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The Centre for Research and Interdisciplinary Studies (CRIS) was founded with the idea of developing interdisciplinary research crossing several fields and subject areas underlying the academic curricula at Prague College, and its main purposes are:

- To promote a medium of participation and discussions by means of regular interdisciplinary workshops and seminars.
- To promote and to encourage the collaboration among different schools and programmes in the design and creation of multidisciplinary courses in the college.
- To provide a means of publishing research work for both students and staff as part of a quarterly academic bulletin and e-journal.
- To cooperate with other education institutions and organisations in the development of common projects of interest.

The Centre was developed from projects initiated by Stefano Cavagnetto in the context of his role as Head of the School of Business and the School of Computing, by Bruce Gahir, Principal Lecturer in the School of Business and Computing, and by Pascal Silondi, Director of Libat and Principal Lecturer in Interactive Media. Beginning in 2009, research in the following areas had been initiated:

1. Game theory and its application to economics, business, philosophy, and international relations.
2. The history of programming languages and history of computers.
3. Experimental media (Prague College and the CRIS, formerly PCRC, is an associate partner for Underground City XXI an international interdisciplinary EU project).
4. The history of cryptology and the science of enciphering.
5. Art and mathematics: a profitable relationship in history - from classical geometry to fractals and topology.

By combining academic study with practical training, the CRIS aims to create an environment where personal achievement goes hand-in-hand with social responsibility. Strategically, this offers students the chance to actively collaborate in several research areas with the support of faculty members and lecturers of the college.

Since 2010 a quarterly Bulletin has been published detailing progress in relevant research activities of lecturers and students. This bulletin forms an integral part of the CRIS and provides a medium whereby the research activities of the centre can be documented. Faculty members, lecturers and students belonging to every school of the college are welcome to submit their work for publication.

You can find the published Bulletins of CRIS on Ebrary (electronic library), in the college library, in six Prague libraries (Narodni knihovna, Knihovna Narodniho muzea v Praze, Ministerstvo kultury CR, Parlamentni knihovna, Mestska knihovna v Praze, Knihovna a tiskarna pro nevidome K.E. Macana), Moravska zemiska knihovna in Brno, Stredoceska vedecka knihovna in Kladno, Jihoceska vedecka knihovna in Ceske Budejovice, Studijnja a vedecka knihovna Plzenskeho kraje in Plzen, Severoceska vedecka knihovna in Usti nad Labem, Krajska vedecka knihovna in Liberec, Studijnja a vedecka knihovna in Hradec Kralove, Moravskoslezska vedecka knihovna in Ostrava, Vedecka knihovna in Olomouc, Krajska knihovna in Pardubice, Havlickuv Brod, Zlin, and Karlovy Vary.

**Deadlines for the next issue in 2015 is 31st December 2015.**
This issue of the bulletin showcases the efforts of students studying on the MSc International Management and the BA (Hons) International Business Management degrees at Prague College School of Business, run in partnership with Teesside University.

A critical element of their studies is to undertake assessments that consider important aspects of modern international business and this special selection of papers provides a range of perspectives on topic areas, Managing Across Cultures, Business Ethics and Corporate Social Responsibility (CSR), and Marketing.
The papers demonstrate quite clearly how and why the dynamic changes resulting from the volatility of business environments, together with exponential technical and social changes, due to rapid developments in technological advances, are creating unique pressures upon businesses and business leaders of the future. There is an increasing recognition in the literature that the new business models and their development will require better comprehension of society’s needs and emerging demands, yet new leaders will also need to develop adaption, innovation, and responsibility as key character qualities if their leadership skills are to be successfully employed in such complex business environments in order to face the new challenges created by post-financial crisis times.

With the business environment constantly changing, the leaders of tomorrow are going to be faced with increasing complexity in the market and society that they will deal with and will therefore need to develop the necessary skills and aptitudes to not only face new challenges, but to harness them effectively to survive and grow in what is becoming a complex and highly interconnected business environment (Drucker, 1994). Yet, these challenges will not only demand the ability to respond effectively, but to be able to respond in an ethical and responsible manner, meeting the needs of complex groups of a multitude of stakeholders with different cultural backgrounds.

In addition to changing business environments, the increasing complexity of financial markets and economic environments (Porter, 2008) has lead to a change in the management and delivery of higher education. As a result, the focus of education provision needs to explore to a greater depth the difference between education and the learning process itself. It is evident from the skills currently being taught in business schools that most of the time education has been focusing on the delivery of "know how". Such a kind of knowing focuses on how to attain the best possible ways of carrying out a particular set of tasks, such as developing an investment model to meet the needs of customers and aiming at getting this right or creating profitable business models. However, it lacks a proper meaningful assessment of its wider consequences. Such a focus tends to emphasise solely the acquisition of the best skills amongst students to attain the final results, and as a result, teaching methodologies are geared towards such effectiveness. Therefore, such learning is transmitted to students and future business leaders, providing a unique vision of the world in which performance is judged as the attainment of the final result, and it is a paramount valuable criteria that gains importance.

However, environmental complexity demands another important element that education will need to take into account: the "know why" mode of knowledge. Knowing the Meadian symbolic interactions (Herman-Kinney, Reynolds, 2003) taking place in social environments and the reasons why the skills and methods are being applied effectively to reach desired ends involves a process of self reflection, a process that explores the motives of why the "know how" is effectively implemented. This process allows one’s values to be assessed in an exploratory manner and motivates the development of responsible elements of one’s character that the first processes of the application of "know how" does not necessarily allow. Thus, by adapting Habermas (1987) and the idea of the theory of knowledge as social theory, one could say that the shift in the perspective from the "know how" to the "know why" allows an extension of the instrumental knowledge sphere. The enlargement into the reflective and critical sphere of knowledge can be achieved via interpretive research and hermeneutics methods. In particular, the classic empirical and analytic methods producing causal explanations will be complemented by hermeneutic methods providing comprehension and understanding of the complexity of business and social environments using reflective and critical practices.

The educational approach that is emphasised in the programmes at the undergraduate and at the postgraduate level run at Prague College aims at both the "know how" and the "know why" modes of knowledge to create future business leaders capable of different and adaptive styles of leadership with a pronounced critical sense of ethical responsibility. In this respect, new leaders will be able to meet the requirements of changes that foster relationships and accompany ethical burdens and implied responsibility, as discussed by
Gerstner (2003). The "know why" mode of knowledge will allow one to grasp the full meaning of ethical implications and social responsibility by allowing a different perspective, a "shift of mind", to undertake the development of new business models, including a new level of financial and managerial engagement between people, firms, organisations, and society.

The emphasis of such a kind of "ethical" leadership development is based on trust, that plays a central role in developing relationships with employees, to support them in their growth and their future development within organisations (Dalla Costa, 1998). Trust is conceived as an authentic behaviour to be implemented in daily activities where the principle of justice as fairness will be the key criteria for addressing problems and solutions. Thus, Ciulla (2003) identifies authenticity, as a degree of independence from external pressures and factors, will be a character trait developed as a result of a highly interactive learning environment.

Thus, the conflicting requirement-horizons will not only offer opportunities to future leaders and add another dimension into the complexity of the business environment to be explored, analysed, and adopted effectively, but also ethical decision making processes will take on paramount importance and the needs for sustainable balance will require to be established within the networks of stakeholders and their ever growing conflicting interests and influences.

Such dynamically adaptive and flexible ethical leadership qualities that will actively encourage the development of discerning abilities to judge between the need for "know how" and "know why" will be of paramount importance for future business leaders. Following in the footsteps of Aristotle (Aristotle & Sachs, 2003), it could be emphasised that such adaptive skills will need to be ingrained in the character of future business leaders via the adaptation and delivery of changing educational requirements that should find the right balance between the different modes of knowledge which characteristically should represent higher education.

Therefore, the emphasis of these collection of papers is to bring together the different areas that have been explored by students with a particular focus on the development of "ethical" leadership qualities. The first two articles below provide evaluations of the marketing strategies of two international companies. Katerina Haskova provides a critical analysis of the marketing approach of Starbucks. Using a range of analytical tools, she offers a balanced view of Starbucks current strategy. She then goes on to discuss the importance of CSR for major firms and the importance of environmental scanning to identify and deal with the demands of a variety of stakeholders.

Veronika Šírová provides a similar strategic marketing analysis of L’Oreal, the cosmetics and beauty corporation, again offering perceptive insights not only on the current strategy of L’Oreal but on its potential future direction. This article also provides an evaluation of L’Oreal’s relationship marketing strategy, which is complex given the indirect sales channels adopted by the group. Šírová highlights the importance which customers attach to issues such as value and quality, and demonstrates how L’Oreal uses it position to influence sales through cross-selling and up-selling of its products.

These articles provide just two examples of how a challenging but practical programme prepares students to be immediately useful in the world of work, whether with a large or small corporation or in public service.

The next three articles are taken from a module dealing with business ethics and CSR. All three articles offer illuminating perspectives on the relationship between company success and the values that are portrayed by the company and its employees. However, whilst Arlind Svarca’s piece demonstrates through several examples how a company with positive ethical values appears to be placed in a better position to be financially successful, the articles by Natália Krátsmar-Šmogrovičová and Anna Prošková focus more on an ethical justification of appropriate CSR, both drawing on Rawl’s formulation of justice as fairness, but also applying Kant’s deontological
expression of the "categorical imperative" which is preferred to a more utilitarian expression which they claim has a negative impact on those affected by particular business strategies. There is a growing view that as technology and alternative information sources develop, it will be more difficult for companies to mislead or hide their activities from stakeholders, and that it will be essential for the company and its employees to display an authentic face to the world, and that behaviour that is perceived to be unethical will be frequently rejected. Whilst this view might be challenged by some, but not all, free market protagonists who will suggest that market value will trump other values, there is sufficient evidence here to suggest that stakeholder views are rather complex.

The final two articles offer an internal and external view of cultural understanding and its importance in a globalised world. Katerina Reznickova provides a helpful synthesis of leadership literature and challenges traditional views by offering alternative perspectives on what might be considered to be good leadership suggesting that contingency approaches to leadership are important in an international context.

Alex Semerad in the area of Managing Across Cultures explores the external responsibilities of managers in unfamiliar situations. As Reznickova also observes, cultural difference places negotiators in difficult situations, and Semerad draws upon insights offered by Hofstede’s cultural dimensions and complementary work by Trompenaars and others to suggest how the US and Arab business culture differs, and he applies knowledge of business behaviour, symbols, and artefacts to offer up one practical approach to entering negotiations. Whilst these perspectives are open to challenge, and adaptation appears to be principally a mono-directional process, Semerad’s conclusion is practical and informative. In these articles below it is possible to find a wealth of expertise applied directly to practical business problems. They are challenging, and even if one might not agree with the analysis and conclusions, still the reader will find much to reflect upon.

REFERENCES

Starbucks first opened in Seattle in 1971 (Starbucks, 2014) and has grown from one store to 19,767 stores today. With over 160 thousand employees worldwide (Forbes, 2013) this company has become world famous and brings high quality coffee and beverages to its clients over the world daily. Their well-known mission statement is: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.

In the United States of America 54% of the population over 18 years of age drinks coffee daily and the total American drinking population spends 40 billion dollars on this beverage yearly (Harvard School of Public Health, 2014). According to the following statistics, there is large market potential in the world for this particular service and production; Starbucks along with many competitors, such as Costa Coffee or McCafe, have seized this opportunity and continue to innovate within this market. It is no doubt that this market can be profitable; in 2012 Howard Schultz, the CEO of Starbucks, was classified as the 8th best-paid CEO in the United States of America making 103 million dollars of profit (Rushe, 2013).

Throughout this report, we will be looking at the marketing techniques Starbucks uses daily and identify the key techniques that bring them the competitive advantage. Firstly, we will analyse the current marketing strategy, look into detail at their branding, and explain how it brings value to the customer, discuss the ethical engagements and importance of CSR used, and lastly, analyse the relationship between marketing strategies.
Every business needs to carry out a successful marketing strategy in order to be noticed by consumers and to forge brand identity. Throughout this section, Starbucks’ marketing strategy will be described using the core marketing strategy concept, identifying the positioning and marketing mix, and analysing the environment in which it operates. Strategic marketing will further be used in complement with tools such as the Ansoff and BCG Matrix.

**CORE MARKETING STRATEGY**
A core marketing strategy analysis looks at segmentation, targeting, positioning, and differentiation. This type of analysis allows the company to understand the type of service they want to provide, which product type they are selling and to whom.

**SEGMENTATION**
At Starbucks, the demographic segmentation’s main group is between 25 and 40 years of age with high incomes, the second target group is 18 to 24 year of age and belongs to richer families. In general, the customers belong to the Generation Y born between 1977 and 2000; this is where most profit is made as claimed by Fromm (2014). Psychographic segmentation indicates that customers belong to the upper-middle class and generally have college education (Rafii, 2013). When targeting, Starbucks is situated between mass marketing and segment marketing; they are targeting a broader public; however, there are some criteria that the customers should have, such as higher incomes or a younger age. We can illustrate Starbuck’s positioning thanks to the graph (Zapolski, 2010) below; it is how the customers perceive the product and service sold.

![Figure 1: Starbuck's Positioning](image-url)
STARBUCKS’ POSITIONING

As Blankson and Kalafatis (2007) point out in the Journal of Services Marketing, positioning has received little attention from marketers but is very useful in defining and modifying the tangible characteristics of the product and its intangible perceptions. At Starbucks, customers are buying an expensive product of high quality (tangible), but they also have the personalized in-store experience enhanced by the trained employees, for example, the customer’s name is written on the plastic cup their beverage will be served in (intangible); this helps Starbucks obtain the premium brand status and fight competition.

The unique selling proposition concept helps Starbucks differentiate their products and services and gain competitive advantage over competition. Starbucks is known for their good customer service and in-store experience, for customers can either spend some time in the shop and benefit from the friendly and cozy environment and Wi-Fi, or they can rapidly purchase their beverage and continue on their way. In both cases the customer is meant to take away a unique experience. This unique selling concept is especially important in a fast moving world where technology is becoming more personalized and where social interactions are decreasing; the customers can find some human contact in their everyday lives in a Starbucks store. Despite what Moore (2006) explains by claiming that Starbucks is by far the leader in the industry they have created; there are several criticisms facing Starbucks about their individual approach to customers. Sanburn (2012) explains that in 2010, when Starbucks opened several new stores, the company lost “some of its magic” and the individual service was not so personal anymore. Customers felt neglected and treated as a regular fast food customer, and this contradicts the unique selling proposition the company had laid out earlier during its creation and decreases the competitive advantage Starbucks detains over their competitors.
EXTENDED MARKETING MIX

The extended marketing mix helps us understand the main activities undertaken by Starbucks as to best meet the needs of its targeted market. When it comes to product, three types are identified: served beverages and food, coffee for home, and mugs for sale (Starbucks, 2014). Beverages tend to bring the most profit; however mugs have become more of a culture to individuals around the world and helped Starbucks create their signature product worldwide. Packaged coffee that can be enjoyed at home was introduced last and is now available in stores. As Fernandez (2010) points out, customers find the coffee in large retail stores to be of lower quality, enjoy it less, and feel like Starbucks is only aiming for high profits instead of preserving the friendly environment.

Price is one of the main issues at Starbucks, a cappuccino costs around £2.50, a hot chocolate £2.35 (King, 2011). A mug costs between £6 and £20, and a pastry or other snack cost around £3 (Starbucks Store, 2014). Captive pricing is used, the baristas will always propose an extra product (e.g. reusable mugs) to make customers spend more. The highest volume of price criticism emerged from China where the media was very unsatisfied with the high prices of coffee (Kamenetz, 2013).

With 19,767 stores in 62 countries, Starbucks is famous for their ideal locations, and in Europe they are mostly present in large cities; however, in the United States we can find stores in small villages (Starbucks, 2013). With this many stores, promotion does not happen through television or radio, but rather through word of mouth, location in various parts of the city, and their online presence. Fidelity cards can be used to gain loyalty however the social and ethical image along with efficient public relations on social media are the main drivers of Starbucks’ marketing. The ethical behaviour creates an image to which customers want to associate themselves with. Special language is used to order products in stores (Morriss, 2012) making the ordering process a brand on its own. As described by Ad Week (2013) the “All day. All summer.” campaign (Starbucks Coffee, 2013) launched in 2013 helped to educate their customers to drink coffee several times per day in different forms (lattes, slushies, milkshakes...) which enhances promotions and increases Starbucks’ sales by creating a virtual need.

The staff at Starbucks is highly trained and taught to deal with problems quickly following company’s models (Bdaily, 2013). Motivation at Starbucks is high since social responsibility is also applied to its employees who can develop careers and have adjusted working times (Nelson, 1998). As Wood (2011) indicates in The Guardian, every employee is entitled up to £500 of shares depending on their job position. Motivation is very high and the employees work in a community, and this helps to have a friendlier and relaxed environment to work in, benefiting both the employees and the customers.

The process of product manufacturing at Starbucks is transparent and publicly accessible, for individuals are aware of the origins of their coffee or tea thanks to reports done by fair-trade organisations. Physical evidence is further given through the eco-friendly design of interiors to which individuals wish to be associated.

MARKETING ENVIRONMENT ANALYSIS

It is crucial to be aware and understand the environment in which a company is operating in order to implement their strategies successfully. The Micro environment can be analysed using a SWOT analysis and further completed with a Macro environment study by doing a PEST analysis.

A table of Starbucks SWOT analysis can be found in Appendix 1, as explained by The Economist (2009), this analysis is very subjective and can only provide a certain background to Starbucks. In this case, the environment analysis must focus on the external factors since internal factors are rather analysed in the core marketing strategy and extended marketing mix.
The Macro environment refers to everything external to the organisation, in other words, factors Starbucks cannot necessarily fully control, only influence. According to Turner (2011), PEST analysis stands for political, economic, social, and technological and helps us analyse this particular environment. For the following analysis, we will base the company in the United Kingdom where Starbucks’ main competitors are Costa Coffee, Pret a Manger, and Caffee Nero (Hale, 2013).

Certain political issues can arise since coffee beans are grown in developing countries, and this could raise questions about the working conditions and child labor. Tariffs and import taxes could also influence the prices in stores considerably not forgetting that economic factors such as the economic recession or exchange rates could threaten Starbucks’ profits.

According to the UK Tea & Infusions Association (2014), the largest per capita tea drinking nation is Britain where 165 million cups of tea are drunk daily versus 70 million cups of coffee. While younger generations may be moving towards new American trends such as having coffee or frappes at any time of the day, Starbucks must adjust their product portfolio and propose more tea. The ethical social factor and desire to be eco-friendly is also evolving, Starbucks must adjust to this trend.

Finally, the development of new technologies and user friendly machines, such as home coffee machines, quality of beverages in other restaurants served are increasing and Starbucks should create the Starbucks experience at home by manufacturing their own capsules machine with their coffee and tea. The emergence of social media is already used by Starbucks especially via Twitter where gift cards can be purchased and sent to friends (Starbucks, 2014).

STRATEGIC MARKETING

Starbucks could introduce a strategic business unit specialised in tea, as mentioned above; tea sales represent a large potential in countries like Britain or Ireland. As Tietjen (2013) mentions, coffee sales at Starbucks are already acquired and the company must now focus on the tea market. Translating this information into a BCG Matrix, coffee at Starbucks is already a “Cash Cow” which brings profit without any further investment or effort needed. The introduction of tea would fall under the “Question mark” category, a low market share but a high business growth rate. If the introduction of more tea products would become successful in the UK, the product could even shift to a “Star” category to later join the “Cash Cow” as illustrated below.

![Figure 2: BCG Matrix applied to Starbucks’ products](image-url)
While the Boston Consulting Group Matrix allows us to have an idea of where products or services stand, it has faced several criticisms such as the fact that one cannot always be sure whether an industry is mature or not and misjudge the product placement. It has also been said that this matrix persuades companies to excessively focus on market share and missed opportunities (The Economist, 2009) and therefore Starbucks must use it in combination with the Ansoff Matrix.

Figure 3: Ansoff Matrix.

According to The Guardian (2014), Starbucks is aiming to increase their evening sales since coffee before bed is unpopular by introducing the sales of alcohol beverages such as wine or beer. Following the Ansoff Matrix shown above, this strategic move could be qualified as product development or even diversification since it would be leaving the coffee market and becoming an evening bar industry.

In conclusion, Starbucks does have various marketing strategies which generally rely on customer loyalty and word of mouth or the ethical considerations of the company along with involvement in the community. Thanks to the extended marketing mix and core marketing strategy analysis, internal factors can be analysed and the PEST analysis gives an overview of the external environment. While Starbucks is still perceived as a luxurious and responsible brand, there are several issues arising and putting their competitive advantage in danger: the perception of tax evasion or mass-production is hurting the brand’s image and dissuading customers to purchase their products. In the future, Starbucks must return to their core marketing strategy and focus on their customer’s individual needs and wants.

2. IMPORTANCE OF STARBUCKS’ BRAND AND HOW ITS VALUE FOR THE CUSTOMER

According to Kotler, brand management is about “creating, communicating and delivering value to a target market at a profit (CCDVTP steps)” (fado86, 2009). In order to achieve the CCDVTP steps there are three types of management practices that must be fulfilled: product management for value creation, customer management for delivering the value, and branding management for the communication of these values. Throughout this question three main parts will be discussed; the importance of product management that is developed with a Product Life Cycle analysis and attributed copyrights, Starbucks’ brand equity development, and lastly, how Starbucks delivers value through customer management and community developments.
PRODUCT MANAGEMENT AND PRODUCT LIFE CYCLE

By using the Product Life Cycle curve, product management understands which products they are selling and are therefore able to determine their value. It is the product management’s job to transmit these product traits to the customer in order to create value. At Starbucks the core product is a hot or cold beverage, the tangible product is tea or coffee, the augmented product is the tangible good in combination with the personalised friendly service and the potential product could be the evolution of the product portfolio towards other beverages such as alcoholic drinks. Represented on the PLC graph, Starbucks’ products would look as follows:

![Product life cycle of Starbucks tea & coffee](image)

While coffee sales are acquired and are at a maturity stage (could be considered as tuxedos products), Starbucks must still make an effort on the brand management for tea and discover a way to develop the evening alcohol sales. Starbucks product management can further determine two product categories: durable (mugs and souvenir objects) and non-durable (beverages sold). Trademarks play an important role in the protection of the “Starbucks culture”, due to the copyrights and registered trademarks all the beverage names, images, logos, slogans, or websites common to the company cannot be copied by anyone else (Starbucks, 2014). This protects the environment and culture the company has and allows them to maintain their competitive advantage.

The products are the starting point to creating value for customers; if they are high quality products that are differentiated from other companies, the customer will remember this and forge his or her idea of the brand. Once these product attributes are determined, brand equity comes into place to communicate and confirm the company’s values.

BRAND EQUITY

As explained by Lindemann (2010), Tong and Hawley (2009), or Kapferer (2005), brand equity is customer-based and financial-based; at Starbucks the branding has been crucial for their success since it has added financial value (more expensive services and products) and customer value (respect towards the brand, loyal customers). There could however be a reverse effect of brand equity after the criticisms of Chinese media claiming Starbucks’ products are too expensive (Kamenetz, 2013) or underlining that the company is not paying tax (Bergin, 2012). Customers could attribute a negative image to Starbucks degrading the value it represents as a company.
Guzman (2012) argues that a brand with positive equity is considered to have high strategic value and stronger consumer preferences; however, by not respecting one’s own values, this could damage the consumer’s preference and contribute to a loss of competitive advantage. Brand equity is strongly correlated with customer management; quite often it is observed that companies with strong brand equity have a community of fans willing to support them and their products.

Kotler and Keller (2006) believe that for companies like Starbucks branding is essential for their success as it generates customer loyalty which provides companies with security, predictability of demand, and creates barriers against competition. In their research, Sisodia, Sheth, and Wolfe (2007) identify the most valued organisations worldwide by international consumers. Starbucks was one of the 25 companies along with IKEA, Harley Davidson, Toyota, and Whole Foods that were most voted for; a large percentage of consumers could not imagine living without this brand. The authors further found that the following companies had very high employee satisfactory levels which created a friendly and relaxed working atmosphere. Starbucks decided to create value for its customers through this matter; the friendly in-store experience differed from other fast food stores and helped them gain competitive advantage.

Unfortunately, six years later, Shaughnessy (2013) from Forbes announced that Starbucks is losing its reputation while large fast food businesses such as McDonalds are gaining popularity. The reason behind this is a breach of customer trust, the value that had been created by the Starbucks brand had been violated by tax evasion in the UK or degrading of individual service.

Kotler believes that customer satisfaction comes from the experience the customer has from purchasing or consuming the product/service (Fatmir Hyseni, 2013). After Starbucks’ market expansion during the 21st century, customers felt that the individual approach of service was neglected and that Starbucks’ main slogan and competitive advantage was lost. While Starbucks’ differentiation technique was high quality coffee and excellent service, customers started shifting towards McDonalds or Costa coffee where they got similar services for a cheaper price.

Since the individual customer service approach is more and more difficult with an increasing demand and leads time to serve the individual, Starbucks decided to create brand value through the development of communities. Mainly centered on corporate social responsibility, the company attempts to unite its customers under two main causes: protect the environment and encourage fair-trade. Being a manufacturer brand, Starbucks promotes the ethical side to selling farmer quality coffee and this gives the company a certain image. Nowadays, customers generally want to be associated to this type of ethical behaviour, and so as Kasolowsky (2014) explains, customers are willing to pay more for extra service even though they could find the same quality for cheaper elsewhere. This sense of belonging is part of Maslow’s (1943) hierarchy of needs, when an individual feels part of a community he or she is happier.

Such behaviour and customer loyalty is important for the future, as Grissafe (2014) explains in the American Marketing Association journal, individuals create a relationship with brands and word of mouth is very important as it establishes trust. If a mother drinks Starbucks, her child will have a tendency to want to drink the same product as her. Winchester et al. (2008) further explain that there is a relationship between associating a brand with a belief and consumer brand choice, and it is therefore very important for Starbucks to communicate a positive image of their brand in order to attract customers and create value for them.
STARBUCKS LOGO
The use of the logo at Starbucks is crucial since it can be found on every product and is nearly recognised by all individuals worldwide; created in 1971 it has evolved during the years. As Brassington and Pettitt (2006) explain, the logo and brand name must be distinctive, supportive, acceptable, and available. Despite the fact that Starbucks is a freestanding brand name (the name does not describe the product) customers still link it directly to the products and services provided. The logo has been simplified over the years in order to be more easily recognizable. As Dooley (2012) discovered, the less detail you utilize, the more likely the customer will remember it. The evolution can be noticed below:

Starbucks was highly criticised in 2011 for removing the company name from their logo in order to launch other products; customers associated coffee so strongly with the company name that these measures had to be taken. As Hollis (2011) explains, customers do not like change and will feel betrayed for losing the logo they are emotionally attached to, and this could negatively affect Starbucks’s sales. Overall brand management is very important since it is the appearance of the company, the cover by which the consumers will judge the book. Starbucks has put down a set of values for the customers that help them gain competitive advantage; however, it is crucial to respect these values in order to maintain customer trust and high profits. Since fair-trade is practiced, Starbucks can afford to put in place premium pricing without the customers complaining; when they are buying a coffee they are also donating to the local farmers in developing countries and take away a sense of responsibility. This makes them part of the Starbucks culture and community and helps Starbucks differentiate from their competitors.
3. ETHICAL ANALYSIS & THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

Various companies present in today’s market operate with a given set of ethical values with particular attention to corporate social responsibility. In an evolving world where social media is gaining importance, it is more and more crucial to defend ethical values and have rules in place. As explained by Podnar and Golob (2007) in the Corporate Communications: An International Journal, taking a CSR marketing orientation is a value creation that goes beyond profit maximisation, but includes the long-term business survival by meeting the stakeholder’s societal expectations.

According to Brassington and Pettitt (2006), there are various marketing philosophies a company can follow such as production, selling, marketing or societal-marketing philosophies. Starbucks follows the societal-marketing philosophy based on the marketing concept; they attempt to add a societal benefit to their brand by helping communities or respecting the environment.

In 2011 Porter and Kramer introduced the concept of CSV – Creating Shared Value – best explained as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates". While in the past most organisations focused on following CSR policies, the tendency is now moving more towards CSV; according to Porter and Kramer (2011), the companies that have embedded it the most in their operations are Nestle, Unilever, or Johnson & Johnson.

Put simply, companies aim to make high profits and CSR can stimulate employee's happiness or facilitate employee retention which is positive for Starbucks or any other business. As Bhattacharya et al. (2008) illustrate, according to the surveys made in large American companies, 90% of the employees believe it is important for the company to be engaged in CSR. Bhattacharya et al. (2008) further explain that there is an increase in tendency for employees that prefer working for companies with corporate social responsibility since it contributes to the "employee value proposition". While money can keep a person in the company physically, CSR can keep them there emotionally. Meister (2012) shows that 35% of employed Americans would take a 15% pay cut to work for a company committed to CSR and 58% to work for an organisation with values like their own.

In the Starbucks Global Responsibility Report (2013) employees are addressed as "partners" giving them a sense of belonging to a community where the relationship with management is more open than a classic employee position. Starbucks invests in youth leadership; thousands of 15 – 24 year-olds are trained and educated through Starbucks educative programmes yearly and later become store managers or assistants. This is where Starbucks executes their CSV practices, and while this demands a budget, it is profitable for both parties in the long-term, where young individuals receive free education and a potential career while Starbucks gains a positive image in the community and invests into training from the earliest age.

CSV benefits employees and contributes to motivation but also supports branding. According to the chief ethics and compliance officer of Starbucks, Matthew Swaya, ethical behaviour from the company and their partners has a fundamental impact on the brand; it informs the customers how the company behaves and gives them a sense of responsibility (Marzec, 2014). He also believes that it is meaningful to their customers that they support a company with such strong ethical values. The Dove brand launched their "campaign for real beauty" which told women they are beautiful in every way and tried to show the unethical behaviour done by other brands in commercials (using Photoshop to create unrealistic "perfect" people). This ethical campaign worked and increased sales by 20% (Joni, 2011); customer satisfaction and involvement is therefore crucial for profit maximisation.
The emergence of social media where communication through this channel is immediate, permanent, and extremely public creates an opportunity for companies to communicate ethical values to their consumers but can also be a threat in case unethical behaviour is identified. As underlined by Kramer (2006), the media have become adept of underlining the social consequences of company’s activities and so there is no place for unethical behaviour.

According to Social Bakers (2014), Starbucks is the 5th most “liked” page on Facebook with 36,188,108 fans worldwide and the second most “followed” brand worldwide on Twitter right after Samsung Mobile. Coca-Cola is using this communication channel to show that they are transparent, and they protect and respect customers, as well as are responsible and monitor correct behaviour (Coca Cola, 2014) and Unilever has done their branding through ethical advertisements and a high presence on social media (Boynton, 2013). As Krauss (2014) shows, more and more companies such as Nike or Subway are developing CSR via social media by involving customers (e.g. if they click “like” on facebook, one tree will be planted).

Overall, in 2014 Starbucks was part of the 114 “2014 World’s Most Ethical Companies” ranking in reward for their ethical coffee sourcing, local farmers support programme, and the eco-friendly stores and materials used. By 2015, Starbucks wants 100% of their coffee to be ethically sourced (95% in 2013) and wants to expand their ethical values to their competitors in order to make a world-wide impact on increasing farmer’s rights and standard of living. The stores are being built with recycled materials, and the cups in which beverages are served are also 100% recyclable (Starbucks, 2013). Clearly, the friendly environment in combination with building strong ethical values has increased Starbucks sales; just by looking at the share values, in 2010 a share in Starbucks was worth $23.28 and now $76.95 at the beginning of 2014. The numbers have almost multiplied by four in only four years.

**Engaging in CSR and CSV is inevitable for businesses in today’s market; however, a bad execution of these values can also cost them loss of profits and customers.**

Engaging in CSR and CSV is inevitable for businesses in today’s market; however, a bad execution of these values can also cost them loss of profits and customers.

In the case of Starbucks who presents itself as a highly ethical company, we cannot ignore the tax evasion issues that are happening in the UK. As described by Bergin (2012), Starbucks avoids UK tax yearly by reporting zero profit and so paying zero income tax while claiming that the business in UK is doing great and that it should be an example to different countries. This gave rise to negative public reactions as shown by Bergin (2014) or Sky News (2014), and Starbucks sales dropped by 3.4% in one year. Several boycotts and public criticisms emerged and the brand lost its ethical value image.

H&M had several issues when in 2012 TV4 claimed that H&M’s workers are paid less than $0.45 an hour and work in terrible conditions (The Local, 2012). Customers over the world participated in boycotts and tried to degrade the company’s brand. Nike had bigger problems in the 90s when various scandals linked to working conditions were raised. As Nisen (2013) underlines, the conditions in Bangladesh caused many boycotts and damaged the company’s image and sales, and as Yahoo Finance (2014) shows, in the 90s Nike’s sales were very low, and there was a particular drop in share value at the end of 1993. The same happened for France Telecom, as Todd (2012) shows, 35 suicides took place between 2008 and 2009 due to psychological harassment. Not only was the public’s reaction negative and the brand image was hurt, but Google Finance (2014) shows a considerable drop in share value between 2008 and 2009.
We can say that CSR and the respect of ethical values leads to a company’s success if it is done in the right way, and there is a general increasing trend that customers associate the brand with the company’s actions and remember every negative aspect communicated by the media. It is therefore almost impossible in today’s market not to have ethical values and neglect CSR. While some companies such as Starbucks have very strong CSV plans and participate in improving life in communities, they can also be doing very unethical practices that will always dominate over the good being done. For some companies, the use of CSR and CSV seems to be an excuse to do unethical actions in other sectors, and even though a desire to make the world a better place is there, companies generally need CSR and CSV to maximise their profits.

4. STARBUCKS’ RELATIONSHIP MARKETING STRATEGIES

“To succeed or simply to survive, companies need a new philosophy. To win in today’s marketplace, companies must be customer-centered – they must deliver superior value to their target customers” (Kotler et al., 2008).

As Kotler et al. (2008) describe, customers are influenced by advertisement and their entourage. Setting realistic expectations is important in marketing; if the service is better than expected, the customer will be positively surprised and therefore happier. Starbucks has a set of values that have remained unchanged since their opening in 1971. Their mission statement “one person, one cup and one neighborhood at a time” sets very high customer expectations and promises a unique experience; customers expect to be given high attention and great customer service. As explained by Veloutsou et al. (2002) maintaining this type of relationship with the client helps the company gain competitive advantage. The quality of coffee is also stressed all around the world.

According to Mullaney (2014), the reality is different, with 16,000 stores worldwide Starbucks no longer provides the individual customer service it used to and is perceived more as a fast food coffee chain rather than a café where businessmen used to have their meetings. Staff (2014) explains that seven individuals over the world are in charge of the quality control of 400 million pounds of coffee yearly making it impossible to control every single coffee grain as Starbucks promises to.

Despite these issues, Starbucks continues to promote a highly friendly and interactive relationship with its customers; by launching the MyStarbucksidea.com website (2013) they show that the level of relationship formed with the customer is at the partnership level. On this website customers can provide continuous feedback on products or suggest new products or services. Some of the suggestions are taken into consideration by Starbucks, and the customers can follow its development online. There are benefits for both the customers and Starbucks in conducting this service, for while customers obtain the products they want and have better service based on their demands, Starbucks does not have to invest into research and development or satisfactory surveys that are too costly or time consuming. This however, only works for individuals that have been to Starbucks, and in order to determine how to attract new clients and calculate the budget for advertising, we can use the customer lifetime value method.
CUSTOMER LIFETIME VALUE METHOD

The customer lifetime value method (further LTV) is the projected revenue that a customer will generate during their lifetime (Kissmetrics, 2014). According to the Starbucks case study, if we calculate the average spending of a Starbucks customer multiplied by the number of visits per week, we obtain that this customer will bring Starbucks a $14,099 profit in their lifetime. Respecting this prediction, Starbucks should not spend more than this amount in advertising and customer retention techniques, and this budget limit allows them to maintain high profits without excessively spending on advertising. Having a set budget, Starbucks can send promotional messages to their customer and offer them reduction coupons on their favourite products; benefits are mutual, customers purchase at lower prices and Starbucks has a constant cash flow in their stores.

Customer loyalty was highly discussed in the 70s with theories by Jacoby (1971) or Jacoby and Chestnut (1978) when the distinction between behavioural loyalty and cognitive loyalty was made. In general, the authors agreed that customer loyalty is the act of a non-random repurchase (behavioural loyalty), after following a process of evaluation (cognitive loyalty). At Starbucks, behavioural loyalty is created through the quality of products and good customer service; however, if customer service begins to decrease, there will be a variation in budget necessary to maintain this behavioural loyalty.

On the other hand, cognitive loyalty is more difficult to embrace, and Starbucks generally strengthens it with the loyalty cards that customers use to accumulate points which they later exchange for free beverages or goods found in the e-shop. One can also become a gold member and have higher benefits. As Rust et al. (2010) explains that the loyalty card brings more benefits to the company than to the customer; it helps Starbucks track what products the customer is buying and which stores he or she visits. This information is later used for product proposition: customers will get special custom offers with their favourite products and give them the feeling they are saving money by buying bigger quantities at lower price.

Starbucks has been criticised for the way they handle their customers, as Dooley (2013) shows a golden customer must earn 30 stars per year, and if this is not met, the number of points are set back to zero and the customer goes back to a green level card (basic). Many customers rebelled against this policy claiming they were not warned of this action and switched to competitors. Crookes (2012) shows customers must spend more today compared to 2011 to gain the same rewards. For managing these activities more efficiently, Starbucks needs to have a solid CRM in place.

CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management, as defined by Rigby and Ledingham (2004), is put in place to track and strengthen customer relationships. At Starbucks the membership card plays a role in tracking the number of sales per customer and helps determine whether it is worth investing in keeping this customer or not. Murphy (2011) explains that Starbucks’ store managers are equipped with personal laptops that help them share their experience with other store managers via the company cloud, and they can exchange opinions to improve customer satisfaction. One of the most successful CRM launches was the Starbucks mobile app through which customers could pay at Starbucks – within a year Starbucks handled 20 million transactions in total.

Social media is also part of Starbucks’ CRM, for they have a very strong presence on websites such as Twitter and Facebook where they interact and maintain a relationship with their customers. Despite this effort, customers complain that Starbucks takes too long to answer their questions and generally replies off topic (Branding Personality, 2014).
Social media combined with the loyalty card facilitates observing the churn rate, Starbucks must pay attention to this indicator since it shows how many loyal customers are lost and are alerted, thanks to special software, when the customer is starting to lose interest for the brand (e.g. less sales and store visits). As Traynor (2014) underlines, churn rate must be one of the most monitored pieces of information so that the company has time to react to a declining loyal customer in order to bring him back and minimise the costs to do so. According to Fournier et al. (1998), a company must not "overkill" its customer with information and mail them every day since this leads to customer dissatisfaction and loss of customer loyalty, and so this is not a solution Starbucks should be using to regain their customers.

There is no real benefit for the customer in CRM practices since they are built to make them spend their money; however, they could be the practice that gives the customer the feeling of being special since the company is "fighting" for him or her. The benefit lies in the hands of Starbucks, who through the use of these techniques, retains the maximum loyal customers possible and maximises their profit.

In general, we can say that relationship marketing is crucial for companies today since businesses have a more "human" image opposed to mass-marketing from the 1920s. Starbucks is handling relationship marketing in an efficient way by creating an interactive environment similar to social media and by supporting the community spirit. Customers appreciate sharing their ideas for improvement on their website "My Starbucks Idea" and therefore feel more loyal towards the brand.

**CONCLUSION**

Starbucks is a great example of a company that has built their marketing strategy around their customers and ethical behaviour instead of investing millions of dollars on advertising that does not bring any social benefit. The advantage of this company is the market they are operating in; there is always a demand for coffee, and people regularly visit cafés before work or to spend time with their close ones. The challenge is to retain these customers and give them an envoy to come back.

With a target population between 18 and 40 years of age, there is opportunity for different strategies; the store proposes high quality coffee for difficult consumers and fresh, creative beverages for the younger age while conserving the premium brand image. Starbucks does not only sell beverages, but also a social image because most consumers want to be associated with this brand which is perceived as a high quality upper-middle class location.

Execution of corporate social responsibility is one of Starbucks’ main strategies; participating in the improvement of coffee and tea farmer’s lives is their priority together with saving the environment through more eco-friendly stores, reducing water consumption or serving coffee in recyclable cups. Further, their implication on social media to be close to their customers is also part of their marketing strategy by getting individuals involved in projects and ideas for future improvement are welcome and in the end, the research and development is done for free by their customers.

While Starbucks can be criticised for expanding too rapidly and harming local cultures by transforming them into an American experience, it is loved my most consumers and highly followed on social media. In the future, Starbucks should continue expanding their product portfolio and closely follow new technological trends as their target population has this expectation. With an increasing number of customers, Starbucks must be well organised and pursue their individual client approach which makes their brand so unique and makes the customers come back regularly. Overall, however, Starbucks is very successful in doing this and has constantly increasing profits yearly.
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### APPENDIX 1: STARBUCKS’ SWOT ANALYSIS

<table>
<thead>
<tr>
<th><strong>STRENGTHS</strong></th>
<th><strong>WEAKNESSES</strong></th>
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<tbody>
<tr>
<td>Top 100 Employer (Great place to work, 2014)</td>
<td>Expensive products for many customers</td>
</tr>
<tr>
<td>Ethical company</td>
<td>Negative publicity (tax evasion)</td>
</tr>
<tr>
<td>High quality coffee</td>
<td>Long waiting lines in stores</td>
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<tr>
<td>Friendly and warm interior atmosphere</td>
<td></td>
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<tr>
<td>Stores situated in great locations</td>
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<tr>
<td>A product with constant or growing demand</td>
<td></td>
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<tr>
<td>Popular place for students to study, free Wi-Fi in shops</td>
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<tr>
<th><strong>OPPORTUNITIES</strong></th>
<th><strong>THREATS</strong></th>
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<tbody>
<tr>
<td>Possibility to expand to more countries</td>
<td>Competitors have lower prices</td>
</tr>
<tr>
<td>Open specialised stores</td>
<td>Lack of ownership of coffee farms</td>
</tr>
<tr>
<td>Sell coffee or tea to large chain stores</td>
<td>Decrease in consumer buying power</td>
</tr>
<tr>
<td>Develop a larger tea market</td>
<td>Rising prices of coffee and milk</td>
</tr>
<tr>
<td>Create official coffee farms</td>
<td>Saturated market</td>
</tr>
<tr>
<td>Enhance the customer in-store experience</td>
<td>Rise in sales of coffee machines for home use (Espresso, Nescafe...)</td>
</tr>
<tr>
<td>Develop Starbucks capsules for home coffee machines</td>
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MANAGING MARKETING REPORT ON L'ORÉAL GROUP

VERONIKA ŠÍROVÁ
INTRODUCTION

L’Oréal Group, the largest cosmetics and beauty corporation in the world (Rooney, 2014), offers beauty product innovation to women and men with regards to their diversity through its large portfolio brand that is present in 130 countries (L’Oréal, 2015b). According to Abnett (2015), L’Oréal has strong growth. The annual report (L’Oréal, 2015b) reveals that in 2014, the operating profit increased to 3,891 million Euros from 2013, and sales reached 22.53 billion Euros from sales, a 3.7% increase from the year before. One could conclude these figures are of L’Oréal’s benefit, as according to The Statistics Portal (2015), the global cosmetics market has grown at a slower rate since 2011 and 2012 (Figure 1). This might have impacted the competition where Avon’s revenue dropped as well as Procter & Gamble’s beauty operating division sales (Abnett, 2015).

Therefore, as stated by The Statistics Portal (2015) in the next few years cosmetic companies will attract and keep consumers by emphasising on product innovation. Hong and Doz (2013) however state that products, services, and business models need to be adapted to local consumers when serving both nationally and regionally. This further leads to a complex comprehension of marketing, which according to Kotler and Armstrong (2010, p. 28), is “managing profitable customer relationships” with the key goal to attract new customers, ensure a value for them, and keep the current clients by bringing satisfaction.

This is especially crucial when it comes to driving L’Oréal’s ‘universalisation’ strategy, which means globalisation representing differences (L’Oréal, 2015a), and fulfilling the organisation’s aim of captivating 1 billion new clients by 2020 as mentioned by Masidlover and Burkitt (2014). Therefore, the purpose of the report is to critically assess L’Oréal Group’s current marketing and how it is going to support L’Oréal’s aim in winning 1 billion new customers. By utilising various theoretical models and academic sources, this critical report focusing on the application and analysis of L’Oréal’s marketing, assesses the current marketing strategy, digital marketing, brand, and the pursued relationship marketing strategies of the corporation, all of these crucial components which could support L’Oréal’s goal.
1. MARKETING STRATEGY

The first chapter discusses L’Oréal’s current marketing strategy by looking at its core marketing strategy, integrated marketing communication, and strategic marketing.

1.1 CORE MARKETING STRATEGY: STP-D

To create a marketing strategy, marketers must identify what customers the organisation will serve and how it will be done. According to Cant et al. (2006, pp. 103-104), the STP-D process helps companies to identify these aspects, including customer selection and value proposition. Considering that this process may aid the Group to develop and apply a suitable marketing mix, one could assume that this is the most appropriate set of tools to use. This supports the analysis of the Group’s current marketing strategy and serves as an appropriate base for the promotion, a part of the marketing mix, discussed in 1.2.

1.1.1. SEGMENTATION AND TARGETING

Pride and Ferrell (2010, p. 161) define segmentation as separating a market into segments with specific needs, characteristics, and behaviour that may be targeted by distinct marketing strategies. It could be seen that L’Oréal segments its customers into various groups. Firstly, using demographical segmentation L’Oréal attracts people of different gender (women and men), age (young and older), and race (diversity) (L’Oréal, 2015b; Brassington and Pettitt, 2006, p. 423) by offering a complex product portfolio (L’Oréal, 2015b; The Statistics Portal, 2015) of 32 complementary brands among 5 divisions and 5 product lines. This way, a large number of people could find a suitable cosmetic product to fit their demands. Concerning the psychographic segmentation, the Group attracts different social classes by offering products for both the middle class (the consumer product division products) and the upper social class (L’Oréal Luxe division products). Additionally, L’Oréal attracts people of different personalities and lifestyles, which includes travel retail consumers purchasing in duty-free shops or natural cosmetics lovers (L’Oréal, 2015b). This way, customers’ buying behaviour might be stimulated as clients can self-reflect in the beauty products. For example, within the skincare business segment, these might be people seeking products for anti-aging, cleansers, moisturisers, anti-imperfections, and others. Overall, one can conclude that the use of multiple customer segmentation bases is due to the actuality that the customer target group of L’Oréal are a mix of demographic, psychographic, and behaviour segmentations.

1.1.2. POSITIONING AND DIFFERENTIATION

Kotler (2000, p. 32) states that positioning is the key benefit of the product that the target customers have in their mind. Concerning L’Oréal, its large brand portfolio demands a distinct positioning for each brand of the Group, which could be seen from each of the brands’ positioning messages. For example, two L’Oréal’s brands are competing in the same product division, where Garnier is well known for natural ingredients and strong scientific research (L’Oréal, 2015e), while Maybelline New York (L’Oréal, 2015f) stands for glamour, New York energy spirit, and innovation, could demonstrate the distinctive positioning. Therefore, L’Oréal focuses on a differentiation strategy by highly differentiating its products as a result of the many market segments. Consequently, in customers’ minds the L’Oréal Group is positioned as a cosmetic leader with products of high quality, care, and effectiveness (L’Oréal, 2015b) among the large brand portfolio. As an example, Lancôme products carry the unique characteristics such as elegance, sophistication, and complementary skin care. Additionally, de Vries, van Helsdingen, and Borchert (2012, p. 107) state that positioning needs to be clear and differentiated to ensure a strong connection with customers, where also its repetition is crucial to stick in customers’ minds, which was not the case for Garnier and Revlon who due to a weak positioning, failed in China (Masidlover and Burkitt, 2014). They also imply that other L’Oréal’s brands targeted a niche market to obtain stronger market positions than the mass labels.
After the organisation’s analysis, the author assumes that it uses product differentiation determining the qualities of the products with a combination of image differentiation due to the distinct positioning among brands. Overall, according to the author, the organisation should prevent any confusion of brands by positioning and differentiating clearly the brands in the wide portfolio. Marketers could manage this, for instance, by the integrated marketing communication analysed below.

1.2. INTEGRATED MARKETING COMMUNICATION

According to Jones (2007, p. 165), cosmetics are impulse buys, which are not items on a regular shopping list, and thus customers need to be stimulated. Doyle (2002, p. 250) suggests that impulse buys are easily switched for other products; therefore, companies should ensure for a frequent reminder promotion. That is a crucial element of company’s marketing strategy as mentioned by Clow (2010).

1.2.1. PROMOTIONAL TOOLS

Kotler (2000, p. 106) reveals 5 primary promotional tools able to pass the message to the target customers, which company can influence, especially L’Oréal. According to Rooney (2014), in 2013 it spent almost $9 billion on promotion. Figure 2 demonstrates that L’Oréal uses all of the tools, which could be great potential to attract different target groups; however, the analysis reveals some criticism.

According to the author, L’Oréal could enhance its promotion and fight the criticism by developing similar ads to Dove and its campaign for ‘real beauty’. This could improve the reputation and image as Kharaim (2011, pp. 123-133) reports that promotion can assist with creating consumers’ opinions or perceptions and products differentiation.

1.2.2. BUYER READINESS STAGES

As the promotional tools affect the consumers, Figure 3 displays the various stages of buyer readiness influenced greatly by advertising (Lovelock, 2010).

With regards to L’Oréal, it could be assumed that firstly through promotion and branding, customers are aware of the product’s existence yet do not know anything else. In this case, L’Oreal needs to heavily advertise to enhance the product’s promotion. Then, the customers know about its benefits such as the composition and price, and they might show their initial interest, and thus develop a connection. In the next stage, the customers prefer the product to other goods. This might be boosted by in-store product testing, which further assists with convincing customers of the product’s purpose over other products. Finally, using discounts, in-store advice from personnel, or perhaps the product’s availability, pull the customer to purchasing the cosmetics.

Similarly, Rooney (2004) stresses the importance of bringing the promotion towards clients. Therefore, L’Oréal informs customers about the product, how to use it, or perhaps how to achieve the desired look made by the makeup product. As Speichert (2014) says, L’Oréal adapts the content to various media. This helps them to ensure that the consumers are connected throughout the stages. However, a brand with intentions to keep its customers should also ensure for the benefits in the product and convince the customer via the product characteristics, not promotion only, especially if the promotion might be lacking the evidence, as was the case with the anti-age creams mentioned earlier. It could be assumed that unclear and inconsistent messages within the stages may harm sales. Therefore, based on the criticism to attract more consumers and pull them towards the product, L’Oréal could consider enhanced promotion, complying with relevant laws.
Advertising

L’Oréal uses TV and magazine ads with the brand ambassadors and celebrities (L’Oréal Paris, 2015; Rooney, 2014), which together with TV, is the most prospective instruments for building awareness (Kotler, 2000, p. 106). However, L’Oréal’s advertising is criticised for a lack of evidence for some of the anti-aging products (Rodriguez, 2012) or as Sweney (2011) reveals, some advertising campaigns with celebrities were removed because of over airbrushing. Therefore it could be stated that L’Oréal advertisement does not fully comply with the Food and Drug Administration law and the international advertising standards code.

Sales Promotion

Promotions, in-store materials, and the possibilities to test the products before in the stores (Neff, 2015), according to Doyle (2002, p. 250) work on behaviour, not only the mind as does advertising. However, as L’Oréal’s retailers offer discounts and samples it might happen that they attract clients who tend to switch brands often according to deals and thus L’Oréal could lose money.

Public Relations (PR)

L’Oréal manages various PR activities, for example shareholder fairs (L’Oréal, 2015d), sponsoring various fashion shows, events including the Cannes Film Festival (Festival de Cannes, 2015; L’Oreal, 2015l), or launching competitions for hair stylists (The Argus 2015) and makeup artists (PR Newswire, 2015).

Sales Force

The beauty advisers in stores are talking directly to customers, which according to L’Oréal’s employees, does not carry the potential (Howarth, 2014). Therefore, L’Oréal might be wasting resources.

Direct Marketing

L’Oréal uses the e-mail news marketing (L’Oreal, 2015k), which might be very informative, but less public. Thus it might not contribute to its aim greatly.
1.3. STRATEGIC MARKETING

One of the most influential contributors of strategy is Porter (1998, pp. 61-80), who defines strategy as choosing to do activities differently to competitors. However, for the purpose of this report, the author uses Ansoff’s Growth Matrix (1957, pp. 113-124), which enables companies to consider the future growth of the business using its existing and/or new products in existing and/or new markets and thus recognises 4 growth strategies as per Figure 4.

<table>
<thead>
<tr>
<th>Current Product</th>
<th>New Product</th>
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<tbody>
<tr>
<td>MARKET PENETRATION</td>
<td>PRODUCT DEVELOPMENT</td>
</tr>
<tr>
<td>Brigitte Liberman (L’Oréal, 2015b) reveals that in 2014, the company further opened large numbers of dermacenters worldwide. Thus, one could see that L’Oréal is utilising its distribution channels to satisfy more customers as these move across channels, which could further strengthen its competitive advantage (Rooney, 2014).</td>
<td>L’Oréal is developing new products as well as product variants, and complementary products to its existing product lines in existing markets through continuous innovation (L’Oréal, 2015b). This might be due to the fact that Winter (2014a) mentions that the selection of beauty products is increasing to satisfy the consumers’ needs, thus for example, the beauty director advises that companies may develop 2-3 shadows darker choices for their make-up products.</td>
</tr>
<tr>
<td>MARKET DEVELOPMENT</td>
<td>DIVERSIFICATION</td>
</tr>
<tr>
<td>Premium Beauty Media (2015) publicises that The Body Shop Division entered the Brazilian market in 2014 for the first time, and continues its expansion and will open 500 stores there by 2019.</td>
<td>L’Oréal acquired Carol’s Daughter, a brand mixing hair care for multicultural women (Winter, 2014a). However, in the future, the Group might not easily establish it, as creating a new product in a new country is highly risky and costly especially when the portfolio augments as Doyle (1989, pp. 77-95) mentions.</td>
</tr>
</tbody>
</table>

From the analysis above, the author can conclude that clearly there are various opportunities for the Group to accomplish significant growth, and thus to obtain 1 billion new customers by adopting market penetration, product development, or market development strategy. Yet, to choose, according to Kumar (2010, p. 176), the least risky way, L’Oréal might consider market penetration. According to Hill and Jones (2010, p. 197), market penetration can be achieved through heavy publicity and product differentiation. Further, this would increase L’Oréal’s market share, avoid high expanses and risks, and eventually bring higher revenues.
2. DIGITAL MARKETING

The following chapter inspects the extent L’Oreal utilises digital marketing and highlights the benefits for companies as it could be assumed that the trend of TV and print promotion is diminishing, while digital marketing is developing rapidly. As Ryan (2014, p. 12) mentions, digital marketing is not about understanding the technology, instead one must understand the people and their use of technology to build lasting and equally fulfilling relationships. Therefore, digital marketing provides the ability to target specific segments using the appropriate tool and message.

For L’Oreal, digital marketing is a relatively new area, yet it has realised that digitalisation is a crucial aspect in its success. Consequently, in 2014 it increased its spending on digital media by 15.7% from 2013.

Through its approach towards digital marketing based on adaptation of its innovative ethos, multi-brand, and multi-channel, it aims to connect with clients through emotions, engagement, and experiences (L’Oreal, 2015b). Figure 5 represents the digital marketing tools that L’Oreal employs, whose emphases depends on the nature of business (Ryan, 2014, p. 22).

Overall, one could assume that the set of digital marketing tools brings various benefits. For the website and e-mail marketing, these are reaching the targeted customer segments and informing them about the organisation’s performance and news, which may lead to increased sales. Further, social media brings benefits like building a platform for sharing news, accessing data by receiving opinions, and staying connected with customers. While its mobile applications carry benefits such as creating noise, interacting with customers, and cosmetics advertisement.

Additionally, to the various benefits of digital marketing for companies, McKinsey & Company (2012) claim that it is justified that digital marketing in general has on average 6 times greater return on investment than TV advertisement.

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<tr>
<th>L’Oreal Official Website</th>
<th>E-mail Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Media</td>
<td>Mobile Marketing</td>
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Figure 5: Digital marketing

2.1. COMBINATION OF MEDIA

However, it may be assumed that not everyone has easy access to technology, for instance, elderly people. Also, the Internet might be limited by speed or accessibility (for example, proxy restrictions in China). Henceforth, if L’Oreal employs a digital marketing only, it is likely to be missing on some customer segments. For this reason, and because it might be hard when its products are not entirely online, the Group does not completely switch to digital marketing. Instead, it uses a mix of digital and promotional tools to follow both the younger people’s trend of digitalisation and to keep the middle aged and elderly customers, who might prefer the more formal and traditional printed promotion instead. This way brand awareness is maintained among the wide customer portfolio.
2.2. ADAPTING TO THE TREND

As one could strongly believe that younger consumers of cosmetics do seek trends and advice on the Internet, the Group is increasing its social media (Facebook, Twitter, YouTube, Instagram), which allows customers to stay updated, informed about the news, and raise their viewpoints. Moreover, the beauty bloggers that L’Oréal works with (Neff, 2013) try, evaluate, and share the Group’s cosmetics with their followers. These both contribute to the brand awareness among the younger ones. Correspondingly, new mobile applications enable people to try products and see themselves in real time without wearing them (Winter, 2014b), match nail colour with their outfits (Howarth, 2014), or watch online diagnoses, advice, and video tutorials (L’Oréal, 2015b). Thus, customers are entertained and educated (Howarth, 2014). However, respecting the competition, Clinique’s digital marketing allows clients to assess their own skin type to choose suitable products (Kotler, 2000, pp. 216-217). Therefore, the author may suggest L’Oréal to consider, as an additional development to the mobile applications, a hair app giving customers the ability to see how the hair colour suits them before purchasing it. Moreover, for those preferring the digital world, the official website is accessible in 22 languages for 35 countries (L’Oréal, 2015c), making the information available to consumers all over the world. At the same time, the Group maintains its traditional promotional tools such as TV ads, print ads, and billboards as complementary strategies to the digital marketing. This way L’Oréal does not lose the rest of its target group as it represents a constant stream of revenue.

All things considered, it could be seen that L’Oréal puts a significant emphasis on digital marketing, as currently it belongs to one of its main approaches (L’Oréal, 2015b), which may represent numerous opportunities for addressing both customers and other stakeholders. Also its website, social media, and mobile apps are largely utilised owning to the significance and benefits to the organisation. Overall, it could be recognised that continuous enhancement and expansion of L’Oréal’s digital media could enjoy the benefits of digital marketing, but only with the support of TV and printed advertising it could contribute to its aim.

3. L’ORÉAL BRAND

The third chapter justifies the significance of the brand L’Oréal for the organisation’s success that could be analysed using the brand system explained by Kapferer (2012) as shown in Figure 6. Later, the brand’s value creation for customers is analysed too.

Figure 6: The brand system
3.1. BRAND NAME AND SYMBOL
According to Rooney (2014), Forbes rated L’Oréal Group 28th for the world’s most valuable brand, which introduces various individual brand names all possessing individual brand elements (L’Oréal Paris, The Body Shop, Vichy...), and thus multibranding as well as a strong corporate brand could be seen. One could assume that very valuable brands possess high brand equity, which is defined as a set of associations and customer behaviour ensuring for greater sales than it could exclusive of the brand name (Kapferer, 2012, p. 13). To enhance its brand equity, L’Oréal uses its brand elements. To demonstrate, it could be seen that the corporate brand name, L’Oréal, uses a steady set of colours, the black logo, which according to the psychology associates the brand with exclusivity and glamour (Stanger, 2012). Additionally, by the globalised slogan, because you’re worth it (L’Oréal, 2015g), people are able to directly recognise the brand all around the world. This contributes towards the brand’s global positioning. Also Hagtvæt and Patrick (2008, pp. 379-389) prove in a form of a slogan brand it is encouraging imagination. In fact for L’Oréal’s clients, it symbolises a promise, praise, and personal connection. To point out, the slogan encourages people to buy cosmetics and to cherish their looks.

3.2. PRODUCT OR SERVICE EXPERIENCE AT CONTACT POINTS
Kharaim (2011, pp. 123-133) identifies that brand personality might persuade customers to purchase or repurchase the products. However, as mentioned by various people (Frow and Payne, 2007, pp. 89-101; Atwal and Williams, 2009, pp. 338-346; Bethon et al., 2009, pp. 45-66) a brand’s personality includes the experience, which may be the foremost element of the firms’ marketing strategy. Thus, as revealed by Verhoef et al. (2009, pp. 32-41), the point-of-sales ambiance and personnel impact the comprehensive clients’ experience and their decision-making. Critically assuming, it might be challenging for L’Oréal to develop and maintain a consistent set of colours, smells, noises, layout, and personnel characteristics in all of their brands point-of-sales, specifically because the majority of the L’Oréal’s brands are competing with each other in the same stores, pharmacies, or hair salons.

3.3. BRAND CONCEPT TANGIBLE AND INTANGIBLE VALUES
Additionally, L’Oréal’s brand is supported by an intangible brand concept delivered by tangibles, for instance, the delivery of a promise. The strong brand position might be an advantage in terms of brand extension. According to Doyle (2002, p. 174), brand extension is using a successful brand name to enter a new market or channel. As an example, according to the author, The Body Shop brand could be extended. To clarify, L’Oréal could offer a clothing line covering product items such as bathrobes, towels, and home wear made from 100% organic cotton, which could be sold by the same customer group. According to Kotler and Armstrong (2010, p. 258) this would aim add additional profits and exceed competitors; however, to prevent consumers from being confused, L’Oréal needs to ensure differentiation. Correspondingly, the ultimate benefits for companies having a strong brand seem to be the brand recognition and the customers. Thus, the customers think of the brand when seeing the visual expressions, talk about it, and choose it over the competitors’ brands. Granted that, the customers bring revenues.

3.4. CREATING VALUE FOR CUSTOMERS
Supported by the strong brand system, the researcher has identified that L’Oréal brand creates values for customers. This way, the company sees how the cosmetics support the customer buying behaviour. As mentioned by Kapferer (2012, p. 20), the brand may reduce perceived risk. This way, L‘Oréal’s customers trust the brand. They are sure about the security and safety of the cosmetics; thus, the customers know what they are getting. Identically, L’Oréal creates enthusiasm, pleasure, appreciation, and stimulation for its customers, which could eventually lead to un-substitutable products. The brand also provides customers with various identities depending on the target group. For instance, the natural brand’s Kiehl’s customers might associate themselves with the brand’s ethical activities such as supporting AIDS research or Lancôme clients feel like being part of a higher social class. Equally when exploring the intangible benefits, the brand...
provides a sense of belonging to customers, and thus people might feel good wearing the brand’s make-up or perfume. Further, brand provides values for customers in terms of qualities noticed by contact (texture, packaging, smell, colour) and by experience (pleasure, reliability, younger look, for instance). Additionally, these brand values may lead to higher brand awareness, securing future sales volume, customer satisfaction, and loyalty, which could be highly relevant towards achieving L’Oréal’s goal.

4. RELATIONSHIP MARKETING STRATEGIES

This chapter analyses L’Oréal’s current relationship marketing approach while applying customer retention, customer lifetime value, customer churn, and customer loyalty. Also throughout the analysis, the advantages of such an approach are identified for both the organisation and its customers. As stated by van Raaij et al. (2003, pp. 41-58), 20% of all the customers buy 80-90% of the production of the company. Therefore, agreeing with Moutinho and Southern (2010, p. 21), those buyers are highly valuable to the organisation, and thus a company must retain them with exceptional benefits. L’Oréal (2015d) understands that effective relationship marketing is essential for its growth; therefore, the organisation listens to customers, provides customer service, and constantly improves customer relations. To emphasise, this could be seen by engaging in various activities analysed below.

4.1. CRM DATABASES

Firstly, L’Oréal strengthens its customer relationship marketing strategy by pursuing agencies managing their CRM (customer relationship management) databases, which according to My Customer (2007), primarily increase customer loyalty and decreases churn. For instance, in the UK one of L’Oréal’s agencies creates and runs a database which involves collecting data, designing the database, its creation, and analytical examination leading to enhanced segmentation of the market (Billings, 2003). Thus, the organisation enhances its marketing information, is aware of customer needs, and is able to sell more effectively, while for customers the CRM results in enhanced interaction with the organisation, more effective customer service to enjoy, and higher satisfaction. However, due to the wide brands portfolio, L’Oréal possesses numerous CRM systems, which one can believe that do not show an overall picture and some inconsistencies might occur. Similarly, this might result in a costly and time-consuming analysis.

4.2. UP-SELLING AND CROSS-SELLING

Also L’Oréal reinforces customer relationship marketing strategy by engaging in cross-selling and up-selling. To clarify, L’Oréal’s beauty advisors in the points-of-sales offer additional items to the clients and thus create attention for other products, either within the same (up-selling) or different (cross-selling) product line. However, as My Customer (2007) reveals, L’Oréal might have an ineffective cross-selling due to lacking a single internal CRM and by not using the information properly. The Group then benefits by having teams of efficient salespeople contributing to establishing profitable relationships and correspondingly, customers’ needs are filled by suitable products and services.

4.3. ORDERGROOVE

Additionally, L’Oréal uses the OrderGroove company to perform a customer relationship marketing strategy. As revealed by Chaey (2012), L’Oréal’s clients can subscribe for their preferred skincare products, which then will be supplied to them regularly. OrderGroove states that by using this technology L’Oréal recognises a 2-4 growth in customer lifetime value (Chaey, 2012). This potentially decreases customer churn, thus its customers tend to stick to L’Oréal cosmetics. For L’Oréal this carries benefits of enhanced productivity by adjusting the inventory through effective targeting and at the same time it may shorten the sales cycle. As a result, the customer then benefits by the product’s availability.
4.4. LOYALTY PROGRAMMES

According to Ergin (2005, pp. 5-16), customer loyalty is a powerful competitive benefit for a brand; thus by the loyalty programmes L’Oréal follows the customer relationship marketing strategy as well. For example, the brand Vichy organised a “100 days, 100 women” programme, which provided a diagnosis and Vichy product for 100 days (L’Oréal, 2015h). This develops tighter bonds with customers. As a benefit for the Group, loyalty programmes make customers less sensitive and thus clients pay a higher price, which leads to higher profits. In return, customers benefit by elite rewards and vouchers, which as justified by Magee (2015), L’Oréal offers through its retailers. Additionally, the Group could consider offering exclusive products, which would provide selected customers with prestige, exclusivity, and access to special products and services. As these customers would be talking about this programme, people would like to be part of it. Eventually, this could satisfy customers and keep them loyal.

4.5. DIRECT EMAILS

Lastly, L’Oréal sends directs emails to customers based on purchase history (Jones, 2014). However, critically assuming in a department store, L’Oréal cannot effectively gather customers’ data as people share their email with the store, not the brand. Instead, L’Oréal could consider engaging customers into entering its website where they can register, and in return complete a questionnaire providing the company with feedback and customers are able to enjoy better customer service. Again, this way satisfied customers might more likely speak positively about the company and remain loyal for longer.

Overall, CRM, cross-selling and up-selling, OrderGroove, loyalty programmes, and direct emails together pursue its customer relationship marketing strategy. Yet to be able to fulfill L’Oréal’s aim and potentially to satisfy and retain these customers, the Group could remove some in-company rules (as data should be shared across the company which might not be allowed) and incorporate CRM software training. Also one could see the Group manage activities separately, rather than running them all in one place. Thus, a centralised relationship strategy creating a more coherent programme could be recommended.
5. CONCLUSION AND RECOMMENDATIONS

L’Oréal Group aims at offering beauty product innovation to 1 billion new women and men with regards to their diversity; therefore the purpose of the report is to critically analyse L’Oréal Group’s current marketing and determine how it is going to support it.

The analysis shows that a clear positioning and differentiation, improved publicity, obeying with relevant laws, and growing further through market penetration could further strengthen the brand’s multiple customer segmentation. Additionally, despite the criticism, L’Oréal significantly emphasises on digital marketing through its official website, social media, email marketing, and mobile marketing. Yet, extra development of the mobile applications could be suggested. In terms of branding, the Group’s brands possess different values and elements, yet all together build a strong corporate brand equity, which could be further boosted by the overall experience and brand extension. Moreover, based on the analysis to improve the current relationship marketing strategies, L’Oréal might consider engaging customers to be part of an exclusive programme or to register through its official website; however the Group might be required to remove some in-company rules and integrate CRM software training to gain even more advantages. Additionally, a coherent centralised relationship strategy programme could be recommended.

Overall, based on the conducted analysis of its current marketing, it could be concluded that there are various aspects supporting L’Oréal’s aim; however there is room for improvement in order to attract 1 billion new customers by 2020.

REFERENCES


FIGURE LIST


FIGURE 2: Created by author.


FIGURE 5: Created by author.

APPENDIX 1: STATISTICAL DATA

Annual growth of the global cosmetics market from 2004 to 2014*

This statistic shows the annual growth rate of the global cosmetics market from 2004 to 2014. In 2013, the global cosmetics market grew by an estimated 3.8 percent compared to the previous sales year.
SUSTAINABLE DEVELOPMENT IS IN EVERYBODY’S INTEREST

ARLIND SVARCA
SUSTAINABLE DEVELOPMENT IS IN EVERYBODY’S INTEREST

WHY TO EMBRACE SUSTAINABLE DEVELOPMENT

The reality we are living now is a result of efforts that mankind has put forth, while marching towards a better future. Along the way, we learned, invented, and created things and ideas that, for most of the part, have been beneficial for us. Simultaneously (and without regard to the benefits we gained), there has been a process of resource use, which in effect led to considerable changes that we made to our environment. In response to the most rapid development that our society has witnessed, some are starting to be concerned about the impact and extent of the use of resources as it is now. Businesses and corporations striving to dominate the market are facing a challenge. Consumers who are (willingly and unwillingly) carrying in the idea of necessity for everlasting growth and ever increasing consumption, start to become more aware of what emerging NGOs and focus groups promote as 'sustainable development'.

The United Nations’ 1987 Brundtland Commission defined sustainable development as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987).

Environmental concerns raised these days present a challenge for the world of business, which stands on the base growth principles, thus impacting the way organisations and investors think and approach reality.

Sustainable development, not desired of its potential negative outcomes on business’ financial performance, starts to be perceived rather as an opportunity having exactly the opposite effect (Hunt, 2003, pp. 62-66). It turns out that if a company embraces sustainability in a long-term perspective, it has potential for increasing profitability, improving relations with stakeholders, and carrying forward a fundamental ethical principle to future generations.

If we are to undergo a specific change, we usually want to know whether possible benefits of the action outweigh the inputs employed. What Jeremy Bentham (1781) described as the Principle of Utility, became later the basis for the cost-benefit analysis used by decision-makers. In terms of the original calculus, economists started to focus more on the tangible expressions of the happiness/goodness, becoming interested in people’s desires and needs and what they are willing to spend the money on (Fox, 2012). This quantification may present an important basis for the company to decide on whether it will embrace sustainable development or not. We can find a number of companies that have undergone a change, from which they started to benefit, but only after their reputation and mutual trust with stakeholders was endangered. For DuPont, as the largest producer of CFCs (chlorofluorocarbons), the paper published in the early seventies postulating the harmful effects of such chemicals on the ozone layer started an important transformation (Maxwell and Briscoe, 1997, p. 277). Rather than denying the negative effects of the billion-dollar-a-year product, DuPont responded by initiating research that was to obtain factual evidence to sustain or dismiss the theory (Maxwell and Briscoe, 1997, pp. 277-288). About a decade later, the discovery of the ozone hole in the Antarctic caused dramatic change in the approach towards the ozone issue. DuPont decided to be proactive in the area of international regulation, as they saw an opportunity to gain significant competitive advantage and transform their marginally profitable business into a more profitable one (Maxwell and Briscoe, 1997, p. 281). Through selling new, environmentally friendlier chemical substitutes (at a higher price), the company managed to increase its total revenue (Maxwell and Briscoe, 1997, p. 283).
Following on previous experiences, DuPont continued in supporting sustainable activities at start of the new century. The company assumed a leadership role in the field of sustainable development, as Charles Holliday, DuPont’s CEO, served as a chairman of the World Business Council for Sustainable Development (WBCSD) in 2000-2001 (Tanzil, Rittenhouse and Beloff, 2005, p. 395). DuPont has developed a three-pronged strategy for creating sustainable growth, which the company proves to have positive results. Holliday (2001, p. 6) gives an example of the Corian project, which itself resulted in $26 million in extra revenue. He adds that “this number might not seem huge for a company with $30 billion in sales, but DuPont has thousands of such projects, and we are adding 200 new each month” (Holliday, 2001, p. 6). On the level of productivity improvement, the projects employed altogether resulted in savings of more than $1 billion a year (Holliday, 2001, p. 6). According to the recent sustainability report, in the last 20 years, the company managed to increase production while reducing environmental impact (DuPont, 2013).

What was said shows that by embracing sustainable development activities, DuPont manages to increase its profit. At first sight, it seems that profitability is the only reason for why the company embraced sustainable development. In the case of CSCs, Maxwell and Briscoe (1997) state that “DuPont’s pursuit of its economic interests ... shaped the international regulatory regime for ozone-depleting substances.” This leads us to the creation of a situation in which self-interest of one company, which also has power, led to creating a common benefit for a wider number of stakeholders. At the same time, it is pointed out that “methods to encourage potential industry winners into supporting environmental initiatives deserve further attention” (Maxwell and Briscoe, 1997). Nevertheless, we need to consider that for DuPont (as for any company), embracing sustainability requires certain investments. Extending on the classical utilitarian-hedonistic point of view, we can view profit as material expression of pleasure. When embracing sustainable development, we give up some of our current demands, in the name of the future we invest the money that could be employed to bring us a higher personal pleasure. Our immediate benefit as a result of this decision is reduced. However, it is also true that we have a possibility to prolong the time interval for pleasure to last, even though the chances for success seem limited. This implies that by embracing sustainable development, there is risk involved, and this could discourage possible investors. However, Hunt (2003, p. 63) states that “investors believe that companies with CSR policies, frameworks and initiatives are more likely to manage risk better and protect their reputation and brand.”

We need to understand that for DuPont, to add 200 new projects each month requires real commitment to sustainability issues. This leads us to the fact that DuPont also had to review one of the key elements of their institutional logic – a common purpose (Kanter, 2011). As part of the organisation’s purpose, we have values and these help to guide our decision-making when performing activities in the long run. Organisational purpose is in focus of vision and mission statements, where the commitment to sustainable development should be explicitly stated. Unless sustainable development comes from internal beliefs and values of the company’s leadership, it is not likely to achieve the desired outcome. Tanzil, Rittenhouse and Beloff (2005, pp. 395-396) state that DuPont views on sustainability are outgrown from its corporate values. If it is, truly like that, then it implies the company is doing noble deeds just for their own sake. This would mean building indifference as one of the values recognised by Aristotle. It is important to have a true belief on sustainability, for the reason that before we get any return on the top of an investment, short-term expenses of whatever financial level will be required as an input. If we took the classical broker perspective, short-term investing provides much better opportunities and more lucrative financial outcomes (Lucas-Leclin and Nahal, 2008, p. 44). Also, from the homo economicus point of view, it is not rational to invest in sustainable businesses if these do not provide profit maximisation. As an argument for sustainable investments, Kanter (2011, p. 71) states that “great companies are willing to sacrifice short-term financial opportunities if they are incompatible with institutional values.” What was said does not mean that sustainable investing is necessarily unprofitable, but that our idea of profit has to be reconsidered.
Only after the company’s values stem from its leadership, then it is possible to create a truly ethical company. A true example of this is Yvon Chouinard – founder of the Californian fashion brand Patagonia. Bateman and Snell (2013) state that Chouinard’s values are Patagonia’s values. He adopted sustainability, as this influences many aspects of its business. Being an outdoor brand, customers usually enjoy its products while being in nature and doing sports. Chouinard considers that it is to the company’s benefit that there will be some nature left (Bateman and Snell, 2013). His approach influences the attributes demanded from potential workers and means invested in sustainability. People who work for Patagonia have shared the love for the outdoors, and Chouinard sets activities and the atmosphere so that people feel as though they are working with friends. Chouinard also devotes a portion of his earnings to preserve the environment. Patagonia’s strategy made it a company worth $315 billion (Bateman and Snell, 2013). This forms optimism towards its future (Chouinard, Ellison, Ridgeway, 2011).

It implies that Chouinard is trying to ensure continuity of the business’ activities, counting with the longest possible existence of its own. According to Kanter (2011, p. 69), institutional logic encompasses long-term orientation as one of its key facets. This characteristic is valid also for strategy and many sustainable development issues as such (Johnson, Scholes and Whittington, 2008; Waygood, 2008, p. 179). While an aim on continuity is mostly perpetual, the external conditions are not. Continuity is exactly through what we carry forward a ‘piece of ourselves’. Hamel (2009, p. 94) argues that managers often have subtle biases that favour continuity over change and adds that “while continuity is important, these subtle, baked-in preferences for the status quo must be exposed, examined, and, if necessary, excised.” In fact, what he is pointing to is organisational flexibility. The importance of adaptability and quick responsiveness is well-demonstrated in the historical case of Rapa Nui, commonly known as Easter Island. With their blindness and lack of consideration, the inhabitants of this island failed to maintain a balanced environmental system, which resulted in resource depletion, eventually affecting all creatures dependent on them (Strange and Bayley, 2008). There are no people in Rapa Nui now. This situation, however, does not have to repeat in a larger scale with humans living on this planet. As we have examples from the past and can learn from them, we can review our values.

The outcomes described above contribute to the creation of a flourishing organisation, in the sense that it helps the community and develops itself. The known phrase says that you cannot give to others what you already do not have for yourself. Our ancestors gave us the planet in a state that allows us to live a good life. We should do the same for future generations – yet if we are to embrace sustainable development, there are many temptations not to do so. If we do not (or cannot) take this as an imperative, then there is clearly a need to know about why should we even consider it. From the examples described here, DuPont and Patagonia, we can see that embracing sustainability offers a true possibility for a company to increase profitability while creating something that money could not buy, the soul and a true spirit. The chance is give for many companies today to transform themselves into something that our children and grandchildren will be proud of. By giving up some of our current demands, not only that we can increase utility, but we can also carry forward a principle of justice. For Aristotle, it would be the balance; for each to have some – not too much, but also not too little. That way, we can live a flourishing life.
REFERENCES


One of the earliest definitions of sustainable development was offered in the 1987 UN Bruntland Report (United Nations, 1987, p. 16): “...to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs”. In this respect, one can claim that sustainability reflects and entails certain responsibilities to others, shareholders and stakeholders, and the environment, both social and natural. In general, a company is seen as an artificial entity (Friedman, 1970), whose only responsibility is to maximise its profits and use shareholders funds in a legal and profitable way. However, companies have responsibility beyond making own profits (Schwartz and Saiia, 2012, p. 4), since their impact goes beyond simple market transactions. Profits should not be confused with power maximisation, as this might lead to the omission of ethical considerations and fair practices. This paper will argue that by embracing sustainable development as an ethical choice, a company satisfying certain environmental and social constraints can gain long-term benefits, even from a profitability point of view, meeting the shareholder imperative of maximising shareholder wealth. As a corollary, it will be shown that when dealing with strategy, innovation, and profit, a shift of mind-set on the part of businesses is required: to move from short-termism to long-termism.

On the one hand, following Lomborg (2001), it may be argued that there is no statistical evidence that the environment suffers as much as is often claimed. For example, there is no statistical evidence that the quality of air in London would be poorer, on the contrary it has improved, or that forest area has decreased (Lomborg, 2001, p. 10).

However, this does not mean that companies do not cause certain impacts (Schirone and Torkan, 2012). For instance, one can look at the BP accident in the Gulf of Mexico or the activities of tobacco companies. Beyond market transactions, companies use the environment, natural and social, to produce goods and services for profit. While doing so, they affect the environment. Companies affect the market economy, employees, local communities, and nature. Every company generates pollution, unnecessary waste, defects, stored materials, excessive packaging, and other hidden costs in products’ life cycles (Porter and van der Linde, 1995, p. 122); these aspects harm business, since they are a sign of inefficiency and thus economic waste. This indicates that resources are allocated and used ineffectively (Porter and van der Linde, 1995, p. 122) and lack optimal distribution. These activities therefore distract from companies’ internal and market economies, which impacts shareholder value creation, as operational performance, and hence maximisation of potential profits are harmed. Besides, the environment also impacts companies’ competitiveness and production-related activities (Porter and Kramer, 2006, p. 83; Schirone and Torkan, 2012, p. 182). Safe products and labour conditions enable lower costs of accidents, allure customers, and strong regulations can protect companies’ competitive advantage (Porter and Kramer, 2006, p. 83). For instance, Toyota production affects both the environment and the bottom line (Miel, 2011). Through its production and waste, Toyota affects not only the natural environment, but also the economic health of the company in the long-term through reduced efficiency (Porter and van der Linde, 1995; Miel, 2011). Toyota’s sustainability reports resulted in USD 500,000 of annual savings. Eventually their hybrid technology also enabled them to reap competitive advantage, and eventually other companies had to licence this technology (Porter and Kramer, 2006, p. 88).

Unsustainable practices harm society. Consumers are the ones who bear the costs (Porter and van der Linde, 1995, p. 122) of recycling, pollution, unnecessary packaging, or waste energy, since these all add to the cost of production, reflected in prices and tax payments. They can also cause price differentials, which is unfair to society.

The impact on nature, society, and economy raises ethical issues when companies fail to maximise utility through appropriate allocation of resources, effective production, and distribution.
Utilitarianism promotes the utility principle, which emphasises the greatest happiness of the greatest number, as the foundation of morals (Fisher and Lovell, 2009, p. 129). Hence, it represents the policy stance that aims to improve aspects of life. The impact on the environment violates this principle, since it largely benefits only a small number, the producer, the company. Under the assumption that agents are fully rational and that the outcomes of actions are quantitatively measurable, Jeremy Bentham (Fisher and Lovell, 2009, p. 129) proposes a framework based on the possibility of calculating benefits and costs of specific sets of actions to define morality. This allows performing a hedonistic calculus (Fisher and Lovell, 2009, p. 129) based on outcomes in terms of pain and pleasure, the two masters under which humans live their lives. Profitability does increase pleasure for shareholders, but this does not imply there is no pain for others (Fisher and Lovell, 2009, p. 129). Pursuing sustainability is the good action to do, because the consequences benefit the greatest number and allow future generations to use resources in the same productive way, as people are able to now.

Cost-benefit analysis is a typical tool for evaluating actions in this context. It is advantageous because companies and shareholders often have misleading perceptions of costs. External and opportunity costs of sustainability as well as costs of addressing regulations are incurred through unsustainable practices (Porter and van der Linde, 1995, p. 128). But, those long-term costs (Porter and van der Linde, 1995, p. 125), particularly related to the environment, can be minimised, as has been shown, since innovation can be pursued with low investments and short payback periods, and generate much greater savings. For example, Dow Chemical’s (Porter and van der Linde, 1995, p. 126; Holliday, 2001), under pressure to comply with a new law, redesigned its production, which cost USD 240,000, but generated a savings of USD 2.4 million through the reuse of materials as raw inputs.

To justify sustainability to shareholders, cost-benefit analysis enables the measurement of all the benefits and costs associated with a particular action. Companies thus need to identify costs and benefits (Williams, 2008) associated with a particular action. Then, they can evaluate those costs and benefits with regard to time, discounting, and risk. Finally, it is possible to measure the overall costs and benefits and thus determine whether or not to pursue the action (Fisher and Lovell, 2009, p. 131).

However, cost-benefit analysis can be problematic in the complex environment, where not everything can be quantified (Fisher and Lovell, 2009, p. 131). It is therefore in companies’ interests to develop a specific measure through suitable metrics that would allow the provision of evidence specific to companies’ business, such as "shareholder value added per pound of production" (Holliday, 2001, p. 6). Such evidence can serve as justification through addressing shareholder value creation.

In addition to price differentials, ineffective production, waste, and pollution affect the distribution of benefits and lead to unfair differences in the quality of the environment, opportunities, and prices of other commodities people are exposed to. Successful businesses require a healthy society, since education, health care, and equal opportunities are fundamental for a productive workforce (Porter and Kramer, 2006, p. 83; Chouinard, Ellison and Ridgeway, 2011). Thus, from a strategic point of view, shareholder value is not maximised when the environment and the market suffer or when unequal opportunities result.

Rawls’ general principle of justice (Rawls, 1999, p. 11) represents the principle stance and was developed on the basis of the original position where political, economic, and social systems can be contrasted and the principle of justice as fairness is defined in the veil of total ignorance. This ensures that no one is disadvantaged and no one is advantaged. In this position (Rawls, 1999, p. 11), agents are assumed to be rational and all fundamental agreements are fair. This is why Rawls considers justice as fairness, as the original position is fair to everyone, which conflicts with inequality and unsustainable practices. However, Rawls’ original position is hypothetical and a certain degree of risk taking is needed. In such a position, Rawls (Fisher and Lovell, 2009, p. 117) argues that a rational person would choose the "maximin" strategy, when the right option is the one where the most disadvantaged are protected. The general principle is represented by two main principles of
justice, equal liberties and the equality principle (Rawls, 1999, p. 53). The equality principle has two criteria (Rawls, 1999, p. 65), fair equality of opportunity and the difference principle. Therefore, Rawls recognises differences among people, but those possessing better qualities and attributes should not benefit at the expense of others (Fisher and Lovell, 2009, p. 118). Based on the principle of fair opportunities, one can derive a principle of responsibility. It is our own responsibility to ensure those fair opportunities. Collective responsibility and process can meet this need. Thus, also counting ourselves as members of the future society, the principle justifies sustainable development in the name of fairness and equal opportunities for the next generation. Furthermore, collaborations and collective processes improve impacts on the social and natural environments (Nidumolu et al., 2014). They also benefit shareholders, since collaborations can "create value for everyone" by avoiding future costs and improving business efficiency, innovation and productivity (Nidumolu et al., 2014).

Not only collaborations, but also individual practices promote strategic position through reputation. Negative publicity and consequent punishment from stakeholders for unethical, unsustainable behaviour (Trudel and Cotte, 2009; Nations Environment Programme, 2013) can limit long-term performance. Hence, sustainability is a strategic tool that drives positioning, which strengthens differentiation and competitive advantage (Kiernan, 2001; Hunt, 2003; Porter and Kramer, 2006; Trudel and Cotte, 2009; Schirone and Torkan, 2012), because as an intangible asset, sustainability is hard to imitate (Adams, Thornton and Sepehri, 2012 p. 3). Subsequently, sustainability can benefit companies, because those who embrace it can exploit the potential of marketing in the name of sustainable development, and thus attract talent, investors, and customers (Kiernan, 2001; Gore and Blood, 2007; Schirone and Torkan, 2012; Clark, Feiner and Viehs, 2014; United Nations Environment Programme, 2013). This can promote long-term value maximisation, through lower cost of capital, a pool of talented workforce, and the impact on share prices (Clark, Feiner and Viehs, 2014, p. 7). However, the reputation argument focuses only on the external audience and rarely on the strategic benefit (Porter and Kramer, 2006, p. 83). Unless sustainability is rooted in strategies and operations specific to the business, reputation cannot benefit companies in the long-term, as this limits the extent to which businesses can differentiate themselves. Even only partial sustainability, for example with one product or service, can yield similar benefits as full embracement (Trudel and Cotte, 2009), though such a strategy is not long-term, since it does not promote the company’s innovation and competitiveness. Hence, sustainability should not be seen as a mean to mitigate immediate consequences, but to prevent them in the long-term; this why it should be rooted in companies’ cores, which implies a sea change in strategy, not only adjustments (Porter and Kramer, 2006).

There are various indicators where companies’ reputations are reflected, such as the Dow Jones Sustainability Index (Adams, Thornton and Sepehri, 2012 p. 11). Analysis reveals that sustainability does not have a significant impact on share price in the short run, but there is a potential long-term positive correlation. This is supported by the new report From Stockholders to Stakeholders (Clark, Feiner and Viehs, 2014), which shows a positive correlation between sustainability and share prices. Particularly, companies that scored poorly on the environmental element experienced low or a decline in share prices. An example is the BP incident, when share prices declined by 50% and have underperformed by 60% ever since; thus, the level of responsibility to the environment reflects in the performance and affects shareholders (Clark, Feiner and Viehs, 2014).

Consequently, one needs to regard sustainability as a long-term strategic tool, since short-termism limits opportunities and companies’ capabilities (Repenning and Henderson, 2010; Adams, Thornton and Sepehri, 2012; Clark, Feiner and Viehs, 2014, PRI reference). Peter Senge (1990) emphasised the importance of individual learning for further development of an organisation. This does not imply learning as acquiring information, but rather a shift of mind from the static mind-set (Fisher and Lovell, 2009, p. 121). As a result, companies need a fundamental shift in their organisational structure or design (Meen and Keough, 1992, p. 66; Porter and Kramer, 2011).
Such a shift requires transformational ethical leadership, leaders who define the change, take on responsibility, motivate and mobilise people (Rijal, 2010) through ethical principles and values. Managers also need to promote openness and creativity in order to support such behaviour (McGill, Slocum and Lei 1992, p. 14). This represents a shift from adaptive learning, which is short-term oriented and where people only react to stimuli in the environment (McGill, Slocum and Lei, 1992, p. 6), to long-term generative learning, where experiments and change are supported and learning occurs independently of the environment, which enhances innovation and efficiency (McGill, Slocum and Lei 1992). However, companies and shareholders are often risk averse (Durodié, 2004) and reserved towards change, since managers often have incomplete information about the costs and benefits (Porter and van der Linde, 1995, p. 127) and pressure on executives from financial markets focuses on short-term results (Clark, Feiner and Viehs, 2014, p. 9). Particularly the costs of implementing sustainability arouse scepticism. But these costs can be as much as half of what analysts estimate, as in the case of compliance with sulphur dioxide emissions (Porter and van der Linde, 1995, p. 129). Companies can use the cost-benefit analysis to justify sustainability and design their own metrics.

By pursuing sustainable development, companies can also make use of their power, which is often greater than that of governments, to deal with social, economical, and environmental issues (Gore and Blood, 2007; Fisher and Lovell, 2009, p. 301; Nidumolu et al., 2014). Companies are not often motivated to pursue sustainability unless there is an outside competitive pressure, or regulation forces them (Porter and van der Linde, 1995, p. 125). Additionally, a static mind-set pushes companies to think that sustainability comes with high costs. They do not consider the learning curve, long-term economic and competitive benefits, which makes them resistant towards compliance with regulations (Porter and van der Linde, 1995, p. 130). These attitudes limit their competitiveness, as they restrain innovation (Porter and van der Linde, 1995, p. 128). This emphasises the importance of the shift. However, not all regulations making companies comply with sustainable practices generate benefits. Regulations frequently discourage risk-taking and experiments, since governments tend to be inflexible in their enforcement (Porter and van der Linde, 1995, p. 129). Regulations should be designed to give companies freedom to solve their specific problems and issues, and thus support innovation. Companies should therefore use their power to help improve regulations in these ways (Porter and van der Linde, 1995, p. 129).

To conclude, sustainable development is not only ethical, it also supports long-term business growth. It has been shown that moving from the ethical policy to principle does not alter support for sustainable development. Utilitarianism supports thinking about future generations, seeking to ensure they are not left with less productive means. Justice as fairness allows future generations to have fair opportunities, as one has now. Moreover, sustainable development allows economic waste to be minimised, triggers innovation, and leads to better operational performance, which is essential for long-term competitive advantage. Thus, increased efficiency and ethical behaviour improves reputation, which, as one of the most recent studies has shown (Clark, Feiner and Viehs, 2014), has a positive impact on share prices. However, to avail themselves of those benefits, companies need to shift their static mind-sets and move from short-termism to long-termism. They need to think about resources that can be used to sustain their business. The shift needs to take place in the businesses’ cores in order to exploit the long-term strategic potential (Porter and Kramer, 2011). Hence, meeting social and environmental needs enables companies to improve their performance and maximise long-term value creation for shareholders.
REFERENCES


EMBRACING SUSTAINABLE DEVELOPMENT IS AN ETHICAL DECISION

ANNA PROŠKOVÁ
EMBRACING SUSTAINABLE DEVELOPMENT IS AN ETHICAL DECISION

The question of environmental protection seems to have become a widely discussed topic in recent years. There has been much debate as to what is the impact of human activity on issues like global warming, air and water pollution, waste generation, or depletion of resources, and how serious these problems really are. The increasing awareness of this topic has created a pressure on companies to implement measures leading to higher sustainability of their businesses. But is it really in the best interest of companies to embrace sustainability, or are they simply yielding to irrational pressure from the public as argued by Benjamin Hunt (2003) in his book The Timid Corporation? To be able to answer that question, a few terms must be clarified first.

Firstly, a clear definition of sustainable development is needed. Sustainable development was first defined by the World Commission on Environment and Development (1987, p. 8) in its report 'Our Common Future' as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs." In other words, current development should be only as big as to not hinder future generations from enjoying the same possibilities as the current one. The second clarification needed is the definition of what the interests of a company are. Taking the stakeholder approach, where stakeholder is "any group or individual that can affect or is affected by the achievement of a corporation’s purpose", as defined by Freeman (2004, p. 229), a company must take into account interests of all its stakeholders as opposed to only the interests of its shareholders. As Freeman (2004, p. 231) argues, it is in the interest of the company and its managers to consider effects of its actions on all stakeholders, and interests of the stakeholders need to be balanced over time. Consequently, the title of this paper could be rephrased as follows: Why might it be beneficial for a company and all of its stakeholders to do business in a way that will lead to preservation of environment for the future generations? Using first Bentham’s utilitarianism, then Kant’s categorical imperative, and finally Rawls’s theory of justice as fairness, this paper will argue that it is in the interest of a company to embrace sustainable development because of the economic benefits for both stakeholders and shareholders, and because it provides a sound ethical commitment towards the future generations.

From the point of view of utilitarianism, embracing sustainable development is the ethical thing to do. As explained by Driver (2014), classical utilitarianism developed by Bentham and Mill is a consequence-focused theory that uses the utility principle of "the greatest good for the greatest number" to judge ethicality of actions. Using this principle, it can be argued that embracing sustainability is indeed the ethical thing to do as taken purely from the point of view of the greatest number of people benefiting from the action, and making the reasonable assumption that human kind will continue to exist for at least a few more centuries, it is clear that members of all the future generations vastly outnumber the current population of the Earth. Consequently, from the utilitarian point of view, future generations should be able to enjoy the same, if not greater benefits than the current one. Therefore, it is imperative for companies to behave in a sustainable manner that provides the future generations with this ability by preserving the environment.

Moreover, even from the short-term point of view, not taking into account the future generations, sustainable development brings substantial benefits to all of a company’s stakeholders. According to Ambeč and Lanoie (2005, p. 45), it is a common perception that implementation of sustainability measures in a company is costly, and therefore disadvantageous for shareholders. Even supposing this is true, the benefits (profits) created for shareholders by not adopting sustainability would be outweighed by the benefits sustainability would create for the overall society. The society is the stakeholder group greatest in number as many results of unsustainable behaviour of companies, such as air pollution or resources depletion, have worldwide consequences. Moreover, the environmental impacts caused by companies do not only have an impact on the quality of life of the society, but they also create costs for the society as elimination of the impacts is usually paid by the governments, which means from the taxes collected from their citizens and other companies. Therefore, a small number of people (the shareholders) would financially benefit, but a much larger number of people (the society) would be negatively impacted, making it unethical from the utilitarian point of view.
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Furthermore, as many companies have proven, a shift to sustainability if done the right way can lead to cost savings and higher sales, and therefore there is an economic benefit for the shareholders as well. This issue is discussed by Ambec and Lanoie (2008) who show that there has been much debate on whether reduction of waste and pollution leads to cost savings or not. Ambec and Lanoie (2008) conclude that while this cannot be generalised, there is a number of examples when shift to sustainability and cost reductions have gone hand in hand, giving among many the example of the WRAP Award programme that awards projects leading to waste reduction. Over the 22 years of its existence, the combined waste reduction of the awarded projects adds up to 230,000 tons and reduction of wastewater to 13 million tons, leading to savings of roughly $1 billion as of 2008, according to Ambec and Lanoie (2008).

An exemplary company making a shift towards sustainable growth can be DuPont whose CEO Chad Holliday (2001, p. 4) argues that sustainability and business growth can go hand in hand, and that any company making a shift to sustainable development indeed needs to primarily focus on the economic value this shift will bring. An example of successful cost saving can be IBM’s initiative of cutting water and energy use resulting in $3 million savings while increasing output by 33%, as described by Chouinard, Ellison and Ridgeway (2011, p. 6), or Unleever’s (2013, p. 7) combined savings of 350 million by waste reduction and energy saving. One more example is the project of the Washington State Department of Ecology (2007) that describes in its case study how its initiative helped the Canyon Creek Cabinet Company achieve annual savings of $1.19 million while decreasing waste production and air emissions, and increasing productivity, product quality and safety.

Sales increase resulting from sustainability can be shown on the study by Trudel and Cotte (2009) that has proven that consumers are willing to pay more for products of companies operating in a sustainable manner. Moreover, due to this high environmental awareness of many consumers nowadays, companies can increase their sales not only by producing goods ethically and sustainably, but also by creating products that help their customers behave more sustainably, as shown by Unruh and Ettensohn (2010, pp. 95-97) on the examples of Toyota entering the market of hybrid cars, or Brita’s success in selling water filters by stressing that their use leads to lower use of plastic bottles. Therefore, adopting sustainable development can lead to a number of opportunities and benefits for both stakeholders and shareholders.

As has been shown so far, embracing sustainable development is the ethical thing to do from a consequentialist point of view as it creates the greatest good for the greatest number both in long term and short term view. However, consequentialism is only one of viewpoints of normative ethics. Another point of view would be missing if deontological theories of ethics were not used to assess the issue. As explained by Alexander and Moore (2012), deontological theories judge morality of a choice based on conformity with moral norms and ‘rightness’ of the act, focusing on the nature of the act itself regardless of its consequences. In the following section, the theories of Immanuel Kant and John Rawls will be used to address ethicality of sustainable development from the deontological point of view.

As explained by Johnson (2014), Kant argues that the basic principle of people’s moral duties is a categorical imperative, the unconditional duty of people to act in a certain way based on several formulas. As described by Johnson (2014), these formulas say that the moral principles need to be universally applicable, other people must not be used as a means to an end, and people must act as they would wish anybody to act, in other words treat others as they would like to be treated themselves. Applying these principles to sustainable development, it is evident that conducting business in a non-sustainable manner is ethically wrong from Kant’s perspective. A non-sustainable company clearly violates the categorical imperative as it creates value for the shareholders by harming other stakeholders such as the local community, the government, or even the future generations, using them as a means to their ends. Moreover, this is not universally applicable nor reversible as the shareholders certainly would not like to be treated in this manner if they were in the stakeholders’ place.
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The case of Shell’s operations in Nigeria could be given as an example. As described by Boele, Fabig and Wheeler (2001, pp. 74-78), Shell’s oil drilling in the Niger Delta has had serious negative environmental and social impacts on the local community of the Ogoni people. Moreover, as Boele, Fabig and Wheeler (2001, pp. 74-78) point out, the Ogoni received next to nothing from enormous revenues generated from the oil as these were split between Shell, and the government who used it to finance all regions of Nigeria. This case clearly shows not only practical meaning and application of Kant’s principles, but also the importance of using both consequentialist and deontological theories to assess an ethical issue as from the utilitarian point of view, the Ogoni people would be in minority compared to the whole population of Nigeria and all of Shell’s shareholders and employees, therefore utilitarianism would deem Shell’s actions ethical. However, from Kant’s point of view, it is clear that the Ogoni people are being used by Shell and the Nigerian government as means to their own ends, and that these parties would definitely not wish to be treated this way if they were in the Ogonis’ position. Consequently, from Kant’s point of view, the actions of Shell and the Nigerian government are unethical. Another point of view from the deontological perspective is provided by John Rawls as will be discussed in the last section.

Rawls’s theory, as explained by Wenar (2013), uses justice as fairness as the moral standard, using two principles as guidelines of justice; first, each person has a right for equal basic liberties that are compatible with the same liberties for everyone; second, there is a fair equality of opportunity for everyone to run for public positions, and the least-advantaged people have the greatest benefit from the society. As further described by Wenar (2013), to determine general principles of social justice, Rawls uses the original position which is an imaginary situation in which a group of people has to agree on terms of cooperation; these people are equal, free, reasonable and rational, and they do not know anything about themselves or their future conditions and position in the society. Therefore, when agreeing the terms, they need to make sure the society created based on these terms will be just and fair in case they fall into the most disadvantaged group, and find a balance of the terms that ensures fairness for everyone.

Applying Rawls’s principles to sustainable development, the original position can be used to argue for what is fair and just. Supposing the group of people in the original position consists both of members of the current generation and the future one, they would need to find a balance of the agreed terms that will guarantee equal opportunities and freedom to both of these groups, hence coming back to the very definition of sustainable development – the current and future generations must have equal opportunities to meet their needs. Therefore Rawls’s theory also confirms the conclusion that embracing sustainable development is the ethically correct thing to do for companies.

It is clear, therefore, that embracing sustainability is the ethical thing to do for companies based on both its consequences and ethicality of the act itself. As was argued using utilitarianism, embracing sustainable development is imperative for companies both in the short-term and the long-term view, taking into account benefits of both the current and the future generations. Moreover, implementation of sustainability measures can lead to economic benefits for the shareholders and other stakeholders as many real-life cases prove. As was further shown, sustainable development fulfills duties arising for companies from the categorical imperative, and complies with Rawls’s principles of justice as fairness. All these perspectives and arguments lead to the same conclusion that embracing sustainable development is in the interest of a company because of the economic benefits for both stakeholders and shareholders, and because it provides a sound ethical commitment towards the future generations.
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EMBRACING SUSTAINABLE DEVELOPMENT IS AN ETHICAL DECISION
CROSS-CULTURAL BEHAVIOUR IN THE BOARDROOM

KATERINA REZNICKOVA
According to Mullins (2005, p. 281) there are a number of ways to look at leadership and its interpretation. In general, leadership is mostly understood in terms of “getting others to follow” or as “the use of authority in decision-making to get people to do things willingly” (Mullins, 2005). Leadership can also be practiced as part of one’s position, or through knowledge and/or pursuing new ideas, for example, in the case of Steve Jobs and his famous remark that many times people simply do not know what they want until it is shown to them (BusinessWeek, 1998). Despite the number of different leadership theories on “what makes a good leader” during the beginning of the 20th century, it was not until the advances in technology, especially the developments in telecommunications allowing us to do business on a global and more interconnected scale, that triggered researchers to look at the impact culture might have on leadership itself with its attached impact on human behaviour. The focus of this paper is on how leadership is conceptualised across cultures and the challenges of leadership in a cross-cultural context. To do so, the concept of culture and different leadership theories will be defined with practical examples of how leadership is influenced by our culture and how this could give us a better understanding of human behaviour in the workplace.

Throughout our history, geographical, ethnical, and political boundaries have been built, creating differences among various groups of people, which we now know as different cultures. Similarly to leadership, culture has numerous meanings. According to Browaeys and Price (2011, p. 9) culture is an essential part of all human societies, where each society defines its own norms and the ways in which they are realised. At an organisational level, Edgar Schein (1992) defines culture simply as a reflection of shared assumptions emerged from problem solving, which eventually becomes a model for new members as the right way to think in connection to such problems (Schein, 1992). Taking into account Armstrong’s (1990) interpretation of leadership, where being a leader means meeting certain objectives or achieving tasks through more than one person, it is not a surprise that cross-cultural theories have generally underlined a strong connection between culture and leadership styles (House et al., 2002, p. 3).

A number of researchers, including Renate Mayntz and Norbert Elias, believe that cultural traditions, values, ideologies and norms are bound to differentiate more than structural factors between societies (Lammers and Hickson, 1979, p. 10) and that the historical developments influence the degree of cooperation, morale, and commitment to an organisation (House et al., 2002). Hofstede’s well-known framework (1980, 2001) of the five cultural dimensions (namely: individualism-collectivism, uncertainty avoidance, power distance, masculinity-femininity, and long-short term orientation), analyses countries according to work-related values. Hofstede’s theory was later partially used together with the work of Trompenaars and Hampden-Turner (1997) in the project GLOBE in a more recent effort to demonstrate the impact culture has on diverse perception of leadership across the world (Dickson et al., 2012). The ultimate aim of the GLOBE project is to help leaders better understand the human behaviour in the workplace and therefore choose a relevant style of leadership.

This is of course under the assumption that there are appropriate leadership theories to choose from, which according to Peter Blunt and Marrick L. Jones (1996) might be tricky, considering many of these theories have been developed in the last fifty years. One could say though that there has not been adequate time to test their application in practice and so their scientific credentials remain ambiguous.

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“Nothing in business circles brings such a rush of clichés to the head as leadership... an area in which there is no absolute, no guaranteed model... so it turns out to be not only vital but also fun to talk about what makes a leader.”

- Sir Peter Baker

1 Originally, Hofstede identified four cultural dimensions; a fifth dimension (short-long term orientation) was added in his work in 2001
The extent to which leadership is conceptualised differently across cultures can be seen in number of examples. Trait theory, one of the early studies of leadership focusing on the personal traits of qualities that one has to have in order to be perceived as an effective leader (Morden, 2004, p.203), indicates that being more formal and acting with self-confidence to assert leader’s influence over others belongs among those traits needed to be successful (Browaeys and Price, 2011, p. 448). This trait, however, might be unacceptable in certain countries like Japan, where having a good relationship determines the role of a person in most situations (Adachi, 2010).

In the same fashion, Collins and Porras’ study (1996) points out that the success of transformational leadership, which concept is based on leader’s ability to promote innovation and new technologies through changing the organisation’s mission, strategy, and culture (Morden, 2004, p. 229) is mostly demonstrated in American companies and such an approach has not been fully proven to be successful in companies based in the United Kingdom. A similar conclusion with regard to transformational leadership has been also reached in the study carried out in Botswana by Jones et al. (1995), in which followers perceived those who provide clear direction and targets as effective leaders, rather than those who concentrate on long-term strategy, communicating a corporate vision, and securing broad commitments (Jones et al., 1995).

Last but not least, an example of pointing out the challenges of leadership theories in cross-cultural context is situational leadership. Blanchard’s et al. (1985) model, describing four different kinds of situational leadership styles: (i) directing, (ii) coaching, (iii) supporting, and (iv) delegating, suggests that the leader’s behaviour must be relevant to the situation, and it is up to the leader to decide which style to adopt. Nonetheless, as cited by Van Zandth (1970), in Japan for instance (and in other Asian countries) concept of “face” can come into play. Meaning that the leader might decide on a certain course, not based on the situation but in order to save face, and therefore the concept of adjusting the leadership based on the given situation becomes irrelevant.

Even though the examples outlined earlier indicate that some leadership theories do not seem to work so well in particular cultures, it does not mean that they would not work anywhere else. For instance, transformational leadership appears to work very well in the US market, as demonstrated by the case of Jack Welch, former CEO of the US General Electric (GE) Corporation who transformed GE into an aggressive and profitable international player (Morden, 2004, p. 229) and similarly, transactional leadership works just fine in the cultures with higher hierarchy (i.e. Hofstede’s power distance) like in most Asian countries or Russia, where authority is perceived as a right and the hierarchy is naturally accepted.

The extent to which leadership changes due to culture is best observed in connection with cultural preferences, the so-called loosely knit social framework. According to Dickson et al. (2012), a social position of different cultures on Hofstede’s dimension of individualism vs. collectivism indicates contrasting leadership perceptions, meaning that highly individualistic cultures (e.g. the United States and the UK) connect organisational success as well as its failure directly with the Chief Executive Officers (CEOs) of companies. When Apple’s CEO, Steve Jobs, died, Apple’s ability to sustain its market leadership after Jobs’ death was a topic of debate (Bedigian, 2011). At the same time, their perception of accountability for failure is nearly zero. Top leaders in more collectivistic cultures (e.g. Japan, China, and other Asian countries) are rarely seen as the main cause behind the organisational accomplishments, yet they are quite often found liable for (sometimes) even non-business related failure. This is best demonstrated by the comparison between the prompt resignation of Tokyo Electric Power’s CEO, Masataka Shimizu, taking a full responsibility for the crisis at the Daiichi nuclear plant following the severe earthquake in 2011 (Tabuchi, 2011) and the reluctance of British Petrol CEO, Tony Hayward, to resign or even accept any accountability in connection to the oil spill in the Gulf of Mexico in 2012.
Understanding the challenges of leadership in cross-cultural context is, however, not the only element to think about. Apart from the need to take the cultural differences into account, there is also the necessity to understand human behaviour within the relevant organisation. That is, as explained by Mullins (2005), because an organisation itself is made up of individual members with different needs and expectations. When these are not met, it can lead to frustration and eventually result in conflict, which can be demonstrated by the following practical situation based on the author’s personal experience.

Back in 2010, the author worked for an Internet security provider, founded in the Czech Republic, headquartered in the Netherlands and with operations across the world. The company appointed a new Chief Operating Office (COO) to round up a strong leadership team and to take the company to the next level (i.e. bring the company public). Coming from the United States was noticeably reflected on his uniformed leadership practices, one of his first big tasks was to restructure the company and to effectively dismiss around 10% of the workforce. While affected employees from the US subsidiary took the news as part of the job market reality, German employees ended up suing the company and for the people in the Czech Republic the new COO became the most “hated man” in the company resulting in resignations by several key employees as a form of protest and arguably lower performance by others. A behavioural reaction that nobody expected, affected operations substantially for the next several months.

In the COO’s own view, which he later discussed with the rest of the executive management team, he believed that he did everything right. Or at least how he would do it in the United States, where it had been done a number of times and worked out just fine. Meaning, to acknowledge everyone’s hard work and at the same time explain that in order for a company to move to the next level, things have to change quickly, and therefore some people might need to go. Only later he admitted that while he did expect people to get upset, he did not foresee, nor did he understand the reaction of employees, particular the ones in Europe and the broad implications that would eventually cost him his job. This example illustrates the challenges of leadership theories in cross-cultural context and to supports the argument that leadership is conceptualised differently across cultures, but it does yet not give us a good understanding of human behaviour in the workplace.

There is a close link between cross-cultural theories and leadership theories, which theory is supported by a number of researchers, including Hofstede, Mayntz, and Elias, because cultural values, norms, and ideologies have a fundamental impact on leaders as well as followers’ behaviour. House et al. (2002) points out that in addition to the values and beliefs, it is also the historical developments that influence the degree of cooperation, morale, and commitment to the organisation. This all together is one of the reasons why leadership is conceptualised differently across cultures. The story about the COO clearly demonstrates the practical application of opposite applicability of transformational leadership among American British organisations.

Furthermore, several leadership theories such as trait theory, transformation or situational theory were summarised from which we concluded that none of them translates to the globalised setting in which organisations operate. For example, adjusting the leader’s approach based on the situation he/she happens to be in could possibly work in European counties quite opposite to Asian countries, where even unfitting decisions can be made in order to save face. There is also a different understanding of taking the responsibility as was shown on the case of BP’s CEO Tony Hayward and his Japanese counterpart Masataka Shimizu. For this reason, we cannot really consider leadership theories as truly global concepts.

Finally, despite the guidance leadership theories might provide, and even if we take the element of cultural diversity into account, they still do not explain how people in the organisations will react (behave), and therefore they are not particularly helpful in understanding peoples’ behaviour in an organisational setting. This is because they are being discussed from an egocentric point of view and do not take into the account the human element of the equation between leader and follower.
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This paper aims to critically discuss and analyse the cultural issues that can be anticipated when an American manager plans to negotiate with an Arab counterpart. First, the importance of understanding the cultural differences in a business environment will be emphasized. Secondly, the cultural issues that can be anticipated with regards to the negotiation process will be highlighted followed by the issues in communication between both parties. Fourthly, other considerations are developed. Lastly conclusions will be drawn. The frameworks and models discussed in this paper are well intended to highlight cultural issues, however several aspects limit their accurateness and applicability. Therefore, further considerations should be taken into account, as the literature stereotype might not always reflect reality.
CULTURAL DIFFERENCES

According to Tylor (1958) culture is “the complex which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society”. In the business environment, cultural differences go beyond eating habits or greeting forms during the first encounter. Culture shapes behaviour as indicated by the Spanish philosopher José Ortega y Gasset (1914) with his statement “I am I and my circumstances”. Culture even influences the perception (Berlin and Kay, 1969; Adelson, 2005) and neural activity (Han and Northoff, 2008).

With the emergence of international and intercontinental organisations, the need for understanding cultural differences, but also how to overcome these gains more weight, as it is the key point for success.

The first step to plan a negotiation is to get familiar with the counterpart’s culture. According to Amber & Hovey (2007) and Seib (2005), the definition of what constitutes the ”Arab identify” is arguable. These authors link the Arab identify to the Arab League, a regional organisation of 22 Arab countries. The Arab League itself (1946, cited in Sabry, 2012) defined Arab as “a person whose language is Arabic, who lives in an Arabic-speaking country, and who is in sympathy with the aspirations of the Arabic-speaking peoples”.

According to Saee (2008), negotiation is a process in which two or more parties communicate with the purpose of reaching a joint agreement regarding different ideas or needs. Saee (2008) continues stating that negotiation becomes cross-cultural when the involved parties have a different cultural background, hence do not share the same way of thinking, feeling, and behaving. To proceed with the analysis, the United States and Saudi Arabia are chosen as examples to illustrate cultural issues that need to be anticipated if negotiation is to be successful. The reason behind the selection is based on the fact that Saudi Arabia represents an opportunity for US organisations to do business with, being a major investor in the US (Zahra, 2011) and is ranked under the top 20 of host economies for FDI inflows (Khakhkar and Rammal, 2013).

The importance of cultural awareness lies in fact that, according to Gelfand and Brett (2014), dissimilarity in values and beliefs results in difficulty for individuals to find a common frame of reference. To begin with creating this common ground as well as overcoming these dissimilarities, Hofstede’s cultural dimensions can be used to assess the cultural differences between the US and Saudi Arabia, which are visualised in Figure 1:

The United Stated scored a relatively low power distance and therefore is more egalitarian; whereas Saudi Arabia is a hierarchical society. In terms of negotiations, Samovar et al. (2009) states that the US selects members based on their competitiveness, verbal abilities and persuasive skills regardless of their position in the company. On the other hand, in Saudi Arabia the status of the negotiator is highly valuable, and the inclusion of high-ranking officers is an indication of seriousness and might not accept an American opponent under his status. Therefore, the US organisation must plan ahead which member(s) shall be involved in the negotiation process in order to match the status of the counterpart.

With regards to the second dimension, the US is highly individualistic where the level of commitment corresponds to the perceived benefit. In this sense, the US manager will approach the negotiation as a zero-sum game with the aim to attain a suitable agreement, whereas the Saudi Arabian counterpart, being part of a collectivist society, will seek for equilibrium with a mutually satisfying agreement (Brett, 2000). Additionally, Lewicki et al. (2010) points out that collectivist negotiators focus more on long-term goals than individualists.
Even if both countries score high with regards to the masculinity score and are therefore driven by competition and success, in other words, to live to work (Kessler, 2010), the American manager must anticipate entering long-term commitment. This translates into the necessity to select business partners carefully according to the long-term vision and goals of the US company. To accommodate the views from both cultures, the American manager might propose to establish short-term milestones that lead to the long-term goal.

With regards to uncertainty avoidance, the US scored below average and accepts new ideas and is willing to try some new or different concepts.

Nevertheless, Saudi Arabia has a high preference for avoiding uncertainty and maintains rigid codes of belief and behaviour. Change is repulsed or only embraced slowly.

Therefore, ambiguity should be mitigated and risks should be addressed which require a thoroughly preparation. Lastly, Saudi Arabians exhibit great respect for their traditions and are normative in their thinking. The US had a similar low score in terms of Hofstede’s et al. (2010) long-term orientation and therefore maintains some links with its own past. This may be a source of friction, as each manager might persist to implement his or her own traditions.

Even if Hofstede et al. (2010) relies on the law of big numbers, it should be noted that the territorial boundaries that constitute a country do not imply that all individuals residing within it are homogenous and share the same culture as reflected in the different minorities such as the Kurds, Berbers, Bedouins, Circassians, etc. Furthermore, according to Nasif et al. (1991), cross-cultural research is based on an ethnocentric pattern and represents only a single timeframe, in this case, between 1967 and 1973 (Hofstede et al., 2010) and therefore might be out-dated. This criticism is reflected in the recent event where South Sudan declared independence from Sudan (Taylor, 2014), but did not seek Arab League Membership (Sudan Tribune, 2014) as they have a different cultural identify. Additionally, the scores are not or only partially based on empirical data and are derived from data representing similar countries (Hofstede et al., 2010). These differences are highlighted in an Alkailani (2012) article that replicated Hofstede’s study particularly for Jordan’s culture and found similarities but also notable discrepancies. This indicates that Hofstede’s findings might be relevant to anticipate some issues between cultures; however, it must be considered carefully as the culture might have progressed and values might have changed.
NEGOTIATIONS

To further relate culture with negotiation, the steps of the negotiation process themselves have to be taken into consideration. According to Graham (1987), there are 4 steps of negotiation. The first step, non-task sounding, involves activities that are not related to the actual business. According to Graham and Hernández-Requejo (2008), Americans trust until proven otherwise which is reflected in a short non-task sounding process characterised by the statement time is money. On the other hand, Saudi Arabians rely more on strong relationships where trust must be earned before hand, indicating that they have a polychronic nature (Hall, 1981). According to Trompenaars and Hampden-Turner (1997), Saudi Arabia is a diffuse culture where they overlap work and personal life. In this sense, the American manager must show great patience and not rush into the second or third step of the negotiation, as common in US intracultural negotiations. Furthermore, Trompenaars and Hampden-Turner (1997) reveal that Saudi Arabia is a synchronic culture, where they engage in more than one activity, and appointments and schedules are subordinate to relationships.

Consequently, the American manager, but also the organisation he or she represents, must anticipate that the negotiations might be time consuming. Furthermore, the meeting should be planned between Salat times. For non-Muslim Americans, the prayer times can be found on the local newspapers such as the English Saudi Gazette (2015). Jeanette and Chaney (2012) state that during the encounter topics such as politics, religion, and family should be avoided, as they could be perceived as controversial or inappropriate, and as stated before, the key is to create a relationship and build trust, not discomfort. Furthermore, according to North and Tripp (2006), corporate gifts such as quality pens or business card cases can be handed over (with the right hand), but opulent gifts should be avoided as it may be interpreted as bribery. If a gift is offered to the American, it should not be rejected, as the Saudi counterpart will lose face.

The task-related exchange of information describes the exchange of information that defines the participants’ needs and expectations (Doole and Lowe, 2008). Graham and Hernández-Requejo (2009) state that US managers tend to propose the topic and explain the reasons behind their requests only if necessary. On the other hand, Ali (2008) notes that Saudi Arabians address the whole subject with the need to understand their counterparts’ demands, concerns, and needs. The Saudi Arabian polychronic nature is also reflected at this stage of the negotiation process, where the different points to negotiate about such as quantity or price are discussed in a holistic approach at the end, whereas Americans prefer to follow a linear sequence which is used by them to mark progress (Graham and Hernández-Requejo, 2008). Based on these findings, the American manager must re-orient his negotiation skills to provide all the information first followed by the agreements on the different points at the end.

With regards to persuasion, it is the parties’ attempt to modify one another’s standpoint. Americans are direct and start bargaining at a price close to what they expect to achieve; but nevertheless they are extreme in their offers and are more susceptible to competitive judgement biases, such as fixed pie bias (Gelfand and Christakopoulou, 1999) and self-serving bias (Gelfand et al., 2002). On the other hand, as Hendon et al. (1996) notes, for Saudi Arabians, bargaining is meant to establish relationships built on a mutual perception of virtue, honesty, and personal merit. Furthermore, Saudi Arabians set the initial offer high, but do not expect straight acceptance. According to Chaney and Martin (1995), the differences in bargaining between the countries are highlighted by the deviation of the offers, where the Americans negotiation point is off by 5 to 10% of the goal whereas Arab countries start much higher, such as 20 to 50% of the goal. In this sense, the American manager should become familiar with the process of bargaining, its practice, but also its meaning to avoid irritation from both parties.
Nevertheless, before using any persuasion tactic with regards to the bargaining offers, the negotiation issue must be assessed; whether the Saudi Arabian counterpart has diametrical or integrative preferences. According to Loschelder et al. (2014), when the first offer does not reveal information on compatible preferences, the sender will claim more value as recipients’ judgments are anchored by the initial offer and counteroffers are assimilated to it. However, if the first offer conveys information on compatible preferences, the recipient can leverage this insight to extract additional concessions from the first mover.

As Saudi Arabia is a collectivist culture (Hofstede et al., 2010; Trompenaars and Hampden-Turner, 1997), they view themselves as agents constrained by social obligations and place great emphasis on maintaining harmony, even with their counterparts (Leung, 1997 cited in Gunia et al., 2013), and it may be assumed that they are more inclined to take an integrative standpoint (Gelfand and Realo, 1999). Khuri (1968) states that the length of the bargaining process is proportional to the value of the commodity. It offers an indirect cue to the American how much the Saudi Arabian counterpart is interested in the deal. Furthermore, the American manager needs to understand his counterparts' persuasion tactic, which is appealing on emotions to change direction and reach understanding (Ali, 2008). This Arab approach is also reflected in Trompenaars and Hampden-Turner’s (1997) findings, labelling Saudi Arabia as an affective culture, whereas the US is rather neutral focusing on rational arguments and objective data. This might seem irritating for the American manager, as his counterpart might be considered aggressive and loud and less focused on the American’s structured arguments. However, this should not be misinterpreted as a threat, but should rather seen as a positive signal of interest.
In this sense, the American manager can plan ahead his strategy, which could include not being the first to make an offer as well as not being anchored to the counterpart’s offer, using more on emotional arguments focusing on the benefits for both parties overcoming the zero-sum game mentality, and most importantly, to enlarge the bargaining process. It should be noted that Americans are part of an individualistic culture, independent from social groups and focus on the distribution of resources and use threats and warnings as a persuasion tactic. However, the effectiveness of the persuasion tactics is arguable and might result in threatening the relationship between the parties and in the loss of the trust and respect of the Saudi Arabian counterpart. However, the US manager must not only consider the counterpart as a member of a culture, but also as an individual. In this sense, different biases such as loss-aversion (Kahneman and Tversky, 1979) can be used which seems not be culturally variable (Gelfand and Brett, 2004), as it is risen from hardwired features of the perceptual system rather than learned.

Lastly, concession and agreement is the culmination of the negotiation process. Where for Western countries a handshake implies that an agreement is reached, in Middle Eastern countries it just means that negotiations are just beginning (Hofstede, et al., 2010). This might result in a conflict where the misunderstanding by the American manager thinking that the deal is completed leads to disappointment by his counterpart as he is then feeling rushed. In fact, as Alon and Brett (2007) point out, Saudi Arabians allocate time for important decisions and rushing them would signal disrespect.

**INTERCULTURAL COMMUNICATION**

As Herbig and Kramer (1991) stated, international negotiations can last between 2 to 6 times longer than it would domestically. As the American manager needs to gain the Saudi Arabians’ trust, communication is the medium to achieve it. Gelfand and Brett (2004) state that individuals in different cultures use different languages to conceptualise or frame negotiation. As the official language of the United States and Saudi Arabia are different, it is a source of confusion and misunderstandings. The Arab counterpart might speak English, but it must still decode the message and interpret the meaning. Even if both parties have an understanding of the English language, the interpretation based on their cultural background might differ such as in the case of the word compromise, which has a positive connotation for Americans whereas in other cultures it might be considered a sign of weakness (Al-Ghamdi, 1999). Furthermore, the Saudi Arabian party might not be agile in English that might result in cognitive strain, but feel uncomfortable to ask for clarification to maintain his face.

Additionally, based on Hall (1990), Saudi Arabia is a high-context culture where indirectness in communication is one of its defining characteristics. Saudi Arabians avoid directness, and disagreement will be expressed through circumlocution, ambiguity, and metaphors to avoid embarrassment (Cohen, 1990 cited in Nelson et al., 2002). In contrast, the United States is a low-context culture where the information is in the explicit code (words), but this approach would cause the Saudi Arabian to lose face and the negotiation would end in failure. Alternatively, the US counterpart needs to pay attention to the non-verbal cues decode the senders’ ”yes” correctly, as it could be interpreted as an indirect disagreement. Communication between parties is even more impaired by the illusion of transparency (Vorauer and Claude, 1998; Gelfand and Brett, 2004), where the negotiators tend to overestimate the extent to which others discern their internal states, intentions, and goals.

The American manager must show great patience in the negotiation process, and this also applies to communication. As Graham and Hernández-Requejo (2008) state, Americans feel uncomfortable with silence and they fill this silence with concessions or conversation with persuasive appeal seeking for reciprocity. This leads to expose too much information falling in a weaker position.
As the American manager is approaching the Saudi Arabian counterpart, the American might seem to be in a weaker position and therefore must adapt to the counterparts’ culture. However, this must not always be the case. The experience each party has with the counterpart’s culture shall be considered. Weiss (1994a) rejects the simplistic idea of “when in Rome, do as the Romans do” and offers different approaches depending on the negotiators familiarity with the counterparts’ culture and vice versa:

**OTHER CONSIDERATIONS**

In this sense, if both parties are not familiar with each other’s culture, Weiss (1994a) suggests to involve a mediator. However, if the Saudi Arabian counterpart is not familiar with the managers’ culture, then the American manager must embrace the counterpart’s script. In any case, Gelfand and Brett (2004) define adaptation an emergent process where parties interpret each other’s goals and discover each other’s style and begin to move in sync. Nevertheless, Weiss’ (1994b) framework must be considered with regards to its fit with the counterpart’s likely approach, its appropriateness, and its acceptability. Another factor to consider is whether the culture is tight or loose. As Livermore (2009) states, Saudi Arabia is a rather tight culture, having strong norms and a low tolerance of deviant behaviour. On the other hand, Adler and Graham (1989) report that American negotiators appear to be rather obstinate where their behaviour remained consistent in cross-cultural situations only making few adjustments.

This constitutes a highly potential source of friction and indicates that in the process of anticipating cultural issues in cross-cultural negotiations it is not enough to examine the counterparts’ culture, but also review and their own culture. The American manager must be aware of his own actions and for example must overcome the fix-pie bias (Gelfand and Brett, 2014) which is not biologically rooted but is culturally based. As Pinkley and Northcraft (1994) reveal, American negotiators maintain a win-lose standpoint, even after the provided information by the counterpart indicates that the interested are not diametrically opposed.

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**Figure 2: Culturally Responsive Strategies and their Feasibility.**

Brackets indicate a joint strategy, which requires deliberate consultation with counterpart. At each level of familiarity, a negotiator can consider feasible the strategies designated at that level and any other level.
In any case, both parties must know to which extent they are willing to adapt, without violating his or her own deeply imbedded cultural norms and values. For the purpose of concluding the negotiations successfully, Moore and Woodrow’s (2010) strategic approaches, based on the willingness to adapt, can be taken into consideration:

As the negotiation process with Saudi Arabians involves building trust, the avoiding/contending strategy might not be the best option. On the other hand, both parties are part of normative cultures (Hofstede et al., 2010) which might prevent adoption of the advancing strategy. Therefore, either an adhering, adapting, or adopting strategy might be pursued. The appropriateness depends on the willingness of both parties to adapt. Therefore, the negotiators responsibility is to anticipate the likelihood of the counterpart’s willingness to adapt.

The influence of the organisational culture must also be considered. The organisational culture might be used by the American manager as a common ground to start the negotiation, but as Sasaki and Yoshikawa (2014) highlight, it depends on the strength of the internal and external embeddedness. In this sense, the cultural issues that may arise if the American manager makes the wrong assumptions and fails to recognise the differences or similarities between the headquarters’ and the subsidiary’s culture. In fact, Sasaki and Yoshikawa (2014) identify 4 different interactions between organisations and intra-national regions, namely integration, assimilation, separation, and marginalisation.

However, theory and praxis might not always meet. Taking into account the different variables that influence an individual apart from culture, it might be advisable to anticipate for events that are not supported by the stereotype of the literature. The American manager may use the culture of the Saudi Arabian together with the literature as a starting point, but shall consider the counterpart not only as part of a culture, but also as an individual. After all, the American manager must observe, evaluate, and adapt to any deviations.
CONCLUSION

The culture between an American manager and a Saudi Arabian counterpart is in several aspects different, which complicate the finding of a common ground to proceed with the negotiations. Different findings by Hofstede et al. (2010), Trompenaars and Hampden-Turner (1997), and Hall (1990), which highlight characteristics of the individual cultures, can be used to anticipate the potential cultural issues that might surface during the process.

Based on these findings, the American manager must anticipate a time-consuming negotiation with the aim to maintain harmony and face, where threats and warnings are not effective but mutually beneficial for both parties. If negotiations have a successful result, the US manager will eventually commit to a long-term relationship. Communication must be interpreted by taking into consideration the paralanguage and non-verbal cues in the frame of the Saudi Arabian culture, rather than the meaning of the words of the sender.

Furthermore, models by Weiss (1994) and Moore and Woodrow (2010) address what strategies can be used taking into account the counterparts’ actions with regards to the familiarity of the opponents’ culture and willingness to adapt. Also the organisational culture must be reviewed to identify potential common ground, but also differences between the headquarters and the subsidiary. However, reality might not mirror what the US manager prepared for, and therefore he or she must, after all, observe, evaluate, and adapt to any deviations to achieve an agreement. Finally, cultural awareness does not only refer to examining the counterpart’s culture, but also to review its own culture as well, including its weaknesses and strengths.

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**IMAGE LIST**


EDITORIAL IMAGES


PRAGUE COLLEGE
Polská 10
120 00 – Prague 2, Vinohrady
Czech Republic

Tel.: (+420) 222 101 020
(+420) 222 722 544
Fax: (+420) 222 718 813

www.praguecollege.cz
info@praguecollege.cz

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