDA Retail ERP (A dedicated Enterprise Resource Planning Solution for the Retail Industry). The fourth and fifth stores were opened in Jaipur and Delhi (North India)
7. In the year 2000 the retail chain acquired a leading book store and made that into a separate Strategic Business Unit.
8. In 2005 the retail chain also included home furnishings and in the following year also introduced a new Strategic Business Unit dedicated to young Mothers. All these three strategic business units (Book store, Home furnishings, and the store for young Mothers) were located in the main store itself.
9. In 2006-07 the company also introduced a separate Strategic Business Unit for groceries and fresh fruits and vegetables.

The company has the following Strategic Business Units

1. A chain of Clothing, Perfumes, and Men & Women's Accessories Retail Stores
2. A chain of Fresh Vegetable and Food Product Stores

3. A chain of Book Stores
4. A chain of Home Furnishing Stores
5. A chain of Clothing for Mothers' and their Small Children.

### 2.1: Setting the stage

This retail chain was progressive and keen on implementing applications which would give it competitive advantage. The retail chain recruited professional managers in various functions and was determined to introduce professional management practices as it grew.

### 2.2: Case Description

The knowledge management exercise in this company began around 2006. The company has adopted several knowledge management applications in the three years since it was introduced. The journey of knowledge management in this organization began with an e-learning solution. This was a repository of various minute level things which a store salesperson should know. This was a video library which was meant to serve as a learning tool for the store level customer care associate who is the first interface of the company with the customer. How to greet a customer, how to answer a customer's queries, how to be helpful but not too familiar were some of the aspects of this video based repository. Product knowledge, company knowledge, how to display the merchandise in a very presentable and attractive form, applications upto such a minute level such as how to tie a knot for a branded tie are all captured in this video based library. All the customer care associates of the company across its 29 stores in India have access to this KM repository and they can access it at their convenience.

The company has also adopted instructor led training at each store. The customer care associates are asked to go through quizzes online. This is done especially when a new store is about to be launched. This information is captured electronically and serves as a knowledge repository for the new customer care associate.

Another KM application used in this company is to educate the customer care associates on various promotions being introduced by different companies in the different stores. At the moment there are several types of promotions that happen in the various stores. The promotions are very large in number and change frequently. The customer care associate is not a highly educated person. He/She has generally completed education only upto the tenth or twelfth standard (High School level). The customer care associate often gets



confused with the numerous promotions which take place at a very frequent pace. The company is therefore planning to introduce a KM application which will include online promotions which can be viewed easily by these customer care associates. The company is also planning to upload promotion information on mobile phones. This will be communicated directly to the consumers. Therefore the customer will be able to get precise information on, say, a shirt of brand X being promoted at store Y in the next month.

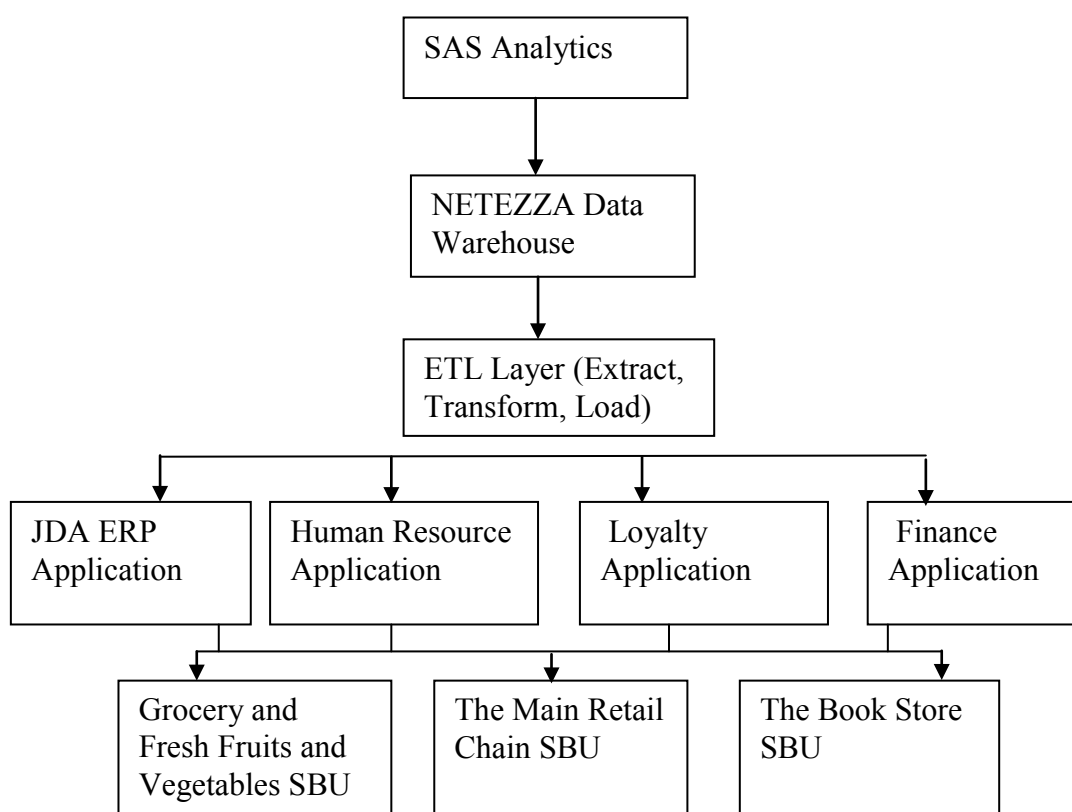
The company has a customer loyalty program across its stores. Nearly 70% of sales in the stores comes from the loyal customers of the stores. Data about loyal customers is captured in the KM repository and basic level of data mining is done. The company uses a data warehousing tool from Netezza Company. The data warehouse captures information through algorithms and the mining of the data from this application is used to understand various buying behaviors. For example, the company would like to

have knowledge on the buying pattern of a customer who buys across the various strategic business units. Does the customer who buys a shirt of brand name X also buy a book on topic/ author Y and does he also buy a plasma TV of brand T? These are some of the questions and correlations which the management is interested in determining through this KM application. The KM solution is also used for the following business applications:

- a. Analyzing to see if a particular section of people behave in a certain manner when the stock market is down.
- b. Analyzing how the sales of existing stores in a city get impacted when a new store is introduced in that city.

### 2.3: Technology concerns and components

The structure of the business intelligence system in this company is as follows:



The company has adopted a standard Enterprise Resource Planning (ERP) solution from J. D. Armstrong company and is used for merchandize management. The company has designed an e-learning course for its employees on how to use this ERP system. This e-learning solution is built on Moodle open source software and is yet another KM application.

#### **2.4: Challenges of KM in this company**

The retail chain is growing very fast and the top management is trying to use the KM application to get a single view of the business across all the Strategic Business Unit. This has been very challenging since all the Strategic Business Units are not at the same level of KM maturity.

The basic objective of using the KM application is to help managers take better decisions. The expectations of the top management and the bottom of the organization have not been aligned together. As an example the Managing Director of the Company wants more cross selling to happen across and within the various Strategic Business Units, however the merchandise manager is more concerned about issues arising out of opening new stores.

#### **2.5: The future of KM in this company**

In the near future the company is planning to extend the KM application through the company wide intra net. Wikis will also be used and knowledge dissemination will occur for various issues such as how the store could be kept clean and store policy on cash management. As of today all these standard operating procedures are kept in the form of manuals. But in the future the interface of the employees through the KM application will be highly interactive. Another application which the company is working on at the moment is an e-learning application for product understanding for Customer Care Associates at the entire group level. The company also plans to use Microsoft Sharepoint for collaboration amongst all the 29 stores of the company. The adoption of KM in this company is mainly in the first strategic business unit which is the chain of clothing, perfumes, and men & women's accessories retail stores. The level of maturity of KM today is equal across all the 29 stores of this strategic business unit. In future all these KM applications will be done for the entire group.

### **3. KNOWLEDGE MANAGEMENT IN A LEADING FMCG COMPANY: ORGANIZATIONAL BACKGROUND**

The second organization in this paper is one of India's leading Fast Moving Consumer Goods (FMCG) companies. This organization has been in existence for more than 70 years. This company's turnover is around US\$ 478 million. The company has approximately 15 brands and most of these brands occupy leadership positions in their respective segments. The company also has 104 dedicated Hair and Skin care clinics in India and the Middle East. The export business of this company is amongst the largest for any Indian FMCG Company and it is entirely through branded products. As regards the volumes for this company, 70 million consumer packs per month reach 130 million consumers through nearly 2.5 million outlets.

#### **3.1: Setting the stage**

The company has laid great emphasis on innovation and has established an innovation foundation which encourages business and social innovation. The organization has been a very traditional organization with very traditional management practices. The current Chairman and Managing Director, who is a family member of the promoter, took charge nearly 8 years back. He is a highly educated professional and has extensive global exposure. He was determined to professionalize the organization and he recruited managers from the top most business schools of India and he also recruited managers from very professional FMCG companies.

#### **3.2: Case Description**

One of the practices which he and his top management team were keen on introducing was in the area of Knowledge Management. The Knowledge Management project in this company started approximately four years ago i.e. in 2005. The company started off with pure document management using shared folders with the Microsoft Sharepoint tool. This was done at departmental level. Marketing, R&D, Legal, IT - all of these departments began to use Microsoft Sharepoint for sharing of information.

A common Enterprise Portal called MILAP was developed. This was a Knowledge Management (KM) application which covered several applications such as individual salary details, personal development planning, individual leave details. Then subsequently the portal was also used to share information about any events done in any of the branches. As an example if a branch organizes a Training Session / Learning Ses-

sion in its branch then a video of the same is taken and uploaded on the portal. In this manner the organization progressed on its knowledge management journey.

One of the major problems in the year 2003 faced by this organization was that employees were not documenting their tasks effectively. So in 2003 the management directed its employees to archive their mails and other such documents. Then the management studied the archiving behavior of Brand Managers. The reason why they did this was because they believed that the managers resistance to archiving and documenting was a behavioral issue. Every individual in the organization firmly believed that his/her style is unique and therefore they were resisting any forced attempt at documentation. However, when the management completed their study they found that nearly 80% of the employees exhibited a common type of behavior. Therefore the management was able to create a basic structure and architecture for documentation and archiving while at the same time giving enough freedom for individual brands. Using Microsoft Sharepoint they created an auto archive by which mails and other documents would automatically go to an archive based on the concerned subject. This was rules driven. The management also created a dash board so that the Brand Managers could know how they were progressing on the documentation side. The site was a very visible and a very transparent Knowledge Management site. Soon due to peer pressure all the Brand Managers adapted to the knowledge management portal.

### **3.3: Legal Function**

The Legal department used the knowledge management portal to create an Intellectual Property Rights (IPR) database. They also used this portal to create a database of legal cases. An entire calendar was created on the KM Portal which gave details of when the next court hearing would take place and also give the history of court hearings.

### **3.4: Research and Development Function**

This company is in the FMCG Business and therefore research and development on the product, packaging, new product development was very critical. In the Research and Development department confidentiality was extremely important. Therefore the KM portal had to have a very strong security mechanism for this department. In fact, a second instance of Microsoft Sharepoint was created in which only the Head of the R&D Department was authorized to access. Even the IT Department administrator did not have the rights to access. This department's usage of the KM portal gathered momentum from 2006 onwards.

### **3.5: Marketing Function**

The marketing flow in this company was from the Factory to the Depot to the Distributor to the Retailer. The customers of this company are the distributors. The company developed an application called MIDAS at the distributor level. All data at the distributors level would be collected and at the end of the day it would be uploaded on a KM portal called MINET. Business analytics tools sat on top of MINET. Other data from other market research agencies such as AC Nielsen, Indian Market Research Bureau (IMRB) were also collected and presented to the managers using a tool called MATRIX.

Personal Digital Assistants (PDA's) were provided to the distributor sales force. The Distributor sales representative uploaded the data from the PDA on a real time basis. Therefore he knew what to sell and what not to push because it sold without effort. Through this knowledge management portal he was equipped with the knowledge of inventory levels and sales at the retailer level. So he did not have to push a product which the retailer is any way going to order for and he could focus more on pushing products which the retailer was unaware of.

The company also has cooking oil as one of its main product lines and on the occasion of special days such as World Heart Day the company sends a text message to their customers. This is also a KM application and helps the company get closer to its customers.

### **3.6: Purchase Function**

The main raw material of this company is coconut. Dried coconut gratings availability is extremely critical for this company. An expert of the company goes to coconut plantations and analyses the cropping pattern and weather conditions such as heavy rains, flooding. Based on this the expert determines the availability of dried coconut gratings for a three month period. Earlier the expert used to put all this data in a spread sheet and would update these details once every 15 days. However now with the KM portal the expert is able to upload the data on a daily basis and the head quarters is able to analyse this data on a daily basis.

### **3.7: Hair & Skin Care Line of Business**

Another major line of business for this company is in the Hair & Skin Care Market. This line of business is on a direct to the customer basis. The company has several Hair and Skin Care Clinics across India. This is a new line of business which started around 2007. Details of the customer are captured from the moment she enters the clinic to the time she leaves. Very

minute details of the customer are also captured. As an example the customer preference of room temperature in the clinic, the preference of welcome drink, the magazines she likes to read while being treated, skin type, hair type, allergies to various products, name of the skin and hair specialist treating her are all captured when she is in the clinic. This becomes a knowledge repository which is used every time she visits the clinic. In addition the information is available in a central knowledge repository so that if she happens to go to another city then the clinic in that city would have all information about her. The knowledge about the customer is therefore shared across all clinics in India. The basic idea of this knowledge management repository is to enhance the customer experience and also improve the relationship of the company with the customer.

### **3.8: Media Function**

In a Fast Moving Consumer Goods company (FMCG) product packaging is extremely critical. Before a product package is designed a detailed artwork has to be made. A large number of people are involved in this artwork design which leads to several problems. Such a problem existed with this company too. The company therefore used a knowledge management tool to help several people involved in the artwork to view any changes concurrently. This enables extensive collaboration and reduced substantially the time for artwork for the new product packaging. This knowledge management application also helps in leaving a trail for nearly a two year period. This is one of the most innovative applications of knowledge management in an FMCG company in India and the company has received an award for the implementation of this KM application.

### **3.9: Strategic Planning Function**

The company uses Cognos Business Intelligence System which takes data from the core SAP ERP system. Strategic planning is done in the third and fourth quarters each year at the SBU level. Collaboration for this exercise is done through Microsoft Sharepoint.

### **3.10: KM and Innovation in this company**

Another major Knowledge Management initiative which the company has attempted to institutionalize is Innovation. A project, known as the Light House Project was commissioned in 2008. In this project, all innovation experiments adopted by this company over the past ten years were studied. The company analyzed the findings from this study and attempted to find patterns of successful innovation experiments conducted

in the company over these ten years. Yet another KM application is a Consumer Insighting project. In this application a sample of consumers who have given feedback on the product of the company at the initial stages of the product development collaborate together in a swarming collaboration mode. The concurrent nature of working with managers of the company at all levels and functions (including former employees of the company) helps the company in expediting the implementation of feedback from all these stakeholders. Since a large number of them are outside the company bias is kept to a minimum.

### **3.11: Challenges in Implementing Knowledge Management**

The company managers observed that challenges in KM implementation in the company had more to do with human behavioral issues rather than technological issues. So the management focused on leveraging existing habits instead of changing their habits. Many of the KM applications were adopted in the organizations due to peer pressure. There were several cultural issues in implementing KM in this company. The management also used the carrot and stick approach towards implementation. For example, they would give sufficient time for employees to adopt the new KM system. But after a reasonable period of time the management would not give any option but to use the new KM system. At the same time management would give awards and incentives for successfully using and innovating with the KM system. The management emphasized on cross learning through the KM system. The company has three levels of hierarchy – Partner level, Manager level, Executive level. The Partner level of the KM implementation was done in September, 2009. Another innovative approach used by this company for successful KM implementation was an incentive was given to the person who was able to learn from somebody else. Therefore there were two types of awards which were given - Generators awards and Adopters award.

The company focused on simplicity for quick implementation of KM. The company has nearly 580 distributors and over a two year period the company convinced their distributors to adopt this KM system. A separate sales force structure was created to work with the dealers to implement this system. The company would prototype a KM application and then after a pilot run they would quickly scale up.

### 3.12: The Future of KM in this company

The company managers acknowledge that they have a long way to go in building up a culture for tacit knowledge management in the company. The company today is divided into three strategic business units – International Business Unit, Skin and Hair Care Business Unit and Consumer Product Business Unit. The company has extensive business from Bangladesh, Middle East, North Africa and South Africa. Special type of Hair and Skin Care Products are required to suit the customer of those countries. Knowledge Management in these markets by which tacit and explicit knowledge will be captured and disseminated will be a task ahead for this company. Managing knowledge in the entire eco system – vendors, customers, Government is also on the agenda of the KM project in the company. As of today there are different levels of maturity of KM implementation in the company. The Hair and Skin Care Strategic Business Unit is the most sophisticated in terms of KM implementation. However, the International Business Unit, which is also the fastest growing unit in the company, is far ahead in KM implementation.

The entire KM project has been very successful in this FMCG company, due to excellent support from the top management.

In these two organizations the following questions were asked to the various Managers of these organizations.

1. What are the various Knowledge Management applications in your organization? What led you to introduce this KM application? What was happening in your organization before you introduced this system?
2. What are the platforms on which these KM applications are used?

3. Does it cover the entire organization or only a part of it? If so, which part? If the organization has multiple Strategic Business Units then are the KM applications implemented across all the SBUs or only a few SBUs?
4. What benefits have you got out of this system? What benefits did you expect from this system? Are the benefits which you have got so far in line with your expectations?
5. What problems and issues did you have in implementation of this system? People problems, cultural problems, infrastructure problems, change management issues?
6. Was top management support for this project total? Or was it an after thought?
7. What are your future plans for this project? Do you plan to use collaboration tools with your suppliers and customers? If so, how?

### 4. QUESTIONS FOR THE READER OF THIS CASE STUDY

1. What is your learning on the issues of Knowledge Management in non-IT companies in India, as brought out from the above two cases?
2. What should the companies do to expedite KM implementation in their companies? What can company 1 (the retail chain) learn from company 2 (the FMCG company) on successful KM implementation?
3. Why do you think Knowledge Management in the non-IT companies in India is still behind the IT companies in India?

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# “Revival of the Relics”: How to Find Gold in the Brand Cemetery?

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**Abstract:** Corporate India is witnessing a kind of “Retro Revolution” in recent times. The successful comeback of several retro brands, both in India and abroad provided a new impetus or ‘mojo’ to the Indian corporations who are vying with each other to revive the long forgotten brands. The new found love of corporations for the brand revival has generated a considerable interest amongst academicians and brand management practitioners. This is because several national and international empirical examples reveal that it is not easy to pick the right brand for revival amongst the forgotten brands. On the other hand, it is very risky, complex and cumbersome to revive the brands, especially when they inherit loads of negative baggage. Considering the complexities and challenges involved in the brand revival, the present paper offers techniques for identifying the right brand or winner amongst the long forgotten brands. It also provides strategies for the successful revival of old brands in the Indian landscape. Finally, the findings and suggestions of the study help to fill the gap in the academic literature and guide practitioners of brand management to adopt successful strategies in the art and practice of retro brand management.

**Key Words:** retro brands, heritage brands, brand revival, brand equity and brand recall

## I. INTRODUCTION

“Branding” has always been considered to be the most crucial and inseparable part of modern business activities. The well thought and prolonged cultivation of a wider brand portfolio could act as a sustainable source of revenue for the corporations. The higher brand equity of successful brands in the brand portfolio could act as a saviour during the adverse phase of business cycles. But it is ironical that like companies and individuals, brands also stumble, deteriorate, age and die their natural death, more often they die premature death. The reasons for the brand decline and the subsequent death ranges from managerial inaction

(Stratus, 2006), environmental factors (Haig, 2003), competitive actions (Hoover, 2008) and mergers and acquisitions. Nevertheless, corporations and the marketers always rush for their revival and success turnaround of the brands hoping to ride the residual brand equity and goodwill (if any) possessed by the defunct brands. The positive relationship with the customers, heritage value, nostalgia, residual brand equity of the defunct brands could act as a trigger for the rush for revival of brands from brand managers and corporations. In their exuberance, sometimes brand managers tend to ignore and underestimate the complexities and challenges involved in the revival and sustenance of the

dormant brands. Such an ignorance and negligent attitude of the brand managers could indefinitely drain the resources of the company in their bid to revive the wrong dormant brands.

Considering the complexities and challenges involved in the identification of the right brand for revival and subsequent prolonged process of successful revival, the present paper attempts to provide the right techniques and strategies for retro brand management. This paper has been divided into five parts. Part one encompasses the introduction to the subject, objectives of the research paper and initial assumptions of the researcher. In part two, all of the important and crucial studies related to the subject matter of the research paper have been collected and thoroughly reviewed to find out the gaps in the available literature on retro brand management. The third part of the paper critically evaluates the incidences of brand revival in the Indian context, citing various empirical evidences of brand revival attempts (both successful and failures) of the corporations in Indian consumer landscape. The fourth part of the research paper describes the challenges and difficulties involved in selecting the right 'defunct' brand for the process of brand revival and describes the strategies for the successful revival of the defunct brands to make them relevant for the wishes and aspirations of the younger generations and old loyalists. The fifth and final part of the research paper provides the recommendations and suggestions for the corporations and the practitioners of brand management.

## 2. "BRAND REVIVAL" THROUGH RETRO BRAND MANAGEMENT: LITERATURE REVIEW

Since time immemorial, brand as a tool has been utilized by the businessmen to distinguish their products and services amongst the various brands (Aaker,

1991). Kiley (2007) citing the example of brands like Microsoft, Coca-Cola and Disney states that often a brand's equity is single most valuable asset for a company. Keller (1999) opined that the equity of a brand is a mixture of brand knowledge, brand awareness, brand image and customer associations with the brand. The equity of a brand can be summarized as a measure of consumer behaviour (Aaker, 1991) and as a measure of consumers' strong belief about the brands (Keller, 2008). However, every brand whether successful or a failure has to decline over a period of time, some brands die instantly and some by a slow, debilitating decline over a period of time (Semans, 2004). The negative publicity, scandals and lawsuits against the company could also sometimes leads to the dent in the brand's image (Haig, 2003). Hoover (2008) suggesting the example of Polaroid and Kodak, opines that the act of "Creative Destruction" in the business environment could also result in the rapid decline and eventual death of the brands.

However, there is considerable interest among the marketers to revive the defunct brands and make use of their erstwhile brand equity to make a successful comeback (Franklin, 2002). Stern (1992) attributes the popularity of brand revival attempts of the corporations to the tendency of human beings to be nostalgic and their attempts to get connected with the golden moments of their younger days in the past. Davis (1979) highlighted the significance of nostalgia in brand revival by distinguishing between personal and communal nostalgia, where the former describes a nostalgic feeling towards object-related experiences that have been lost and the latter happens at entire societal level during the times of social turmoil, depression and difficult times longing for the past peaceful and simple things in life. Brown, Kozinets and Sherry (2003) found that the consumers of retro brands use them to experience an imagined era of moral certainty especially with past time and its socio-cultural ethos.

Table-01. Selected Literature on Nostalgia on Consumption and Marketing

Author/s Year	Title	Field of Study
Unger, D., McConocha, M., Faier, A (1991)	The use of nostalgia in television advertising: A content analysis	nostalgia, advertising
Havlena, W., J., Holak, S., L. (1991)	"The Good Old Days": Observation on nostalgia and its role in consumer behaviour	nostalgia consumption
Baumgartner, H.(1992)	Remembrance of things past: music, autobiographical memories and emotions	Nostalgia, buying behaviour
Stern, B., B. (1992)	Historical and personal nostalgia in advertising text: the fin de siecle effect	nostalgia

Holbrook, M., B. (1993)	Nostalgia and consumption preferences: some emerging patterns of consumer tastes	nostalgia consumption
Baker, S., Kennedy, F. (1994)	Death by nostalgia: a diagnosis of context specific cases	Nostalgia, consumer behaviour
Wansink, B. (1997)	Making old brand new	Nostalgia, Branding, brand revival
Wallendorf, M., Arnould, E.J., (1998)	“My favorite things”: a cross - cultural inquiry into object, attachment, possessiveness and social linkage.	emotional consumption, branding
Palmer, C. (1999)	The high-risk, big-reward world of brand revitalization	Nostalgia, branding, brand revival
Goulding, C., (2002)	An exploratory study of age related vicarious nostalgia and aesthetic consumption	nostalgia and consumption
Pascal, V., J., Sprott, D., E., Muehling, D., D, (2002)	The influence of evoked nostalgia on consumer ‘s response to advertising: an exploratory study	nostalgia, advertising
Brown, S., Kozinets, R., V., Sherry, J., F, (2003)	Teaching old brand new tricks: retro branding and the revival of brand meaning	nostalgia, branding
Holbrook, M., Schindler, R., M. (2003)	Nostalgic bonding: exploring the role of nostalgia in the consumption experience	nostalgia
Muehling, D., D., Sprott, D., E. (2004)	The power of reflection - an empirical examination on nostalgia advertising effects	nostalgia, advertising
Norman, D., A. (2004)	Emotional design: why we love (or hate) everyday things	emotional consumption
Thomson, L., MacInnis, D.J., Park, C.,W. (2005)	The ties that bind: measuring the strength of consumers’ emotional attachment to brands	emotional consumption, branding
Bellman, L., M. (2005)	Entrepreneurs: Invent a new brand name or revive an old one?	nostalgia branding, brand revival
Arnould, E., (2005)	Animating the big middle	Theory of consumption
Holbrook, M., B. (2006)	Consumption experience, customer value and subjective personal introspection: An illustrative photographic essay	nostalgia consumption experience, customer value,
Yani-de-Soriano, M., Foxall, G., R. (2006)	The emotional power of places: The fall and rise of dominance in retail research	emotions in marketing
Holak, S., L., Mateev, A., V., Havlena, W., J.(2007)	Nostalgia in post-socialist Russia: Exploring applications to advertising strategy	nostalgia, nostalgia branding
Kwortnik, R., J., Ross, W., T. (2007)	The role of positive emotions in experimental decisions	consumer decision making, emotions, tourism,
Xue, H., Woolley, M., (2009)	Collective memory and nostalgia, a new perspective on affective design strategy for the Chinese market	nostalgia and planned economy, nostalgia and design
Dever, R., Wallin, M., Fergus, A., (2010)	“We can remember it for you Wholesale: Nostalgic Hyperrality and the Extended Self in Marketing Strategy	nostalgia in advertising
Guiot, D., Roux, D. (2010)	A second-hand shoppers’ motivation scale: Antecedents, consequences and implications for retailers	second-hand shopping, segmentation
LaTour, K., LaTour, M., S., Zinkhan, G., M. (2010)	Coke is it: How stories in childhood memories illuminate an icon.	nostalgia, childhood, memory, icon branding
Rutherford, J., Shaw E., (2011)	What was old is new again: the History of Nostalgia as a Buying Motive in Consumption Behaviour.	nostalgia, consumption

Source: Nikolay (2011).



The quick glance on the retro brand literatures mentioned above reveals the fact that though there has been plenty of literature on the topic since the beginning of the new century, but not many quality works has been done on the act of retro branding in the Indian context. On the other hand, most of the available literature is not related with the Indian context and even if there is some literature it is only of theoretical in nature borrowed from the books and the expert interviews published in the newspapers and magazines. Surprisingly there is a clear dearth of studies which can suggest the methods or strategies in choosing the brands for revival amongst the portfolio of defunct brands. Hence, in the present study makes an attempt to contribute to the existing academic literature by focusing more on the adoption of strategies for choosing the brand for revival and techniques for the successful revival of the old brands.

### 3. THE BRAND REVIVAL LANDSCAPE IN INDIA

The emergence of brand conscious consumers and the liberalization of markets across the world had necessitated the revaluation of long forgotten brands languishing in the brand portfolios of companies. More and more companies across the world in general and India in particular are realising the great potential hidden in the dormant brands and treating them as their most valuable asset. It is no surprise that a large number of long forgotten brands are making their comeback as the Indian corporations are recalibrating their branding strategies to extract the hidden brand equity from their dormant brands. A few adventurous and proactive Indian companies are acquiring the dormant brands from their rivals to revive them with new impetus and new mojo. This trend of brand revival has not been only limited to one or two sectors but can be witnessed across the different industries ranging from textile, beverages, FMCGs, and automobiles. The below drawn table no-2 provides the glimpse of recent brand revival scenario and attempts in India.

Table-02. The Phenomenon of Brand Revival Scenario in India

Sl. No.	Brand	Company	Sector	Brand Revival Activities
01	Campa Cola	Pure Drinks, New Delhi.	Beverages	Leasing it out to franchisee bottlers. Cashing on the salience and equity of the brand in the local markets. More Flavors More Presence in the local markets. Differential Pricing Strategy. Launched a Facebook fan site for the brand.
02	Duke's	Pepsi	Beverages	Re-launched the brand based on new consumer insights and local tastes and preferences. Re-launched with new variants and flavours such as masala sodas, ice cream sodas and ginger ale. Catering to the needs of loyal and traditional customer base in the local market.
03	RimZim	Coca Cola	Beverages	Launching the brand with contemporary packaging and increased element of localisation in tastes and preferences.
04	Gopika Ghee	Glaxo Smithkline Consumer Healthcare	FMCG	Bharti-Walmart in partnership with GSCH started the exclusive distribution tie-up for selling them in all Bharti-WalMart retail shops.
05	'30 Plus'	Dabur	Health Supplements	Purchase and Re-launching of the brand through new positioning. Re- energized the product making it more relevant for today's 30-Plus male. New formulation and new communication campaign by roping in Malaika Arora Khan as its brand ambassador.

06	Cinthol	Godrej Consumer Products Ltd. (GCPL)	FMCG	Re-launching of the brand with new positioning. Being relevant to the young demographic by going premium. Brand extension into the trendy categories.
07	Jealous	Future Group	Retailing	Purchase and re-launching of the brand through future group outlets by cashing on the brand salience in the local market.
08	Favre Leuba	Titan Industries	Luxury Watches	Purchase and re-launching of the brand through Titan Outlets across India by cashing on the brand salience of the heritage brand.
09	Bata	Bata India	Footwear	Refurbished its image by improving its collection & design of footwear - Focus on design to attract GenX. Opened 250 "Big Format" stores upwards of 3000 Sft - these are well-lit, showcase modern furniture & are designed to display better Launched bouquet of brands targeted at different customer segments.
10	Royal Enfield Bullet	Eicher Motors	Automobiles	Modern technology used, but vintage look retained. Modernized the bikes to appeal to a wider customer base.
11	Maltova	Glaxo Smithkline Consumer Healthcare	Nutrient/Health Supplements	Bharti-Walmart in partnership with GSCH started the exclusive distribution tie-up for selling them in all Bharti-WalMart retail shops.
12	Buffalo	Future Brands Ltd	Retail/ Garments	Purchase and re-launching of brand through successful marketing campaign and promoting them through future group retail outlets.

Source: Compiled by the Author

#### 4. REVIVAL OF RELICS: HOW TO FIND GOLD IN THE BRAND CEMETERY?

The new phenomenon of re-launching or the acquisition of the existing or dormant brand is gaining more currency because of the new found enthusiasm for building the new brand portfolio or entry into the new markets. The revival of the existing brand is an easy option for the companies as they find it to be cost effective and easy to roll out the business in new markets. Moreover, the residual brand equity results in the softer aspects of like the hidden psychological and emotional looks in the minds of existing and old customers will provide ready platform for the brand revival. The cost of creating a new brand is very time-consuming, risky and tumultuous journey when compared to the revival of the dormant brand where the companies can milk the positive vibes of the dormant brand amongst the exist-

ing and old customers and effective revival strategies combined with integrated marketing communication will result into the successful revival of the brands. But sadly, corporate history is saddled with more failures in brand revival than the success because of changes in the competitive landscape.

The revival of brand becomes tougher and daunting task because of rapidly changing competitive landscape, indifferent new creed of customers, evolving and shifting loyalties of existing customers, unfriendly economic environment, negative connotation of the dormant brand, wrong selection of the brands and over estimation of the brand residual or equity are some of the reasons for the failure in brand revival. Considering the pitfall and challenges involved in the process of brand revival the present study makes an attempt to define the framework/strategies for the right and rational selection of brands for the successful revival.

Figure-01  
Selection of a Brand for Revival



### 1. Brand Stories:

Brand stories are essentially symbolic stories, narratives or extended metaphors associated with the consumer's sub-conscious mind conveying the didactic messages towards the brand meanings, brand heritage and morality tales related with the brand which are popular amongst the brand users. Such stories associated with brand will have nostalgic value amongst the old users and arise enough curiosity amongst the new set of consumers when they all set for brand revival. Moreover, brand stories will induce the sense of past as a unique, magical and special feelings amongst the existing and new users making it very much suitable case for the brand revival. Therefore, it becomes essential for the brand managers to look at such unique stories associated with the targeted brand for revival.

### 2. Brand Essence:

Brand essence provides the much-needed authenticity for loyal customers who perceive the usage of the product and service as unique. Authenticity is very important for the brands as consumers' search for authenticity is one of the cornerstones of contemporary marketing. On the other hand, brand essence demonstrates the core values cherished by both consumers and the brand. Hence, it becomes imperative for the brand managers to look for brand essence in the dormant brands languishing in the brand cemetery.

### 3. Brand Paradox:

The paradoxical "soul" of brands offers an opening for consumers to invest themselves emotionally into mass-produced goods and services and thereby from the elusive connections that result in lasting loyalty. The paradoxical element in the dormant brands, such as old and new, tradition and technology, primitiveness and progress and same and different provides the much needed choice for both old loyal consumers and new crop of young consumers. The brand managers who scout for suitable targets for the brand revival should look for only those dormant brands which possess and share the paradoxical elements within them to facilitate the effective brand revival.

### 4. Brand Community:

Some of the dormant brands represent the idealized community represented by shared values and ideas, for example, Harley Davidson brand. The brand which represents the idealized community provides them the much needed personal identity, nostalgia and shared beliefs within the community. It makes sense for the brand managers to look for those brands which inherit the element of community belongingness so that the old loyal consumers and new consumers can be ideally associated with the brand selected for the revival.

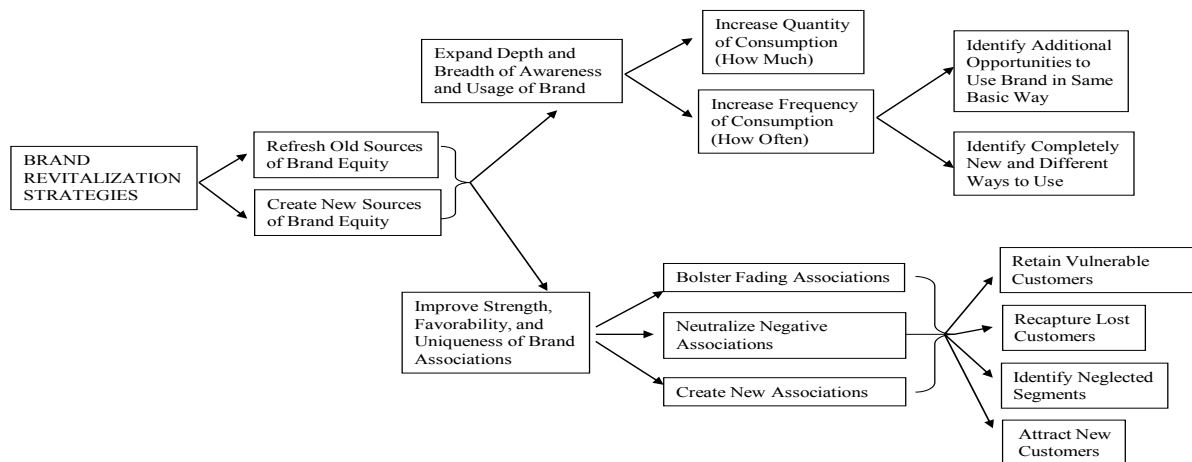
### 5. Brand Differentiation:

Differentiation is the anchor of a brand's equity. A brand's promise plays a major role in differentiating the brand from the competitors. If a brand is not viewed as different from others in the market, then its future growth is likely to be in question. Therefore, the brand managers who are looking for the suitable targets for the brand revival should look for those dormant brands with differentiation so that their erstwhile strong brand differentiation can be re-established with a focus on the right positioning, and then emphasizing that consistently in its communication.

### 6. Brand Knowledge:

Brand Awareness and Brand Image is the most widely used gauge of brand knowledge. The brand managers who are in charge of brand revival should consider and take into account the brand knowledge of the dormant brand. The brand awareness and brand image of a dormant brand will serve as residue equity for the dormant brand. The positive brand image and good brand recall may act as stimulant for the brand revival process. Therefore, the brand managers should verify and check the residue brand knowledge of a dormant brand before they pursue the enormous task of brand revival.

Figure-02  
Brand Revival Strategy



Source: Kevin Lane Keller (2008)

## 5. STRATEGIES FOR SUCCESSFUL REVIVAL OF THE DORMANT BRANDS

Considering the pitfalls and challenges involved in the process of brand revival, the authors suggest the model advocated by Kevin Lane Keller (2008), which advocates the adoption of twin strategy of judicious mixture of old nostalgia and modern brand revival techniques. The below drawn graph suggests the brand revival strategy of Kevin Lane Keller (2008) for the successful turnaround of dormant and old brands from the brand cemetery.

The above drawn figures showcase the need to adopt the twin approach of capitalizing on traditional nostalgia feelings associated with the brand and creation of new sources of brand equity which may appeal to the gen-y consumers. It also profess that the successful revival strategy should enhance the recall and recognition in the old brand and simultaneously create an image makeover by improving strength, favorability and uniqueness of brand associations. This twin approach has been very successfully adopted by Indian corporations across various industries involving in multiple brands. The table drawn below reveals the successful brand revival strategy adopted by the Indian companies and their outcomes in the recent times.

The careful examination of the above-mentioned table suggest that the successful brand revival has been achieved by tapping the old source of equity and creation of new source of equity which is contemporary catering to the needs of both old loyal consumers and

new crop of young consumers. Apart from that the successful brand revival has also included the creation of more brand awareness through 360 degree integrated marketing communications during the phase of revival. The successful brand revival examples showcased in the above table involved weakening of the weaknesses associated with the brand and build on the new associations of the brand like meaningful logo, attractive packaging, value proposition and brand ambassadors with the revival brand.

## 6. CONCLUSION

The recent spate of brand revival attempts are not an isolated chain of events. Rather, they symbolize the secular trend observed in most of the economies across the world. As corporations and brand managers have realized that the building of a new brand is an excruciatingly painful job involving ten times more money, efforts and resources than reviving an existing brand. But most of the brand managers commit the mistake of choosing the wrong brands for revival, overlooking the complex challenges involved in reviving the brand. Therefore, the present paper has addressed the problems involved in the selection of dormant brand for revival and presented the strategies for identification of a dormant brand, as well as strategies for the successful revival of the dormant brands from the brand cemetery. In this paper, the authors have also recommended the model of Kevin Lane Keller for successful brand revival strategy and

Table-03

S.No	Brand	Old source of Equity	New source of Equity	Outcome of revival strategy
1	Campa Cola	Strong in Delhi and Northern parts of India	New flavours	Recapturing lost customers and attracting new customers
2	Duke's	Initial rollout in Mumbai	Create new associations and add new flavours	Moving towards south to attract new customers
3	30-Plus	Energizing capsule	New brand ambassador	Identify additional opportunities in the OTC segment
4	Cinthol	Parent Brand Image	New categories and usage	Identify new and different ways to use brand
5	Bata	Value for money	New format – large stores with wider varieties	Identify additional opportunities and attract new customers
6	Royal Enfield	Look and feel	Modernity to attract gen-y	Recapture lost customers and attract new customers

Source: Compiled by Authors

cited various empirical successful brand revival cases in the Indian context. The suggestion that was made in the identification of the dormant brands for revival and the advocacy of utilizing the Kevin Lane Keller model for brand revival should be helpful for managers in evaluating and revitalizing their invaluable brands.

Finally, this article has examined the recent spate of brand revival attempts in India and postulated that the recent trend demonstrates the consumer's search for authenticity in an increasingly inauthentic world where the population is increasingly growing old. The concept of brand revival is going to be much more significant in years to come as the Indian population ages. It is this hidden potential that brand managers have to exploit by reviving dormant brands and foisting them on soft-heated, dewy-eyed, nostalgic stricken consumers.

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# The Importance of Meetings and Incentive Travel in Times of Economic Growth for India and Poland

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**Abstract:** Incentive travel as a motivational tool is now in widespread use and its role is expected to increase in importance in the future. As a fast growing country and important member of the European Union, Poland has the potential to become an important player in this field. Likewise, when considering the significance of South Asia, we can admit exactly the same about India. The purpose of this research paper is to focus on incentive travel as a new part of the meetings industry in which Poland and India have started to operate. Using answers from incentive planners, and interpreting the results of conference calls and interviews, this paper will present the pros and cons of Poland and India as an incentive destination, taking into account characteristics of outbound and inbound incentive markets.

## I. INTRODUCTION

### Poland

Located in the Heart of Europe, Poland with its 38 million inhabitants is the ninth largest country in Europe and has a rich history. Poland changed the course of history in 1989 by becoming the first central-eastern European state to break free of communism. Recently the 20th anniversary of the end of communism in Poland was celebrated. Later Poland joined NATO and became a member of the European Union (2004) and the Schengen Zone (2007).

Poland has enjoyed nearly 20 years of growth as it has transitioned from central planning to a market economy. Growth slowed and unemployment shot up following the disruptions caused by the Russian financial crisis in the late 1990s, but by 2003, healthy growth rates had returned and unemployment had begun to fall. Today, four years of growth, averaging nearly 5.5%, have increased the average of Polish incomes and reduced unemployment to 6.3% by May 2009. While Poland's banking system has escaped the global economic crisis relatively unscathed, growth is again beginning to slow due to weakness in Poland's

key export markets and concomitant weakness in domestic investment.

Taking into account the current low level of anticipated economic growth, the Polish economy seems to be in good position, as EC economists forecast growth of 3.8 percent for Poland. While this figure was earlier anticipated to stand at 5 percent, nevertheless Poland will still be one of the fastest developing economies of the EU. In addition this point, Poland's GDP growth in the first quarter of the 2009 and 2011 fiscal years was the highest in the European Union, according to figures published by Eurostat, the European Commission's statistical institution.

Apart from that, 2010-2012 were years when the meetings industry and also incentive travel played a crucial role in the Polish economy. The 200th anniversary of the famous Polish composer Fryderyk Chopin's birth (2010) was the first step of this process. Secondly Polish professionals prepared special programs for visitors who came during 2010. Moreover from July 1st 2011 to the end of the year, Poland held the presidency in the Council of the European Union. This provided another highly visible occasion to show how strong the Polish economy was and what Polish



hospitality, culture and history have to offer visitors. Finally, an event which is well-known in the incentive travel world, the European Football Championships (UEFA-EURO) 2012, was hosted by Poland and Ukraine. For at least one month, Poland was the capital of European football which means that corporations from all around the world as well as tens of thousands of fans came to visit Polish cities for different matches. Adventure, experience and adrenaline are just some of the features of a good incentive tourism industry. The industry should include also many supportive, relaxing and creative elements. Based on the research presented in this paper, it appears that Poland is a place in which many of these of incentives can be experienced by visitors in the coming years.

## India

Taking into consideration second chosen country we should start with the geographical elements. With the splendid Himalayan Mountains in the north of the country and an endless stretch of golden beaches in the south, India is a vivid kaleidoscope of landscapes, magnificent historical sites, royal cities, rich culture and incomparable hospitality. Being the oldest civilization in the world, India boasts a fascinating amalgamation of traditional & contemporary. What makes India different from any other destination is the myriad of experiences that it offers. It's a place that grows on you. This is one land where the ancient and the modern co-exist. India has literally everything that a visitor wants to experience and offers people a complete holiday, both in the physical and in the mental senses. This is perhaps the reason why we have so many repeat visitors (Institute of Management, Bangalore 2011).

Presently, India is served by about 40 international airlines with weekly average seating capacity of 78,000. Air India and other international airlines connect the gateway cities of India to locales around the globe, making India within easy reach worldwide. Air India's Maharaja hospitality is well known, and it takes care of the needs of the passengers. Indian Airlines, Alliance Air, Jet Airways, Sahara and various other domestic airlines connect various tourist destinations, metro cities and towns of India to one another. Indian Airlines also flies to some of the cities of neighbouring countries, such as Kathmandu, Bangkok and Singapore. Added to this is an elaborate network of surface transportation system. There is an excellent railway system running through the entire country. All important cities are connected with state-of-the-art 'Shatabadi and Rajdhani' express trains. There are special trains such as the Palace on Wheels and Royal Orient Express, which contain air-conditioned saloons

decorated in the old maharaja style, offering guests a chance to stay on the train and visit colourful Rajasthan and fascinating Gujarat (Institute of Management Bangalore 2011).

## 2. BACKGROUND

The meetings industry is of enormous interest to national governments, national, regional and city tourism organizations, as well as large corporations, SMEs and individual entrepreneurs. In relation to incentives, Poland and India are rich with numerous tourist attractions and cultural initiatives, and aspire to becoming a strong player in the European and Asian business tourism markets. Poland can offer visitors easy access through a well developed road, rail and air infrastructure to plenty of sites worth seeing, ranging from castles and manor houses, old palaces and national parks, sea and mountain regions or historical cities with authentic monuments. This geographic and historical richness offers the opportunity to compose a wide variety of interesting programs covering existing historical sites, or numerous national parks that are part of the world's nature heritage.

India, with its extremely rich historical background and heritage is an ideal place to taste Asian culture, food and customs. All these aspects can be used by Indian professionals to coordinate special groups, including incentive and motivational programs. While it is clear that Poland and India would like the opportunity to create interesting products for international visitors, it is important to address the central issue of why people should be interested in visiting Poland and India in the first place.

In the remainder of this paper I would like to demonstrate how important Poland and India and the incentive market is now and can be in the future. While Poland and India started operating incentive travel a long time ago, this was originally focused on managing human resources: "Incentive travel has its prototypes; among others, there was the old Polish tradition of collecting mushrooms combined with training for the workers organized by factories in the time of socialism" (Swiatecki 1999).

Looking at the importance of incentive travel in times of economic growth for Poland and India, this writer would like to focus on two visions. The first will consider the fact that Poland and India have potential to host incentive groups from all around the world, using natural, historical and cultural aspects. The crucial role to be played by local authorities, convention and

visitors bureau and chapters of international meetings industry organizations will be examined. Secondly the writer would like to prove that the inbound and outbound incentive market is important from the Polish and Indian economic growth point of view.

### 3. RESEARCH METHODOLOGY AND OBJECTIVE

The objective of this thesis is to check the role of incentive travel in times of economic growth for Poland and India, specifically while taking into account the current global downturn. This paper has an interdisciplinary nature and discusses incentive travel in general, including basic aspects that are essential to building the incentive market in Poland and India. In this study's conclusion, specific ideas are presented that can be used to build the importance of incentive travel in times of economic growth in Poland and India.

It has been proven that more and more companies find incentive travel to be an effective solution to motivate their staff. That is why talking about the importance of incentive travel in times of economic growth for Poland and India, the writer will use the database from the research done in January and February 2012 between the managing directors/CEOs of incentive travel companies, concerning the role of incentive programs as a tool in the future economic growth in Poland and India. A total of 40 conference calls were carried out between January 1st and February 24th 2012. Each of the calls consisted of five questions and took around twenty minutes. The list of the attendees were selected using the Poland Convention Bureau and India Convention Promotion Bureau databases site, resulting in a target group of 20 international and 20 local organizers.

Secondly, the opinions gathered in writing this paper were based on interviews with key players in the incentive travel market from around the world, and were carried out at the end of 2011. Using contact details for 20 individuals that attended the Site International Conference, informed opinions about the Polish and Indian incentive travel market were collected.

The objective of this thesis is to verify the role of incentive travel in times of economic growth for Poland and India, while taking into account the potential impact of the global downturn. In addition, the writer will attempt to find out the opinion of incentive travel organizers about Poland and India and try to establish a "to do list" which can help city, regional and national convention bureaus to focus more on

the incentive travel market and better promote the mentioned countries.

### 4. MEETINGS AND INCENTIVE TRAVEL IN POLAND AND INDIA – INBOUND

Looking at Poland as a potential top incentive destination I would like to focus on the development of the Polish incentive travel market, with a particular focus on the role of local authorities responsible for promotion. At this point the definition that will be used by the author will be established. One of the definitions used among professionals is that of Site, which reads that "the incentive travel means trips for employees, sellers or agents paid by a firm as a reward for achieving appropriate level of sale or fulfillment of other tasks, for distinctive achievements or as encouragement for the future".

The incentive market in Central Europe has the potential to become an important part of the meetings and events industry. Most of the countries in this region have huge possibilities to organize outdoor activities because of natural features like the sea, lake districts, mountains or historical and cultural venues. National Parks, unique mountain caves or well-connected lakes and rivers are only a few examples of places where incentive trips can be organized. It is worth noting that The Masurian Lake District, which was nominated from hundreds of sites around the world, is one of the sites which will remain an official New Seven Wonders of World Nature Finalists.

Moreover, Central Europe is a place where not only nature can play its role, but also history is important. Traditional hospitality which has its origins in the Middle Ages is not only an attraction but also a tradition. Additionally, a huge potential of venues including castles, cottages, palaces and residences of kings, dukes and famous artists are the places where a professional incentive trip occur. Today, there are thirteen unique locations from the UNESCO World Cultural and Natural Heritage List which can be visited in Poland, included two sites, Krakow and Wieliczka, which were included in the first UNESCO list.

With regard to the latter-mentioned destination, the writer will describe Indian market. The Indian Convention Industry is currently at a nascent stage, contributing to only a small proportion of the world conventions' business. In terms of number of meetings, India has a share of 1% and in terms of delegate arrivals participation, 0.7% of the world figures. In terms of revenue figures, due to lack of agreement on the defini-

tion of conventions and conferences as well as absence of records, it is quite difficult to assign a value of this business in the national context. However, this study has tried to cover broad categories and segments of conferences taking place and the rough estimates peg the revenues between Rs. 4,000 & Rs. 5,500 Crores annually. According to TSA (2006), the entire tourism sector contributes to approximately 2.2% to the GDP and the convention tourism business, in turn, contributes 5-7% of the tourism revenues. Although this figure of 5-7% is at par with the other convention destinations, in volume terms, it is small given the potential of India (Institute of Management Bangalore 2011).

Poland has several tourist attractions which can be used as both a marketing tools and also as part of incentives programs. A city like Krakow is well-known to most European incentive organizers and they know this is an excellent place to host incentives as one of two Polish cities mentioned in Michelin Guide. According to the Guardian newspaper, Krakow is second-most interesting destination in the world after Sydney, and according to Orbitz reservation platform is among the seven most recommended world destinations. Beginning in 2010, the 200-year anniversary of Fryderyk Chopin's birth, plenty of special programs and events were coordinated by the Polish government for use by incentive planners. Many incentive programs were especially prepared around the 16th International Fryderyk Chopin Piano Competition in 2010. Incentive travel Poland should be considered in general as a part of the meetings industry. From this perspective, the second most important year in Poland was 2011 during which, from July 1st, Poland held the presidency in the Council of the European Union. Apart from the fact that it was another occasion to show how strong the Polish economy was, it was a chance to host many international meetings and events.

Finally, an event which is well-known in the meetings and incentive travel world: European Football Championships. According to the answers collected after conference calls, the first time when Poland was internationally mentioned as a interesting country for new incentive trips was 1990, after the collapse of Stalinism in Poland. The second-most important date is the year 2004, when Poland become a member of European Union. A huge change in Poland was noticed after the rapid development of low cost air carriers to many Polish destinations (i.e. Ryanair, EasyJet or Wizzair). These activities have helped to "open" up access to Poland in difficult recessionary times. The other important date mentioned by more than 40% of responders was 2007, when Poland become a member

of the Schengen Zone. Many incentive planners regarded this as very helpful in making travel to Poland easier. Thanks to all these activities, Poland, with its natural landscapes, national parks, mountains and sea regions became a magnet for new visitors.

In both India and Poland hospitality is seen as a particularly strong part of the national culture. Naturally Poland has not always been a highly-desired destination, but it now has a lot to offer to incentive planners in the two largest European outbound markets, the UK and Germany. These markets were the priority markets for the Polish Tourist Organization and the Poland Convention Bureau in 2010-2012. Since 2002, nine city convention and visitors bureaus have been established to specifically promote the meetings industry, including incentive travel to Poland. There are eight city offices in Warszawa, Kraków, Poznan, Wroclaw, Gdansk, Bydgoszcz, Torun, Katowice and one national bureau.

However, based on an analysis of secondary information as well as extensive interviews with several professionals during the study, it became apparent that India is at an 'inflection point' as far as the conventions and conferences business is concerned. With the emergence of India as a key economic hotspot, along with China, and the country's recent tourism boom (with an increase in inbound travel from several international destinations for leisure, business and medical tourism), convention tourism has enormous possibilities in the country. India's growing strength in the Information Technology arena, as well the booming civilian Airlines industry, has prompted prominent international bodies to host trade shows and conventions in the country. Similar prominence in the bio-technology area and manufacturing sector is also expected to bring convention revenues to the country in the coming years (Institute of Management Bangalore 2011).

The responses from international experts are summarized below. It is clear that with more investment in promotion to gain better recognition of the destination, complemented by well-educated, professional and motivated staff working in the convention bureau and PCOs now in place, there is considerable scope for Poland to grow as a top incentive destination. More than 70% of responders agreed that Poland and India both need to build a stronger image for the meetings industry to attract special attention to destinations as meetings and incentive travel destinations.

In summary, it was also mentioned that becoming a strong meetings and incentive player is not only taking care of image, but also investing in staff, consider-

ing professional attitude and working with groups of specialists. Taking into consideration geography and traditional Polish and Indian hospitality, Poland and India have significant potential, but must be reinvented and sold as a package. This requires close cooperation and coordination between national authorities, cities, industry organizations and incentive agencies at home and abroad.

## 5. MEETINGS AND INCENTIVE TRAVEL IN POLAND AND INDIA – OUTBOUND

In the context of the opportunity for Poland and India to become a rising star in the meetings and incentive world, first the writer will focus on the human aspect of travel. According to the research completed for this paper, more than 60% of the key players in the incentive market in Poland decided to put more emphasis on local attractions and try to organize reward trips within Poland instead of just abroad (see Chart 1). Of course, in the context of the incentive travel market, it is worth mentioning the fact that Poles are one of the most oft-travelling people in Europe, and thus while abroad they have a huge influence on the incentive travel market for Poland as well as the Polish image, including on the national economic situation. Incentive tourism is the most creative part of business tourism, and a fashionable and functional tool used by corporations to motivate staff.

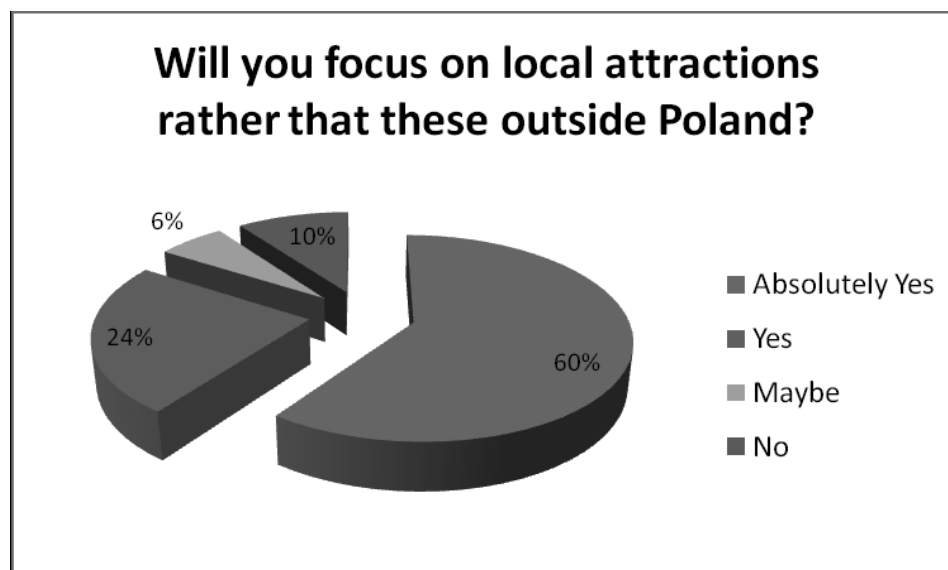
Taking into consideration three most popular ways of giving awards, (a) sending employers for a trip

(alone, with other colleagues or with their family); (b) giving a material award such as a car, computer, tickets or a pen; and (c) increasing the salary, giving a bonus or seasonal additional cash payment, it is important to place them in the desired order. Exploring the nature of the incentive travel and its definition as mentioned above, it should be remembered that incentive travel is not a form of business trip, but rather part of a motivation system run within an organization. A significant aspect, therefore, must be that the product quality is the most important element.

In relation to incentive travel, the developed world operates a so called the human resources model, strongly tied up with a management model defined as TQM -Integrated Quality Management. It is precisely here where, depending on employees' invention, effectiveness, revealing their new possibilities for a benefit of a firm, etc., incentive travel becomes an important element of comprehensive motivational system (Swiatecki 1999).

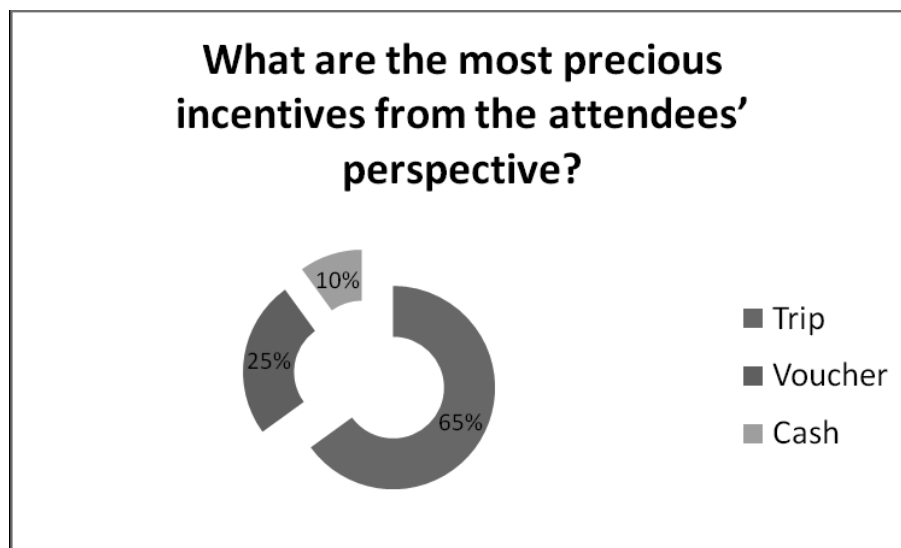
According to the interviews done in 2011 and 2012 with Indian and Polish meetings and incentive experts, an ordered list of awards that are most precious from the attendees' perspective can be created. Most selected a trip as their first choice, followed by a bonus such as a voucher, followed by a cash prize (Chart 2). These results show a general tendency of Indian and Polish organizations to use motivational strategies, but we also need to be familiar with the official term. Looking at the reasons of such choices, crucial is the fact that that generally Indians and Poles like travel-

Chart 1. The level of interest in local attractions



Source: author's own, based on survey.

Chart 2. The list of most precious incentives from the attendees' perspective



Source: author's own, based on survey.

ling. It can be very difficult to motivate staff working on a particular project or sportsmen fighting for a championship title, or students before examinations. But Poland and India are the places where new motivational strategies, leveraging meetings and incentive travel, are becoming increasingly popular. Quite often the persons responsible for promotion are looking for solutions that are interesting, flexible and that, above all, bring results. Undoubtedly, these activities include also incentive travel, which is faced from the very beginning with the main task of inspiring participants to greater action. Other elements which are used by managing staff in order to achieve a firm's goal may be considered. Besides incentive travel, state as well as private corporations reward their employees with bonus, coupons, and merchandise vouchers etc. as a part of their motivational strategies.

Everyday duties often cause an accumulation of stressful, conflict situations and can negatively influence on the results of work. Therefore, the employers are seeking various methods to ease arguments and they are absolutely determined to win positive interpersonal relations between their employees. Motivating elements constitute such solutions. However, it should be remembered that not every form of motivation eases conflict. Incentive travel that has rich programs, with physical activities and also those that enable the freeing of negative emotions, are more and more often used.

Controlled competition is advisable, as thanks to it, the rush to succeed increases, the rating of a firm rises, and the employees gain willingness to be engaged in

group activities and identify emotionally with a firm. Incentive travel is a marketing tool, which makes possible self development, working on improving a firm's results and also reducing conflict. Group incentive travel can also provide a kind of a test, following which participants learn more about themselves, as well as about the companions in the adventure. Apart from the improving relations with colleagues, the intensive travel performs an essential and important role. It is a motivation to further activity. It tries to mobilize the employees to bigger sacrifices, it gives them a chance to identify with a firm and it strives toward long term goals, i.e. to increase profit of a corporation.

The incentive travel is a marketing tool, which is most frequently mentioned as a form of reward. Coupons, certificates of merit or even president's personal thanks, are not as effective in motivating an employee as is professionally arranged incentive travel. Rewarding an employee in this way has an accurately determined objective and the persons responsible for planning such stays understand that the goal of the program is to mobilize a participant to work more actively. More than 82% of professionals involved in constructing such programs claim that incentive travel contributes to better motivation of the participants to work (Chart 3). Only 10% claim that it is not always like that. These answers show the exceptional effectiveness which the incentive travel enjoys among professionals.

Incentive travel is a key part of business tourism with its own rights. In the case of a normal group and

individual tourism, the issue of interpersonal relations in a group is less important, whereas in the case of business tourism, such interpersonal relationships are key. Communication in the incentive travel market is all the more important, because the whole motivation construction is based on it.

The main goal of the incentive travel is just stimulation to more active work to the benefit of an organization. As the financial resources invested for the activities may not at first sight bring measurable and immediate results, they are sometimes interpreted as an unnecessary expense. However, the research examining the impact of the incentive travel on the participants shows quite different results.

The goal of incentive travel is first of all to reward participants while putting them under a certain amount of pressure to qualify and thus win the trip. The methods and the forms are different but the professional organizers are very often looking for new and better ones. Polish and Indian organizers have new ideas which can be used by professionals from all around the world. The methods of using old Polish school games or traditional folklore dances to build a strong community or relationships are only examples.

The business tourism in its widest meaning is often also called the meetings industry, referring to the field of tourism which generates most profit and requires the biggest mobilization and the professional approach. The incentive travel beside the program and the recreational activities is set up, first of all, to provide participants with a unique experience. The goal is to create a new identity for a group of persons, to establish formal and informal links between them,

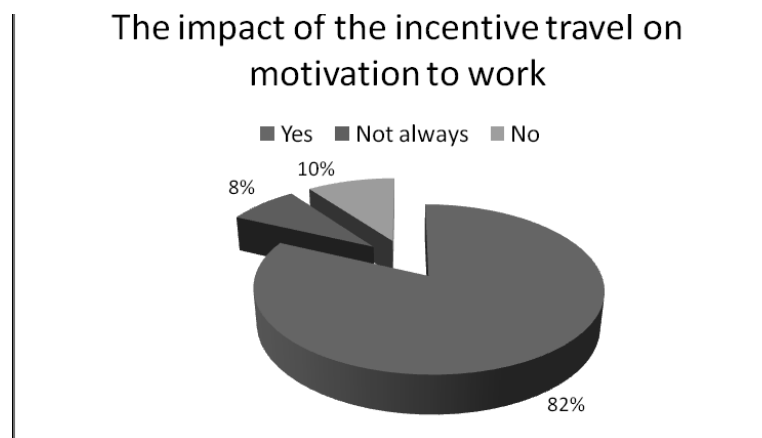
and to motivate them to further activity and to achieve common objectives.

Assuming that both Polish and Indian human nature is really open and motivational strategies during the incentive travel can become a part of the economic growth of Polish and Indian companies, it provides the basis to claim that, thanks to incentive travel, economic growth of Poland and India can be achieved. Having well-motivated staff is a chance for better results of a company, which in turn becomes direct income to the economies of Poland and India. Apart from the cash benefits it is also beneficial for overall quality of life. Due to travel, more and more Poles and Indians become true members of the global society. Poles and Indians are open to new projects and can learn quickly. Travelling and taking part in incentive travel allow for being in touch with new communities, countries, economies or cultural customs. This has a huge added value to Polish society and industry.

## 6. CONCLUSION

The future of incentive travel in Poland and India is strictly connected with a country's image. National Tourist Organizations, the Indian Convention Promotion Bureau and Poland's Convention Bureau, together with regional convention bureaus and in coordination with agencies, destinations and hotels, are these bodies that help create the image. Meetings and incentive travel are directly linked to the infrastructure which is available, and which is now well developed, in most parts of the Poland. This has been due to well-considered investment of the European Union and national funding of venues, roads, rail and airports,

Chart 3. The impact of the incentive travel on motivation to work



Source: author's own, based on survey.

which are all necessary to offer comprehensive incentive programs.

Apart from the knowledge about those places where a particular event can be arranged, presenting a professional approach is also important as a part of the process of establishing a brand in the incentive world. In this point it can be mentioned that Poland is an active partner in this field because of changes in the local and national infrastructure. There are cult places in the world, where bigger corporations have already arranged their incentive travels. There is an opinion that the incentive travel must end with success in well-known incentive destinations like New Zealand, Hawaii and Scandinavia. But in the case of Poland and India, we need to leverage traditional Polish and Indian hospitality, food and history. All these advantages give the answer to the question of what a huge influence incentive travel will have on the Polish and Indian economies.

The meetings industry, including incentive travel, is a key part in the national tourism strategy for 2009-2013 in Poland and 2010-2015 in India. All bodies responsible for promotion and building the image of countries, especially the Polish Tourist Organization and the Indian Convention Promotion Bureau, should and will focus on attracting business from the meetings industry for the next few years, which proves how important incentive travel is for the local economies.

It is worthwhile to take under consideration new players in this market. Poland and India in general have begun to compete in the international tourism market with the Americas, the Far East and Africa. India has attractive features that can be emphasized as it attempts to attract incentive travel business. Its multicultural image and the diversity of its climate and geography are chief assets in the goal of attracting an increasing part of the international incentive travel business, which offers the potential for tremendous financial profit for operators, transport providers, venues and hotels. Poland can play up its rich cultural attractions and storied history in attracting new tourists from the incentive travel field.

For both countries, these financial profits, in turn, will increase tax revenues for their governments to re-invest in the continued development of their respective tourism industries. Incentive travel is becoming a field in which not only attractions and venues matter, but also the organization of parallel training activities and conferences around an incentive activity is possible.

This trend results from two conditions. Firstly, it is useful for the firms, which are using a system

of staff rewards, because they present the incentive travel as an alternative type of event and this is how they avoid interference of the tax office. Secondly, during the motivation trip, an employer may reward selected employees and at the same time present the new strategies of the firm, show reports on the firm's activity, or present a new product.

Regarding incentive travel as a new tool in managing staff, the writer has found that these kinds of events need appropriate places and venues attractively situated, with the potential to offer optional services or activities either paid for by the responsible organization or the participating individuals if they wish to further personalize their experience. Besides, the objects should be perfectly equipped with regard to supporting conference and congress activities, as well as recreational activities.

Apart from the opinions mentioned earlier, three ideas which can be used in incentive programs in this part of the world may be considered. First of all, it is important to highlight the importance of historical and cultural incentive and meetings – a specialization mainly based upon the assets of the material culture of country, in which historical objects, castles, palaces, hotels and conferences, based on the international standard, are available. Legends and also traditional fables, tales and myths associated with the objects and places are the driving force for this quality of incentives and meetings. Secondly, green incentive and meetings – a specialization, which is based upon the values of nature, unique national parks, caves and valleys. This type of incentives and meetings can show how communication that focuses on shared participation. Admiring beautiful attractions, and getting acquainted with other people in such situations, enhances the experiencing of pleasant surprises that nature has to offer participants. Thirdly, modern incentives and meetings is a specialization particularly focused on the post industrial venues, and post-communism history. Histories from 1970s and 1980s, about Soviet times and the difficult political situation in Poland may allow for the chance to feel the cold war climate of those times. The Maharaja legends in India can be combined with games which enhance the mystique of that experience.

Incentive travel is a fast developing part of the meetings industry in Poland and India which generates far greater profit margins than other forms of tourism. Beside the expenses, which are born by organizers, we should remember about those borne by participants themselves. Quite often the tourists participating in the incentive travel allow themselves to indulge in

expenses which they would not normally consider if they were paying for the trip themselves. However, keeping in mind that the employer is covering the costs of a trip, they are eager to spend additional money for once in a lifetime experiences or acquisitions, which, under other circumstances, they would not buy.

The meeting industry is an exclusive form of tourism that enhances the development and motivation of employees. Incentive travel is exceptional, in that it derives from an employer rewarding team members for reaching a goal, while incentivizing them to continue to work harder than others they work with, to enjoy such rewards in the future. Considered from the perspective of Site (Society of Incentive and Travel Executives) – it is a tool of total management philosophy to utilize exceptional travel for motivation and/or rewarding the employees for their work exceeding their duties and bringing closer to the achievement of the firm's goals (Davidson 2003).

Incentive travel is a method of motivation, which allows for the possibility of mutual acquaintance of employees and creates international communication links. Poland and India, as new developing players in the market of business travel, can achieve a great deal and become motivation and incentive centres for Central and Eastern Europe and Asia. By numerous cultural and nature attractions we can attract even the most demanding groups and prove that our aspirations to be a strong partner for business travel, and especially in the incentive travel segment, are well justified.

It is worthwhile to consider incentive travel especially in times of crises. Poland and India in can both play important roles in next three years. According most economic indicators, the global downturn did not affect Poland to a serious extent, which has allowed the government to continue to make necessary investments in further professionalizing the tourism sector. The Polish economy is strong, but perhaps even more significantly, when ROI for corporations in 2013 and 2014 is considered, it is important to remember that these are years in which investments in the workforce will take place in Poland as well as in India.

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# A System of Country Market and Entry Strategy Choice: a New Holistic Model of Internationalization

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**Abstract:** The choice of foreign country markets and the selection of corresponding market entry strategies belong to classical questions in the international business research, which – despite their high relevance for business success – have not yet been consistently solved. The research in these fields is advanced and of high quality, though very fragmented and limited to very specific research questions (like Brouthers 2002, Lee et al 2010, Schwens et al 2011, Johanson/Vahlne 1977, Koch 2001, Morsch et al 2008). As a consequence, it rarely intends to develop a scientifically based holistic approach, theory or model which would support complex decision-making and analysis of these key questions of internationalization of a firm. As in the business practice these two decisions of a company’s internationalization are not taken in complete isolation, a joint analysis of market and entry strategy selection is seen as helpful in practice and is able to enrich research.

In this paper the author presents a conceptual model, which provides an extended and integrated explanation of the country market selection and entry strategy choice. The model creation was based on a multi-theoretical approach and on analysis of previous theoretical and empirical scientific work in the field. The Uppsala Theory was combined with the institutional based view, transaction cost economics and the concepts of “customer coordination need” and “systematic choice”. The paper ends with propositions of hypotheses for an empirical verification of the new model. An additional purpose of this work is to stimulate intensive discussion and research in creating a general theory of company’s internationalization, which is still missing.

**Key Words:** market selection, market entry mode, institution based view, psychic distance, customer coordination need

## I. INTRODUCTION, RESEARCH GAP AND PROBLEM DEFINITION

Research in the area of foreign market entry strategy has not been scientifically-based and holistic enough to lend itself to sophisticated decision-making. Single attempts were made on the way to such a holistic view (like Johanson and Vahlne 1977, Koch 2001). However their empirical proofs often contradict one another. Even profound meta-analytical studies (e.g. Morsch et al 2008) do not lead to a complex theory of internationalization of a firm. We see here the first research gap.

Although the theoretical perspectives used for analyzing both market choice as well as entry strategy selection are numerous and different, they are common in one feature: orientation on the offering and internationalizing firm. This even applies to the “eclectic” OLI approach of Dunning (1981), which is expected to give an extensive explanation for market entry strategy choice. However, ownership, internalization und localization advantages are “extensive” only in respect to the factors that describe the offering side.

The Uppsala School (Johanson and Wiedersheim-Paul 1975, Johanson and Vahlne 1977, 1990) analyzes

the choice of markets and entry strategies only from the internationalizing company's perspective as well. The preferences and requirements of foreign customers – which could also have implications for the market and entry strategy choice – are not considered. Hereby we define the second research gap as the missing consideration of the effect of foreign customer requirements and preferences by the company's internationalization (market and strategy choice) in international business research.

The influence and importance of the institutional environment for a firm's internationalization success is recognised both in market choice research (e.g. Schneider 1998) and entry strategy selection field (e.g. Meyer et al 2009). Previously, it was investigated which effect different kinds of institutional environments had on companies' choice of market entry strategies and new country markets. It was proposed, for example, to define an acceptable limit of country risks that a company is ready to take during its internationalization, to diversify risks or to choose entry strategies that minimize market risks. It was also advised to enter countries with similar institutional environments (e.g. low psychic distance, same level of formality of institutional environment, Johanson/Vahlne 2009) or to work in countries which provide institutional environments with some investment fostering features (such as strong intellectual property protection, Falvey et al 2009). The third research gap is that the institutional environment has usually been seen absolutely. The author proposes to apply a relative view of the institutional environment, always relating foreign and national institutions to each other. Based on the concept of "cultural circles" of Steingart (2008), initially proposed for more moral and socially responsible international business, we make a proposition to use "institutional proximity" as an important factor for successful and easy internationalization.

In order to solve the problems and weaknesses identified in the previous research, the author builds on the conceptual model based on the learning theory of internationalization (Uppsala School, Johanson and Wiedersheim-Paul, 1975 and Johanson and Vahlne, 1977), which is expanded by further highly relevant theoretical perspectives: the transaction cost economics model (Williamson, 1975, 1985), the institution based view (Meyer et al 2009), the concept of coordination/support need of a customer (Söllner 2007, Burgel/ Murray 2000) and the concept of systematic choice (Brouthers/Nakos 2005; Norman/Chaiwun 2003).

## 2. METHODOLOGY AND HYPOTHESES

In order to develop a model of internationalization which is more holistic, new and is able to give normative statements an extensive research of literature was conducted. We took the Uppsala learning theory of internationalization as a starting point of analysis and built hypotheses that would both prove and expand this famous theory by adding important explaining factors, such as "coordination need of a foreign customer", the "systematic choice" of new country markets, corresponding market entry strategies and "institutional proximity".

### 2.1: Offering firm related hypotheses

#### Psychic distance:

The learning theory of internationalization (Johanson and Wiedersheim-Paul 1975, Johanson and Vahlne 1977, 1990) was proven to be a normative model. The more psychically close a foreign market is to a home market, the easier it is for an expanding firm to act in this market. The expansion to more psychically remote markets should take place later, when the company has gained more experience. The internationalization according to this logic was proven to lead to better results in foreign markets (Delios & Beamish, 2001; Li, 1995; Luo & Peng, 1999; Barkema, Bell, & Penning, 1996).

However, the normative strength of this phenomenon is not always proven, and also Johanson und Vahlne (1990, p. 1421) admit that the connection between the sequence of market choice and the psychic distance is becoming weaker (but not unimportant).

Among these reasons, it should be investigated whether the interconnection of these two factors really exists and has an impact on performance in foreign markets.

*H1.1. Expansion performance will be better, if a company first enters psychically close markets.*

*H1.2. The higher the degree of internationalization experience, the better the chance that the internationalization performance is going to extend to more psychically remote markets.*

The basic arguments of the internationalization sequence of the Uppsala School named before contradict an empirically proven paradox of psychic distance (O'Grady/Lane 1996; Evans/Mavondo 2002). O'Grady and Lane (1996) found e.g. that companies – despite following the logic of the Uppsala School – were not successful in psychically close markets at the beginning of their internationalization. The authors

explain it by the managers' expectations that the foreign market is very similar to the home one. Because of this reason, some critical differences in markets were not recognized and therefore not considered in important decisions. On the other hand, while acting in psychically remote markets, the managers are much more attentive and sensible to market differences and reflect them respectively in their market strategies.

Based on these arguments the following hypothesis is formulated:

*H2.0: Company's performance is lower in psychically close than it is in remote markets.*

If several foreign country markets have a similar psychic distance to the home market, then it is expected, that the managers' will perceive market conditions to be also very similar, so that their company will select the same market entry strategy for these markets. This would mean that – in contrast to the learning theory of internationalization – a foreign market could be entered immediately with a production affiliate, if this strategy is already applied in another market which has a similar psychic distance. This is summarized in the following hypothesis:

*H3.0: The more similar the psychic distance of several country markets to the home market are, the higher the probability is that the same market entry strategy will be applied for these markets.*

There is no consensus in the business research about the relation between the psychic distance and the choice of high and low commitment entry strategies in foreign markets. The research results are reached from a positive correlation (the higher the psychic distance, the higher the commitment level of a market entry strategy – Padmanabhan and Cho's 1996) to a negative correlation (the higher the psychic distance, the more important it is to reduce the risks and costs of foreign engagements and therefore the market entry strategies with low commitment are chosen – Kogut & Singh 1988, Gatignon & Anderson 1988, Evans et al 2008). Corresponding to the above-mentioned arguments, the following two hypotheses are formulated:

*H4.1: There is a negative correlation between psychic distance and commitment level of a market entry strategy.*

*H4.2: There is a positive correlation between psychic distance and commitment level of a market entry strategy.*

The systematic choice of country markets and market entry strategies:

The systematic market choice is a relatively new concept in economic practice and research. A systematic choice of country markets is, unfortunately, still something new for companies, as the markets are often chosen without systematically applying any objective method. The research has developed many theoretical models of market choice in order to help companies making a better market choice. However, the empirical investigation of the application of systematic approaches of market selection by companies has not long been a focus of the research. The reasons for that lie in the fact that the operationalization of the variable „systematic choice“ is very difficult. Recently the first scientific propositions were made in this respect by Norman/Chaiwun 2003 and Brouthers/Nakos 2005. Furthermore, Brouthers and Nakos (2005) were able to empirically prove the existence of a positive correlation between a systematic choice of markets and company success on these markets. It could be important to analyze whether different industry specific characteristics could affect the above-mentioned relationship and eventually diminish the performance effect of a systematic choice (Brouthers/Nakos, p. 375). This question will be analyzed with the example of the whole supply chain of the packaging industry (granulate producers, packaging machines producers, foil producers, packaging companies, etc.). Furthermore, it is important to analyze whether the systematic choice has an effect on performance in a foreign market in the example of the packaging industry. The corresponding hypotheses follow:

*H5.1: The more systematic the market choice is, the better is the company performance in this foreign market.*

*H5.2: The more systematic are the market entry strategies that are chosen, the better the company's performance is in this foreign market.*

## **2.2: Customer related hypotheses**

### **The coordination need of a customer:**

The previous research in the field of company internationalization ignored the role of coordination need of foreign customers in the choice of appropriate market entry strategies and country markets. The leading theories that explain the choice of market entry strategies and inspire, direct and profoundly affect the research in this field (Dunning 1977, 1979, 1981, 2001, Dunning/McQueen 1981; Johanson/Wiedersheim-Paul 1975, Johanson/Vahlne 1977, 1990) focus on the company perspective. However, in this situation important questions are missing: 1) are the needs and

requirements of foreign customers for a certain type of coordination (Williamson 1991, Söllner 2003, 2008) of the mutual transaction fulfilled by the selected market entry strategy and 2) which affect on performance does a fit or misfit between the coordination requirements of a customer and the management response of a company have? Have the new markets been chosen according to this fit or misfit?

The coordination needs of a customer are defined here by his or her need for a certain type of a market entry strategy – from market to hierarchy – which should coordinate the mutual transaction and allow the creation of a business relationship or the execution of a single standardized transaction. The management response of a company is defined here as the chosen market entry strategy, which leads to creating a relationship or a single transaction. The first theoretical approaches to expand the theory of market entry choice by coordination need of a customer already exist (Burgel/Murray 2000, Söllner 2007), but a big research interest and empirical validation are – despite of practical importance – still missing.

This writer postulates that when the coordination needs of a foreign customer (a need/wish for building a long lasting relationship (relationship buying) or a single transaction (transaction buying) correspond to the management response of the expanding company (the choice of a relationship selling of transaction buying enabling entry strategy), then the performance in the foreign market will be maximized. This means that when both transaction partners: (1) wish to have a low commitment entry strategy, which makes sense in the case of standardized simple transactions, or (2) wish to have a high commitment entry strategy which leads to building a business relationship, then this fit would lead to better results on a foreign market. In case of a misfit (a customer needs a different entry strategy than a company has chosen) the performance results of an expanding company would be worse, or the transaction will not take place at all. Based on this argumentation the following hypotheses are formulated:

*H6.1: When a customer is practising transaction buying (unproblematic transaction, they need a low commitment entry strategy of an offering firm) and the expanding company is practising transaction selling (i.e. it is choosing the respective low commitment entry strategy), then the expanding company will have better performance in the foreign market when compared to a case where there is a misfit.*

*H6.2: When a customer is practising relationship buying (problematic transaction, they need a high*

*commitment entry strategy of an offering firm) and the expanding company is practising relationship selling (i.e. it is choosing the respective high commitment entry strategy), then the expanding company will have better performance in the foreign market when compared to a case where there is a misfit.*

*H7.1: When a customer is practising relationship buying (problematic transaction, they need a high commitment entry strategy of an offering firm) and the expanding company is practising transaction selling (i.e. it is choosing the low commitment entry strategy), then the expanding company will have worse performance in the foreign market when compared to a case where there is a fit. (ineffective)*

*H7.2: When a customer is practising transaction buying (unproblematic transaction, they need a low commitment entry strategy of an offering firm) and the expanding company is practising relationship selling (i.e. it is choosing the high commitment entry strategy), then the expanding company will have worse performance in the foreign market when compared to a case where there is a fit. (inefficient)*

*H7.3: In the case of a misfit between the coordination needs of a customer and management response of an expanding firm, then no transaction will take place and the market will not be entered.*

Furthermore, it is important to take into consideration whether the coordination need of foreign customers are already fulfilled by other offering companies. Especially in the case of problematic transactions, where a customer prefers to build a relationship (relationship buying), the existing relationships serve as additional market barriers for expanding companies and have therefore an effect on the success of its market entry. Therefore, the following hypothesis is formulated:

*H8.0. In international problematic transactions (from the point of view of the customer) an expanding company will have worse performance if a foreign customer already has a business relationship with another company.*

### **2.3: Sequence of decisions about market and entry strategy choice**

It is also important to analyse the relationship between the choice of foreign country markets and the choice of corresponding market entry strategies. Previous research paid little attention to the sequence of these decisions and their effects on each other and the challenge has, until now, not clearly been solved.

Today different views exist on this point:

1. These decisions are made fully independent of each other (this could be concluded based on the fact that the research on market choice and entry strategy selection exists almost fully independent of each other). Explicit recognition that both decisions are a part of one decision making process is very rare (Koch, Adam 2001).
2. The choice of market entry strategies is made after the choice of appropriate country markets (Cundiff, and Hilger, 1984; Connolly, 1987; Ball, and McCulloch, 1993; Johansson, 1997; Root, 1998; Valdani, and Bertoli, 2006) and is respectively affected by it.
3. The choice of new country markets is made after the choice of appropriate entry strategies (Hart, Webb and Jones 1994) and is respectively affected by it.
4. The decisions take place simultaneously and affect each other (Bell 1997).

Although the view that the choice of countries and entry strategies should take place simultaneously and be coordinated, is not a generally accepted view in the internationalization research. However, the writer supports this coordination and postulates that such coordinated and interdependent choice process would lead to better performance results:

*H9.0: When the choice of markets and entry strategies takes place simultaneously and is coordinated, the internationalization performance will be better than in other cases.*

## 2.4: Institutional proximity

In order to ease and improve the internationalization performance we propose to use the concept of institutional proximity. Based on the concept of “cultural circles” of Steingart (2008), initially proposed for more moral and socially responsible international business, we argue that when companies internationalize to other countries that have similar formal and informal institutions to the home market, it would lead to an easier and more successful internationalization, as values and norms are shared between transaction partners. Also, they have a mutually understandable formal institutional environment. The corresponding hypothesis is:

*H10: The internationalization performance is better when a company internationalizes to institutionally proximate countries.*

## 2.5: Control variables

Control variables are needed in order to differentiate the influence of previously defined influence factors from possible effects of other variables and circumstances. In this way the research results are more reliable and free from systematic errors. The literature in this field of research (e.g. Chang et al 2012, Johnson et al 2012, Sin et al 2005) usually uses the company’s size and industry affiliation as important control variables, which the writer also proposes to use in this work.

The figures 1 and 2 summarise the analyzed relationships and performance relevant factors.

Figure 1: Performance relevant factors

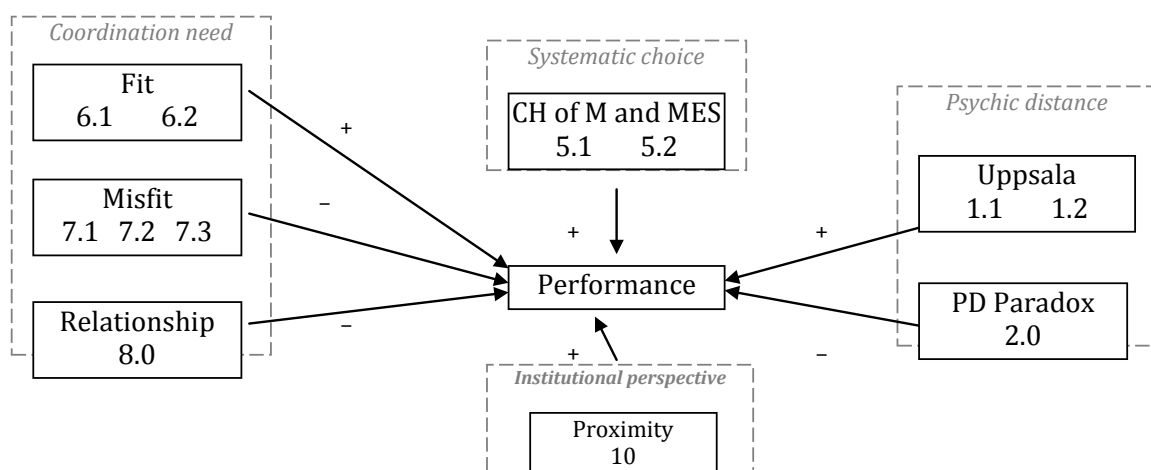
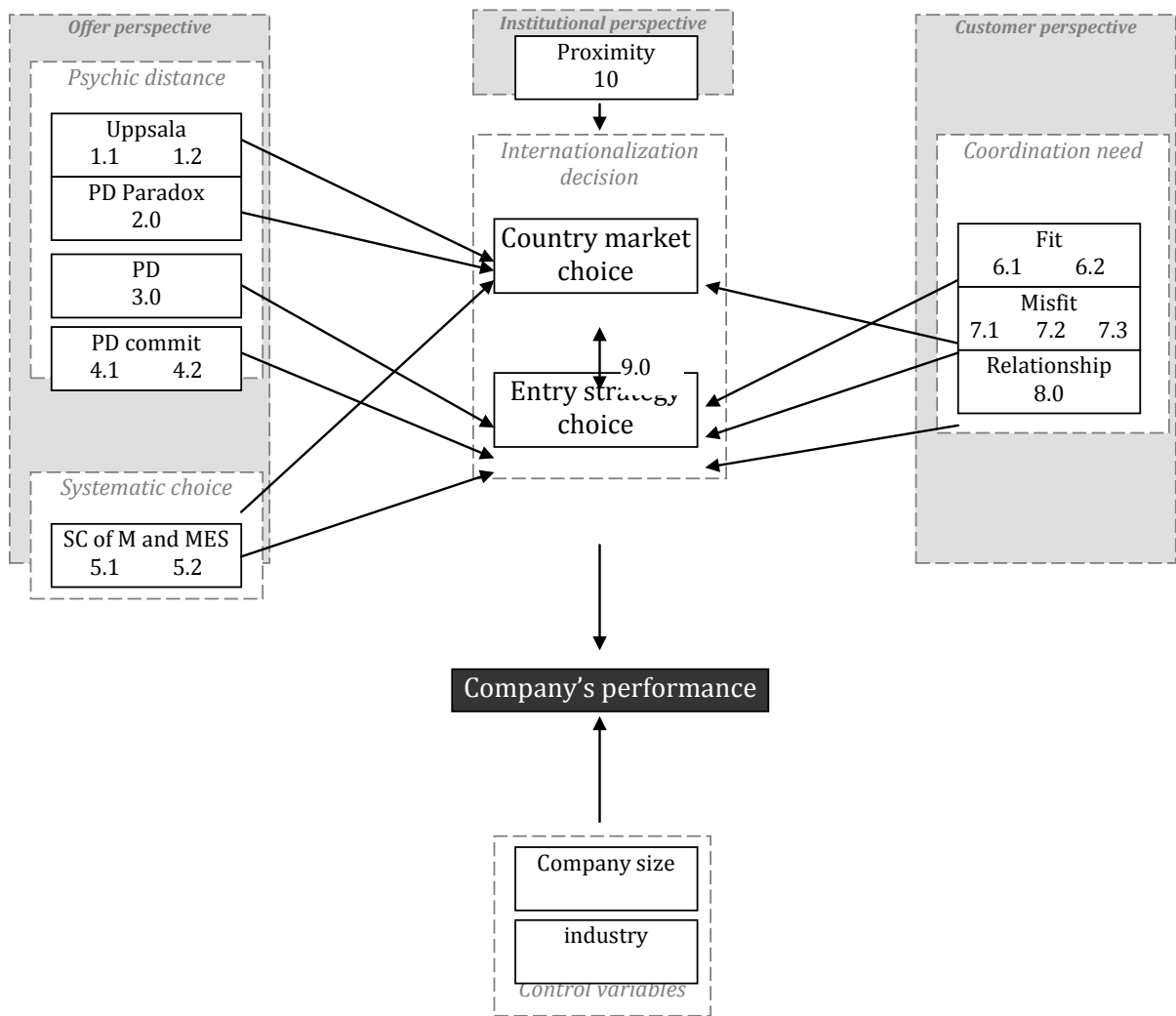


Figure 2: Visualisation of analyzed relationships



The optimal cases for the best performance of a company in a foreign market will be shown in the following summary (figure 3) of all combinations of three main groups of factors: psychic distance, coordination need and systematic choice.

### 2.6: Operationalization

The proposed operationalization of variables is available upon request.

Figure 3: Combinations of psychic distance, coordination need and systematic choice

	Offering firm (RM)				Offering firm (TM)			
	PD low		PD high		PD low		PD high	
	Syst	Not syst	Syst	Not syst	Syst	Not syst	Syst	Not syst
Customer RM								
Customer TM								

RM – Relationship management  
 TM – Transaction management  
 PD – Psychic distance

Syst – Systematic choice  
 Unsyst - Not systematic choice  
 Grey marking – best performance

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# Innovation Economy and Higher Education in Ukraine

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**Abstract:** This paper is devoted to the study of problems of innovative development of the economy and higher education in Ukraine, the basic model of learning in higher education and the model of sustainable development. As the author has noted, today Ukraine is still dependent upon a resource-based economy, in spite of the shift away from raw resource dependency to that of a knowledge based economy leveraging technological innovation in most Western nations. The author postulates to what extent Ukraine can achieve such a similar shift given its current tertiary-level educational characteristics.

**Keywords:** innovative economy, elite education, innovative learning models.

## I. INTRODUCTION

The strategic direction of the economy of Ukraine is emblematic of an innovative way of development. The relevance of this development is due to the rapid growth of the influence of science and technology for social and economic processes taking place in the last 20 to 30 years.

Modern economy, economists, sociologists and political scientists in recent years have referred to the knowledge economy, the innovation-driven economy and society as a 'society of knowledge'. In today's society the leading innovative economy plays a significant role in higher education related to the production of knowledge and training that are composed of high-tech, high-tech information analysis methodology and personnel qualifications. Innovators create new technological models, systems, they implement innovative projects, apply new approaches, new ideas and enrich the theory. The knowledge and education of independent perspectives, along with the implementation of economic reforms in the country, make this subject of research very important.

Problems of development of innovative economy in Ukraine and the role of education are studied by Ukrainian scientists A.C.Galchinsky, S.V.Lovochkin, V.P.Seminozhenko, L.I.Fedulova, foreign scholars G.Ashin, L.Berezhnova, S.Glazyev, P.Karabuschenko, R.Rezakov, A. TORKUNOV, J. Field, and others. Problems of transformation of education to innovative development in a positive manner characterize the work of Ukrainian scientists V.P.Andruschenko, I.A.Zyazyun, M.Z.Zgurovsky, V.G.Kremen, M.I.Mihalchenko, M.F.Stepko and others.

In the research works of the scientists it is stressed that innovative transformation in the 'knowledge economy' raises new demands for the methodological, ideological and systemic training of highly qualified specialists. The combination of these innovative activities suits the requirements of higher education, which has recently become an important basis for further development. Thanks to this reform of higher education, there will be new impulses of development. This study focuses on innovative reform in higher education, and specifically those reforms in the Ukrainian economy.

## 2. OBJECTIVE

The purpose of this paper is to study of problems of higher education in Ukraine and assess training priorities of economic direction.

## 3. RESEARCH FINDINGS

An innovative economy today is replacing the industrial age. Strategic resources of the twenty first century are knowledge and the skill of the person using that knowledge. An important aspect of globalization in society is expanding the personal capacity of professionals. Already it is impossible to create a closed system, and the model (such as politics, economy, culture, science, education, etc.). These models have to be open to develop harmoniously in the global system, and must be inclusive of the link between nature, society and people.

The future of Ukraine should be determined not only by natural resources and intellectual potential but also by the level of development of science, education, and high technology. The competitiveness of the economy is measured by these parameters, as is the country's place in the modern world.

The twenty first century is characterized by significant socio-economic changes, which are largely driven by advances in science and technology. In today's world, knowledge in various scientific fields, and their effective implementation, are important tools for the realization of human potential, socio-economic development. This type of knowledge enhances competitiveness and improves the quality of life. It follows that for the innovation economy, the effective use of knowledge is necessary for optimal management.

Knowledge is the intellectual capital that, in contrast to other resources (natural, human, financial), is not lost, but instead is developed and expanded. Wealth, particularly natural resources are always limited, but knowledge (scientific information, scientific discoveries) are endless. The production of knowledge, including qualitative research is the main source of economic development of any country. In most developed countries, public funding of education account for a significant share of GDP. In Norway and Denmark it accounts for 8.3% of GDP, in the United States 5.7%, and in India 3.5% (Schedrina, 2003).

In Ukraine in the early twentieth century, the share of public expenditure on education to GDP reached 5.6%. Since independence, the figure was an average of 5.8%. Over the last decade it has ranged from 4.3% in 1999 to 8.4% in 2010 (Komarova, 2011). But

today, in light of budgetary reforms and budget cuts to education, science has very limited prospects. In 2011, total research funding from the state budget amounted to only 0.5% of GDP, although the Law of Ukraine "On science and the scientific and technical activities" indicates that the state budget expenditures on science should be 1.7% of GDP. Incidentally, the framework of the European Union allowed for the adoption of a benchmark for determining the funding of science of at least 3% of national GDP (Ilyashenko, 2010).

International experience indicates that the nations which contributed the highest levels of overall (not per capita) spending to science were the USA, at 35% of global spending on science, European Union with 24%, Japan with 12% and China at 11%.

With our lack of investment in education and science, we are reducing its competitiveness. For the development of the knowledge economy, the innovation economy requires changes in the mass consciousness, which focuses on the fact that the wealth of Ukraine is in the mind, not in the material. However, in recent years some of the Ukraine's political elite does not believe that the problems of education and science are so vital for Ukraine. Nevertheless, the country can be competitive only when dependency on raw economics changes to the embracing of the knowledge economy.

Education and science are not just one of the sectors of the market economy; instead they need public support and preferences. To create radical changes the role of education and science in our society, which is becoming a knowledge society, must be more receptive. This is the only way out of the impasse. With the formation of an innovative economy education plays an extremely important role. This is one of the important factors in the growth of social identity, moral values and democracy. Moreover, as technologies improve the market prefers more qualified individuals. Quality education, improvement of skills and generation of new ideas are the basis for effective socio-economic development and market relations. The production of knowledge is the main source of economic development.

For Ukraine today the challenge is facilitating a major shift from a resource-based economy to an innovation economy. But still the country's budget – by more than half – depends on the raw material industries. Even in the United Arab Emirates, which has returned to a knowledge economy and innovation-based economy, this dependency has been reduced. This has provided for such a medium of knowledge that scientific talent has grown from well educated youth.

The UAE has provided for the means to train and/or education their youth (usually for free) in the top elite universities in the world (Ashin, 2008). For Ukraine there is no need to send gifted children to expensive foreign elite universities. These institutions of elite higher education already exist in Ukraine, but they need to be maintained and to develop, and to aim for a quality education of gifted and talented youth using the programs of state financial support for furthering their education.

An important thing is that for these professionals trained at elite universities there is a demand. This requires investment in science and high-tech sectors of the economy. Therefore, we need modern laboratories, industrial parks, high-tech enterprises, etc. But if there is no demand for scientists and specialists in the country, even Ukrainians who have won international science competitions will continue to go abroad, where there are laboratories and other forms of high technology, to improve their skills and status.

If Ukraine wants to develop an innovative economy and a competitive edge and compete on world markets with intelligent products, it must promote the development of a creative environment, using science, culture and education, as an economic resource. A high level of innovation capacity of the country is an important condition and is a generalized characteristic of competitiveness. In today's world, there is an intense competition for people with innovative qualities and creative thinking. Our system of higher education, especially among the elite schools, is designed to educate people of innovation, and this requires not only strong support at the state and regional level, but also a change in the system of higher education. To determine the priorities of innovation in higher education, it is appropriate to consider how to develop the Ukrainian higher education system. First, the author would like to present a brief historical account of the development of this system:

*First stage:* pre-revolutionary education (up to 1917). Education was divided into 4 degrees (parochial schools, county schools, high schools, universities) distribution semester course of study, the presence of the three faculties of the university (philosophical, medical and legal) education paid (Sukhenko, 2011);

*Second stage:* the Soviet system of education (from 1918 to 1991). The higher education system has several key features: access to free education, a high level of standardization, the rigidity of educational programs; separation of the educational process of the scientific work, the system of distribution of graduates; ideological burden (Sukhenko, 2011);

*Third stage:* the current stage is divided into two periods:

- from 1993 to 2005: (prior to the signing of the Bologna agreement). The main features of this period: reduction in state funding, increasing the share of expenditure on services in the education system, reducing the number of budget places in public universities, a strong demand from the public for the services of higher education;
- from 2005 to the present: (the modernization of higher education). The main characteristics of this stage: higher education in Ukraine is becoming massive, rapidly commercialized; universities have become a market actor, which has led to a change in the learning process, the emphasis in vocational education is shifting from the transfer of qualifications to the set of competencies;

General (legal, institutional, financial, etc.) foundations of the modern system of higher education determined by the Law of Ukraine "On Higher Education" from 17.01.2002, have indicated the necessity of reforming education, including higher education. These aims are considered in the economic reform program for 2010 – 2014, "Prosperous Society, Competitive economy, Effective State" from 02.0.2010g. In particular, in the program it is indicated that the main goal of educational reform is to increase the competitiveness of Ukrainian education, the integration of the national education system in the common European educational space, to improve the system of education management, and to improve the quality and accessibility.

The list of key legislation, the adoption of which is necessary for the implementation of the program of economic reforms, in particular in the field of education, is the development of the draft Law of Ukraine "On Higher Education" (new version) to meet the requirements of the Bologna process, the European standards and approaches to the provision of quality education services etc. In order to ensure the improvement of the functioning and development of innovative education in Ukraine, to improve the quality and accessibility of innovative education, and to integrate into the European educational space (while preserving the national traditions and achievements of the Decree of the President of Ukraine of 30.09.2010 "On measures to ensure the priority of education development in Ukraine") 2011 in Ukraine was declared the 'year of education and the information society'.

In 2010, the Cabinet of Ministers of Ukraine of 27.08.2010, № 1728, approved the Action Plan for

the development of higher education until 2015. The plan contains some strategic and substantive provisions aimed at reforming the higher education system.

In 2011, Ukraine developed and introduced a draft “National Strategy for the Development of Education in Ukraine” for 2012-2021. Unfortunately, peer evaluation of the educational monitoring centre, with the support of the International Fund “Renaissance”, determined that this project has not been considered as strategic and requires further review and processing. But, the main directions of innovative modernization of higher education systems were identified by the Project.

Within the list of the main aims of innovative modernization of the Ukrainian system of higher education, the most important processes are the training of highly qualified personnel (including, for science) and the development and implementation of innovative models of education, particularly pedagogical innovation. Additionally, there is important update content and teaching models.

The models of teaching in higher education institutions, merit analysis of the main types of these models, and their advantages and disadvantages has been conducted by Sukhenko (2011). The very model of learning is seen as a scheme or plan of action for the implementation of the teacher training process. Learning models differ among different types of interaction of teachers and students manifested in different ways of thinking and acting, which causes various functional activities and teachers and students. These are the models:

- *Model assembly line*: the classical model, which was formed on the basis of European (German) University, which dominates almost all higher educational institutions of Ukraine. The model focuses on the implementation of the principle of fundamentalism (systematization of knowledge, theories, world views, etc.). The obvious drawback of this model is the lack of practical tools of knowledge, which leads to excessive theorizing of information;
- *Project-game model*: built on the model of the American University after World War II. The model of practice-oriented education project (fixing the students for the cathedral project, the formation of individual programs of study). An important advantage of this model is the intensity. A disadvantage is that it considers only one situation, an organization that leads to the inability to operate in the student other conditions, i.e. specialization;
- *Network model*: this is a search model, which is

at the design stage. This experimental model was developed and run in a number of educational institutions, but as a holistic model it does not actually take place. In this model, the presence of isolated “network of educational space,” in which a particular person (student) becomes the subject, which itself defines its own version required for his education. The main disadvantage of this model is the consumer attitude of students to information resources (online resources);

- *Model of problem-based learning*: in the “autopoiesis.” The model described by Professor AM Bekareva, forms in the future specialist needed creativity, thus changing the training strategy - a strategy “to the problem of knowledge” on the strategy of “the problem of knowledge.” The disadvantage of this model is the fact that the model did not take place as a holistic, despite its development and launch of a number of higher education institutions (Bekarev, 2005).

Review and evaluation of these models provides the conclusion that any model of learning in higher education should be based on the key principles of sustainable development of society and its fundamental basis should be a system of general laws of nature (Kuznetsov, 2001).

An innovative learning model, in terms of content and better quality, should be aimed at building a future specialist synergistic perception of the world, providing the experience of creative self-employment and the creation of conditions for the growth and expansion of personal experience.

Innovation in this model is shown by its flexibility in allowing for change of purpose, by educational requirements and by its paradigm. The purpose of education is not only the acquisition of new knowledge and skills, but also to develop the ability to navigate in the new conditions of life, determined by the ever-increasing complexity of the world, to make intelligent decisions and take responsibility for them. The new paradigm of education involves the development of capacities for creativity, for various forms of thinking, to cooperate with others, the formation of knowledge and interest in the needs of their “prey.”

In an innovative new model of teaching philosophy of teaching is the transition from lecture to the promotion and monitoring of self-study and research students (not teach a man, but a man learns). A key principle of learning is to “create” instead of “repeat”, and classes even as early as high school should be co-creative, should foster collaborative thinking, partnership.



Today's students need to be focused on new creative challenges and opportunities that they can apply in practice, in the real world market housekeeper.

The characteristics of the innovation economy of the future require that professionals have diverse skill sets (he or she should be able to create and implement a projects within future operating systems, be able to explore, analyze, make, implement solutions of various problems in any area of the economy) and also have the modern higher education of the type that provides the know-how to obtain this skill set.

#### 4. CONCLUSION

Thus, in defining the main challenges of innovation development of the economy of Ukraine the important role of knowledge in the preparation of highly qualified (elite) can be seen, as can the need for new quality of higher education. Therefore, to speed up the innovation process in the economy, it is necessary to modernize the Ukrainian system of higher education and to a large extent the development and implementation of innovative models of learning in higher education designed to prepare elite cadre.

The innovative training model should be based on the principles of sustainable development, based on the general laws of natural science, and should be aimed at developing future specialists with new qualities in demand innovative economy.

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# The Measurement of Impacts of External Financing on The Risk Level of Viet Nam Real Estate Industry During and After The Global Crisis 2007-2011

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**Abstract:** This research paper analyzes the impacts of external financing on market risk for the listed firms in the Viet nam real estate industry, esp. after the financial crisis 2007-2009. First, by using quantitative and analytical methods to estimate asset and equity beta of total 15 listed companies in Viet Nam real estate industry with a proper traditional model, we found out that the beta values, in general, for many institutions are acceptable. Second, under 3 different scenarios of changing leverage (in 2011 financial reports, 30% up and 20% down), we recognized that the risk level, measured by equity and asset beta mean, decreases when leverage increases to 30% and vice versa. Third, by changing leverage in 3 scenarios, we recognized the dispersion of risk level increases (measured by equity beta var) if the leverage increases to 30%. Finally, this paper provides some outcomes that could provide companies and government more evidence in establishing their policies in governance.

**Keywords:** equity beta, financial structure, financial crisis, risk, external financing, real estate industry

## 1. INTRODUCTION

Financial system development has related to the economic growth, throughout many recent years, and Viet Nam real estate industry is considered as one of active economic sectors, which has some positive effects for the economy.

This paper is organized as follow. The research issues and literature review will be covered in next sessions 2 and 3, for a short summary. Then, methodology and conceptual theories are introduced in session 4 and 5. Session 6 describes the data in empirical analysis. Session 7 presents empirical results and findings. Next, session 8 covers the analytical results. Then,

session 9 presents analysis of risk. Lastly, session 10 will conclude with some policy suggestions. This paper also supports readers with references, exhibits and relevant web sources.

## 2. RESEARCH ISSUES

We mention some issues on the estimating of impacts of external financing on beta for listed real estate companies in Viet Nam stock exchange as following:

Issue 1: Whether the risk level of real estate firms under the different changing scenarios of leverage increase or decrease so much.

Issue 2: Whether the dispersed distribution of beta values become large in the different changing scenarios of leverage estimated in the real estate industry.

### 3. LITERATURE REVIEW

Black (1976) proposes the leverage effect to explain the negative correlation between equity returns and return volatilities. Levine (1991) said liquid markets can enable investment in long-term investment projects while at the same time allowing investors to have access to their savings at short-term notice. King and Levine (1993) stated financial institutions and markets allow cross-sectional diversification across projects, allowing risky innovative activity.

Peter and Liuren (2007) mentions equity volatility increases proportionally with the level of financial leverage, the variation of which is dictated by managerial decisions on a company's capital structure based on economic conditions. And for a company with a fixed amount of debt, its financial leverage increases when the market price of its stock declines.

Reinhart and Rogoff (2009) pointed the history of finance is full of boom-and-bust cycles, bank failures, and systemic bank and currency crises. Adrian and Shin (2010) stated a company can also proactively vary its financial leverage based on variations on market conditions. And Marcelo (2010) stated that temporary shocks are relatively more important for low leverage firms.

Last but not least, Sanjai, Brian and Jun (2012) found out the Z-score reveals that financial firms engage in excessive risk-taking mainly through increased leverage.

Finally, financial leverage can be considered as one among many factors that affect business risk of consumer good firms.

### 4. CONCEPTUAL THEORIES

The impact of financial leverage on the economy

A sound and effective financial system has positive effect on the development and growth of the economy. Financial institutions not only help businesses to reduce agency problems but also enable them to enhance liquidity capacity and long-term capital.

In a specific industry such as real estate industry, on the one hand, using leverage with a decrease or increase in certain periods could affect tax obligations, revenues, profit after tax and technology innovation and compensation and jobs of the industry. Banks

nowadays offer many leveraged products to business sector and help firms grow.

During and after financial crises such as the 2007-2009 crisis, there raises concerns about the role of financial leverage of many countries, in both developed and developing markets. On the one hand, lending programs and packages might support the business sectors. On the other hand, it might create more risks for the business and economy.

### 5. METHODOLOGY

In order to estimate systemic risk results and leverage impacts, in this study, we use the live data during the crisis period 2007-2011 from the stock exchange market in Viet Nam (HOSE and HNX and UPCOM).

In this research, analytical research method is used, philosophical method is used and specially, leverage scenario analysis method is used. Analytical data is from the situation of listed real estate firms in VN stock exchange and current tax rate is 25%.

Finally, we use the results to suggest policy for both these enterprises, relevant organizations and government.

### 6. GENERAL DATA ANALYSIS

The research sample has total 45 listed firms in the real estate market with the live data from the stock exchange.

Firstly, we estimate equity beta values of these firms and use financial leverage to estimate asset beta values of them. Secondly, we change the leverage from what reported in F.S 2011 to increasing 30% and reducing 20% to see the sensitivity of beta values. We found out that in 3 cases, asset beta mean values are estimated at 0,441, 0,423 and 0,456 which are negatively correlated with the leverage. Also in 3 scenarios, we find out equity beta mean values (0,927, 0,889 and 0,961) are also negatively correlated with the leverage. Leverage degree changes definitely has certain effects on asset and equity beta values.

### 7. EMPIRICAL RESEARCH FINDINGS AND DISCUSSION

In the below section, data used are from total 45 listed real estate companies on VN stock exchange (HOSE and HNX mainly). In the scenario 1, current financial leverage degree is kept as in the 2011 financial statements which is used to calculate market risk (beta). Then, two (2) FL scenarios are changed up to

30% and down to 20%, compared to the current FL degree.

Market risk (beta) under the impact of tax rate, includes: 1) equity beta; and 2) asset beta.

### 7.1 Scenario I: current financial leverage (FL) as in financial reports 2011

In this case, all beta values of 45 listed firms on VN real estate market as following:

Table 1. Market risk of listed companies on VN real estate market

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage (F,S)
1	API	1,692	1,586	RCL as comparable	6,3%
2	ASM	1,505	0,526		65,0%
3	BCI	1,203	0,542		55,0%
4	CCI	0,481	0,147	UIC as comparable	69,4%
5	CLG	0,387	0,093	UIC as comparable	75,9%
6	D2D	1,315	0,484		63,2%
8	DLG	0,576	0,191	SC5 as comparable	66,9%
9	DTA	0,977	0,467	RCL as comparable	52,2%
10	DXG	1,444	0,456		68,4%
11	HAG	0,863	0,403		53,3%
12	HDC	1,191	0,427		64,2%
13	HDG	1,626	0,635		61,0%
14	IDJ	1,202	0,779	API as comparable	35,2%
15	IDV	0,429	0,083	RCL as comparable	80,7%
16	IJC	0,426	0,124	BCI as comparable	70,9%
17	ITA	1,168	0,780		33,2%
18	ITC	0,412	0,236		42,8%
19	KBC	1,052	0,413		60,7%
20	KDH	1,179	0,737	LCG as comparable	37,5%
21	LCG	1,709	1,016		40,5%
22	LGL	0,738	0,324	DXG as comparable	56,1%
23	LHG	0,551	0,216	DLG as comparable	60,8%
24	NBB	1,040	0,357		65,6%
25	NHA	1,404	1,038	RCL as comparable	26,1%
26	NTL	1,580	0,711		55,0%
27	NVN	0,169	0,062	CLG as comparable	63,3%
28	OGC	0,617	0,282	ITA as comparable	54,3%
29	PDR	0,201	0,081	IJC as comparable	59,9%
30	PPI	0,381	0,169	LGL as comparable	55,5%
31	PVL	1,098	0,772	DXG as comparable	29,6%

32	QCG	0,727	0,294	SJS as comparable	59,5%
33	RCL	1,777	0,995		44,0%
34	SC5	1,447	0,232		84,0%
35	SDU	1,376	0,571		58,5%
36	SJS	1,529	0,810		47,1%
37	SZL	0,586	0,355		39,3%
38	TDH	1,177	0,771		34,5%
39	TIX	0,486	0,196		59,6%
40	UDC	0,217	0,071	LHG as comparable	67,2%
41	UIC	1,302	0,362		72,2%
42	VCR	0,510	0,319	LGL as comparable	37,4%
43	VIC	0,782	0,192		75,4%
44	VPH	0,070	0,019	UDC as comparable	73,5%
45	VRC	0,206	0,074	CCI as comparable	64,1%
Note: Raw data, not adjusted			Average	55,6%	

## 7.2. Scenario 2: financial leverage increases up to 30%

If leverage increases up to 30%, all beta values of total 45 listed firms on VN real estate market as below:

Table 2 – Market risks of listed real estate firms (case 2)

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage (30% up)
1	API	1,668	1,564	RCL as comparable	8,1%
2	ASM	1,505	0,526		84,5%
3	BCI	1,203	0,542		71,5%
4	CCI	0,405	0,124	UIC as comparable	90,3%
5	CLG	0,320	0,077	UIC as comparable	98,7%
6	D2D	1,315	0,484		82,1%
8	DLG	0,488	0,162	SC5 as comparable	86,9%
9	DTA	0,861	0,412	RCL as comparable	67,8%
10	DXG	1,444	0,456		89,0%
11	HAG	0,863	0,403		69,3%
12	HDC	1,191	0,427		83,4%
13	HDG	1,626	0,635		79,2%

14	IDJ	1,091	0,707	API as comparable	45,8%
15	IDV	0,350	0,067	RCL as comparable	104,9%
16	IJC	0,357	0,104	BCI as comparable	92,1%
17	ITA	1,168	0,780		43,2%
18	ITC	0,412	0,236		55,6%
19	KBC	1,052	0,413		78,9%
20	KDH	1,079	0,675	LCG as comparable	48,7%
21	LCG	1,709	1,016		52,7%
22	LGL	0,644	0,283	DXG as comparable	72,9%
23	LHG	0,475	0,186	DLG as comparable	79,0%
24	NBB	1,040	0,357		85,3%
25	NHA	1,321	0,976	RCL as comparable	34,0%
26	NTL	1,580	0,711		71,5%
27	NVN	0,119	0,044	CLG as comparable	82,3%
28	OGC	0,541	0,247	ITA as comparable	70,6%
29	PDR	0,145	0,058	IJC as comparable	77,9%
30	PPI	0,290	0,129	LGL as comparable	72,2%
31	PVL	1,024	0,720	DXG as comparable	38,5%
32	QCG	0,628	0,254	SJS as comparable	77,4%
33	RCL	1,777	0,995		57,2%
34	SC5	1,447	0,232		109,2%
35	SDU	1,376	0,571		76,1%
36	SJS	1,529	0,810		61,2%
37	SZL	0,586	0,355		51,1%
38	TDH	1,177	0,771		44,9%
39	TIX	0,486	0,196		77,5%
40	UDC	0,158	0,052	LHG as comparable	87,4%
41	UIC	1,302	0,362		93,9%
42	VCR	0,407	0,255	LGL as comparable	48,6%
43	VIC	0,782	0,192		98,0%
44	VPH	0,043	0,011	UDC as comparable	95,6%
45	VRC	0,148	0,053	CCI as comparable	83,4%
Note: Raw data, not adjusted			Average	72,2%	

### 7.3. Scenario 3: leverage decreases down to 20%

If leverage decreases down to 20%, all beta values of total 45 listed firms on the real estate market in VN as following:

Table 3 – Market risk of listed real estate firms (case 3)

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage (20% down)
1	API	1,708	1,602	RCL as comparable	5,0%
2	ASM	1,505	0,526		52,0%
3	BCI	1,203	0,542		44,0%
4	CCI	0,551	0,168	UIC as comparable	55,6%
5	CLG	0,451	0,109	UIC as comparable	60,7%
6	D2D	1,315	0,484		50,5%
8	DLG	0,655	0,217	SC5 as comparable	53,5%
9	DTA	1,074	0,514	RCL as comparable	41,7%
10	DXG	1,444	0,456		54,8%
11	HAG	0,863	0,403		42,6%
12	HDC	1,191	0,427		51,3%
13	HDG	1,626	0,635		48,8%
14	IDJ	1,288	0,835	API as comparable	28,2%
15	IDV	0,506	0,098	RCL as comparable	64,6%
16	IJC	0,489	0,142	BCI as comparable	56,7%
17	ITA	1,168	0,780		26,6%
18	ITC	0,412	0,236		34,2%
19	KBC	1,052	0,413		48,6%
20	KDH	1,257	0,786	LCG as comparable	30,0%
21	LCG	1,709	1,016		32,4%
22	LGL	0,818	0,359	DXG as comparable	44,8%
23	LHG	0,618	0,242	DLG as comparable	48,6%
24	NBB	1,040	0,357		52,5%
25	NHA	1,466	1,083	RCL as comparable	20,9%
26	NTL	1,580	0,711		44,0%
27	NVN	0,221	0,081	CLG as comparable	50,7%
28	OGC	0,681	0,311	ITA as comparable	43,5%
29	PDR	0,258	0,103	IJC as comparable	47,9%
30	PPI	0,468	0,208	LGL as comparable	44,4%
31	PVL	1,153	0,811	DXG as comparable	23,7%

32	QCG	0,812	0,329	SJS as comparable	47,6%
33	RCL	1,777	0,995		35,2%
34	SC5	1,447	0,232		67,2%
35	SDU	1,376	0,571		46,8%
36	SJS	1,529	0,810		37,7%
37	SZL	0,586	0,355		31,5%
38	TDH	1,177	0,771		27,6%
39	TIX	0,486	0,196		47,7%
40	UDC	0,277	0,091	LHG as comparable	53,8%
41	UIC	1,302	0,362		57,8%
42	VCR	0,602	0,377	LGL as comparable	29,9%
43	VIC	0,782	0,192		60,3%
44	VPH	0,104	0,027	UDC as comparable	58,8%
45	VRC	0,266	0,095	CCI as comparable	51,3%
Note: Raw data, not adjusted			Average	44,5%	

All three above tables and data show that values of equity and asset beta in the case of increasing leverage up to 30% or decreasing leverage degree down to 20% have certain fluctuation.

## 8. COMPARING STATISTICAL RESULTS IN 3 SCENARIOS OF CHANGING LEVERAGE:

Table 4 - Statistical results (FL in case 1)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,777	1,586	0,190
MIN	0,070	0,019	0,052
MEAN	0,927	0,441	0,487
VAR	0,2468	0,1111	0,136
Note: Sample size : 45			

Table 5 – Statistical results (FL in case 2)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,777	1,564	0,213
MIN	0,043	0,011	0,031
MEAN	0,889	0,423	0,466
VAR	0,2678	0,1107	0,157
Note: Sample size : 45			



Table 6- Statistical results (FL in case 3)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,777	1,602	0,175
MIN	0,104	0,027	0,076
MEAN	0,961	0,456	0,505
VAR	0,2285	0,1110	0,118
Note: Sample size : 45			

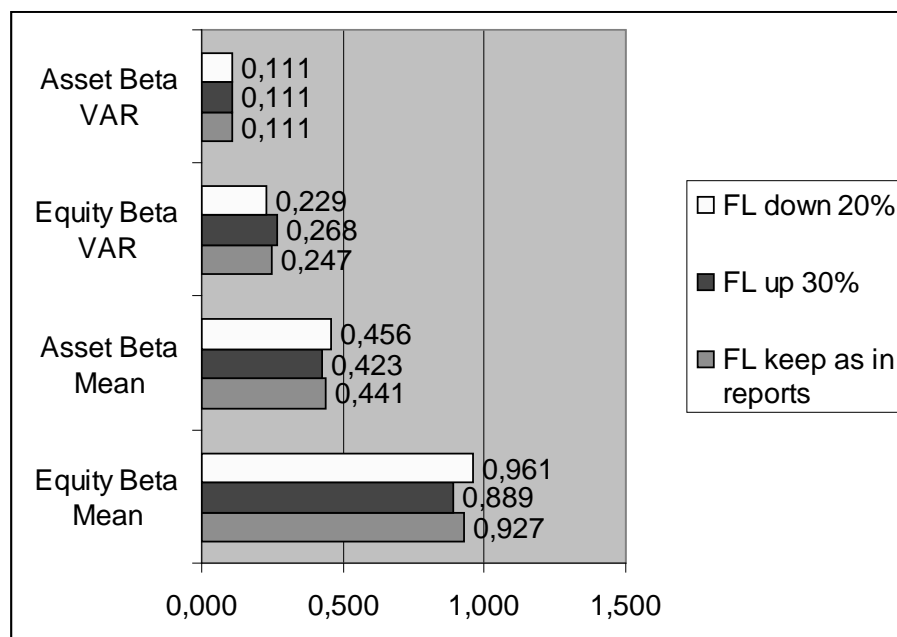
Based on the above results, we find out:

Equity beta mean values in all 3 scenarios are low ( $< 1$ ) and asset beta mean values are also small ( $< 0,5$ ) although max equity beta values in some cases might be higher than ( $>$ ) 1. In the case of reported leverage in 2011, equity beta value fluctuates in an acceptable range from 0,070 (min) up to 1,777 (max) and asset beta fluctuates from 0,019 (min) up to 1,586 (max). If leverage increases to 30%, equity beta moves from 0,043 (min) up to 1,777 (max unchanged) and asset beta moves from 0,011 (min) up to 1,564 (max). Hence, we note that there is a decrease in equity min value if leverage increases. When leverage decreases down to 20%, equity beta value changes from 0,104 (min) up to 1,777 (max unchanged) and asset beta changes from 0,027 (min) up to 1,602 (max). So, there is a small increase in equity beta min value when leverage decreases in scenario 3.

Beside, Exhibit 5 informs us that in the case 30% leverage up, average equity beta value of 45 listed firms decreases down to 0,038 while average asset beta value of these 45 firms decreases little more up to 0,017. Then, when leverage reduces to 20%, average equity beta value of 45 listed firms goes up to 0,034 and average asset beta value of 45 firms up to 0,015.

The below chart 1 shows us : when leverage degree decreases down to 20%, average equity and asset beta values increase slightly (0,961 and 0,456) compared to those at the initial rate as in reports (0,927 and 0,441). Then, when leverage degree increases up to 30%, average equity beta decreases little more and average asset beta value also decreases more (to 0,889 and 0,423). However, the fluctuation of equity beta value (0,268) in the case of 30% leverage up is higher than ( $>$ ) the results in the rest 2 leverage cases.

Chart 1 – Comparing statistical results of three (3) scenarios of changing FL



## 9. RISK ANALYSIS

In short, the using of financial leverage could have both negatively or positively impacts on the financial results or return on equity of a company. The more debt the firm uses, the more risk it takes. And FL is a factor that causes financial crises in many economies and firms. If the firm wants to keep a constant return on investment (ROI) and maintains return on equity (ROE), esp. during the crisis period, it needs to evaluate leverage degree carefully.

On the other hand, in the case of increasing leverage, the company will expect to get more returns. The financial leverage becomes worthwhile if the cost of additional financial leverage is lower than the additional earnings before taxes and interests (EBIT). FL has become a positive factor linking finance and growth in many companies.

## 10. CONCLUSION AND POLICY SUGGESTION

In summary, the government has to consider the impacts on the mobility of capital in the markets when it changes the macro policies. Beside, it continues to increase the effectiveness of building the legal system and regulation supporting the plan of developing consumer good market. The Ministry of Finance continue to increase the effectiveness of fiscal policies and tax policies which are needed to combine with other macro policies at the same time. The State Bank of Viet Nam continues to increase the effectiveness of capital providing channels for real estate companies as we could note that in this study when leverage is going to increase up to 30%, the risk level decreases much (but the equity beta var increases), compared to the case it is going to decrease down to 20%.

Furthermore, the entire efforts among many different government bodies need to be coordinated.

Finally, this paper suggests implications for further research and policy suggestion for the Viet Nam government and relevant organizations, economists and investors from current market conditions.

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## EXHIBIT

*Exhibit 1 – Interest rates in banking industry during crisis  
(source: Viet Nam commercial banks)*

Year	Borrowing Interest rates	Deposit Rates	Note
2011	18%-22%	13%-14%	
2010	19%-20%	13%-14%	Approximately (2007: required reserves ratio at SBV is changed from 5% to 10%) (2009: special supporting interest rate is 4%)
2009	9%-12%	9%-10%	
2008	19%-21%	15%-16,5%	
2007	12%-15%	9%-11%	

*Exhibit 2 – Basic interest rate changes in Viet Nam  
(source: State Bank of Viet Nam and Viet Nam economy)*

Year	Basic rate	Note
2011	9%	
2010	8%	
2009	7%	
2008	8,75%-14%	Approximately, fluctuated
2007	8,25%	
2006	8,25%	
2005	7,8%	
2004	7,5%	
2003	7,5%	
2002	7,44%	
2001	7,2%-8,7%	Approximately, fluctuated
2000	9%	

Exhibit 3 – Inflation, GDP growth and macroeconomics factors  
(source: Viet Nam commercial banks and economic statistical bureau)

Year	Inflation	GDP	USD/VND rate
2011	18%	5,89%	20.670
2010	11,75% (Estimated at Dec 2010)	6,5% (expected)	19.495
2009	6,88%	5,2%	17.000
2008	22%	6,23%	17.700
2007	12,63%	8,44%	16.132
2006	6,6%	8,17%	
2005	8,4%		
Note	approximately		

Exhibit 4: GDP growth Việt Nam 2006-2010 (source: Bureau Statistic)

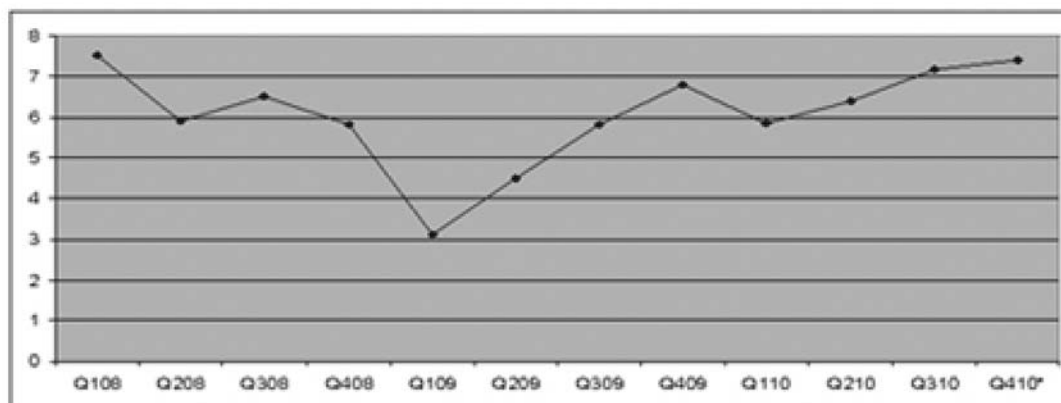


Exhibit 5 – Increase/decrease risk level of listed real estate firms under changing scenarios of leverage : in 2011 F.S reports, 30% up, 20% down in the period 2007 - 2011

Order No.	Company stock code	FL as reported		FL increases 30%		FL decreases 20%	
		Equity beta	Asset beta	Increase / Decrease (equity beta)	Increase / Decrease (asset beta)	Increase / Decrease (equity beta)	Increase / Decrease (asset beta)
1	API	1,692	1,586	-0,024	-0,022	0,016	0,015
2	ASM	1,505	0,526	0,000	0,000	0,000	0,000
3	BCI	1,203	0,542	0,000	0,000	0,000	0,000
4	CCI	0,481	0,147	-0,077	-0,023	0,069	0,021
5	CLG	0,387	0,093	-0,067	-0,016	0,063	0,015
6	D2D	1,315	0,484	0,000	0,000	0,000	0,000
8	DLG	0,576	0,191	-0,088	-0,029	0,079	0,026

9	DTA	0,977	0,467	-0,116	-0,056	0,097	0,046
10	DXG	1,444	0,456	0,000	0,000	0,000	0,000
11	HAG	0,863	0,403	0,000	0,000	0,000	0,000
12	HDC	1,191	0,427	0,000	0,000	0,000	0,000
13	HDG	1,626	0,635	0,000	0,000	0,000	0,000
14	IDJ	1,202	0,779	-0,112	-0,072	0,086	0,056
15	IDV	0,429	0,083	-0,080	-0,015	0,077	0,015
16	IJC	0,426	0,124	-0,069	-0,020	0,063	0,018
17	ITA	1,168	0,780	0,000	0,000	0,000	0,000
18	ITC	0,412	0,236	0,000	0,000	0,000	0,000
19	KBC	1,052	0,413	0,000	0,000	0,000	0,000
20	KDH	1,179	0,737	-0,100	-0,063	0,078	0,049
21	LCG	1,709	1,016	0,000	0,000	0,000	0,000
22	LGL	0,738	0,324	-0,094	-0,041	0,080	0,035
23	LHG	0,551	0,216	-0,077	-0,030	0,066	0,026
24	NBB	1,040	0,357	0,000	0,000	0,000	0,000
25	NHA	1,404	1,038	-0,083	-0,061	0,061	0,045
26	NTL	1,580	0,711	0,000	0,000	0,000	0,000
27	NVN	0,169	0,062	-0,050	-0,018	0,053	0,019
28	OGC	0,617	0,282	-0,076	-0,035	0,064	0,029
29	PDR	0,201	0,081	-0,056	-0,022	0,057	0,023
30	PPI	0,381	0,169	-0,091	-0,040	0,087	0,038
31	PVL	1,098	0,772	-0,074	-0,052	0,055	0,039
32	QCG	0,727	0,294	-0,099	-0,040	0,085	0,034
33	RCL	1,777	0,995	0,000	0,000	0,000	0,000
34	SC5	1,447	0,232	0,000	0,000	0,000	0,000
35	SDU	1,376	0,571	0,000	0,000	0,000	0,000
36	SJS	1,529	0,810	0,000	0,000	0,000	0,000
37	SZL	0,586	0,355	0,000	0,000	0,000	0,000
38	TDH	1,177	0,771	0,000	0,000	0,000	0,000
39	TIX	0,486	0,196	0,000	0,000	0,000	0,000
40	UDC	0,217	0,071	-0,059	-0,019	0,060	0,020
41	UIC	1,302	0,362	0,000	0,000	0,000	0,000
42	VCR	0,510	0,319	-0,103	-0,064	0,093	0,058
43	VIC	0,782	0,192	0,000	0,000	0,000	0,000
44	VPH	0,070	0,019	-0,028	-0,007	0,033	0,009
45	VRC	0,206	0,074	-0,058	-0,021	0,060	0,022
			Average	-0,038	-0,017	0,034	0,015

Exhibit 6- VNI Index and other stock market index during crisis 2006-2010

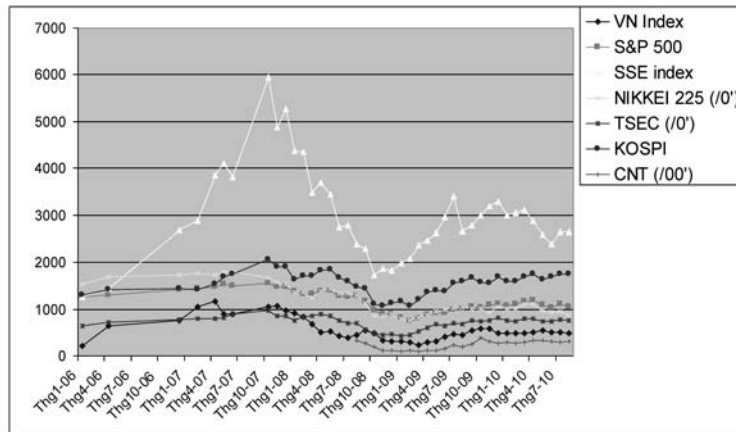
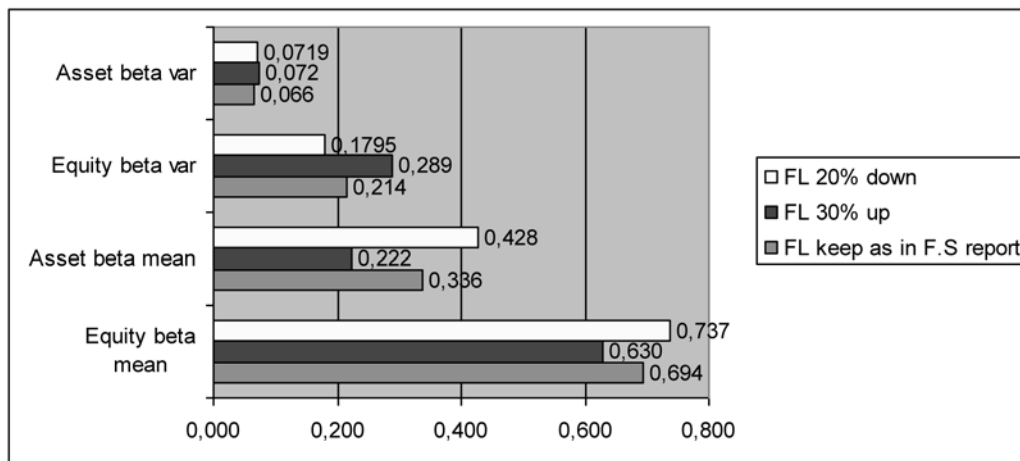


Exhibit 7 – Comparing statistical results of three (3) scenarios of changing FL of 121 listed firms in the consumer good industry



Author note: My sincere thanks are for the editorial office and Lecturers/Doctors at Banking University and International University of Japan. Through the qualitative analysis, please kindly email me if any error found.

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# Simulation games in operations management: the importance of immediate post game analysis

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**Abstract:** Piercy (2010, p. 275) reports that experiential learning techniques, such as business simulation exercises, are increasingly being used to improve student engagement and learning and that a wide range of exercises or games for management are currently available. The research presented in this teaching brief involves the use of the MIT Beer Game. The research involves data collected in three stages: pre-game; post game and post game analysis. The data collected from participants indicates that the substantive stage of learning is during the post game analysis. The data indicates that understanding improves marginally upon completion of the game but that the post-game analysis provides a significant improvement in the understanding of learners. In line with Jackson and Taylor (1998) the authors found the Beer Game to be a very effective experiential exercise for management students and that a competent instructor who acknowledges the three stages of learning proposed in this paper and who emphasises the learning value of the post game analysis will improve the participants understanding of supply chain dynamics. This teaching brief includes observations that will enhance the use of simulation games, specifically, the use of the MIT Beer Game for teaching.

**Keywords:** experiential learning; supply Chain and operations management; bullwhip effect; and MIT Beer Game

## I. INTRODUCTION

Teaching methods have evolved and several innovative approaches have been developed to assist learners in understanding complex theoretical concepts (Fish, 2005; Vaughan and Gardner, 2009; Ashenbaum, 2010). Gherardi (1998, p. 273) suggests that society is dominated by a view of learning, education and training as an endeavour of knowledge delivery based on a notion of learning as a process of information delivery from a knowledgeable source to a target lacking that information. It is important that this information delivery incorporates real world examples and uses case studies; site visits and simulation games

to provide evidence that academic theories, concepts and models provide value when analysing real world situations. Goel et al. (2010, p. 215) proposes that there is a need for research that focuses on the interaction between cognitive schemas and context in situ to better understand how individuals interpret organizational problems, along with their decisions and solutions, in context. Therefore, a challenge for educators in management sciences is to encourage learners to view in-class assignments from an organisational perspective. To achieve this, educators must help learners to make sense of cognitive processes. An example in management would be the interpretation of data/information and the implications for subsequent decision making.

Piercy (2010, p. 275) reports that experiential learning techniques, such as business simulation exercises, are increasingly being used to improve student engagement and learning and that a wide range of exercises or games for management are currently available. The research presented in this paper involves the use of the MIT Beer Game to explore the stages of learning. The research involves data collected in three stages: pre-game; post game and post game analysis. Based on the evidence collected during this research we make observations that will enhance the use of simulation games, specifically, the use of the MIT Beer Game for teaching.

## 2. THE MIT BEER GAME

The Beer Game is a role-playing simulation developed at MIT in the 1960s. The following is short description of the MIT Beer Game. Readers who wish to learn more the game should refer to Jackson and Taylor (1998) who provide a comprehensive overview of the game. In the Beer Game participants function independently as brewers, distributors, wholesalers and retailers and attempt to satisfy consumer demand as determined by the game's administrator. The game demonstrates the importance of integrating the actions of the brewers, distributors, wholesalers and retailers and the value of sharing information across the supply chain.

For this teaching brief the MIT Beer Game was used as follows: the game has four positions on the board: retailer, wholesaler, distributor and factory. At each position two learners were assigned. Four teams were formed, using four identical boards and brewery names were attributed. Each position on the board has an inventory of beer and receives orders from the upstream position and ships beer to the sector downstream. The purpose of the game is to coordinate the entire supply chain and minimise the total cost for the team. Costs were computed in the following way: the carrying costs of inventory were €1.00 per case per week; out-of-stock or backlogs were €2.00 per case per week. The costs of each position (retailer, wholesaler, distributor and factory) for the duration of the game, determined the total cost. Each team received: markers in four colours; pencils; calculators; record sheets (4 per team); effective inventory graph sheets (4 per team); order graph sheets (4 per team); and customer orders graph sheets (three per team – one for the wholesaler, distributor and factory, but not for the retailer). There was no communication between positions. The reason for this was to simulate as closely as possible the real-life business environment where there may be

multiple participants (factories, distributors, wholesalers and retailers) and each will not have access to information on the activities of other participants. The only form of communication between positions was through the passing of orders and the receiving of beer. Each game board had a set of customer order cards and the retailer was the only position that received orders from the customers. The pattern of customer demand was four cases per week until week five and eight per week from week five onwards. It is important to note that each board game had the same pattern of orders, facilitating comparisons between the four teams. The game was run for 35 weeks and each team had to compute their costs at the end. Students were asked to graph: their orders week by week; the inventory; and the customer orders week by week. Each team prepared the reports, and post-game discussion was initiated. Several issues were discussed, such as the variation in customer orders, inventory levels, and the costs incurred during the game.

## 3. FEEDBACK FROM PARTICIPANTS

In assessing the learning of participants we administered a short questionnaire. The questionnaire required respondents to complete a mix of Likert scales and open-ended questions. The questions explore the respondents understanding of: the concept of a supply chain; how a supply chain works; the role of human behaviour in a supply chain; the role of producers, distributors, wholesalers and retailers; the bullwhip effect; and the causes of variation in inventory levels. The results from the questionnaire indicate that the learning occurred at different stages throughout the simulation, and that the post-game simulation discussion was paramount to the understanding of the concepts illustrated. The questionnaires were administered on three occasions: pre-game; post game and during the post game analysis.

Pre-game – the questionnaire assessed the student's knowledge of supply chain concepts. The answers indicate a good level of knowledge of the basic concepts. However, when asked if they can explain how the supply chain works and the causes of bullwhip effect, the learners indicated a lack of experiential knowledge.

Post-game – the same questionnaire, used pre-game, was administered at the end of the game, to evaluate whether the learners had an improved understanding of supply chain mechanisms. The responses were mixed and students were still unable to fully explain the bullwhip effect or the causes of variations in the inventory levels.



Post-game analysis – once the game was completed, the learners started the analysis of the customer orders, inventory levels and total costs. Graphical representations were compared and discussed in detail. Each team presented their supply chain overview and results achieved. The questionnaire, incorporating additional space for feedback was administered. Students were asked to reflect on their learning and provide insights into the value of simulation games.

The results of the three questionnaires were compared. The importance of immediate post-game analysis and discussion emerged as a significant point of learning. Students recognised the importance of active involvement in the learning process and inter and intra group discussions. The graphical representations were very important as the illustrations allowed the students to develop a holistic view of the entire supply chain. When the instructor revealed that the customer orders were constant from week five onwards, all the students were very surprised; especially when they compared their order pattern and what they thought was the customer order pattern (note: the only position in the game that received the customer orders were the retailers). The effects of human behaviour on the ordering patterns were attributed as the main cause of variation. Overall, the feedback was very positive and the students suggested that more simulations should be included in the teaching materials, especially when complex concepts such as supply chain mechanisms are being taught.

#### 4. IMPLICATIONS FOR EXPERIENTIAL LEARNING

Goodwin (1994, p. 10) reports that although the underlying structure of the game determines the results, it is important to remember that the players are part of that system, and therefore the players' reactive decisions create operating policies which themselves are part of the system and contribute to the outcome. This is a crucial issue in the successful use of the game for teaching supply chain management. We observed that the learners tended to focus on 'playing the game' and not on how their reactive decisions impacted on the outcome. Perhaps instructors should pause the game, once the participants encounter problems and discuss what participants would do to improve the integration and communication in the supply chain. The data collected from participants indicates that the substantive stage of learning is during the post game analysis. The data indicates that understanding improves marginally upon completion of the game

but that the post-game analysis provides a significant improvement in the understanding of learners. We observed some 'confusion' among participants during the game. Some participants assumed that in playing the game they were not meant to encounter problems. As a consequence, upon completion of the game the students felt that their lack of understanding of the principles of supply chain management had resulted in the outcome of the game. The immediate analysis of the game allowed the participants to understand that although in a real world situation they could influence the supply chain, in the MIT beer game the outcome was a demonstration of the bull-whip effect. In line with Jackson and Taylor (1998) the authors found the Beer Game to be a very effective experiential exercise for management students and that a competent instructor who acknowledges the three stages of learning proposed in this paper and who emphasises the learning value of the post game analysis will improve the participants understanding of supply chain dynamics.

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# Integrity Management and Anti-Corruption Actions in an Organizational Context

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**Abstract:** This paper seeks to discuss integrity management and anti-corruption actions in an organizational context, and suggests innovative methods of integrity and corruption-prevention management in diverse organizations. It is an exploration of finding better ways of integrity management and integrity competences acquisition, in addition to building corruption-preventative contexts with the aim of constructing corruption-free organizations that benefit their owners, shareholders and community stakeholders.

**Keywords:** Integrity, Organization, Management of Integrity, Anti-Corruption actions

## I. INTRODUCTION

How can we define integrity, and integrity in an organizational context? In fact, there is no simple explanation to this term. Organizations can understand it differently. Integrity can be defined as a philosophy of consistency of actions, values, methods, organizational principles, expectations, and results. Integrity, as defined in the 2007 edition of the Merriam-Webster dictionary, is a “firm adherence to a code of especially moral or artistic values (incorruptibility), an unimpaired condition (soundness), and the quality or state of being complete or undivided (completeness).” (in *Merriam-Webster.com*; retrieved 30/04/2012 2012, from <http://www.merriam-webster.com>). Types of integrity include integrity of character and professional integrity.

Aristotle said: “Men acquire a particular quality by constantly acting in a particular way.” One of the keys to maintaining integrity is the ability to act not in one’s

own interest but in the interest of others. Integrity is not something you are born with. It is something you learn and strengthen over time. It is a conscious choice you make that you have total control over (in Miller, B.A., 2011; retrieved on 27/11/2011 from <http://www.articlesbase.com/leadership-articles/>). Integrity is one of the most important and often-cited terms of virtue. To put it in plain managerial words, integrity can be defined as the formal relation to one’s self and in an organizational context it always has something to do with acting morally. In an organizational context we should examine the integrity principle of consistency. Is it possible to evaluate the manager’s behavior in the organizational context on the basis of a body of his or her integrity standards? The principle of integrity could provide us with ideas on how to solve these problems.

Integrity issues in organizations are closely related to the notion of ethics. The practical goal of integrity issues is to solve the problem of how to select the best

decision in an organizational context in an ethically difficult business context. The main known tools for application of the principles of business ethics are principles and codes of ethics. The implementation of various concepts and ethics programs, for example Corporate Social Responsibility (CSR), is not sufficient to maintain integrity in an organizational context.

Integrity issues are becoming increasingly important due to the internal business benefits that result, and the quest for increased efficiency in searching for new customers, cooperating firms, and partners. It can be foreseen that issues of integrity in an organizational context are going to become increasingly important in the next few years. This is primarily caused by the crisis facing both organizations and sovereign states – mostly debt-ridden states – where organizations operate and there is reduced confidence in many companies that has been caused by recent financial and socioeconomic crises.

Impediments to integrity skills acquisition in organizational contexts can be the result of the following: poor integrity management, a lack of consultation with employees and owners or their representatives, and CEOs or company directors who knowingly or unknowingly perpetrate a toxic management environment as they aim to implement a “bottom line profit” philosophy at all costs. Lack of knowledge and failure to transfer integrity competence in organizational settings can result in people delaying or refusing to communicate a philosophy of integrity in the managerial process. The personal attitudes of individual employees, which may be due to lack of motivation or dissatisfaction at work, can lead to corrupt practices in situations of insufficient or inappropriate integrity and anticorruption training in organizational contexts. Integrity, as defined in this chapter, suggests a person whose self is sound, undivided, and complete.

According to Wankel and Stachowicz-Stanusch (2011, p.119), recent examples of “corporate, national and international ethical and financial scandals and crises have created a need to bolster the ethical acumen of managers through business education imperatives.” Their book, *Management Education for Integrity*, explains how curricula should be streamlined and rejuvenated to ensure a high level of integrity in management education, providing numerous examples of new tools, teaching methods, integrity sensitization and development exercises, and ethical management education assessment approaches. They suggest fostering integrity in business curricula, a critique of ethics education in management, measuring best practices in management education for integrity capacity, encour-

aging moral engagement in business ethics courses, management education for behavioral integrity and a scenario-based approach as a teaching tool to promote integrity awareness.

## 2. CORRUPTION AND ANTI-CORRUPTION

The Asian Development Bank (ADB), describing the term corruption, uses it as a shorthand reference for a large range of illicit or illegal activities. Although there is no universal or comprehensive definition as to what constitutes corrupt behavior, the most prominent definitions share a common emphasis upon the abuse of public power or position for personal advantage. *The Oxford Unabridged Dictionary* (2013) defines corruption as perversion or destruction of integrity, in the discharge of public duties, by bribery or favor. *The Merriam Webster's Collegiate Dictionary* (2013) defines it as inducement to do wrong by improper or unlawful means (such as bribery). The succinct definition utilized by the World Bank (2012) is the abuse of public office for private gain. This definition is similar to that employed by Transparency International (TI), the leading NGO in the global anticorruption effort.

Corruption involves behavior on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them (in *Anticorruption*; retrieved on 20/01/2012 from [www.corp-integrity.com/wp-content/uploads/2011/09/Anti-Corruption.pdf](http://www.corp-integrity.com/wp-content/uploads/2011/09/Anti-Corruption.pdf)). The author concurs with the ADB judgment that these definitions do not give adequate attention to the problem of corruption in the private sector or to the role of the private sector in fostering corruption in the public sector. As a shorthand definition, ADB defines corruption as the abuse of public or private office for personal gain. A more comprehensive definition is available on ADB's website (at [www.corp-integrity.com/wp-content/uploads/2011/09/Anti-Corruption.pdf](http://www.corp-integrity.com/wp-content/uploads/2011/09/Anti-Corruption.pdf)).

Therefore, put in a more comprehensive way, corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves, those close to them, or both, or induce others to do so by misusing the position in which they are placed. Some types of corruption are internal in that they interfere with the ability of a government agency to recruit or manage its staff, to make efficient use of its resources, or to

conduct impartial in-house investigations. Others are external in that they involve efforts to manipulate or extort money from clients or suppliers, or to benefit from inside information. Still others involve unwarranted interference in market operations, such as the use of state power to artificially restrict competition and generate monopoly rents. More narrow definitions of corruption are often necessary to address particular types of illicit behavior. In the area of procurement fraud, for example, the World Bank defines corrupt practice as the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the procurement process or in contract execution (at WorldBank; retrieved on 15/02/2012 at [www.adb.org](http://www.adb.org)).

Concurring further with the ADB sources, it is often useful to differentiate between grand corruption—which typically involves senior officials, major decisions or contracts, and the exchange of large sums of money—and petty corruption, which involves low-level officials, the provision of routine services and goods and small sums of money. It is also useful to differentiate between systemic corruption, which permeates an entire government or ministry, and individual corruption, which is more isolated and sporadic. Finally, it is useful to distinguish between syndicated corruption, in which elaborate systems are devised for receiving and disseminating bribes, and non-syndicated corruption, in which individual officials may seek or compete for bribes in an ad hoc and uncoordinated fashion.

Concurring with Wankel's and Stachowicz-Stanusch's claim over the last decade, "we have been witnessing a dramatic contrast between the CEO as a superhero and CEO as an antihero. The new challenge in business education is to develop responsible global leaders." (2011, p.121) Relatively little is known, however, about how management educators can prepare future leaders to cope effectively with the challenge of leading with integrity in a multicultural space. Their recent volume *Handbook of Research on Teaching Ethics in Business and Management Education* (2011) is authored by a spectrum of international experts with diverse backgrounds and perspectives. It suggests directions that business educators might take to reorient higher education to transcend merely equipping people and organizations to greedily pursue their materialistic gains, gains which may have dire effects on the preponderance of people, nations, our planet, and the future. Their book is a collection of ideas and concrete solutions with regard to how morality should be taught in a global economy. In the

first part, the editors present reasons why management education for integrity presents an important challenge in an intercultural environment. This contribution is an overview of a spectrum of approaches to developing moral character in business students in this epoch of dynamic technologies and globalization.

There is an enormous role for all types of international organizations in integrity support. Additionally, there is an undisputed role for these organizations in the process of supporting business anticorruption activities. According to the UN Global Compact conference on anticorruption in 2008, representatives of international businesses met in Bali on January 30, 2008 for a special meeting entitled *Business Coalition: the United Nations Convention against Corruption as a New Market Force*. The meeting was held on the occasion of the Second Conference of State Parties to the United Nations Convention against Corruption (UNCAC). Business and nongovernmental organizations' representatives in Bali adopted a declaration calling on governments to establish effective anticorruption mechanisms to review the implementation of the UNCAC. This declaration forms an integral part of the report adopted by the Conference of States Parties, which forms the core of anticorruption policies.

Jointly organized by the United Nations Global Compact, United Nations Office on Drugs and Crime (UNODC), Organisation for Economic Co-operation and Development (OECD), International Chamber of Commerce, World Economic Forum, Partnering against Corrupt Initiative (PACI) and TI, the meeting underscored the commitment of the business community to the fight against corruption. It also provided an opportunity for the business community to express its views on the role that business can play to ensure the effective implementation of the Convention.

Participants discussed the need to work toward the alignment of existing business principles with the fundamental values enshrined in the Convention, and to develop mechanisms to review companies' compliance with the realigned business principles. They also agreed to include effective whistleblower protection, due diligence in the selection of agents and intermediaries, as well as to address facilitation payments, described as "one of the cardinal inconsistencies of existing business principles," in their anticorruption policies and strategies (in Global Compact; retrieved on 11/11/2011 at <http://unglobalcompact.org>).

In *Organizational immunity to corruption, building theoretical and research foundations* (2011), Stachowicz-Stanusch points out that in management

philosophy, corruption and its variants have been studied across a number of disciplines, including psychology, sociology, economics, law, political science and of course management. The current discussion about corruption in organizational studies is one of the most growing, most fertile and perhaps most fascinating ones. Corruption is also a construct that is multilevel and can be understood as being created and supported by social and cultural interaction. As a result, an ongoing dialogue on corruption permeates the levels of analysis and numerous research domains in organizational studies. Thus, Stachowicz-Stanusch sees a major opportunity and necessity to look at corruption from a multilevel and multicultural perspective. Second, in the global society of the world today where organizational boundaries are becoming increasingly transparent and during the Global Crisis, which has been rooted in the unethical and corrupt behavior of large corporations, a deeper understanding of corruption, its forms, typologies, ways to increase organizational immunity, and to utilize the best practices to fight against – as well as uncover – corruption are particularly significant. This means that individuals, groups, organizations, and whole societies can be used to sustain a sense of purpose, direction, and meaning, as well as to find the best process for creating a moral framework for ethical behavior in a world of flux. Stachowicz-Stanusch provides an authoritative and comprehensive overview of organizational corruption, while contributing an essential reference tool to carry out further research on corruption in organization. This work uncovers new theoretical insights that will inspire new questions about corruption in organizations; it also changes our understanding of the phenomenon and encourages further exploration and research.

### **3. IMPEDIMENTS TO INTEGRITY PROMULGATION AND ANTI-CORRUPTION PRACTICE**

There is a multitude of impediments to acquiring integrity skills and to the application of anticorruption practices in organizational contexts. These impediments can result from poor integrity management, a lack of consultation and communication with employees, or a toxic management environment, often unknowingly perpetrated by owners who implement a “bottom line profit” philosophy with the silent approval of corruptive practices. Impediments to communicating integrity standards and practices can be found in individual attitudes; for example, a refusal or unwillingness to communicate integrity philosophies

because of personality conflicts, personal attitudes toward integrity and ethics, or a lack of motivation or dissatisfaction related to work. Sometimes, impediments beyond individual personalities may be the problem, such as language or cultural barriers (Griffith & Harvey, 2002, pp.455-476) or ineffective or inefficient channels of communication which are needed for the implementation of integrity management training and guidance. Awareness of such impediments is the first step for educators and managers in acquiring the necessary tools for managing integrity and anticorruption approaches in an organizational context.

Integrity learning challenges us to face new experiences and enables us to develop a global mindset. Self-examination of values – personal, cultural, or organizational – can come from new experiences, from our leaving the safety of what we know, and experiencing something new and different. A global mindset allows us to transcend the constraints of our experiences and belief systems and to see the world for what it really is. In order to approach the fast-paced global world, people need to work across disciplines and think holistically. Integrity and anticorruption education in organizations for an increasingly global frame of reference will require educators and managers to inculcate those in their charge with adaptability and flexibility, while balancing this with the tools of instilling ethical reasoning and a commitment to one’s own individual moral equilibrium. The process of refining these emerging global integrity competencies will be accomplished through the use of E-learning, blended learning, social media, and personalized learning environments. The process of teaching integrity in education and management is by acquiring global integrity competence benefits from such procedures as videoconferencing and collaborative blog-based methodology.

Integrity, ethics, and anticorruption in management and management education are intertwined. Ethics is the foundation for codes of conduct. It is a branch of philosophy that addresses questions of morality. These questions can be answered by adhering to a set of behavioral guidelines. A workplace, being the source of bread and butter for many, can also satisfy people’s self-actualization needs. Work often provides a *raison d’être* beyond the simple maintenance of a standard of living. Following ethical practices in the workplace is ultimately a personal choice. It is a choice that cannot be forced upon employees; it can only be explained and expected as a part of an overall integrity management strategy. A workplace is a cluster of individuals, and hence it is an amalgamation of attitudes and

imaginations. This diversity can sometimes dilute the adherence to ethical standards of conduct. It takes the zeal of an evangelist to have the workforce imbibe ethics while facilitating the growth of the organization in a holistic way (in Gaikward, M., 2010; retrieved on 11/08/2010 at [www.buzzle.com/articles/ethicalissuesintheworkplace.html](http://www.buzzle.com/articles/ethicalissuesintheworkplace.html)). Having integrity is not a state in which one is debilitated by a strict adherence to a normative code; integrity is indivisible from the growth of both individuals and the organization.

Modern organizations today do focus mainly on profit-making. There is, however, a new trend to resurrect integrity and ethics to the workplace. Various multinational corporations today have incorporated ethics and integrity training for all their employees, from those working at the junior level to the CEO. Their employees understand what ethics are and how they can benefit the company in the long run. Many organizations, both in the public and private sectors, have designed their own workplace ethics training programs. These programs offer practical solutions to employees facing ethical dilemmas. Despite these advances in corporate training, many employees lack business ethics awareness and knowledge about their role in integrity as an organizational philosophy. These programs focus on two core messages: first, ethical dilemmas are part of the world of work; and second, there are written policies and guidance on how to work through these ethical dilemmas which are available to employees. These resources give a contextualizing framework to the employees upon which they can make ethical decisions. A rewards system for ethics and values, alongside one's performance, is another way of ethics promotion among the employees, and is being employed by many organizations.

Organizations which promote integrity, values, and ethics have many advantages *vis-à-vis* other organizations. First, employees of organizations which emphasize ethical conduct experience less integrity-related stress, as they are less inclined to compromise their personal or organizational values. Secondly, in such organizations, misconduct is more often immediately reported to individual managers in the hierarchy responsible for resolving ethical misconduct issues. Thirdly, instances of misconduct are minimized and the overall level of employee satisfaction in such ethics-focused organizations is higher than in organizations without a similar emphasis. Ethical issues in the workplace can be resolved if proper procedures are in place. Upholding ethics promotes a better working environment, and at the same time, a good reputation for the business. Both of these contribute to higher

work productivity and profits. (in Dogra, 2010; retrieved on 11/08/2010 at [www.buzzle.com/articles/ethicalissuesintheworkplace.html](http://www.buzzle.com/articles/ethicalissuesintheworkplace.html)).

#### 4. THE ROLE OF MANAGERS IN ORGANIZATIONAL CONTEXTS

The terms *ethical* and *moral* are used in two ways. First the term *ethical* is used as a synonym for the moral quality of conduct. When, for example, we speak of people being “ethical” or “unethical,” we often mean that they habitually or intentionally act or fail to act in “good faith,” and that they consistently do, or fail to do, what is right. “Ethical” may also refer to a “class” of judgments pertaining to morality that is distinguishable from other classes such as factual, perceptual, and logical judgments; here the terms *ethical* and *moral* do not denote that which is unethical or immoral, but pertain to ethics or morality as opposed to that which is nonmoral or nonethical (Rudder, C.F., 1999, pp. 75-88).

The role of managers is to incorporate integrity and anticorruption training programs in organizational contexts into the modern communications arena using social media, such as LinkedIn, Facebook, and Twitter, real life case studies, work-study-internship examples, and blogs on integrity-related discussions. Additionally, managers and instructors can employ nonstandard approaches such as community visits to local companies with integrity-related and anticorruption-focused interviews that are carried out as a part of the training, and are later conducted during get-togethers and anticorruption integrity sessions. These interviews will in fact become organizational integrity teaching materials for real life, as interview videos, interview transcripts, and portions of analytical works, such as papers, reports, or studies.

Similarly, in European Union countries that accredit and license governmental and nonprofit agencies, students are required to study business ethics as a part of their academic curriculum, regardless of the type of degree, whether business, or management, or economics. However, the process is not very well-structured in many schools where business ethics courses are offered as electives only, and are not part of the overall integrity and ethics education program, or part of an institutionally-organized instructional approach and educational philosophy.

It is highly recommended that groups of employees do one or more of the following: participate in integrity and anticorruption exercises or scenarios

using role-playing or social media; create integrity and ethics discussion groups on line; conduct and record video interviews on the topic of integrity and ethics. All of these are active methods for employees to use in order to acquire a basic orientation toward and knowledge of issues related to integrity and anticorruption. Employees will get the feeling that they are part of the solution related to the challenges of integrity management. In the field of integrity in organizations, ethical policies are typically recognized as protecting individuals from ethnic and gender discrimination, sexual harassment, physical brutality, violations of confidentiality, nepotism, inhumane research, and other violations of civil and human rights. Policies addressing professional competence, such as the setting of standards for good teaching, tenure, and promotion, are not typically identified as pertaining to ethics. Both types of policies, however, typically pertain to morality in that both attempt to direct conduct toward what is “right” or conduct which is in keeping with policies pertaining to morality. Unfortunately, our tendency to restrict professional ethics to matters pertaining to the protection of civil and human rights, and to treat issues related to competence as nonethical, obscures significant professional, moral, and ethical problems and dilemmas (Rudder, C.F., 1999).

It is worth pointing out that without effective integrity and anticorruption training during college and university years many managers may be severely lacking in much-needed integrity and anticorruption competences.

## **5. PERSONAL VALUES, MORALS, AND WORKPLACE ETHICS**

As individuals are the instruments who carry the process of making ethical decisions, many factors influence this process. These may include things as far-removed as early childhood understanding of ethical behavior, through to the examples set by parents, teachers, and spiritual leaders, to the behavior of organizational leaders and formal organizational codes of conduct.

Even though most instances of ethical and integrity misconduct are motivated for positive business or corporate performance reasons (financial, productivity, efficiency, effectiveness, etc), good people sometimes do bad things, believing that they are acting in the corporation’s best interest. However, more evidence has come out in recent years indicating that many instances of executive misbehavior have been extremely costly

to the firms or institutions with which such persons were affiliated (Khera, 2010).

A substantial amount of the research related to culture and business ethics has been done by Geert Hofstede himself or by others using one or more of his cultural dimensions of cultures, that is, the concepts of power–distance, individualism versus collectivism, uncertainty avoidance, long-term versus short term orientation, and masculinity–femininity. These have been particular to different cultures. Such studies include ethical attitudes of business managers in India, Korea, and the United States, the effects of Hofstede’s typologies on ethical decision making and on sales force performance, and many more (Khera, 2010).

## **6. INTEGRITY AND ETHICAL STANDARDS IN THE WORKPLACE**

Even though the issue of ethics has been discussed for centuries, it is only during the past couple of decades that the topic has come to prominence in business literature. Ethics theorists divide the field of ethics into three general categories: meta ethics, normative ethics, and applied ethics. Applied ethics has become a staple of business education. The two other categories of ethics – meta ethics, which ponders the likely sources of our ethical principles and their meaning, and normative ethics, which deals with the more practical task of attempting to arrive at moral standards that regulate right and wrong conduct – have largely been left underexplored by business researchers (Khera, 2010).

Many organizations, public and private, suffer from a serious decline in integrity and ethical standards. According to Newman and Fuqua these declines are related to increased aggression and violence in the workplace, which are occurring with increased frequency. (Newman, J., and Fuqua, D., 2006). Universities and colleges that fail to uphold high integrity and ethical standards in teaching, and that fail to ensure policies and procedures are also followed (as well as displayed and approved), in practice, may encounter the same problems.

## **7. ETHICS RATIONALIZATIONS AND MANAGERIAL POSITIONS IN WORKPLACE**

Ethics rationalizations are a problem for those in managerial positions. In order to understand this problem, as part of education and training, or as an actual



issue in the workplace, a situation and an explanation of its conditions are needed, such as this one:

*(Adopted from Gentile):*

“Jonathan has a new job. Just promoted from the accounting group at headquarters, he is now the controller for a regional sales unit of a consumer electronics company. He is excited about this step up and wants to build a good relationship with his new team. However, when the quarterly numbers come due, he realizes that the next quarter’s sales are being reported early to boost bonus compensation. The group manager’s silence suggests that this sort of thing has probably happened before. Having dealt with such distortion before, Jonathan is fully aware of its potential to cause major damage. But this is his first time working with people who are creating the problem instead of those who are trying to fix it. This may seem like a mundane accounting matter. But the consequences—in terms of carrying costs, distorted forecasting, compromised ethical culture and even legal ramifications—are very serious. And except in only the most extraordinarily well-run corporations, this kind of situation can arise easily. All managers should know how to respond constructively. Indeed, learning to do so is a key piece of their professional development. Senior managers must be able to change the cultural norms that give rise to bad judgment in the first place.” (Gentile, M., 2010, pp. 114 – 117)

These challenges will arise frequently in modern organizations, and without proper integrity in organizational management, they can turn into company liabilities and long term problems.

## **8. USE OF CASE STUDIES IN INTEGRITY AND ETHICS EDUCATION AND TRAINING**

The use of case studies is an established method of instructing integrity and anticorruption prevention. Case studies can either be textual or in video form. Experience has demonstrated that video learning materials are generally more effective. Regardless of the case study format, a review of the elements of the case study should be followed by employees’ discussion and role-playing scenarios moderated by the instructor. Prepared material with suitable questions and presentations by groups of employees, with an integrity and anticorruption trainer acting as a facilitator of learning, may help in organizational context competences acquisition and integrity/anticorruption skills learning.

The innovative methods of synchronous knowledge could be a good means of bringing more interaction into organizational managerial integrity training and competence acquisition, by increasing discussion and participation and by making learning integrity more interactive while educating workers and managers in an organizational context.

## **9. ETHICS AND INTEGRITY IN MANAGING A GLOBAL WORKPLACE**

Managing a global workplace with significant social, ethical, cultural, and infrastructural differences from one country to another is, and has always been, a major challenge for multinational companies (Bognanno, M., Budd, J., and Kleiner, M., 2007). The concept of a global business citizen is instructive. A global business citizen has been defined as “a business enterprise (and its managers) that responsibly exercises its rights and implements its duties to individuals, stakeholders and societies within and across national and cultural borders.” (Davenport, K., et al., 2006, p. 4). This extended conceptualization of corporate citizenship argues that responsible multinational companies are trying to wrestle in good faith with the challenges of globalization. Such a company is considered as “a global business citizen.” (Davenport et al., 2006, p. 4).

Globalization brings a number of challenges for multinational companies. Most of these challenges are related to differences of social, cultural, ethical, and infrastructural issues from one country to another. From a universal principles perspective of corporate citizenship, multinational companies should think globally and act locally by applying basic ethical values everywhere they operate (Davenport et al., 2006).

There are elementary steps being taken to improve compliance with legal and ethical principles, especially in organizations, both public and private. Rule-driven approaches to compliance will, at best, only have an impact on a limited number of operational areas, and will not create desired change throughout the organization. In the true spirit of capitalism, many consultants are developing and advertising ethics-based programs “for sale.” Imposition of external constraints cannot, by itself, help organizations become ideal human environments. Fundamental structural changes are necessary in order to produce moral intentions, as well as both moral reasoning and behavior within every aspect of organizational life. Organizations, by their very nature, represent complex social contexts in

which structural and relational characteristics are inherently value-laden. For example, consider the often competitive nature of interests among stakeholders of an organization.

It is a rare case when a given course of action will satisfy the interests of all relevant stakeholder groups equally well. It might be expected that production staff's concerns about working conditions, administration's concerns about profitability, and consumers' concerns about product safety and affordability might drive problem-solving processes in quite different directions. The functions of various organizational elements can dictate moral and ethical concerns. Therefore, diverse and inherent moral and ethical issues are embedded in the power structure of most organizations. It goes without saying that when power is unequally distributed among organizational members or groups, the emergence of moral and ethical conflicts is virtually inevitable. These are just a few examples of how the complexity of the organizational context can further complicate moral and ethical matters. The inherent limitations of mandatory integrity and ethics codes in such contexts seem clear. Organizations with genuine commitments to moral goals must actively pursue broader and more innovative approaches to building integrity and morality throughout the various dimensions of organizational structure and functioning.

The ideas of Tobias, in his articulated parallels between *The thriving person and the thriving organization* (2004) have much relevance to the issues of individual and organizational morality and ethics. He proposed several dimensions of human adjustment and maturity that have correlates in organizational culture—initiative, discipline, and accountability, to name a few. Tobias very effectively described the inextricable linkage between characteristics of members of the organization and organizational culture. In much the same way, managers need to recognize the notion of interdependence between *individual member* morality and *organizational* morality.

## CONCLUSION

Mandatory ethical programs are an important part of an organization's framework. Clear guidelines established in formal ways create a baseline for expectations critical to the general well-being of the organization. Written rules in some areas (e.g., accounting) are mandated by law or by regulatory groups. Clear communication of certain principles and procedures are essential in many functional areas to meet externally- and internally-imposed standards. Adherence

to such standards is often so important that reporting and enforcement programs are critical components of operations.

However, the thoroughly moral organization must go well beyond principle-driven mandatory ethics programs. There are a variety of concept systems that one might use to discuss the nature of moral functioning at the organization level. Leadership topics often included moral and ethical dimensions. The key role of values and norms in organizational culture are closely related to integrity, moral, and ethical concerns and should be taught using innovative case studies approaches that use synchronous delivery methods such as role-playing, video-interviews, integrity project-participation, and intensive social media used in management education. More research needs to be conducted on the viability of synchronous competence acquisition methods and integrity competences in organization acquisition. Also, greater support is needed in using social media or similar synchronous and similar learning methods in integrity and anticorruption knowledge acquisition, by using real life examples from organizations in order for an organization to gain integrity and anticorruption intellectual capital.

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# The Impact of a Firm's Size and Its Ownership on Innovation Activity in Medium-High and High Technology Sectors

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**Abstract:** The main objective of this study is to identify relations between a firm's size and its ownership and innovation activity in medium-high and high technology sectors. The study is based on a group of 506 companies from five Polish regions. The results of the study show that both the firm's size and its ownership very much determine its innovative activity. The most innovation active enterprises in terms of firm size are medium enterprises, whereas in terms of ownership the most innovative firms are foreign. The least innovative and active firms are micro and national enterprises.

**Keywords:** medium high technology, high technology, innovation activity, firm size, firm ownership

## I. INTRODUCTION

The impact of firm size on innovation activity has been recently discussed, but there are still some problems left to explain [Pérez-Cano 2013, pp. 209-226]. Initially, large enterprises and imperfect competition were supposed to be the most important factors behind innovation. [Schumpeter 1960; Kamien, Schwartz, 1975, pp. 1-37]. Next, small and medium enterprises were pointed out as key elements of innovation in the economy [Drucker 1992]. However, the impact of a firm's size and its ownership on its innovation activity seems to be more diversified. In economically underdeveloped countries, where entrepreneurship is not well developed and widespread, large companies are mainly favored as institutions which are responsible for the level of innovation of industry [Janasz 2005, pp. 133-174]. In this kind of economy the industrial structure has a low share of high technology firms, which trans-

lates into a small share of high technology products in international trade. In general, the more the company exports, the faster it adapts new technologies [Case 2005]. However, firm size has no effect on the types of implemented innovations, but it seriously affects both implementations and initiation of these processes in companies all over the world [Damanpour, 1992, p. 375]. Many studies show that large companies are more often supported by public funds, which results in creating new solutions for the market. In the case of SMEs this kind of public support also translates into new technology solutions, but they are limited to the given company [Herrera, G Sánchez-González 2013, pp. 137-155]. According to Link, large firms have an innovative advantage in markets with imperfect competition, but small firms are characterized by a higher predominance of innovation in markets similar to the model of perfect competition [Link 1980, pp.

771-782]. The main hypothesis of this study is the assumption that innovation activity depends largely on firm size and its ownership. The main objective of this study is to identify relations between a firm's size and its ownership and innovation activity in medium high and high technology sectors.

## 2. INNOVATION ACTIVITY IN MEDIUM HIGH AND HIGH TECHNOLOGY SECTORS

There are many types of industry classification. One of them is the classification based on the intensity of R&D activities. This system defines four types of industries: low technology, medium-low technology, medium-high technology and high technology. Companies in the group of medium-high technology spend on average between 2 and 4 percent of their revenues on research and development. These are companies from the automotive industry, chemical industry

without pharmaceuticals, other electrical equipment manufacturers, machinery manufacturers and rail and transport equipment manufacturers. Expenditure on research and development in high technology industries ranges from 8% to 15% of their income. This group includes industries such as aircraft and aerospace industry, production of office machinery and computers, consumer electronics manufacturing and pharmaceutical industry and the production of medical instruments, optical and precision equipment. Table 1 shows the detailed classification of industries in medium-high and high technology sectors.

Innovation can be a process or a result of its implementation [Dolińska 2010, p. 13] whereas the innovation process includes a creation of an idea, research and development, design, production and dissemination [Stawasz 1999, pp. 24-25]. The implementation of a new or significantly improved product (service) or process, a new marketing method or organizational business practice, organization, workplace

Table 1. The classification of industries for medium-high and high-level technology

PKD Symbol	Description of Polish Classification of Activities (PKD)	The average share of direct expenditure of R&D in the value of production (%) <sup>1</sup>
<b>High technology</b>		
30.30	Manufacture of air and spacecraft and related machinery	13,3
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	10,5
26.20	Manufacture of computers and peripheral equipment	9,2
32	Manufacture of communication equipment	8
25.5,25.6	Manufacture of instruments and appliances for measuring, testing and navigation; watches and clocks; Manufacture of irradiation, electro medical and electrotherapeutic equipment	7,7
<b>Medium-high technology</b>		
27	Manufacture of electrical equipment	3,9
29	Manufacture of motor vehicles, trailers and semi-trailers	3,5
20	Manufacture of chemicals and chemical products	3,1
30 30.2 30.9	Manufacture of other transport equipment Manufacture of railway locomotives and rolling stock Manufacture of motorcycles and bicycles	2,9
28	Manufacture of machinery and equipment	2,1

Source: [Hatzichronoglou, 1996].

or relationship with the environment is an innovation [OECD 2008]. Innovation can also be understood as the willingness and ability of the company to develop and absorb new and improved products, services or technologies [Janasz, Koziol 2007, p.57]. Thus, an activity that has the goal of achieving a particular purpose, and not just the activity that results from the occurrence of certain events, is called innovation activity [Okoń-Horodyska, Zachorowska-Mazurkiewicz 2007, p.105]. Such an activity depends on diversity and on the structure of its relationship with the sources of information, knowledge, technology, work practices and human and financial resources. Innovation activity requires investments in: (a) research and development, (b) technology assets, (c) the purchase of advanced machinery, equipment, computer hardware or software, as well as land and buildings, (d) training of staff and marketing of new and improved products (e) other activities including design work, planning and testing of new products and services, production processes and methods of delivery [Dwojicki and Hlousek 2008, p.49].

### 3. RESEARCH SAMPLE AND METHODOLOGY OF THE STUDY

The scope of this study concerns innovation activities in medium-high and high technology sectors. It covers innovation at the level of the firm and new to the firm. The survey is based on a questionnaire sent by email and telephone interviews with either the owner or manager of a given company. The data were collected from 2009 to 2013. The resulting collection comprises 506 enterprises, including micro 126 (24,90%), 167 small (33%), 155 medium (30,63%) and 58 large (11,46%) enterprises from such regions as: Wielkopolska, Dolny Śląsk, Lubuskie, Łódzkie and Zachodniopomorskie. It includes 374 (73,72%) national firms, foreign capital is represented by 75 (14,82%) firms and mixed capital is represented by 58 companies (11,46%). The medium-high technology sector is represented by 391 (77,27%) firms, whereas the high technology sector includes 115 (22,73%) organizations. Table 2 shows the structure of the surveyed companies by sector and technology.

Table 2. Companies by sector and technology

PKD Symbol	Description of Polish Classification of Activities (PKD)	Number of firms	Industry share in sector (%)	Industry share in both sectors (%)
25.5,25.6	Manufacture of instruments and appliances for measuring, testing and navigation; watches and clocks; Manufacture of irradiation, electro medical and electrotherapeutic equipment	49	42,61	9,68
32	Manufacture of communication equipment	31	26,96	6,13
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	23	20,00	4,55
26.20	Manufacture of computers and peripheral equipment	9	7,83	1,78
30.30	Manufacture of air and spacecraft and related machinery	3	2,61	0,59
	<b>Total high technology</b>	<b>115</b>	<b>100</b>	<b>22,73</b>
28	Manufacture of machinery and equipment	192	49,10	37,94
27	Manufacture of electrical equipment	81	20,72	16,01
20	Manufacture of chemicals and chemical products	61	15,60	12,06
29	Manufacture of motor vehicles, trailers and semi-trailers	40	10,23	7,91
30.2	Manufacture of railway locomotives and rolling stock	10	2,56	1,98
30	Manufacture of other transport equipment	7	1,79	1,38
	<b>Total medium-high technology</b>	<b>391</b>	<b>100</b>	<b>77,27</b>

Source: own study.

The methodological part of the analysis is based on probity modeling. This instrument allows the researcher to determine the probability of innovative behaviors in relation to a firm's size and its ownership [Świadek 2008, pp. 119-132]. All models meet the following assumptions: (1) the data came from a random sample, (2) Y can take only two values: 0 or 1, (3) subsequent Y values are statistically independent, (4) the probability that Y = 1 is defined by normal distribution for the probity or logistic distribution for logit model. There is no perfect linear relationship between the variables in the logit model Xi [Lipiec-Zajchowska 2003, pp. 129-30]. Parameter estimation is performed using the maximum likelihood method (MLE). It allows us to find a vector of parameters that guarantees the highest probability of obtaining the observed value of the sample [Welfe 1998, pp. 73-6]. MLE requires the definition of likelihood function and finding its extreme. The nonlinear estimation procedure uses a quasi-Newton algorithm to find the minimum of the loss function. In this way, a collection of the best estimators for the loss function is calculated [Stanisz 2007, pp. 190-1]. Maximizing the likelihood function for the probity model is made using the techniques used in the nonlinear estimation [Maddala 2006, p. 373]. The Statistica package was used to perform all required calculations. Due to the fact that innovation activities (the dependent variables) and a firm's size and its ownership (independent variables) are binary,

their relationships take the form of linear equations. Every model is described by two probabilities. P1 determines the probability of innovative activity in a given group of companies. P2 determines the probability of innovative activity in all other groups of companies. If the function parameter is positive ( $a > 0$ ), then P1 takes higher value in a given group.

#### 4. THE IMPACT OF FIRM SIZE ON ITS INNOVATION ACTIVITY

Table 3 includes probity models describing relations between a firm's size and the financing of innovative activities. Every model has a form of linear equation with a standard error (Std) and two probabilities P1 and P2. The table includes only statistically significant models. All models for micro enterprises have a negative functional parameter ( $a < 0$ ) which suggests that firm size significantly reduces the probability of taking innovative activity. There are no statistically significant models in the small enterprises group which may suggest large diversity of innovation behaviors. All function parameters are positive in both the medium and large enterprise categories; therefore, medium and large size positively impact innovation activity. The number of models indicates the power of impact. The largest number of positive models is in the medium size group, whereas micro enterprises

Table 3. Firm size and financing of innovative activities in medium-high and high-tech sectors

Innovative feature	Micro			Small			Medium			Large			
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	
R &D expenditure	$-0,40x+0,22$			No statistically significant models				$+0,36x+0,01$			---		
	0,12	0,43	0,59		0,12	0,64	0,50						
Investment in new fixed assets (including):	$-0,54x+0,97$							$+0,55x+0,67$			---		
	0,13	0,66	0,83		0,15	0,89	0,75						
a) buildings and grounds	$-0,51x-0,30$							$+0,44x-0,56$			$+0,35x-0,46$		
	0,14	0,21	0,38		0,12	0,45	0,28	0,17	0,45	0,32			
b) technical equipment and machinery	$-0,48x+0,68$							$+0,49x+0,41$			---		
	0,13	0,58	0,75		0,13	0,81	0,66						
c) computer software	$-0,39x+0,71$							---			$+0,73x+0,54$		
	0,13	0,63	0,76		0,23	0,90	0,70						

Source: own study.

group contains the largest number of negative models. Another factor we can analyze is probability P1 and P2. Generally speaking, P1 is higher in both medium and large companies than in micro enterprises which suggest that medium and large companies are more innovation active. Let's analyze each innovation activity in every firm size category. In the case of R&D expenditure, we can see that micro enterprises are less likely to spend their money (0,43) than medium companies

(0,64). The same situation is for investments in new fixed assets. Micro enterprises are not very keen on investing in new buildings and grounds (0,21), but both medium and large companies invest quite often (0,45). The probability of investments in technical equipment and machinery in the micro group is quite high (0,58), but in the medium group is higher (0,81). The probability of investments in computer software in micro companies is (0,63) whereas in large companies it is

Table 4. Firm size and new product and process implementations in medium-high and high-tech sectors

Innovative feature	Micro			Small			Medium			Large		
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>
Implementation of new technology processes (including):	-0,64x+1,03			---			+0,57x+0,69			---		
	0,13	0,65	0,85				0,15	0,89	0,75			
a) new production methods	-0,45x+0,15			---			+0,35x-0,07			---		
	0,13	0,38	0,55				0,12	0,61	0,47			
b) non production systems	-0,63x-0,08			---			+0,34x-0,33			+0,72x-0,31		
	0,13	0,24	0,47				0,12	0,50	0,36	0,18	0,66	0,38
c) support systems	-0,31x-0,42			-0,30x-0,40			---			+0,74x-0,59		
	0,14	0,23	0,33	0,12	0,23	0,34				0,17	0,55	0,28

Source: own study

Table 5 Firm size and innovative cooperation in medium-high and high-tech sectors

Innovative feature	Micro			Small			Medium			Large					
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>			
Cooperation with Polish Academy Sciences units	---			No statistically significant models			+0,40x-1,82			---					
							0,19	0,07	0,03						
Cooperation with universities	---									---			+0,48x-1,37		
													0,20	0,19	0,08
Cooperation with national R&D units	-0,44x-1,08									---			---		
	0,19	0,06	0,13												
Cooperation with foreign R&D units	---									---			+0,70x-1,80		
										0,23	0,13	0,04			
Cooperation with customers	-0,36x-0,51						---			---					
	0,14	0,19	0,30												
Overall innovative cooperation	-0,38x+0,18						---			---					
	0,13	0,42	0,57												

Source: own study.



(0,90). In short, the most active group is the medium enterprise group, whereas the micro and small groups lack of positive correlations.

Table 4 shows probity models describing relations between firm size and new product and process implementations. All micro enterprises models have a negative functional parameter what suggests that the probability of a new product and process implementation in this group is much lower than in other groups. This group also has a large number of negative models, whereas the largest number of positive models is in the medium size group. P1 probability generally takes higher values in medium and large companies. The probability of implementation of new technology processes in medium enterprises (0,89) is about 37% higher than in micro enterprises (0,65), whereas in the case of new production methods it is higher, at more than 60%. The highest probability of implantation of non production systems is in the large enterprise group (0,66), and it is 2.75 times higher than in the micro group. The probability of implementation of support systems is the same in micro and small enterprises groups (0,23) and both models have negative function parameters. Traditionally large companies have the highest probability (0,55).

Table 5 includes all statistically significant probity models describing relations between firm size and innovative cooperation. This area of innovation activity includes a significantly smaller number of models. All function parameters for micro-enterprises are negative.

There are no models for medium enterprises. Positive correlations are in the group of medium and large companies. In the contrast to previously analyzed categories of innovation activities, P1 probability takes much lower values. The highest values are in the group of large companies and concern cooperation with universities (0,19) and cooperation with foreign R&D units (0,13) whereas in the medium companies cooperation with Polish Academy Sciences units (0,07) has the highest value.

## 5. THE IMPACT OF FIRM OWNERSHIP ON ITS INNOVATION ACTIVITY

Table 6 includes probity models describing relations between firm ownership and financing of innovative activities. All models for national firms have a negative functional parameter, which suggests that the probability of investment in new fixed assets is lower here than in other groups. Positive function parameters are found for foreign and mixed capital categories so those capital structures positively impact investments activity. There are three positive models in the foreign ownership group and one in the mixed group. There are no statistically significant models for R&D expenditure. The P1 value takes the highest value for investments in technical equipment and machinery (0,84), whereas it takes the lowest probability for national capital (0,66). We can notice that national enterprises are less likely to invest their money (0,29)

Table 6. Firm ownership and financing of innovative activities in medium-high and high-tech sectors

Innovative feature	National			Foreign			Mixed		
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>
Investment in new fixed assets (including):	-0,32x+1,07			---			---		
	0,15	0,77	0,86						
a) buildings and grounds	-0,41x-0,12			+0,55x-0,50			---		
	0,12	0,29	0,45	0,16	0,52	0,30			
b) technical equipment and machinery	-0,51x+0,94			+0,38x+0,50			+0,51x+0,50		
	0,14	0,66	0,82	0,18	0,81	0,69	0,21	0,84	0,69
c) computer software	-0,32x+0,85			+0,38x+0,56			---		
	0,14	0,70	0,80	0,18	0,82	0,72			

Source: own study

in buildings and grounds than are foreign companies (0,52). The probability of investments in computer software in national companies is (0,70) whereas in foreign ones is (0,82). In short the most active group is the foreign capital group, whereas national firms lack of positive correlations.

Table 7 shows probity models describing relations between firm ownership and new process implementations. All national enterprises models have a negative functional parameter, which suggests that the probability of new product and process implementation for this group is much lower than in other groups. P1 probability takes the highest value for implementations of new production methods in mixed group (0,64). The probability of implementation of non production systems in foreign enterprises (0,60) is about 71% higher than in national enterprises (0,35), whereas in the case of implementation of support systems is nearly twice as high.

Table 8 includes all statistically significant probity models describing relations between firm ownership and innovative cooperation. There are no models for mixed capital so this may suggest that they do not cooperate in the area of innovation. All function parameters for national companies are negative. Positive correlations are in the group of foreign companies. Probability (P1) takes much lower values. The highest positive value concerns cooperation with universities (0,19) made by foreign companies and it the probability here is more than three times higher than cooperation made by national companies. The probability of cooperation with foreign R&D units made by foreign companies is 0,11.

## 6. CONCLUSIONS

In the area of financing innovative activities the most active enterprises in terms of firm size are medium-sized enterprises, whereas in terms of firm

Table 7. Firm ownership and new product and process implementations in medium-high and high-tech sectors

Innovative feature	National			Foreign			Mixed		
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>
Implementation of new production methods	---			---			+0,35x-0,01		
							0,17	0,64	0,50
Implementation of non production systems	-0,50x+0,14			+0,57x-0,31			---		
	0,12	0,35	0,55	0,16	0,60	0,37			
Implementation of support systems	-0,50x-0,14			+0,69x-0,61			---		
	0,12	0,26	0,44	0,16	0,53	0,27			

Source: own study

Table 8. Firm ownership and innovative cooperation in medium-high and high-tech sectors

Innovative feature	National			Foreign		
	Std	P <sub>1</sub>	P <sub>2</sub>	Std	P <sub>1</sub>	P <sub>2</sub>
Cooperation with universitites	-0,54x-0,84			+0,50x-1,39		
	0,16	0,06	0,17	0,19	0,19	0,08
Cooperation with foreign R&D units	-0,51x-1,33			+0,54x-1,78		
	0,19	0,03	0,09	0,22	0,11	0,04
Cooperation with customers	-0,27x-0,39			---		
	0,13	0,25	0,34			

Source: own study

ownership, the most innovative are foreign ones. Micro enterprises or national capital enterprises do not invest their money in innovation activities very often. The highest probability (P1) involves investments in computer software in large companies (0,90) and investments in technical equipment and machinery in mixed companies (0,84). In the area of new product and process implementations the situation is analogical. The most active enterprises in terms of firm size are medium enterprises, whereas in terms of firm ownership, the most active are foreign ones. Micro or national capital enterprises do not implement new products and processes very often. The highest probability (P1) occurs with overall implementation of new technology processes in medium companies (0,89), and implementation of new production methods in mixed companies (0,64). In general, the surveyed enterprises are not very keen to cooperate in the area of innovation. The highest probability of innovative cooperation occurs in the largest companies which cooperate with universities (0,19) and foreign R&D units (0,13), whereas the fact that the company has national capital negatively affects its innovative cooperation.

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# Effective Business English Teaching and Learning

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**Abstract:** The purpose of the following paper is to investigate the possible problems of Business English Teaching in Poland. In the article, previous research on the subject is presented and confronted, including a survey conducted among Polish teachers. As a result of a SWOT analysis of recently finished Business English courses, a catalogue of potential problems has been created. In the final part of the article, the author discusses the possible solutions to the established challenges and presents the main areas for development of the education service market.

**Keywords:** English for specific purposes, methodology, General English, problems, teaching perspectives

## I. INTRODUCTION

During the last few decades, the position of English as an international language and as a “domain of peoples’ lives and activity” (Gnutzmann 2009, p. 519) has strengthened. With the introduction of new trends, English has become not only the language of communication worldwide but also the language of science, technology and commerce. In fact it is, above all, the language of business contacts. As a result, many corporations decide to invest in language teaching to streamline internal communication (in many international companies English is the corporate language of choice) and improve their efficacy of work. Today, the level of language skills is also perceived to be one of the essential indicators of the educational quality at a university or college. Students graduating from business colleges, economic universities or just searching for a job must be competitive in the labour market. A good knowledge of Business English seems to be, next to managerial skills, a necessity nowadays.

Therefore, implementing proper teaching methods might be the first step to succeed in that field. Poland is a good example of a country where specific language skills are highly appreciated, especially in companies with a foreign capital share. A relatively cheap labour force and an intensively developing economy make Poland alluring for foreign investors, who usually communicate in English only. Openings for international projects and benefits, resulting from EU membership, contribute to the rapidly growing interest in Business English Teaching in Poland.

## 2. PROBLEM FORMULATION

Although there are many different courses offered in companies, both in private language schools and at business colleges and as an integral part of studies, many learners still encounter problems while using English for business purposes, even after finishing special courses (Donna, 2011; Frendo, 2005; Grajewska-Skrzypczak, 2011). The following paper

aims to categorize the challenges that Business English teachers have to deal with. Furthermore, it attempts to present possible solutions.

### 3. RESEARCH ON THE SUBJECT

#### 3.1 General EFL vs. Business English

Business English Teaching differs from General English Teaching. This seems to be an obvious truth; however, in many cases it is not as clear as it seems to be in the teaching practice, and neglecting the statement leads to misunderstandings and lower teaching effectiveness. Brieger (1997, p. 3) emphasizes that Teaching Business English links three areas that should be considered in achieving educational success:

- Teaching – meaning: running a training programme.
- English – meaning: knowledge of a language and culture.
- Business – meaning: understanding specific processes, having knowledge of subject matter.

Whereas meeting the first two requirements does not pose any problem for the majority of English teachers, the third one seems to be a real challenge. Hyland (2009, p. 391) points out that Business English refers to “language research and instruction and focuses on the specific communicative needs and practices of particular social groups.” The first part of the definition shows that the scope of interest of Business English is, on the one hand, very similar to General English practice (focusing on developing communication skills), but on the other hand, Hyland emphasises the meaning of the socio-professional dimension of this language communication. Hutchinson and Waters (1987, p. 53) point out that the difference between General English and English for Special Purposes is “in theory nothing, in practice a great deal”. This “practice” is, for Business Language teachers, that field where problems can occur.

#### 3.2 Business English Teachers

Ellis and Johnson (2003, p. 25) comment that “the Business English trainer is primarily a language teacher. He or she does not need to be an expert in any particular business” but in the same publication they stress that “a good trainer will be able to work with an engineer, a product manager, or a foreign exchange dealer with equal skill and effectiveness, and the key to that effectiveness is being able to ask the right questions and make good use of answers.” It is essential to ask about the level of knowledge needed to formulate an accurate question and to be able to imple-

ment the obtained answer into the teaching practice. Frendo (2000, p. 5) highlights that “Business English teachers need to be able to make informed decisions about language and language learning. They also need credibility, professionalism, and an awareness of the business world. (...) Above all they must (...) be willing themselves to learn.” Teaching Business English is considered to inherently differ from Teaching General English, something that has been made evident by considering the different words used to describe Business English teachers. Many teachers in the field of Business English call themselves trainers, coaches, or even consultants. These descriptions extend the meaning of the traditional teaching job and draw attention to the variety of different expectations for Business English teachers.

##### • **Trainer**

Frendo (2000, p. 5) explains the difference between training and teaching. “Training is job-oriented, while teaching is person-oriented.” The trainer’s aim is to develop certain skills by trained employees, to help them to adjust themselves better to the working conditions in the company and to be more efficient in their work. Being a trainer also means respecting expectations that do not necessarily belong to the teacher but, above all, to the students and their sponsors. It is extremely important in defining the course objectives (Donna, 2011).

##### • **Coach**

An English teacher as a coach is someone who shows her/his students how to learn in an autonomous way. The process of Business English Teaching concentrates on meeting the specific needs of a learner, who is able to define her/his own needs and expectations in the field of a foreign language. It is vital to underline that these educational needs are very different and should be reflected in teaching guidance and course design. Following this approach the language classes can be targeted at the real needs of learners.

##### • **Consultant**

A consultant is someone who has know-how which is not available in the company. In other words, he or she is someone who is an expert in a certain field. In the Business English Teaching process it can thus refer to very different areas: analysing communication needs, involving the teacher in negotiations while looking for the best course location (Frendo, 2000).

Gnutzmann (2009, p. 531) lists the following qualifications the Business English teachers should possess, in an ideal situation:

- Very high proficiency in the target language.

- Theoretical and descriptive knowledge of language concepts in which specific purposes are targeted, in particular terminology, syntax, pragmatics and inter-cultural differences in the discourse structure.
- Subject knowledge of the field whose specific languages she/he teaches.
- Ability to select and prepare adequate didactic materials.

According to Gajewska-Skrzypczak (2011, p. 253) the teachers' lack of qualifications to teach Business English is the main problem leading to teachers' frustration and indirectly reflecting on the quality of language teaching.

### 3.3 The Purpose and Content of a Business English Course

“Although terminology is obviously an outstanding characteristic of LSP<sup>1</sup>, this does not imply that the teaching of terminology should be at the centre of LSP classes.” (Gnutzmann 2009, p. 528) Gnutzmann also stresses the next problem occurring in Business English classes is that of meeting learners' needs. Gajewska-Skrzypczak (2011) and Brzozowska (2000) also point out that meeting students expectations and preparing them linguistically is a big challenge, causing many problems for language teachers. Donna (2011, p. 4) makes the topic complete by listing possible targets of in-company Business English classes, “if students are employed by a multinational corporation, their prime need will probably be to be able to use the phone, report to foreign managers, reply to or write faxes and e-mail messages, read periodicals on their subject area and perform other tasks typically associated with the workplace.” The pragmatic dimension of language classes is very strongly stressed in other publications referring to the discussed topic (e.g. Dickel, 2012; Misztal, 2012; Frendo, 2005; Hyland, 2009). The question that needs to be asked is how far these principles are considered while designing and conducting Business English classes. Gajewska-Skrzypczak (2011, p. 254) concludes that in the majority of business colleges and technical universities the length of a language course is 120 hours, which is insufficient to master the communicative skills needed to use a language for specific purposes. An additional drawback is the different levels of language knowledge among students. It seems to be also a problem at in-company courses, in case of which the board does not always decide to pay for one-to-one classes or divide employees into smaller groups. Disrespecting that principle very often leads to

<sup>1</sup> Language for Specific Purposes

a decrease of teacher's and learner's motivation. The teacher's tasks are complicated because she/he has to take into consideration different levels of students' language knowledge. It should also be emphasized that Business English classes are possible beginning from at least the B1/B2 level; otherwise it is difficult to practice specific vocabulary without the knowledge of basic grammar and lexical structures from general English. Additionally, learners' motivation weakens when they are not able to cover the class material.

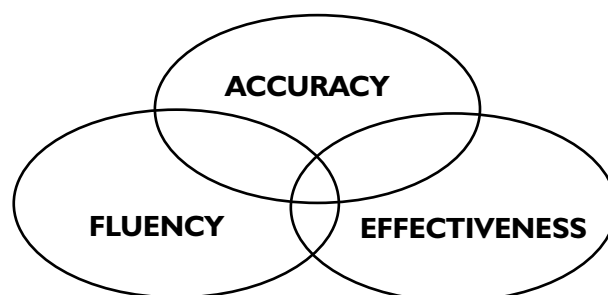
### 3.4 Learner-Teacher Relations

The learner-teacher relationship should also be considered within the Business English context. It is crucial to respect a double role of a learner, who is not only a learner or a client in the Business English context, but additionally she/he becomes an important provider of information (Donna, 2011) or sometimes even an expert. Both teachers and learners usually start classes with a certain idea of how the course should look like. The lack of communication between them can lead to misunderstandings and low quality of the language classes. Brieger (1993, p. 5) highlights the three fields that should be considered in the Business Language Teaching: accuracy, fluency and effectiveness. The three characteristics overlap and should be present at any stage of the teaching process beginning from the course design, through the course duration to the course recapitulation and conclusions.

## RESEARCH

In order to find and analyze the source of possible problems of Business English Teaching, teachers conducting in-company Business English classes, both at the university and in a private language school in the Poznań area, were asked to take part in a survey (in the form of a SWOT analysis), which referred to

FIGURE.1. The three fields of Business Language Teaching (Brieger 1993, p. 5)



a recently carried out Business English course. In this survey, teachers were asked to write down their conclusions connected with the course's strengths, weaknesses and possible risks and chances. After collecting data teachers' answers were categorized and the results are presented in the latter part of the article. The decision to target the survey at the teachers and not learners was dictated by the fact that the teachers have an enormous impact on the course design and contacts with the course participants as well. Additionally, teachers were asked to name their experience and qualifications in Business English courses. Another incentive to conduct an inquiry among the teachers was the lack of feedback about the finished course, which often leads to repeating the same errors when designing a new course. Due to restrictions of the paper's length, only the most important results of the research are presented.

## 5. DATA PRESENTATION

### 5.1 Experience and Qualifications

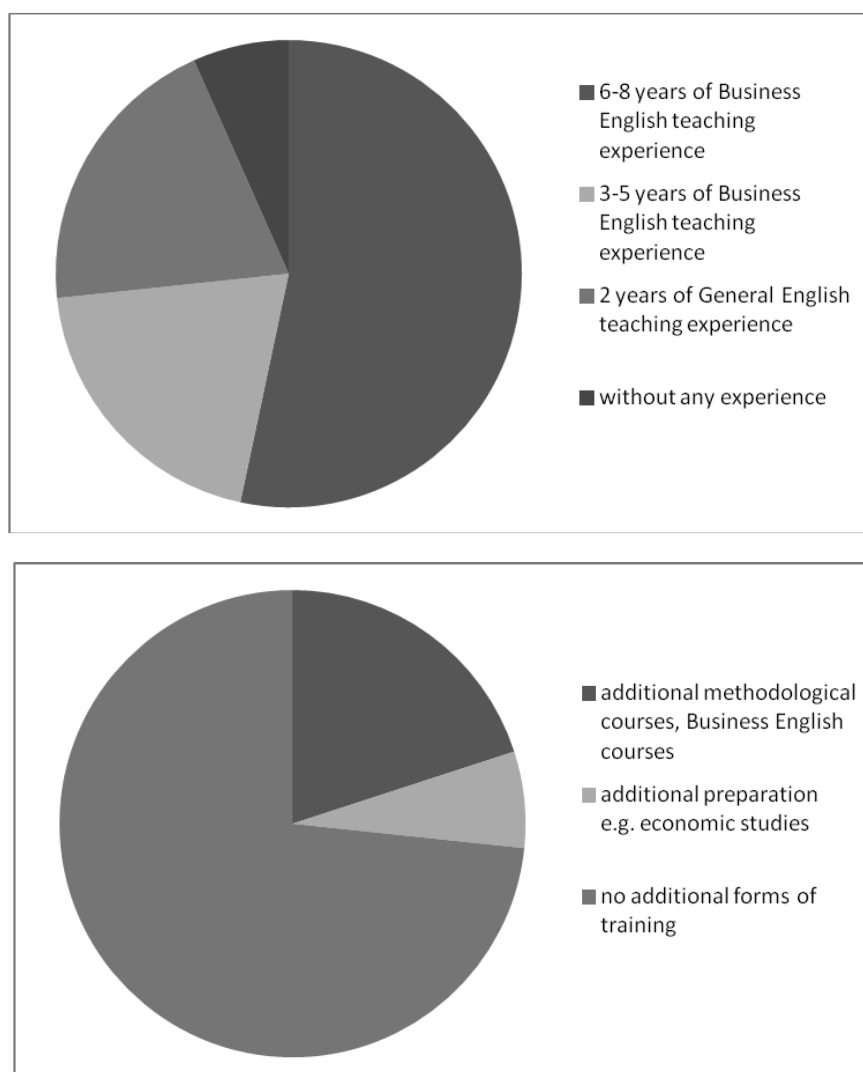
The majority of teachers admitted to having experience in Business English language teaching. The exact results are presented in the diagram below.

Twelve teachers had conducted similar courses before. Three of the teachers regularly participated in special courses to broaden their knowledge in the field of Business English. One person had, additionally, graduated from economic studies. The rest of the teachers did not mention any form of additional training.

### 5.2 Strengths

In that part of the survey teachers shared their opinion about the course's strengths. The most often repeated answers were:

FIGURE.2. Experience and qualification structure of inquired teachers.



- Good communication inside the group and with the teacher.
- Good practical knowledge of business issues (5 answers).

Surprisingly often (10 answers) teachers mentioned the good atmosphere of the course and good communication with the participants. In the survey next to the term “good communication” this statement also appeared:

- Noticeable knowledge increase (proven by participants’ opinions (!) and final tests results) (6 answers).

### 5.3 Weaknesses

As the biggest weaknesses (disadvantages) of the conducted course, the teachers named:

- Different levels of English knowledge among the course participants (8 answers) caused by no possibility to divide the group into smaller ones.
- Lack of grammar and lexical basics knowledge among course participants (9 answers).
- Lack of regularity in learning among course participants (5 answers) usually caused by insufficient time to prepare for classes.

### 5.4 Chances

In terms of chances (understood as course potential for the future) teachers pointed out the following aspects:

- Willingness to broaden the Business English knowledge by the course participants, which possibly results in beginning a new course (6 answers).
- Broad variety of educational materials including audio and DVD materials (8 answers).

Four teachers mentioned good conditions in the rooms, meaning modern equipment enabling to implement blended learning technologies.

### 5.5 Risks

Risks are understood as potential dangers for a Business English course causing poor quality of the language course:

- Problems with regular assessment during the course (learners who combine work with studying do not have enough time to learn regularly) (5 answers).
- Bad atmosphere during the course (2 answers).
- Lack of business knowledge (7 answers).
- Too large group size (5 answers).
- Not enough hours included in the programme to cover the planned material (6 answers).
- Lack of basic grammar and lexical knowledge among participants (4 answers).

## 6. CONCLUSIONS

The conducted research had a very general character and was targeted at locating the problematic areas in Business English teaching in order to make the teachers aware of the possible risks and also reveal the fields that need an in-depth analysis in the course planning. The main conclusions resulting from the conducted research are divided into internal (referring to the teachers) and external (referring to the teaching surrounding) as follows:

### 6.1 Internal Problems:

- No need to broaden BET qualifications. This aspect is visible in the teachers’ answers. The majority of them rely on their experience or knowledge of General English, which may be very good but as the quoted researches stress General English Teaching differs from Business English Teaching. This attitude may be the result of the fact that such methodological trainings are not offered or teachers are just unwilling to gain additional qualifications.
- Lack of methods to cooperate with the group. The atmosphere of a course is not always nice, especially when the teacher lacks specific knowledge and the course participants are not willing to support. Failure to establish clear expectations of cooperation in the class results in lowering educational quality.

### 6.2 External Problems:

- Regular learning poses a problem especially for professionally working learners who combine the course with work. Despite their broad specific knowledge, they do not have time to learn regularly. This is stressed by the teachers in terms of possible risks.
- The group variety and size requires individual attitude to each participant whilst working simultaneously with the group.

### 6.3 Potential solutions to the discussed problems

Internal problems:

- Extending an offer of methodology courses for BE teachers.
- Encouraging teachers to invest in broadening their knowledge.
- Encouraging teachers to cooperate and exchange their experience.

This group of problems affects the quality of language learning greatly. Therefore it is advisable to check teachers’ qualifications and experience neces-



sary for conducting Business English classes carefully before employing them to plan and conduct a Business English course.

External problems:

- Encouraging learners to prepare for classes regularly by regular repetitions and revisions made both at the beginning and at the end of the class. Introduce the system of continuous assessment.
- Designing the course very carefully taking the group size and specifics into consideration. Respecting specific needs of the taught group. Preparing an inquiry for the group to estimate the main goals and objectives of the course for the participants before the course begins.
- Conducting continuous monitoring of learners' problems and introducing continuous changes in the course design.
- Preparing a short summary after the course to learn the participants' opinions about the problems and advantages of the course.

The presented solutions are only examples of possible improvements and tasks available for the teachers in order to make the educational process more successful.

## 7. PERSPECTIVES

The described research presents only a very general problem overview. A rising interest in Business English in Poland is the best justification for the need to conduct more specific research in this field. It will be crucial to carry out a similar inquiry among the language learners to learn about their preferences as well as their expectations of the Business English learning process. The next crucial point is the teachers' preparation for the job, including the development of teaching methods in the field of BET and continuous monitoring of the group needs.

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[1] X1. Author, Title of the Paper, International Journal of Science and Technology, Vol.X, No.X, 19XX, pp. XX-XX.

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