



МИНИСТЕРСТВО ОБРАЗОВАНИЯ РЕСПУБЛИКИ БЕЛАРУСЬ

Белорусский национальный технический университет



Факультет маркетинга, менеджмента,
предпринимательства

Кафедра современных европейских языков

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Н. Н. Перепечко
Т. Н. Конагорова

LET'S READ AND DISCUSS BUSINESS ARTICLES
ДАВАЙТЕ ЧИТАТЬ И ОБСУЖДАТЬ ДЕЛОВЫЕ СТАТЬИ

Учебно-методическое пособие

Минск
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по деловому английскому языку
для студентов экономических специальностей

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PREFACE

This collection of texts is intended for intermediate to upper-intermediate level learners of Business English and is particularly suitable for those who use the course “Market Leader” by David Cotton, David Falvey and Simon Kent. The book is specially written for students of the school of marketing, management, entrepreneurship of Belarusian National Technical University, but it might be used by any person who wants to practise their reading skills in the sphere of Business English.

“Business Reader” contains 21 texts on engaging and up-to-date topics relevant to today’s professionals.

It is written mainly for students’ independent reading. It might also be used in class with a lecturer for reading and further discussion of a wide range of stimulating business issues.

PROTECTING YOUR BRAND WITH TRADEMARKS

Establishing a strong brand is pivotal to business success. Protecting that brand is equally important. Yet many small businesses overlook an important first step in securing their brand trademarks.

What Can Be Trademarked?

A trademark is any unique word, symbol, name or device used to identify and distinguish the goods of one seller from the goods of another - think Nike's swoosh, for example. A trademark allows the seller to protect what's trademarked from use and/or misuse by competitors while building brand loyalty among repeat customers. Trademarks also help prevent confusion or manipulation of consumers, who come to associate distinct attributes - in particular, quality - with a distinct brand.

From a branding perspective, the following are assets that can be protected: logos, names, tag lines and packaging. However, these assets can only be trademarked if they meet certain qualifications. A word or phrase that's commonly used or already connected with another product or service in the same industry cannot be trademarked. For example, a generic term like "search engine" can't be trademarked, but a unique name, like Google, can be. However, if your name is generic but used in an industry not typically related to the meaning of the term, you may be able to trademark it. A good example would be Apple Computer.

As a general rule, you can trademark your business name if you use it when advertising directly to your customers. If you don't use your business name in direct communication with your customers, you probably can't, because you're not connecting your name to your brand and its attributes. If your business name will be a large part of your marketing, you should consider trademarking it.

Your logo and tag line are also good candidates for trademarks. The first litmus test: Is it unique? What makes a logo unique is the combination of the symbol with the company name, their spatial relationship and the logo's colors. If your tag line is a unique phrase, it can also be trademarked. Hallmark's "When you care enough to send the very best" connects a Hallmark brand attribute - quality - to its product. This tagline helps distinguish the Hallmark brand.

The Trademark Process

It's not necessarily expensive to trademark something. In the United States, whoever establishes priority in a mark is usually considered the owner of it. In other words, if you're the first company to use a unique mark to identify your products or services, you don't need to register your mark to gain rights to it. You must, however, add the trademark symbol, TM, to the mark you're claiming rights to. It's still not quite a substitute to registering a mark through the U.S. Patent and Trademark Office, which establishes ownership beyond a doubt.

Of course, all of this is dependent on the "uniqueness" of your mark. The internet is a good source for starting your trademark search. Visit free websites that display existing trademarks, like those maintained by USPTO, Secretaries of State or Yellow Pages Online. Or, for a fee, go through an online trademark search company. You can also hire a private company or attorney to conduct detailed searches that include misspellings and alternate spellings. It's best to seek an attorney who specializes in intellectual property law.

Trademarks can be registered at the state or federal level. State registrations are less expensive, but also offer less protection. Trademarks are often registered within one industry, but may be registered in more than one. Your best option depends on your geographic area of

operation and scope of business. International protection is much more costly and difficult. It's also extremely complicated and expensive to enforce.

If you file a trademark application with USPTO, it'll ensure no other trademarks similar to yours currently exist. This process can take months. Do your homework, because if your mark closely resembles someone else's, your application will be denied.

Keep in mind that the more you differentiate your brand from others in your industry, the easier it'll be to protect. Choose a name and logo that distinctly identify your business and will protect it from competitors.

*John Williams
Entrepreneur, April 16, 2007*

Answer the questions.

1. What is the first step in securing the brand?
2. What are the main functions of trademarks?
3. Can logos, names, tag lines, packaging be trademarked?
4. Is it expensive to trademark anything?
5. How can you check the "uniqueness" of your mark?
6. How does the trademark work in our country?

True or false?

1. A trademark helps build brand loyalty among repeat customers.
2. Any logos, business names or tag lines can be trademarked.
3. You always have to register your mark to gain rights to it.
4. The more you differentiate your brand, the more difficult it'll be to protect.

BRAND PIRACY

Introduction

If, as the old expression goes, imitation is the sincerest form of flattery then the top brass at brands such as Louis Vuitton, Sonny and Microsoft must be blushing like crazy. Approximately seven percent of world trade is in counterfeit goods, according to The International Chamber of Commerce and 40% of brands counterfeited are composed of a list of only 215 brands. That's 350billion a year that could be funneled through legitimate channels and into the hands of companies that invest in their development and promotion.

That counterfeiting is a criminal activity that can have tragic consequences is not in dispute. What is in dispute, however, is that counterfeiting is not always damaging to brands and can actually be leveraged to a brand's advantage. Counterfeiting can give brands access to new markets and be a benchmark of a brand's health. It can increase a brand's awareness such that when the economic climate of a country or an individual's improves, sales migrate from counterfeit to original. And it can also compel the authentic brand owner to protect, innovate and expand its products, services and markets to keep ahead of its imitators and squeeze out the competition.

The good, the bad and the ugly

There are three main channels to market: the good, the bad and the ugly. In the "good" first channel, authentic goods through authentic channels, the brand owner is in full control of the distribution and pricing and supports the products with investment. This is position most brand owners seek to maintain as brand equity can be controlled fully.

However, it is not a perfect world. With the increasing demand for higher margins and lower prices, brands have outsourced the manufacture of their goods to developing countries where labour and cost of production are much lower. 80% of seizures of counterfeit brands are traced back to Asia where they were manufactured and distributed. The "bad" second channel, also known as the grey market, is partly fuelled by this production in countries like China and India. Authentic products find their way into non-authorized retail distribution outlets which are beyond the control of the brand owner. The retail outlet could be a street hawker, a backstreet shop or it could be a mainstream retailer, such as Asda. Asda, having been denied supply of the new England football shirts by Umbro in February 2006, sourced five thousand shirts from surplus stock in Europe and sold them at a 12% discount to the official ones to be launched by the FA three days later - scuppering both the FA's and Umbra's pricing and distribution strategy.

The third "ugly" channel is also known as the black market, where unauthentic goods are sold through unauthorized channels. This can have disastrous consequences with products that are imbibed, such as cigarettes, pharmaceutical products or baby formula, with products such as machinery which cause automobile or aeroplane accidents, or with other products such as cosmetics and software. This is the dark side of counterfeiting. But ugly ducklings can turn into swans.

Piracy's benefits

There are whole raft of brands for which both black and grey market counterfeiting is advantageous. We've all seen the fake Rolex watches, Burberry caps and Louis Vuitton bags. Contrary to popular belief this doesn't actually damage the brand equity but actually supports it. There is no cannibalization as people who generally buy these fake products are not in a position

to buy the original – as soon as their economic condition changes they will run to the front of the queue to buy the original. Awareness of the brand rockets would otherwise be out of their reach. This increased brand exposure helps drive sales of authentic products from those who can afford them.

Understanding of the product values is also not diluted as the owner of the counterfeit products knows it is just that, a fake, and therefore does not expect the same performance from it. In fact, decisions to purchase the counterfeit products usually reaffirm the brand's values as the recipient buys the article to project the very image the brand is trying to portray through its advertising and promotion. This endorsement encourages loyalty, generates awareness and strengthens the brand's values with the owner of the fake as well as everyone with whom they come in contact.

Another reason piracy can help increase a brand's value it is a good indicator of a brand's strength. Brands which are not faked are considered to weak to generate consumer demand and are consequently not produced. Consumers know this is the case so their decision to buy an original is, in part, derived from the popularity of their chosen brand in the grey channel.

If counterfeiting is damaging to brands, how come none of the most commonly counterfeited brands, such as Nike, Gucci, Adidas, Prada, Chanel or Burberry are suffering? Turnover at Nike, for example, has increased by 45% since 2001. Burberry has seen turnover increase by 68% over the same period with operating profit more than doubling. And Microsoft, which accounts for more incidents of IP theft than any other brand, has seen its turnover up by 57%. Figures like these defend the position that counterfeited brands are more likely to succeed.

Some brands do embrace the counterfeit market rather than seeing it as a threat. Giorgio Armani, on a recent trip to Shanghai, purchased a fake Armani watch for increased of the £710 his authentic watches retail for. He said "It was an identical copy of an Emporio Armani watches... it's flattering to be copied. If you are copied, you are doing the right thing." Although this was a publicity stunt it does highlight the fact that consumers of fake merchandise are polar opposites to consumers of the authentic and therefore pose no significant threat to the brand owner.

Another benefit of counterfeiting is that it closes off the competition. High priced branded goods encourage competition to enter the market at slightly lower price points. Counterfeiters then produce branded goods and sell at significantly below the cost of the top market by the original brand and can't compete with the counterfeit as their prices are too low.

Counterfeiting in these circumstances therefore presents a significant opportunity for branded goods. One such example of an opportunity that was taken with Spanish brandy Fundador in the Philippines. Counterfeit was rife of Fundador, it was an endemic way of life in virtually all Philippines's communities. Children would collect the labels and bottles of the original and sell them to counterfeit production plants who would refill the bottles with a counterfeit product to sell back to the Philippine communities. This eventually offered the brand owner the opportunity to convert them over to the genuine product by developing an extremely generous advertising promotion. Prizes such as Harley Davidson and Pajero cars were offered on the bottles' labels which the counterfeiter's could not either compete with or copy because the offers were changed every six weeks. Sales of the genuine product quadrupled in three years with this strategy.

Counterfeiting can give brands access to new markets. For example, a Thai based manufacture of branded tinned produce used to have a large presence in China. It pulled out a number of years ago and since then the Chinese have copied the brand and developed the market. There now remains a much larger market opportunity for the genuine, original brand to exploit by re-entering the market. Awareness has been maintained, penetration has increased and the competition has been closed off.

Conclusion

There are, of course, negatives to counterfeiting. But if the fake is distinguishable from the original then the genuine brand owner is presented with significant opportunities: increased awareness, access to new markets, closing off the competition and an affirmation of the brand's values. And if brand owners take hold of these opportunities and leverage counterfeiting to their advantage, then they will be blushing not just from the imitation but also from their achievements.

Stuart Whitwell
April 2006 /intangiblebusiness.com

Answer the following questions:

1. How big is the part of counterfeit goods in world trade?
2. What is counterfeiting?
3. Why do most brand owners try to keep the "good" first channel?
4. Who fuels the "bad" second market?
5. Why is the third "ugly" channel so dangerous?
6. Do brands really suffer from piracy?
7. What are piracy's benefits?

Correct these statements:

1. Counterfeiting is a criminal activity and can never be leveraged to a brand's advantage.
2. Brand owners can't control the distribution and pricing even in the "good" channel.
3. Brands have outsourced their manufacture to developing countries because of high qualified staff.
4. The black market brings profit and benefits to consumers, manufacturers and counterfeiters.
5. Piracy can't support the brand equity.
6. Consumers never know whether they buy a fake or an original. So, they expect the same performance.
7. Piracy is a good indicator of a brand's weakness.
8. Many famous companies have seen turnover decrease due to piracy.
9. All manufacturers see piracy as a threat.
10. Counterfeiting encourages competition.
11. Counterfeiting doesn't give any opportunities for branded goods.
12. Counterfeiting closes off new markets.

AT THE FRONT OF THE BACK OFFICE

MANILA

How the Philippines beat India in call centres

IT'S midnight in Manila, and the capital is just waking up to the start of another working day. At the Worldwide Corporate Centre office block, thousands of young Filipinos are crowding into endless open-plan offices. Once seated, they quickly start answering the questions and calming the frustrations of vexed American consumers beginning their own day on the other side of the Pacific Ocean.

These Filipinos are call-centre workers. To outsiders it is hardly a glamorous profession, yet despite the antisocial hours these men and women have every reason to be as well-motivated and cheerful as they seem. They are well paid and know that they work at the heart of their country's most dynamic industry.

The rise of what is known as business-process outsourcing (BPO) in the Philippines has been nothing short of phenomenal. The very first calls were taken in 1997; today the sector employs 638,000 people and enjoys revenues of \$01 billion, about 5% of the country's GDP. Last year the Philippines even overtook India, long the biggest call-centre operator in the world, in "voice-related services". The country now employs about 400,000 people at call centres, India only 350,000.

The South-East Asian upstart (population 101m) is unlikely ever to surpass the South Asian behemoth (1.2 billion) across the entire range of outsourcing offerings, which also include all kinds of information-technology services. Yet given the extraordinary growth so far it is hard to gain - say the Philippines' own projection that its BPO industry could add another 700,000 or so jobs by 2016 and generate revenues of \$25 billion. At that point, the industry would make up nearly a tenth of GDP and be bigger in value than the remittances from the 10m Filipinos working overseas.

As in the call-centre business so far, some of these new jobs will come at the expense of India. Yet India's relationship with the Philippines in back-office work is more complex than the numbers suggest.

The main reason for the success of the Philippine call centres is that workers speak English with a neutral accent and are familiar with American idioms — which is exactly what their American customers want. Of these, many have taken to complaining bitterly about Indian accents (which no amount of «voice neutralisation» coaching seems to have overcome). As a result, the Indian firms themselves have been helping to move jobs to the Philippines by setting up call centres in Manila and other parts of the country. Infosys and Wipro, as well as scores of other Indian firms, now have substantial operations there. And they aren't drawn to Manila by cheap labour. Wages in the Philippines are slightly higher than in India since the Filipino accent commands a premium.

It also helps that the country has a big pool of well-educated workers. The million or so Filipinos who graduate every year have few other options to choose from, besides emigrating. And working in a call centre is considered a middle-class job (new recruits start at \$470 a month).

The big question is whether the Philippine BPO industry, having conquered the call-centre market, can now move up the value chain. To keep growing rapidly - and profitably - it needs to capture some of the more sophisticated back-office jobs, such as those processing insurance claims and conducting due diligence. In these businesses, called knowledge-process outsourcing and legal-process outsourcing, India still rules supreme.

Integreon offers a glimpse of what the future may hold. The firm occupies just a few discreet, very secure offices. It employs 300 people in Manila, 40 of them lawyers who help

multinational law firms with litigation. Familiarity with America helps. «It makes it very easy for us to do legal research for American firms,» says Benjamin Romualdez, the firm's country manager.

This sort of operation is new in Manila, but MrRomualdez expects that he can find the skilled workers to double his workforce over five years. Western banks have also discovered the Philippines. JPMorgan Chase now has over 25,000 workers on its own payroll in the country, many of whom do much more than answering phones. The Philippines is set to compete with India across the BPO board.

The Economist June 23rd 2012

Answer the questions.

1. What does BPO stand for?
2. Why are Filipinos well-motivated to work in call centres?
3. What are the reasons for the success of the Philippine call centres?
4. Can the Philippine BPO industry move up the value chain?
5. Is the Philippines able to compete with India in BPO industry?

SOUTHWEST AIRLINES

Andrew Gillespie continues his series on successful and distinctive firms. This time, he looks at the US airline that acted as a major inspiration for both EasyJet and Virgin Airlines.

Airline industry is well-known as a highly cut-throat business. You drop your prices, and not long afterwards your competitors drop theirs. You improve your facilities, and before you know it they've improved theirs as well. A combination of relatively low prices and high costs (for planes, fuel, pilots, crew and so on) naturally tends to depress profits, and also makes it hard to generate high returns. To win in this industry, and to win consistently, therefore requires something fairly special.

SouthWest Airlines has certainly done things differently. When the company was set up, the owners decided that instead of offering long-haul flights - which would attack the established airlines head on - it would establish short-haul routes with an average distance of around 430 miles. Since then, it has significantly increased its passenger numbers and has been consistently profitable for over 25 years - a feat achieved by very few if any others in this industry.

The company was created in the United States 30 years ago by Rollin King and Herb Kelleher. They began with one simple proposition:

If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares and make darn sure they have a good time doing it, people will fly your airline.

They were right. The company has become the fifth largest airline in America. It now has over 2,500 flights per day, and flies over 57 million passengers a year to over 50 cities in the US.

Kelleher, who is still the chief executive officer of the business, gives his view of its success:

We started back in 1971 with three planes serving three Texas cities. In the short-haul markets, most people will drive those distances instead of fly. A lot of people figured us for road-kill at the time. But today we've got over 300 airplanes in 55 cities. We like mavericks¹ - people who have a sense of humour. We've always done it differently. You know, we don't assign seats. Used to be we only had about four people on the whole plane, so the idea of assigned seats just made people laugh. Now the reason is you can turn the airplanes quicker at the gate. And if you can turn an airplane quicker, you can have it fly more routes each day. That generates more revenue, so you can offer lower fares.

Knowing the customer

SouthWest's success has been based on an understanding of its particular market segment. From the very beginning, Kelleher and King asked themselves the fundamental question: "Who is our main competitor?" The answer was not another airline (no other airlines flew short-haul in the same way). The real competitor was the car. Over these distances, consumers face the choice between driving or flying. Why should they choose the plane? Not because of the in-flight films. The obvious reason why anyone chooses to fly is because it is quicker than the car. They fly to save time.

Kelleher and King realised that SouthWest Airlines had to focus on cutting the time it takes to get from A to B. It did this by flying point to point, using regional airports rather than a central main airport. This helped to reduce the time spent waiting to take off and land and to unload the baggage.

Of course, a car is still cheaper and has the advantage that you can get in it when you want to. To combat these points, SouthWest has fought hard to fly regularly and keep its prices down. Apart from using cheaper local airports, SouthWest only provides a basic service. For example,

¹ someone who exhibits great independence in thought and action

it does not serve meals or show in-flight entertainment. It also does away with an airline reservation system, preferring to use plastic reusable boarding passes instead. These methods lower the firm's costs and help to keep fares up to 60% below those of its competitors.

Flying: a funny business

Not only has South West pioneered short-haul flights, it has done it in a distinctly unusual way. When it started out, for example, it catered mainly for a Texan clientele. It was launched with a "love" theme, under the slogan "Somebody up there loves you". Its air hostesses wore hot pants and white PVC go-go boots¹. The drinks served were called Love Potions, the peanuts were known as Love Bites and the tickets came from Love Machines! Even the company's Dallas headquarters are at Love Field.

Kelleher continues to believe that work can be fun, and encourages everyone else in the organisation to think the same. At the company's headquarters, all the employees, including Kelleher, wear casual clothes, practical jokes are commonplace, and the working week is full of birthday celebrations and awards. Passengers are also liable to have jokes played on them. It's not unknown for the stewardesses to announce that "Those of you who wish to smoke will please file out to our lounge on the wing, where you can enjoy our feature movie presentation, *Gone with the Wind*."

But underneath the jokes is a serious belief that if the employees are happy the firm does better. South West employees certainly seem to be extremely committed to the airline. In a recent training exercise with the US marines, the marines compared the loyalty of South West's staff to their own loyalty to the corps.

SouthWest's mission is "dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride and Company Spirit". According to the company, its mission statement has always governed the way it conducts its business: "We tell our employees we are in the Customer Service business. We just happen to provide airline transportation."

Trailblazer

Its approach has been the trailblazer² for many other airlines, including EasyJet and Virgin. Both firms readily pay tribute to Kelleher's approach. South West adopted a different marketing strategy, and did it in a way that was difficult to imitate. Others may be able to set up another airline, but it is not easy to create a similar culture of fun, enthusiasm and commitment. In the words of the company, "We took a great idea and made it fly."

Perhaps the greatest concern facing the firm is the question of succession³. Kelleher is 67, and some say his passion for bourbon and cigarettes (five packs a day) may not bode well in terms of life expectancy. There is no clear succession plan, and no-one obvious to take over from him. At the moment, there is a very special chemistry at the firm which has helped to distinguish it from would-be rivals. The question is whether this can continue without the founder.

Business Review, November 2001

Answer the questions.

1. Why does Andrew Gillespie call airline industry "a highly cut-throat business"?
2. What is the competitive advantage of SouthWest Airlines?

¹ a low-heeled style of women's fashion boot worn since the mid-sixties when fashion silhouettes focused on accentuating the leg

² an innovative leader in a field; a pioneer

³ the action of following in order

3. What generates more revenue according Kelleher?
4. What is the airline's key to success?
5. What was the airline's main competitor?
6. What allows the airline to keep their prices lower than their competitors' prices?
7. What mission does the airline have?
8. How does the airline's mission influence the way they do business?
9. Why do such prospering companies as EasyJet and Virgin pay tribute to Kelleher?

Work in groups and discuss the questions.

1. What does SouthWest do to deal with common passengers' complaints?
2. What does SouthWest do to convince passengers that speed, a wide range of destinations outweigh such problems as queues, cancellation, passengers' misbehaviour?

DOING THE BUSINESS

Roisin Ingle studies the most popular organisational structures companies can choose from to be successful.

The need for a solid structure within all business entities is “absolutely fundamental”, according to Ms Angela Tripoli, a lecturer in Business Administration at University College Dublin. “Organisational structure concerns who reports to whom in the company and how different elements are grouped together. A new company cannot go forward without this and established companies must ensure their structure reflects their target markets, goals and available technology.”

Depending on their size and needs there are several organisational structures companies can choose from. Increasingly though, in the constantly evolving business environment, “many firms are opting for a kind, or hybrid of all of them”.

The most recognisable set up is called the functional structure where a fairly traditional chain of command (incorporating senior management, middle management and junior management) is put in place. The main benefit of this system is clear lines of communication from top to bottom but it is generally accepted that it can also be a bureaucratic set up which does not favour speedy decision-making.

More and more companies are organising themselves along product lines where companies have separate divisions according to the product that is being worked on. “In this case the focus is always on the product and how it can be improved,”

The importance for multinational companies of a good geographic structure, said Ms Tripoli, could be seen when one electrical products manufacturer produced an innovative rice cooker which made perfect rice - according to western standards. When they tried to sell it on the Asian market the product flopped because there were no country managers informing them of the changes that would need to be made in order to satisfy this more demanding market.

The matrix structure first evolved during a project developed by NASA when they needed to pool together different skills from a variety of functional areas. Essentially the matrix structure organises a business into project teams, led by project leaders, to carry out certain objectives. Training is vitally important here in order to avoid conflict between the various members of the teams.

During the 1980s a wave of restructuring went through industry around the globe. This process, known as delayering, saw a change in the traditional hierarchical structures with layers of middle management being removed. This development was driven by new technology and by the need to reduce costs. The overall result was organisations that were less bureaucratic.

The delayering process has run its course now. Among the trends that currently influence how a company organises itself is the move towards centralisation and outsourcing. Restructuring has evolved along with a more “customercentric” approach that can be seen to good effect in the banks. They now categorise their customers and their complex borrowing needs into groups instead of along rigid product lines.

Another development can be seen in larger companies, which are giving their employees more freedom to innovate in order to maintain a competitive edge.

Ms Julia MacLauchlan, Director of Microsoft’s European Product Development Centre in Dublin, said the leading software company had a very flat organisational structure. “There would not be more than around seven levels between the average software tester and Bill Gates,” she said.

Microsoft is a good example of a company that is structured along product lines. In Ireland, where 1.000 employees work on localisation of the software for all Microsoft’s markets,

the company is split up into seven business units. Each unit controls the localisation of their specific products while working closely with the designers in Microsoft's Seattle Headquarters.

It works, said Ms Maclauchlan, because everyone who works in the unit is "incredibly empowered".

"Without a huge bureaucratic infrastructure people can react a lot more quickly to any challenges and work towards the company's objectives."

The Irish Times, March 1999

Answer the questions.

1. What are the four main types of organisational structure described in the article?
2. What are the peculiarities of each organisational structure? What are their advantages and disadvantages?
3. Which organisational structure is more common than the others?
4. What is delayering?
5. When did it take place?
6. What caused delayering?
7. What did it lead to?
8. What trends influence the choice of organisational structure now?
9. How can Microsoft's organisational structure be characterised?

Match the definitions with the four organisational structures.

A	B
1. a cross-functional structure where people are organised into project teams	a. product line
2. a structure organised around different products	b. geographic
3. a structure that enables a company to operate internationally	c. matrix
4. a structure where each person has their place in a fixed hierarchy	d. functional

TAKEOVERS

Andrew Hammond considers the implications of public ownership of a company's shares on takeovers.

Read the article and match the headings below to paragraphs 1-6.

- A. Introduction
- B. Conclusion
- C. Are takeovers bad news for shareholders?
- D. What happens after the initial offer?
- E. Fighting a takeover bid
- F. How to buy a company

1.

Once a company goes public, its shares can be bought, and sold on, by anyone. The company no longer has the protection of private status, where a small group of shareholders can decide who should be allowed to buy shares. Now, the highest bidder can buy the company's shares and can therefore take control of the company — this is known as a takeover if the bidder buys more than 50% of the company's shares. Note that a takeover is not the same as a merger (see Box 1).

2.....

Quite simply, the purchase of more than 50% of the company's shares allows a majority shareholder to control a company, through its voting rights at the company's **AGM**. To buy those shares, a potential takeover bidder must make an offer to existing shareholders. The price it offers to pay for the shares is likely to be well above the current stock market value. It is this price premium that makes the offer potentially attractive to current shareholders — after all, those who 'play' the stock market do so in order to make a profit.

3.....

At this point, it is important to introduce the role played by the board of directors of the target company. It is the board's decision to recommend to shareholders whether or not to accept the offer. At first glance, it seems obvious that directors would recommend their shareholders to reject the offer, in order to try to preserve the independence of the company. If the board issues a statement rejecting the offer, many shareholders may take this advice. The potential buyer may then decide to make a higher offer, or withdraw.

Yet there are times when the offer could be too good to refuse. And it is the directors' responsibility to act in the best interests of their shareholders. When confronted by a

Box 1 Mergers

A *merger* is a notably different transaction from a takeover. A merger occurs when two (or more) firms agree to pool all their resources and join together to form a brand new company. The original companies disappear and their shareholders receive shares in the newly formed company according to conditions drawn up and agreed at general meetings of the merging companies.

Box 2 Glossary

AGM (Annual General Meeting) — a meeting held by public limited companies to which shareholders are invited in order to vote on resolutions and the election or re-election of board directors.

Predator — a company attempting to buy up another firm in a hostile takeover bid.

Synergies emerge when the whole is greater than the sum of the parts, i.e. when $2 + 2 = 5$. The purchase of a rival may provide such economies of scale as to make the combined firm a world-beater.

takeover bid, shareholders must consider why they are holding shares in that firm. If they are holding the shares because the firm has an excellent record of paying good dividends and its prospects for the future are good, they may decide to hang onto their shares. However, the alternative is, to use a poker metaphor, to 'cash in their chips'. The majority of stock market speculators are holding shares in the hope that the share price will rise, allowing them to sell their shares at a price higher than that originally paid. At some point, the share price of a firm will peak, and then start to fall—the key to successful share dealing is to sell at the peak, just before the share price falls.

Many, if not most, of the board of directors will be major shareholders in the firm, possibly through a share options scheme designed to reward them for maximizing the company's share price. The members of this crucial decision-making body, on whose decision the future independence of the company rests, stand to make a fortune by cashing in their own chips. The directors may feel that the firm is running into a sticky patch — that will hit profits and cause the share price to fall—again, all the more reason to cash in the chips right now.

If the directors decide to reject a takeover bid, it is then in the hands of the existing shareholders to decide on the attraction of the price being offered. The takeover bidder may decide to make an increased offer to tempt more shareholders. This is the point where the magic figure of over 50% of shares comes to the fore. Whether or not the directors of the target firm are in favour, a predator that can manage to accumulate more than half the target's shares will have effective control. It may do this by stealthier means than an open bid. This is the territory of 'dawn raids'—when the predator, or its agents, start buying shares in the target company as soon as the market opens in the morning, in the hope that they can catch the market by surprise and accumulate enough shares quickly without anyone quite realising that a takeover is in the offing.

4.....

Boards which are trying to fight a takeover are likely to mount a strong publicity campaign, using a range of media to get their message across to their shareholders that they would be unwise to sell, and should hang onto their shares. There are other, rarer strategies, worth a mention, such as reverse takeovers, where the hunter becomes the hunted, as the target company seeks financial backing to start attempting to buy the company that is actually trying to buy it. An alternative, where backing for such a deal is not available, is to try to find a 'White Knight' — a friendly company that will step in and buy up enough shares in the target to stifle the predator firm's attempts.

The battle is over when the predator has managed to buy more than half the target firm's shares and therefore has control of the firm.

5.....

Far from it — there's nothing like a takeover battle to boost a firm's share price. Once

Box 3 Easy takeovers

On 1 August 2002, EasyJet completed its takeover of Go Fly, the low-cost airline. British Airways (BA) created Go 3 years ago in response to the growth of low-cost carriers such as EasyJet and Ryanair. BA initially invested £25m in Go, but subsequently sold it to 3i for £110m in June 2001. The takeover of all of the issued share capital in effect means that Go has become a subsidiary of EasyJet. Barbara Cassani, chief executive officer of Go, described the takeover as 'a tremendous compliment to all of us at Go on our achievements'. By buying Go, EasyJet was instantly able to claim to be Europe's number one low-cost carrier, ahead of Ryanair. The purchase price of £374m includes £257.4m of goodwill, and was largely funded by a rights issue held earlier in the year. Scale of operation is all-important at the budget end of the airline market. It also served to strengthen EasyJet's position in a rapidly growing market. As both airlines have similar business models (low cost, low frills, value for money) the task of integrating the two should be relatively straightforward. The combined airline will operate from Luton using a shared reservation and management system, under the single brand identity of EasyJet.

rumours of a potential takeover begin to circulate, the target firm's share price will increase. When stock markets are booming, even the predator firm's share price rises, as bullish investors anticipate extra profits from the synergies that should emerge from the takeover.

Once offers are made by the predator — remember these are likely to be significantly higher than the current market value of the target firm's shares — then a real profit can be made by selling shares. The 'chips' are cashed in, profit made, and the risk is over. After selling your shares you are immune from a tumble in their share price — you're out of the game. Meanwhile, don't feel sorry for the directors, who have probably managed to cash in the chips they were holding too. In addition, they may have negotiated either a severance package if their services are no longer required, or a job working for the new owners of the firm who may depend upon the directors' knowledge of the business to run their new acquisition.

6.....

Do takeovers work? The first point to consider is how you measure whether or not they work. Plenty of research has been done to see whether takeovers actually add shareholder value (i.e. do they raise the share price and profits of the predator company?) The evidence is inconclusive, although if anything, it suggests that takeovers tend to cost the shareholder more than they make. However, that is to assume that the success of a takeover can be measured by the share price of the bidder. If the takeover was launched in order to protect the independence of the bidder, by increasing its size and making it harder to take over, then continued independence is success in itself. Box 3 describes one recent takeover — how successful do you think it will be in the long term?

Perhaps a final question should be asked — what effect does the ever-present threat of takeover have on the decision-making of public limited companies?

*Andrew Hammond
Business Review, February 1, 2003*

Answer the questions.

1. What is the difference between a takeover and a merger?
2. What is the first step to buy a company?
3. Who recommends the shareholders whether to accept the bidder's offer?
4. What is the purpose for stock market speculators to hold shares?
5. When is the moment to sell the shares?
6. How can "a predator" accumulate more than 50 % of the company's shares?
7. What are the ways to fight a takeover?
8. What is a reverse takeover?
9. What happens to the directors when the takeover is finished?
10. How is it possible to measure the success of a takeover?

Having read the article, decide whether the following statements are true or false. Correct the false ones.

- ⇒ When the company goes public, its shares cannot be bought or sold on by anyone.
- ⇒ A takeover occurs if the bidder buys more than 50 % of the company's shares.
- ⇒ The price offered by the bidder is usually lower than the current stock market value.
- ⇒ If the Board of Directors suggests rejecting the bidder's offer, shareholders are likely to follow the advice.
- ⇒ When the offer is too good to reject, the directors are worried about their own interests rather than the shareholders' interests.

- ⇒ If the initial offer of the bidder is rejected, they will not try to tempt shareholders once again.
- ⇒ It is almost impossible to decide whether takeovers work.
- ⇒ With rumours of a potential takeover circulating the target shares' price will decrease.

BOND BASICS

The broad and wonderful world of bonds represents a kind of terra incognita¹ for most private investors. In popular lore² bond investing is the preserve of the rich and wealthy investment banker, sitting in their gilt³ edged tower lording it over the rest of the planet.

When bond investors start asking awkward questions of governments and their credit worthiness, the term “bond vigilante”⁴ is usually invoked and it’s instructive that nearly every “bond vigilante” this author has ever interviewed is a professional, institutional fund manager or banker.

By contrast over in the world of shares – otherwise known as equities– it’s automatically assumed that private investors have a big role to play. Yet this perception of equities as being easy for the layman⁵ to understand in contrast to bonds is almost certainly false. In many respects bonds are a simpler idea to grasp than equities or other complex financial instruments and can provide a steady, long term secure income.

In fact building a portfolio⁶ of diversified bonds – be they issued by governments or corporations – as well as equities is an eminently sensible and practical idea for nearly every type of investor. So, what constitutes a bond? In essence a bond is a very simple creation and is nothing more than a loan structured as an IOU⁷ and issued by a borrower.

Imagine if you lent say £10,000 to the government or a company and they make a payment comprised of interest which works out at 5 per cent per annum⁸. That means as the investor who makes the loan you receive a yield (or coupon) that’s equivalent to £500 per annum. The crucial twist is the structure of the loan – that IOU. That IOU is structured as a note or bond, with various terms written on the piece of paper or via⁹ the electronic record i.e. the name of the borrower, the interest rate expressed as a coupon, the face value of the note or bond and, crucially, the duration of the loan (this represents the bonds maturity) – in sum, a bond is just a piece of paper that constitutes an IOU issued to the investor who made the loan to the borrower. Crucially that piece of paper, electronic record or note – the bond itself – can be held until the end of its ‘life’ (called redemption) or traded to another party on a market of some form, at a given price well before the bond is due to redeem¹⁰ or mature.

This simplicity of construction – easily tradable paper with clear features, understood by all as part of a contract between a lender and borrower – has allowed a massive global market to emerge incorporating a diverse range of buyers ranging pension fund managers through to a much smaller number of private investors. This market has also enabled investors to construct diversified portfolios of different types of bonds, issued by different borrowers, over different time frames and with different interest rates or yields.

Before we go any further, it’s worth noting a couple of key features from our simplistic IOU based description. The most immediately obvious one is the price attached to that piece of paper which constitutes the bond. The principal – let us say you lent out £1000 – might be split

¹ a place, subject or situation that you are not familiar with

² traditional knowledge and stories about a subject

³ Gilts are bond issued by the governments of the United Kingdom, South Africa, or Ireland. The term is of British origin, and refers to the debt securities issued by the Bank of England, which had a gilt edge. Hence, they are called gilt-edged securities, or gilts for short

⁴ a bond market investor who protests monetary or fiscal policies they consider inflationary by selling bonds, thus increasing yields

⁵ someone who is part of a religious organization but who is not paid or specially trained

⁶ a collection of company shares and other investments that are owned by a particular person or organization

⁷ I owe you: a written promise to pay back a debt

⁸ used in finance and business when referring to an amount that is produced, sold or spent each year

⁹ through; using

¹⁰ to buy back

up into lots of smaller units each with their own initial, par¹ value i.e. if you lent £1000 and that's been broken down into 1000 £1 notes or bonds, each bond will be issued at par or valued at £1 per bond.

Crucially you should receive back the principal per unit – that par of £1 – when the bond matures at the end of period agreed between the lender and the borrower. There is of course an obvious risk that your borrower defaults, in which case you might get back nothing. This potential for default is crucial – many investors assume that all bonds are somehow risk free, unlike supposedly riskier equities and there are indeed some bonds issued by the likes of the UK and the US that are (almost) risk free. But note the use of that weasel word ‘almost’ because there is a tiny chance that in the future a government such as the UK might have to default on that payment. That risk of potential of default is tiny with the UK or US government but many bonds issued by corporations can and do default – bonds can be a risky investment.

To summarise, in this simple example we've already encountered some key terms

- Bonds are in effect IOUs – loans – structured as a form of note
- The issuers of these bonds can vary enormously. If you buy a corporate bond, you're lending a private business or even a large corporation your money. If you buy a government bond (also known as a gilt), you're lending to the government.
- A bond pays interest periodically (usually either annually or every six months) and repays the principal in the future (the redemption date)
- There's an issue price, called the par (or the “face value”)
- Each bond also has an annual interest rate expressed as a %, and known as the “coupon”
- The bond's issuer will also announce a timeframe or duration for the loan – this will include an end date when they will repay (hopefully) the principal at par value.

One last point – as we've already noted there's always some element of risk. The biggest risk is that our borrower defaults i.e. doesn't pay back the principal. And all things being equal, it's obvious that that risk (chance of default) grows over time i.e. a loan over 5 years is less likely to be less risky than a loan over 50 years, unless of course it's the UK or US government, neither of which have ever defaulted on any payments! This concept of risk increasing over time needs to be reflected somehow in the interest rate charged or income i.e. in the vast majority of cases an issuer will pay a higher interest rate for a long-term bond. An investor therefore will potentially earn greater returns on longer-term bonds, but in exchange for that return, the investor incurs additional risk.

David Stevenson
Financial Times, October 2010

Answer the questions.

1. Why do bonds represent terra incognita for private investors?
2. Who is “bond vigilante”?
3. What is a bond?
4. How does IOU work?
5. What advantages does the simplicity of construction give?
6. Who are the issuers of bonds?
7. How does a bond pay interest?
8. Do bonds represent a risky investment? Why?

¹the monetary value assigned to each share of stock in the charter of a corporation

WHERE IS ADVERTISING GOING? INTO 'STITIALS'

If you're familiar with consumer-brand marketing, you know the term "interstitial." An interstitial ad is one that appears in interstices¹ - that is, between segments of the content that customers want to experience. Like a tollbooth² on a turnpike³, it forces customers to stop and pay (in the form of time and attention) before proceeding on their desired path. Epitomized by the 30-second TV spot, it's a concept that captures what advertising has been designed to do in the past, and why customers today go to such lengths⁴ to block, skip, zap⁵, or fast-forward past it.

Advertising is now universally acknowledged to be broken, but the need for it obviously still exists. Making it effective again will require radically altering our perspective on the interstitial. Instead of choosing from the available slots between segments of media, marketers must turn the age-old formula on its head. It's high time to focus not on "avails"⁶ in media but on those in consumers' daily lives - where, when, and how people might prove receptive to relevant commercial messages. We're not talking anymore about interstitials. We're talking about what I call vivistitials.

Here's a vivistitial example you've probably already experienced: Captivate Network. Now a unit of Gannett, Captivate is a decade-old company that quietly delivers more advertising impressions to an affluent⁷ urban professional demographic than USA Today and CNBC combined. It does this by displaying specialized video programming on screens mounted⁸ in the elevators of upscale office buildings. The inspiration behind it was the recognition that elevator rides are dead air - and sometimes even pain points - in people's lives. Elevators are socially awkward environments that fail to promote human interaction; they induce⁹ otherwise self-assured individuals to look at their feet and fidget¹⁰ with their keys. Captivate's screens give people's eyes a welcome place to rest: on visually rich and relevant information such as headlines and images from the day's news, stock quotes, and weather. And, yes, adjacent¹¹ ad messages. For those who can put their minutes in the elevator to better use, the screens are easily ignored, since they are small and don't emit a sound. But for most riders the screens are highly effective instruments for information delivery. Is it any surprise that recall of Captivate ads is two to four times higher than that of commercial spots on broadcast TV?

What principles about vivistitials can we derive from the Captivate example? First and most fundamentally, they take advantage of moments of the day when a typical customer is in an environment of information scarcity, and they introduce a rich information offering. Second, they fit into that environment without provoking distaste. In the case of Captivate, the screens' size, silence, and slow-moving graphics are attuned to the sepulchral¹² stasis¹³ of elevators. Third, they do not interrupt, block, or otherwise delay consumers from going where or getting what they want. Finally, they represent a polite push; while not asking permission to present

¹ a space, especially a small or narrow one, between things or parts

² a booth or kiosk at which a toll is collected

³ an expressway on which tolls are collected; gates or some other barrier set across a road to prevent passage until a toll had been paid

⁴ to do whatever is necessary

⁵ to use a remote control device to switch (channels on a television) or to turn off (a television set)

⁶ use, benefit, or advantage

⁷ rich; wealthy

⁸ to set in a raised position

⁹ to persuade or use influence on

¹⁰ to make restless or aimless movements with the hands

¹¹ being near or close

¹² gloomy

¹³ the state of being inactive

messages, they are not overly intrusive¹. Now note that the same basic principles are the secret ingredients in Google's cash machine: search-based advertising, which provides relevant advertiser links alongside query results. In another age, they also gave the roadside Burma-Shave signs their charm - and a potency that makes us recall Burma-Shave even today. These principles define what it means to deliver messages to consumers on their terms and in the context of their lives. State their opposites, and you have the essence of what's wrong with so much of advertising today.

In truth, the vivistitials mentioned so far are of only one type - those that show up in an otherwise barren² part of the customer's daily landscape. I term them locostitials because they are defined by geography and time. But people's lives unfold³ on different levels, and there are at least four other possible types to bear in mind. A psychostitial fills the gaps in people's behavioral motivations and thought processes. In that sense, I would argue that the success of Nike's "Just Do It" campaign owed more to its psychostitial usefulness than to its mass-media carpet bombing. A sociostitial, meanwhile, positions messages in the interstices of pre-existing social interactions or relationships. A great deal of Tupperware has been sold through Tupperware parties, but it wouldn't have happened if customers did not find the gatherings socially gratifying. An anthrostitital focuses on the need of an individual or a community (or "tribe") to use brands and ad messages as forms of identity expression. If that need can be met by a symbol of inclusion in a group, then who better to provide it than Ralph Lauren, in the form of an embroidered polo player? Finally, some people actually consume ads as a kind of entertainment (and some ads even deserve that status). If a marketer's message is engaging enough that a TiVo user will choose to watch it over other available options, then it becomes an autostitial. It's self-serve commercial messaging.

The concept and terminology of vivistitials are new, but they reflect an emerging theory of advertising that's working in practice. Already, some of the hottest agencies of the advertising world don't deal in traditional advertising at all; they organize events, orchestrate sponsorships, launch "pop-up" retail stores, insert advertising into video games, produce videos to tap viral or grassroots online distribution, and place spokespersons in everyday life. The vivistitials concept brings coherence to these tactics and gives marketers a framework for finding new ways of presenting their commercial messages effectively.

Advertising has a bright future, but only given a fundamental change in orientation. It's not about media avails anymore but about life avails. So it's true: Advertising is dead. Long live advertising.

Jeffrey F. Rayport

Harvard Business Review, May 01, 2008

Answer the questions.

1. What does the author think of the present state of advertising and attitude to it?
2. What is the future of advertising according to the author?
3. What idea does the author offer to change the way advertising is perceived by consumers?
4. What does "vivistitial" mean?
5. What is an interstitial ad?
6. What makes vivistitials so efficient?
7. What are the types of vivistitials?
8. What are the peculiarities of each type?

¹ interfering, disturbing

² unproductive of results or gains; unprofitable

³ to reveal, to uncover

4 KEYS TO RADIO ADVERTISING

Read the article and match the headings below to paragraphs 1-4.

- A. Entertain the audience
- B. Know what you're buying
- C. Pinpoint your audience
- D. Look for special sponsorships

In a single week, radio reaches more than 228 million Americans. That's 94 percent of everyone age 12 and older, according to Arbitron. So no matter what types of prospects you want to reach, radio advertising will help you do it. Plus, radio is mobile. Eighty percent of adults listen to radio in their cars, and a quarter of the population also listens while at work.

There's a lot that's new in radio. Many stations now stream their programming on the internet and reach additional local and even national audiences. What's more, if online listeners like what they hear in your streaming radio spot, they're just one click away from your website.

Radio provides an ideal advertising medium for small businesses, but running an effective campaign takes a bit of know-how. Just follow these four tips for navigating the radio waves.

1.

Every radio buy must begin with a clear understanding of the listeners you want to reach. Write a one-sentence target audience profile based on the demographics of your prospects. This should include their age, gender, where they live and other factors, such as household income. Then share this information with the sales reps from the stations you're considering. They'll tell you what percentage of their stations' listeners match these demographics and at what times of the day or during which programming you'll reach your best prospects.

There also may be qualitative characteristics of your ideal prospects you should consider when making your radio buy. A restaurant owner, for example, would look for a radio station whose listeners dine out frequently. The radio station sales reps have access to both qualitative and quantitative information concerning their listeners and should be able to give you customized proposals that include schedules with ratings breakdowns. They should also provide signal coverage maps that show precisely where their stations are heard.

2.

The three most important elements when evaluating proposals are reach, frequency and cost-per-point. Reach is the number of your prospects that'll hear your marketing message. Frequency isn't the number of spots you run, but the average number of times your prospects will actually hear your message. Cost-per-point is the basis for evaluating cost effectiveness. CPP is what it'll cost to reach 1 percent of your target audience population, so it's the best way to compare the value of competing stations. Buy enough frequency to ensure your message is heard at least several times.

3.

Radio stations are promotional engines, and there are at least two ways you can get on board. First, most stations offer the opportunity to sponsor news, weather reports or other types of regular programming. As a sponsor, you'll typically get additional mentions, such as with "billboards," which are announcements of your sponsorship that lead into special programming. Often, sponsorship will guarantee your spots air first in the commercial breaks, or pods, so you'll reach more listeners before they have a chance to switch stations or tune out during long breaks.

Radio stations also get involved in the community with special events. Look for sponsorship opportunities that include on-air mentions, as well as visibility at the events

themselves. And be sure to seek out events that are well attended by your target audience and put your company in the spotlight.

4.

Once you've evaluated the proposals from the radio stations and negotiated and finalized your buys, you'll need effective spots. Since radio spot production is rarely a do-it-yourself job, you'll most likely work with a local production company, agency or station. But you should understand a few basics to be an effective part of the team and keep them on track.

Great radio spots grab and hold attention, usually through humor. They may also use sounds, compelling music or unusual voices to grab attention. Your spots must tell stories or present situations your target audience can relate to. To keep your audience listening to your spots month after month, make them part of an ongoing campaign theme. Your audience will listen for the newest versions, helping extend your message more successfully than if you were to run unrelated spots. For maximum results, make your call to action--a URL or phone number--easy to remember and tie it in with your company name or message.

*Kim T. Gordon
Entrepreneur, April 13, 2007*

Answerthequestions.

1. What are the advantages of radio advertising?
2. Why is qualitative and quantitative information about listeners so important?
3. What are the three most important elements when evaluating proposals?
4. What opportunities do radio stations offer to sponsors?
5. How do great radio spots grab and hold attention?

CULTURE SHOCK

The term, culture shock, was introduced for the first time in 1958 to describe the anxiety produced when a person moves to a completely new environment. This term expresses the lack of direction, the feeling of not knowing what to do or how to do things in a new environment, and not knowing what is appropriate or inappropriate. The feeling of culture shock generally sets in after the first few weeks of coming to a new place.

We can describe culture shock as the physical and emotional discomfort one suffers when coming to live in another country or a place different from the place of origin. Often, the way that we lived before is not accepted as or considered as normal in the new place. Everything is different, for example, not speaking the language, not knowing how to use banking machines, not knowing how to use the telephone and so forth.

The symptoms of cultural shock can appear at different times. Although, one can experience real pain from culture shock; it is also an opportunity for redefining one's life objectives. It is a great opportunity for leaning and acquiring new perspectives. Culture shock can make one develop a better understanding of oneself and stimulate personal creativity.

Symptoms:

- Sadness, loneliness, melancholy
- Preoccupation with health
- Aches, pains, and allergies
- Insomnia, desire to sleep too much or too little
- Changes in temperament, depression, feeling vulnerable, feeling powerless
- Anger, irritability, resentment, unwillingness to interact with others
- Identifying with the old culture or idealizing the old country
- Loss of identity
- Trying too hard to absorb everything in the new culture or country
- Unable to solve simple problems
- Lack of confidence
- Feelings of inadequacy or insecurity
- Developing stereotypes about the new culture
- Developing obsessions such as over-cleanliness
- Longing for family
- Feelings of being lost, overlooked, exploited or abused

Stages of Culture Shock

Culture shock has many stages. Each stage can be ongoing or appear only at certain times. The first stage is the incubation stage. In this first stage, the new arrival may feel euphoric and be pleased by all of the new things encountered. This time is called the "honeymoon" stage, as everything encountered is new and exciting.

Afterwards, the second stage presents itself. A person may encounter some difficult times and crises in daily life. For example, communication difficulties may occur such as not being understood. In this stage, there may be feelings of discontent, impatience, anger, sadness, and feeling incompetence. This happens when a person is trying to adapt to a new culture that is very different from the culture of origin. Transition between the old methods and those of the new country is a difficult process and takes time to complete. During the transition, there can be strong feelings of dissatisfaction.

The third stage is characterized by gaining some understanding of the new culture. A new feeling of pleasure and sense of humor may be experienced. One may start to feel a certain psychological balance. The new arrival may not feel as lost and starts to have a feeling of direction. The individual is more familiar with the environment and wants to belong. This initiates an evaluation of the old ways versus those of the new.

In the fourth stage, the person realizes that the new culture has good and bad things to offer. This stage can be one of double integration or triple integration depending on the number of cultures that the person has to process. This integration is accompanied by a more solid feeling of belonging. The person starts to define him/herself and establish goals for living.

The fifth stage is the stage that is called the "re-entry shock." This occurs when a return to the country of origin is made. One may find that things are no longer the same. For example, some of the newly acquired customs are not in use in the old culture.

These stages are present at different times and each person has their own way of reacting in the stages of culture shock. As a consequence, some stages will be longer and more difficult than others. Many factors contribute to the duration and effects of culture shock. For example, the individual's state of mental health, type of personality, previous experiences, socio-economic conditions, familiarity with the language, family and/or social support systems, and level of education.

How to Fight Culture Shock

The majority of individuals and families that immigrate from other countries have the ability to positively confront the obstacles of a new environment. Some ways to combat stress produced by culture shock are:

- Develop a hobby.
- Don't forget the good things you already have!
- Remember, there are always resources that you can use.
- Be patient, the act of immigrating is a process of adaptation to new situations. It is going to take time.
- Learn to be constructive.
- If you encounter an unfavorable environment, don't put yourself in that position again. Be easy on yourself.
- Don't try too hard.
- Learn to include a regular form of physical activity in your routine. This will help combat the sadness and loneliness in a constructive manner. Exercise, swim, take an aerobics class, etc. Relaxation and meditation are proven to be very positive for people who are passing through periods of stress.
- Maintain contact with your ethnic group. This will give you a feeling of belonging and you will reduce your feelings of loneliness and alienation.
- Maintain contact with the new culture.
- Learn the language. Volunteer in community activities that allow you to practice the language that you are learning. This will help you feel less stress about language and useful at the same time.
- Allow yourself to feel sad about the things that you have left behind: your family, your friends, etc. Recognize the sorrow of leaving your old country.
- Accept the new country.
- Focus your power on getting through the transition.
- Pay attention to relationships with your family and at work. They will serve as support for you in difficult times.
- Establish simple goals and evaluate your progress.

- Find ways to live with the things that don't satisfy you 100%.
- Maintain confidence in yourself.
- Follow your ambitions and continue your plans for the future.
- If you feel stressed, look for help. There is always someone or some service available to help you.

Carmen Guanipa
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Answer the questions.

1. What does culture shock mean?
2. Have you ever experienced this feeling?
3. What are the symptoms?
4. What are the stages of culture shock?
5. Is it possible to fight culture shock? How?

Are these statements true or false?

1. Culture shock is a common way to describe the confusing and nervous feelings a person may have after leaving a familiar culture to live in a new and different culture.
2. Culture shock doesn't encourage personal creativity.
3. There are various symptoms of culture shock.
4. In the first stage people often feel sad.
5. Communication difficulties don't cause any anxiety.
6. When you understand the new culture, you can feel a certain psychological balance.
7. The person sees only bad things in the new culture.
8. The person is absolutely happy when he returns home.
9. Many immigrants manage to confront the obstacles of a new environment.

UNITED WORKERS OF THE WORLD

WASHINGTON, DC

Unbalanced skill levels could make the world more unequal

The working world was much cosier in 1980. Just 17 billion people were picking up a pay packet a generation ago, nearly half on farms. Globalisation has since upended labour markets. In 2010 the world counted 2.9 billion workers, with the emerging world responsible for most of the increase: it added 900m new non-farm workers, of which 400m live in China and India alone. The meaning of these striking numbers is the subject of a new study by the McKinsey Global Institute, the consultancy's research arm.

The integration of China's and India's masses into the world's labour market lifted legions out of poverty. The transition from soil-scratching powered rapid growth. China's non-farm workers are seven times more productive than peasants. India's performance lagged behind China's because it struggled to move workers away from agriculture. Non-farm employment merely kept pace with the overall growth of India's labour force.

In rich countries, competition from millions of new low-skilled workers has acted as a drag on wages for less-skilled ones in advanced economies. At the same time, rich-world firms have invested heavily in new technology, raising demand for skilled workers faster than schools could increase supply. In combination, these two trends raised inequality in developed countries and strengthened the hand of capital relative to labour. Workers' share of overall income fell 7 percentage points between 1980 and 2010.

These dynamics will continue, but also change, reckon the authors of the study. Despite great efforts to improve schools and universities, workers in the emerging world are less educated than those elsewhere. Some 35% in China and a stunning 70% in India have no more than a primary education. Yet this will change: China and India, McKinsey predicts, will be the world's main source for skilled workers over the next two decades. The two countries alone will add 184m college graduates to the global labour market. As a result, the centre of gravity of human capital and innovation is likely to shift towards Asia.

The main story in advanced economies will be the rapidly ageing workforce. Retirements will take 12m college-educated workers out of the labour force by 2030. In many countries the labour force will even shrink. Rapid productivity improvements will be necessary to maintain income growth, particularly in the parts of southern Europe that produce and procreate the least. At current labour-force participation rates, Spain, Italy, Greece and Portugal will need productivity growth of 1.4% a year - more than twice what they managed between 1990 and 2012 - simply to keep up recent growth rates in output per head.

Taken together, these developments will lead to big skills imbalances. McKinsey estimates that over the next decade rich countries and China will need 40m more college-educated workers than they will be able to produce. At the same time, employers across the world may find themselves with 90m more low-skilled workers than they need. This glut will drag down wages, worsening inequality.

Governments can mitigate the worst effects, McKinsey argues. Innovation in higher education, such as online teaching, would help raise the supply of skilled workers. Labour-market reforms would increase demand for less-skilled workers, particularly in service industries such as health care. Tax incentives would encourage households to "outsource" household chores to paid workers. Yet in a global labour-market that will be 3.5 billion strong in 2030, competition is bound to be intense and often uncomfortable, for workers and governments alike.

The Economist June 16th 2012

Answer the questions

1. Why was the working world much cosier before?
2. What trends raised inequality in developed countries and strengthened the hand of capital relative to labour?
3. What is Mckinsey`s prediction about China and India?
4. What is the trend in advanced economics?
5. What kind of skills imbalances may happen?
6. How can governments mitigate the worst effects?

HOW TO KEEP YOUR STAR PERFORMERS IN TRYING TIMES

When the economy is slow and unemployment rates are high, it's easy to think your employees will happily stay put in their current jobs. But that's a dangerous assumption. Research shows that voluntary turnover rates increase as consumer confidence builds. This means, as a manager, you need to figure out ways to retain your top performers, even if your company is still in a slump.

There is no doubt that as a manager the pressure is on. As Jay Conger, the Henry Kravis Research Professor of Leadership Studies at Claremont McKenna College and author of *The Practice of Leadership: Developing the Next Generation of Leaders*, points out, "The largest predictor of whether someone will stay with a company is their satisfaction with their immediate boss." Your employees are likely looking to you for inspiration and guidance during these tough times, and you may have little, or nothing, to offer them in terms of advancement or compensation. Many companies have reduced or stopped giving bonuses or merit increases until the economy shows greater signs of recovery. Fortunately, as a manager, you have many other levers¹ available to you that can motivate your stars and keep them happy. Relying on those other levers may cost you and your company nothing, but often they have huge value to your stars.

What the Experts Say

As a manager, your role is to figure out which of those benefits matter most to your people. As Conger points out, "A lot of managers don't realize what they have at hand." Making use of low-cost levers is a great way to show your stars that you appreciate them, value their work, and are invested in their careers. Boris Groysberg, an Associate Professor in the Organizational Behavior unit at the Harvard Business School and co-author of "Employee Motivation: A Powerful New Model" suggests you "find the levers where the value to the individual is greater than the cost to the company." Here are some of the tools you might rely on when budgets are tight.

1. Praise for good work. This is one of the most inexpensive, and unfortunately, underused levers available to managers. Conger says, "There is a praise deficit in almost all companies." Yet praise can go a long way in demonstrating to your top performers how much you value them. Be sure to express gratitude for work that is above and beyond normal standards. Be specific and be sure that your praise is tied to a legitimate accomplishment².

2. Challenging projects and assignments. To keep your top performer engaged, provide her with the opportunity to work on a new project or assignment that builds her skills and gives her a chance to shine. This might be a team project that brings your star together with other stars from different departments or functions; or this might be a solo project that demonstrates your confidence in her ability.

When thinking of projects that you might assign, ask yourself which of your projects are most interesting and engaging to you and think about how you might delegate some of them. Select a tangible³ project that you know your star can succeed with. Particularly good projects are those that involve interaction with important clients or exposure to the senior people in the organization, such as C-level executives or board members. Consider a project that relates to the current company situation. For example, you could ask your star to identify new revenue sources or explore how your company can compete in a less expensive product market.

¹ a means of accomplishing; a tool

² something completed successfully; an achievement

³ real or definite

Be careful when assigning these projects. No one wants to hear that in lieu of¹ a bonus they are receiving more work. Ensure she understands that the assignment is a vote of confidence and an opportunity for her to build additional skills, not a way to overburden her.

3. Development opportunities. Many managers neglect to use this lever because learning and development budgets are being cut. However, there are many inexpensive or free ways to develop skills. The challenging assignment discussed above is one of them; you can even choose an assignment with a particular development opportunity in mind. You can also find your star a mentor² that is more senior in the organization and perhaps shares her career interests or a similar background. If your company retains coaches for senior executives, consider offering your star a few coaching sessions.

You can also contribute to the development of others by asking your star to teach a skill that she is particularly good at. If she is known for closing tough deals with top clients, ask her to design and lead a negotiation session for other sales people. This will allow her to serve as a role model while deepening her expertise in the area.

4. Non-monetary perks. There are also a whole host of perks that cost little or nothing for you to provide, such as flexibility, better work/life balance, or more autonomy. "Companies tend to become more controlling in tough times," says Conger, and "it's important to counter³ that tendency." Ask your stars what matters most to them. If your star has a young family, find ways to let her work from home. If she wants to take a class at a local college, give her time off to do so. More often than not Groysberg says providing "these perks leads to the right set of behaviors."

Manage Anxieties and Frustration

When bonuses are cut or salaries frozen, it is inevitable that some top performers will become frustrated and anxious over their future with your organization. Your role as a manager is to respond to these frustrations. When faced with a discouraged star, Conger suggests using yourself as a model. "Ask yourself why you're staying with the company," he says and share your reasons with your star. If possible, create more of those types of opportunities for your star.

Over-Communicate

Open communication with your stars is critical. In fact, in tough times, managers should over-communicate to help alleviate⁴ fear and anxiety. Be transparent about the company situation and outlook for the future. Groysberg says, "The more you share information, the more buy-in you have." But be careful not to make promises you can't keep. As Conger says, "People have very durable memories." Be specific and explicit about why the star is needed at the organization. "Describe the pathway to the future in a realistic way and be candid⁵ about the challenges ahead," says Conger.

Culture Matters More than Ever

A strong culture is instrumental in retaining stars. Groysberg says that companies should focus on "building a strong culture versus a free agent nation" so that top performers are compelled to stay especially when the company is struggling. SAS Institute, a privately-held

¹ in place of; instead of

² wise or trusted adviser or guide

³ to move or act in opposition to; oppose

⁴ to make (pain, sorrow, etc.) easier to bear; lessen; relieve

⁵ characterized by directness in manner or speech

software company headquartered in Cary, North Carolina, has long had a commitment to retention and employee motivation. As Jenn Mann, Vice President of Human Resources at SAS Institute says, "It's core to who we are in good times and bad times." The company provides benefits and programs that reduce stress and engage employees to focus on work. These include everything from an onsite medical facility with little to no wait times, to a 58,000 square-foot fitness center, to ensuring that work content is interesting and challenging. SAS Institute's senior executives set the example in this culture, and they communicate openly with all employees. This helps "eliminate the fear factor," according to Mann. Earlier this year, the CEO explained that this would undoubtedly be a year of uncharted territory — 40% of company revenues was from the financial services industry — but that the company was committed to not doing layoffs. A commitment they have been able to see through. Mann credits¹ this culture of retention and communication with the company's very low voluntary turnover rate — it has remained at under 5% even when SAS wasn't able to provide merit increases this year.

As a manager, you can't control a company culture, especially at a large company. However, your actions and interactions with your top performers contribute to that culture. Make suggestions to upper management about new policies that will contribute to retention and will make your job of keeping stars easier.

Principles to Remember

Do:

Find out what benefits matter most to your employees.

Communicate more than you think you need to.

Be realistic about people's anxieties and frustrations.

Don't:

Forget that satisfaction with an immediate boss factors² heavily into people's decisions to stay with a company.

Assume that a bad economy guarantees that your star employees won't leave.

Think that money is your only tool to motivate your employees.

Case Study #1: Using Flexibility to Retain Your Stars

Kyle Ewalt, the New York Office Manager at the management consulting firm, Katzenbach Partners, was a star employee. According to Shanti Nayak, Katzenbach's Director of People, Kyle outperformed anyone who had filled his role previously. He was hard-working, detail-oriented and had a unique ability to creatively solve problems. When Katzenbach was acquired by Booz & Company in the spring of 2009, it was clear most of the redundancies would come from the functional side. Kyle's job was in jeopardy³, especially because there was not a similar role at Booz & Company that he could easily transition to. Yet, the leadership team at Katzenbach, including Shanti, CFO Amrita Bhandari and Managing Partner Niko Canner, knew they didn't want to lose Kyle. They sat Kyle down and asked, "What matters most to you right now?" He said that he loved his job but that at this point in his life, he wanted more flexibility to work on his music career. With this information in hand, Amrita worked with the New York office manager at Booz & Company to look critically at the role Kyle was playing and what was needed in the New York office. They were able to shape a flexible role that could be filled in three days a week and involved event planning, culture building, community advocacy, and

¹ to believe in; trust

² consider as relevant when making a decision

³ danger of injury, loss, death, etc.; risk; peril; hazard

onboarding¹. This was a winning situation for everyone involved: Kyle was happy with his new role and his increased flexibility while Booz & Company was able to retain a star performer and realize the cost savings from Kyle going part-time.

Case Study #2: Employing Your Stars to Teach Others

Geoff Bartakovics, the Founding CEO of Tasting Table — a free daily email that offers the inside scoop² on restaurants, bars, and all things food — knows well the challenge of rewarding stars without traditional financial incentives. As a start-up (Geoff started the company in October of 2008), the company doesn't have the same financial rewards as larger companies and Geoff has had to rely on other types of rewards to attract and retain talent. One of the key rewards is the opportunity to do exciting work and be part of a fast-growing company. "It's easy for everyone here to see how their daily efforts are contributing to creating a successful organization," Geoff said. The company doesn't have an HR department (that would be Geoff) or a formal review process. Instead, Geoff does rolling reviews based on the hire date of his 12 employees. He ends each review by asking two questions:

What are you going to do to get Tasting Table to the next level?

How can Tasting Table contribute to your skill set and career plans?

For Geoff, the best moments are when the answers to those questions overlap³. Heather, Tasting Table's Chicago editor, joined the start-up from an industry publication. Soon after she joined, the company was on a team call. Geoff was discussing their need to better understand search engine optimization (SEO), something that will be extremely useful to the company, particularly as it scales. Heather mentioned that she had expertise in the area. Geoff asked Heather to take ownership over the company's approach to SEO. He asked her to hone⁴ her skills and knowledge so that she will be in a position to train others within Tasting Table. In 2010, the company is expanding their free daily email to 5 more cities. Heather will be responsible for onboarding the 5 new editors and providing them with SEO training.

by Amy Gallo

12:35 PM Wednesday December 9, 2009

<http://blogs.hbr.org/hmu/2009/12/retaining-star-performers-in-t.html>

Answer the questions.

1. Why is it dangerous to think that employees will be eager to stay with the company in times of recession?
2. What are the levers that cost nothing to the company and have value to the employees?
3. What is offered to manage anxieties and frustration?
4. Why is it crucial to communicate with employees a lot?
5. Why is a strong culture instrumental in retaining high-calibre staff?
6. What kind of flexibility helped to keep the valuable employee in Case Study #1?
7. How did employing stars to teach others help to keep the valuable employee in Case Study #2?

¹ a business management term used for the process of helping new employees become productive members of an organization

² a news story, particularly connotating a new or developing story with aspects of importance and excitement, normally an exclusive for the journalist involved

³ to coincide partly in time, subject, etc

⁴ to sharpen or polish with or as if with a hone

THE MOMMY TRACK

IN “BORGEN”, a Danish television drama, the country’s first female prime minister returns home late each night to domestic bliss¹. Her stay-at-home husband stacks² the dishes and massages her back. The children cheer her televised speeches. But before long her son is seeing a shrink³, the neglected hubby⁴ is having an affair and our heroine is throwing furniture around her office.

Rarely has there been so much angst⁵ about women reaching the top. In the Atlantic magazine last month, Anne-Marie Slaughter, the first female director of policy planning at America’s State Department, declared that women cannot successfully combine a super-demanding job with bringing up young children. (She quit Washington, DC, to return to academia.) This month a British member of Parliament, Louise Mensch, resigned, saying it was too hard to juggle⁶ job and family. Yet the news is not all grim⁷. In July Yahoo!, a struggling internet firm, picked a 37-year-old from Google, Marissa Mayer, who is expecting a baby in October, as its new boss.

America’s biggest companies hire women to fill just over half of entry-level professional jobs. But those women fail to advance proportionally: they occupy only 28% of senior managerial posts, 14% of seats on executive committees and just 3% of chief-executive roles, according to McKinsey & Company, a consultancy. The figures are worse still at big European firms, which is perhaps why the governments of Belgium, France, Italy and Norway have set quotas for women on boards. The European Commission is threatening to impose such rules across the EU. It would be better if women could rise naturally to senior executive roles rather than being forced on to boards. But how can this be done when everything tried so far seems to have failed?

Several factors hold women back at work. Too few study science, engineering, computing or maths. Too few push hard for promotion. Some old-fashioned sexism persists⁸, even in hip, liberal industries. But the biggest obstacle (at least in most rich countries) is children. However organised you are, it is hard to combine family responsibilities with the ultra-long working hours and the “anytime, anywhere” culture of senior corporate jobs. A McKinsey study in 2010 found that both women and men agreed: it is tough for women to climb the corporate ladder with teeth clamped around their ankles. Another McKinsey study in 2007 revealed that 54% of the senior women executives surveyed were childless compared with 29% of the men (and a third were single, nearly double the proportion of partnerless men).

Many talented, highly educated women respond by moving into less demanding fields where the hours are more flexible, such as human resources or public relations. Some go part-time or drop out⁹ of the workforce entirely. Relatively few stay in the most hard-driving jobs, such as strategy, finance, sales and operations, that provide the best path to the top.

Consider this example. Schumpeter sat down with a mergers-and-acquisitions lawyer who says that, before starting a family, she was prepared to “give blood” to meet deadlines. After the

¹ perfect happiness

² to arrange things in an ordered pile

³ a psychiatrist or psychoanalyst

⁴ informal for husband

⁵ strong worry and unhappiness, especially about personal problems

⁶ to succeed in arranging your life so that you have time to involve yourself in two or more different activities or groups of people

⁷ worrying, without hope

⁸ to try to do or continue doing something in a determined but often unreasonable way

⁹ to not do something that you were going to do, or to stop doing something before you have completely finished

anklebiters¹ appeared, she took a job in corporate strategy at an engineering firm in Paris. She found it infuriating². Her male colleagues wasted time during the day—taking long lunches, gossiping over café au lait—but stayed late every evening. She packed her work into fewer hours, but because she did not put in enough “face time” the firm felt she lacked commitment. She soon quit. Companies that furrow their brows wondering how to stop talented women leaving should pay heed³.

Could corporate culture change? In their book “Future Work”, Alison Maitland and Peter Thomson describe how some firms give staff more flexibility. Not just women, but men and generation Y recruits, say the authors, are pushing for⁴ a saner⁵ working culture. Unilever, a consumer-goods firm, wants 55% of its senior managers to be women by 2015. To that end, it allows employees to work anywhere and for as few hours as they like, so long as they get the job done. Despite being one of the world’s most global firms, it discourages travel. McKinsey lets both female and male consultants work for as little as three days a week for proportionally less pay—and still have a shot⁶ at making partner. Sheryl Sandberg, Facebook’s high-profile chief operating officer, says that she has left the office at 5.30pm ever since she started a family in 2005.

Such examples are rare. For most big jobs, there is no avoiding mad hours and lots of travel. Customers do not care about your daughter’s flute recital. Putting women in the C-suite is important for firms, but not as important as making profits; for without profits a company will die. So bosses should try hard to accommodate their employees’ family responsibilities, but only in ways that do not harm the bottom line. Laurence Monnery of EgonZehnder International, an executive-search firm, reckons⁷ that companies should stop penalising people who at some point in their careers have gone part-time.

All the flexitime in the world is unlikely to yield⁸ equal numbers of men and women in the most demanding jobs. Ms Mayer of Yahoo! is an inspiration to many, but a hard act to follow. She boasts of putting in 90-hour weeks at Google. She believes that “burn-out” is for wimps⁹. She says that she will take two weeks’ maternity leave¹⁰ and work throughout it. If she can turn around the internet’s biggest basket case while dandling¹¹ a newborn on her knee it will be the greatest triumph for working women since winning the right to wear trousers to the office (which did not happen until 1994 in California). To adapt Malia Obama’s warning to her father on his inauguration, the first pregnant boss of a big, well-known American company had better be good.

The Economist, August 25th 2012

Answer the questions.

1. What is married women’s usual decision about making a career?
2. Are there exceptions?

¹ a child

² extremely annoying

³ to pay attention to something, especially advice or a warning

⁴ to demand something repeatedly, or to take strong action to try to make it happen

⁵ having a healthy mind and not mentally ill, or showing good judgment and understanding

⁶ an attempt to do or achieve something that you have not done before

⁷ to think or believe

⁸ to supply or produce something positive such as a profit, an amount of food or information

⁹ a person who is not strong, brave or confident

¹⁰ a period in which a woman is legally allowed to be absent from work in the weeks before and after she gives birth

¹¹ to hold a baby or child on your knee and move it up and down in a playful way

3. What do statistics say about women at the top of companies?
4. Why do European governments set quotas for women on board?
5. What is the threat of the European Commission?
6. What reasons make women stay at home?
7. What did McKinsey studies in 2010 and 2007 reveal?
8. What working places do married women prefer?
9. Why did a mergers-and-acquisitions lawyer quit the company?
10. What are the ways to change corporate culture?
11. Why are such examples as Unilever and McKinsey rare?
12. What is the author's attitude to the discussed issue?

Complete the summary.

According to the statistics the number of women at the top of companies is not big. There are some sound reasons for such a situation. They are

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INTERNATIONAL FREE TRADE

Is free trade a good thing? After years of debate, most economists recognize the potential gains from trade. But dispute continues. Peter Allen examines some of the issues.

Most economists agree that international free trade — the importing and exporting of goods (and sometimes services) without any obstacles — will as a rule benefit those who take part in it. In this article, we will begin by explaining why free trade can be so beneficial, and then discuss some of the obstacles that are erected¹ (generally by governments) in order to prevent or limit free trade. Finally, we will look at some of the international disputes about trade which have recently occurred.

1. _____

What are the arguments in favour of free trade? Just consider breakfast. Orange juice: from Israel, perhaps? Tea: from Sri Lanka? Coffee: from Brazil? Sugar: from the West Indies? Even if you had no breakfast today, you recognise the great benefits which consumers get from imported goods. Only at very high cost, if at all, could Britain grow its own oranges, tea and coffee. Free trade enables countries to obtain desirable goods and services from abroad, and it provides income for those who produce them.

This trade is a form of specialisation. Sri Lanka specialises in tea because it has an appropriate climate and soil, and skilled growers and pickers. The principle is just the same as individual specialisation: Jill specialises in maths teaching because she is good at maths and at dealing with people, Jack specialises in dentistry because he understands the biology and is deft² with his hands. Of course, it is important for both that there is demand for what they are offering.

Economic theory distinguishes between absolute advantage and comparative advantage. Let's consider absolute advantage first. To simplify the argument, it is assumed that two countries, A and B, trade in only two products — say, cloth and furniture — and that the productivity of the workers is different in each country. Whenever country A's workers are more 'productive than B's — in cloth, in furniture, or in both — then A has absolute advantage.

Comparative advantage is a bit harder to understand, but more important for trade. Let's say that A's workers are better than B's in both goods. Even in this scenario, trade will still be advantageous for both countries if A's workers specialise in the good (let's say cloth) where they are much more productive than B's, while B's workers specialise in furniture where they are only slightly less productive than A's. Then if A exports some cloth to B in return for furniture, both countries can benefit. We therefore say that country A has comparative advantage in cloth production, but also — less obviously — that country B has comparative advantage in furniture. Most textbooks include helpful mathematical examples showing the argument in more detail.

2. _____

To sum up so far. Trade is all about international specialisation, about countries exporting goods in which they hold comparative advantage. These goods are imported by other countries where they would cost more to produce. Both countries benefit. But in addition to this main argument, there are at least two further points made by the supporters of free trade.

The first of these is that specialisation on one type of export is likely to improve its quality and perhaps reduce production costs. For example, consider Belgian chocolates, which

¹ to set up; establish

² skilful

are exported worldwide. Their high quality is due to the expert skills that their producers have developed — a process known as learning-by-doing. Their average costs have also been lowered: by the use of specialised labour and capital; through specialised knowledge and research and development; and also perhaps through economies of scale. Sales to a big international market may enable average fixed costs of production to be lower.

The other, perhaps more important free trade argument, is particularly relevant for countries which have previously shut out foreign imports. Not only have their consumers been deprived of choice, but their producers, owing to the lack of international competition, may lack productive efficiency and may have exploited monopoly positions in their home market. This has been true of various less developed economies in the recent past, as many have now come to realise. Opening up to foreign trade can force domestic firms to improve efficiency if they are to survive), as well as enabling them to learn from foreign techniques.

3. _____

These arguments appear to show that free trade can benefit all countries, bringing cheaper goods and more choice for importing consumers, and more income for exporters. Yet for centuries, and still today, obstacles to free trade have been erected by governments. These are usually designed to restrict imports rather than to restrict their own exporters.

A tariff, or customs duty, is one such obstacle. Historically, these provided revenue to governments when taxes were not easily collected from other sources. Modern tariffs are usually imposed for a different reason: to shut out (or add to the price of) certain imports in order to protect home producers from foreign competition. An obvious example is the protectionist policy used by the European Union, including the UK of course, for many agricultural products.

A quota is another traditional obstacle. This is a fixed limit on the quantities accepted from exporters: so many cars per year, so many thousands of metres of a certain type of cloth, etc. Governments have sometimes used the misleading expression 'voluntary quotas' to describe the situation where an exporting country is persuaded to agree to a quota in the face of threats of tariffs or other measures if it does not.

Besides tariffs and quotas, textbooks list various other obstacles — including outright¹ bans, administrative obstacles, and preventing citizens from obtaining foreign currency — which ingenious governments have used in order to block foreign imports.

4. _____

Do any of these obstacles make economic sense?

The right way to approach this question is first to remind ourselves of all the very strong arguments in favour of free trade, outlined above. Any government should surely be very hesitant about depriving its citizens of such benefits. The protectionist requests which it will inevitably receive are likely to come from domestic producers facing a comparative disadvantage when competing with more efficient foreigners. Granting such requests will penalise consumers.

Besides this, consider the impact of protectionism on our trading partners. If we block their imports, we are being a bad neighbour. Moreover, by reducing their income, we are making it more difficult for them to buy our exports, as well as perhaps risking deliberate retaliation² on their part. The recent history of trade in farm goods between Britain and France provides examples of this.

¹ complete; total

² action taken in return for an injury or offense

Such arguments are convincingly put forward by those who condemn¹ protectionism and favour free trade. To its supporters, free trade is the central point of 'globalisation' policies which are increasingly opening up all markets to international trade and investment.

5. _____

So what sound arguments, if any, exist in favour of the tariffs, quotas, and other obstacles?

There are certainly some reasonable non-economic arguments. These may be political, such as prohibiting imports from a country with which we have a disagreement. They may reflect health and safety issues, relating to drugs or explosives. As economists, we can hardly comment on either of these. They involve value judgements, which fall outside our positive economic analysis.

There are also some economic arguments that have nothing to do with protectionism. One is the argument that tariffs raise useful government revenue (and may indeed, as in Figure 1, force the exporter to accept a lower price for his goods). This is a correct argument, though probably not strong enough to outweigh the disadvantages of a tariff. Another argument is that a country may have a serious balance of payments problem if its imports greatly exceed its exports. Again, this may occasionally be valid, but most economists would recommend different ways of dealing with the problem.

But what about the protectionist arguments? Protectionists say that their industries, threatened by more efficient foreign producers, need to be protected. They emphasise the jobs that will be lost (especially when there is likely to be some local 'multiplier effect' and the social impact of closures on a region or perhaps even on a way of life, as with hill farming or traditional craft industries.

Again, there are some non-economic arguments here that we, as economists, cannot pass judgement on. But the economic arguments can be discussed and judged. Do the economic gains from supporting uncompetitive industries really equal the costs that import restrictions cause? The answer may depend on the mobility and adaptability of the workforce in the uncompetitive industry. If, perhaps with training schemes or with assistance in moving house, workers can quite easily transfer to other jobs where they are more productive, the protectionist argument is not very strong.

Notice that protection may be sought not only for old industries in decline, but also for new 'infant' industries. These may be important for a country trying to diversify, or trying to avoid dependence on exports of primary commodities. Infant industries, it may be argued, will at first be unable to compete with established multinational giants, so that protection may be wise until they have developed sufficiently to manage without it. This is not an easy argument to judge: there are so many examples where inefficient protected industries have failed to ever 'grow up' in this way. On the other hand, there are other examples, including both nineteenth-century USA and some late twentieth-century far eastern Tiger economies (such as South Korea and Taiwan), where the protected industry finally matured successfully.

6. _____

There are, then, reasonable arguments — economic and non-economic — which can be advanced against free trade. Nevertheless the dominant economic view, in the richest countries at least, is that free trade is generally beneficial, and that the spread of globalisation is to be welcomed. The two population giants, China and India, also seem to be gradually moving towards this view.

¹ to express strong disapproval of

The international body established to promote free trade is the World Trade Organisation (WTO). It provides a forum for discussing trade issues, establishes agreed rules, and even assesses whether these rules have been broken. The WTO was set up at the time of the last great 'round' of international trade negotiations, the Uruguay Round of 1986-93. It now has over 130 members, with membership conditional on countries following trade policies of a broadly free-trading nature.

The WTO is staffed by an international team of trade specialists. It can influence international trade discussions, almost always in a free-trade direction, although on controversial issues member governments are likely to dig in their heels¹ before making any compromises or deals. In the umpiring² role, the WTO Dispute Settlement Body can intervene when one country accuses another of breaking agreed WTO rules. It normally does this by initiating some sort of protectionist measure. Such adjudications have generally been accepted (if somewhat slowly and reluctantly) by the offender. Having said that, the mighty European Union has set a very bad example in its non-compliance with a ruling about the importation of bananas.

But the WTO comes under enormous criticism — criticism which in fact would be more fairly directed at the governments behind the organisation. An attempt to hold a major WTO meeting in Seattle in November 1999 was abandoned in the face of noisy and disruptive protests throughout the city. At the time of writing, there has been no attempt to hold another meeting, although of course, international negotiations and discussions have gone on at a quieter level.

Critics of the WTO point out that the rich nations are influenced by the multinational corporations. They say, probably rightly, that the rich nations (with their teams of lawyers) win too many of the arguments, and are ungenerous to the poorer countries which they seek to open up to their exports. For example:

- At the last round of negotiations in Uruguay, the richer countries (with some reluctance³) made promises to reduce their protectionism in agriculture and textiles. These are both areas in which many developing countries genuinely hold some comparative advantage. It is alleged, convincingly, that these promises have not been fully kept and that protectionism is as strong as ever.

- There have been attempts, particularly by the US, to introduce new rules which would entitle members to block imports from countries where labour conditions — for example, the use of child labour — fell below agreed standards. Poorer countries have tended to see such arguments as an attempt to undermine the main comparative advantage which many of them enjoy: cheap labour.

- One set of WTO rules involves 'intellectual property rights', such as patents on drugs and other scientific and technological innovations. Developing countries may not have appreciated what they were signing up to. As a consequence of these rules, the giant pharmaceutical companies (with their governments' support) have threatened legal action if poor countries cheaply copy their drugs, even if the aim is to combat appalling⁴ problems such as AIDS.

Economic Review, November 2001

Choose the most suitable heading for each part of the article.

1. Specialisation
- 2.
3. Barriers against trade

¹ a place of especial vulnerability

² acting between parties with a view to settle differences

³ lack of eagerness or willingness

⁴ horrifying, terrible

- 4.
5. In favour of barriers
- 6.

Answer the questions.

1. What is specialisation?
2. What is absolute advantage?
3. What is comparative advantage?
4. What are the gains from free trade?
5. What are the barriers against free trade?
6. Who erects these barriers?
7. What is the purpose of barriers?
8. What is a tariff?
9. What is a quota?
10. Do tariffs and quotas make economic sense?
11. What can be said in favour of barriers?
12. What is the WTO?
13. When was the WTO set up?
14. How many members does the WTO have now?
15. What are the functions of the WTO?
16. Why is the WTO sometimes criticised?

DELIVERING THE GOODS

PARCEL deliveries are often thwarted¹ by menacing² dogs, doorstep thieves, unanswered doorbells or a host of other impediments³ that keep goods from their intended destination. Even demography plays a role: young consumers are less willing than older folk⁴ to stay at home waiting for a delivery. Businesses suffer as a result. Two-fifths of online shoppers said they stopped buying products from a website following a troublesome delivery, according to the Interactive Media in Retail Group (IMRG), a British industry association.

Customers and sellers should welcome the growth of a new way to ensure that goods are delivered quickly and safely. Parcels are increasingly shipped not to home addresses but to local businesses, where they are held for pick-up. This summer Amazon, an American online-retail giant, is expanding a network of delivery lockers in local shops in some of America's biggest cities as well as in London. A locker pops open when a customer enters an access code received by e-mail or text message. Other companies are building even bigger locker networks, especially in Europe.

Some shoppers are willing to pay to avoid home deliveries. ByBox, a British firm, charges shoppers about £2 (\$3.15) to retrieve⁵ a parcel from one of its 1,350 locations around the country. Other locker networks are free. Delivery firms can save lots of money by sending a batch⁶ of parcels to a single place, where delivery is guaranteed, so they are naturally keen to provide the service. Nine out of ten Germans live or work within about ten minutes of free lockers operated by Deutsche Post DHL. The French and Turkish post offices also provide free locker services.

There are other advantages too. More efficient deliveries can take the strain off lorries and other shipping infrastructure. In Britain this is running close to capacity at peak periods, says Andrew Starkey of IMRG. Merchants, then, welcome the deployment⁷ of more and better infrastructure. Add-on innovations should make buying and selling online even easier. For example, Cleveron, an Estonian firm, has introduced lockers with credit-card readers across northern Europe. These cubby⁸ holes can collect payment for the goods being collected.

A lower-tech delivery system also shows great promise. Growing numbers of shops and other businesses are holding packages behind the counter for later collection. One delivery network has signed up over 1,050 local shops in America and Canada and is adding about two dozen outlets a week. Gareth Sudul, head of Kinek, the firm behind the scheme, says that businesses like the simplicity of providing a "KinekPoint" service. No special kit is required. All shops have to do is log⁹ deliveries and pick-ups through a website that automatically sends e-mail and text-message alerts to addressees.

Pick-up locations typically charge from about \$3 to release a package, passing on \$1 to Kinek. People fetching a parcel also often buy a few items. The lure¹⁰ of extra sales has led some shops to hand over the packages for nothing, coughing up¹¹ \$1 just to have someone walk through the door.

¹ to stop something from happening or someone from doing something

² making you think that someone is going to do something bad

³ something that makes progress, movement, or achieving something difficult or impossible

⁴ someone's parent

⁵ to find and bring back something

⁶ a group of things or people dealt with at the same time or considered similar in type

⁷ the use of something or someone in an effective way

⁸ a small enclosed space or room

⁹ to officially record something

¹⁰ the quality or power that something or someone has that makes them attractive

¹¹ to produce money or information unwillingly

Not everyone will join in. Questions over insurance liability might hamper¹ the growth of pick-up services. And in America online merchants avoid charging sales tax in some states by neither having a physical presence nor hiring staff there. So they may be wary² of putting lockers in these parts of the country. Some consumers, having paid for door-to-door delivery, will not want to traipse³ to a nearby shop or petrol station to collect their parcels. But the growth of online sales means that exasperation⁴ levels with home deliveries and the attraction of a rapid pick-up are sure to rise.

The Economist, August 25th 2012

Answer the questions.

1. Why does the traditional delivery system come under criticism?
2. What is the new way of delivering parcels?
3. What are the benefits of the new delivery system?
4. In what countries is the new system popular?
5. What hinders the spread of the new delivery system?
6. What can promote further development of the new delivery system?

¹ to prevent someone doing something easily

² not completely trusting or certain about something or someone

³ to walk from one place to another, often feeling tired or bored

⁴ anger

THE QUALITY PROPHET¹

Author and consultant SubirChowdhury shares insights about quality living—both in business and at home.

My friend SubirChowdhury is a noted author and the CEO of ASI Consulting Group. His clients are mainly major organizations. He's globally regarded as a top thought leader in the field of quality management. What I love most about Subir is his passion. I have met a lot of people in the "quality" business, but have never met anyone who cares as much as he does.

I also appreciate his candor² and honesty. He's one of the few consultants who will "fire" his clients if they aren't really serious about implementing change. Subir's personal drive is to imbue³ every American with Quality DNA—to ensure quality is for "all the people, all the time." He and I recently chatted. Edited excerpts⁴ of our conversation follow:

Q: _____

I believe we should be very passionate about whatever we choose to do. While our passion can get us started, it isn't enough to create a great career. Our passion must be coupled with discipline, focus, and execution. Just as I ask my clients to focus on continuous improvement, we need to continually improve in the skills that are related to our profession. Just as I ask my clients to "pay the price" for quality, we have to make the sacrifice needed to get to the top of our professional field.

Q: _____

Marshall, I firmly believe that quality is the most important factor for our career as well as for our organizations. An organization's success depends on both process quality and people quality. Unfortunately, most of us don't understand what quality really is and how it affects us all. Most don't know where it starts. Many people don't really believe that quality is their job. To improve process quality, we must create a culture of high-quality people. Quality should be everyone's business—all the people, all the time.

Q: _____

Absolutely! Try to look at it this way. We have all witnessed what has happened to companies that ignore quality in products and processes. They have suffered in many ways, such as damage to reputation, loss of market share, and inability to attract great people. Eventually, they're devoured by their competition.

The same can be said for each of us. If we ignore quality and how it affects our careers, we will eventually be devoured by our competition. If we just "do our jobs" without continually improving, we will fall further and further behind our peers who keep on getting better.

Q: _____

¹ a person who predicts the future

² frankness or sincerity of expression; openness

³ to inspire or influence thoroughly

⁴ a part or passage taken from a book, speech, play, etc., and considered on its own; extract

It's funny you ask me that particular question, Marshall. But that's exactly the question that every one of your readers should be asking themselves upon waking every day. We should all begin our day with the understanding that "quality is my business." We should all ask the question, "What can I do to improve the quality of my work?" We shouldn't only look at the present. We should look to our future and challenge ourselves by asking, "What can I do to improve the quality of my career?"

Q: _____

Let me give you the condensed¹ version, which applies to your readers at all levels, from front-line employees to CEOs. If you truly embrace² the principles of quality you will look at yourself as a different person—a person who can change the world around you, for the betterment of all of your stakeholders.

Here are three steps that can improve both your business and your life:

First, listen to all of your customers. By "all" I mean not just the people who buy your company's goods but your internal customers as well. At work, this could be your colleagues, co-workers, suppliers, and partners.

At home, this could be your friends and family members. We spend too much of our lives in isolation without realizing the many ways that we're impacting others. We need to listen to their requests and understand specifically what they're telling us they want and need.

Second, enrich what you do every day, both at work and at home. Enrichment means continuous improvement. We can all challenge ourselves every day by telling ourselves, "Whatever I did yesterday, I'm going to do better today!" Enrichment is all about making our work and our lives better every day. Enrichment doesn't just mean correcting our mistakes. It can mean building upon our successes. For example, if we have a wonderful achievement, we can challenge ourselves by asking, "How can I help others achieve the same level of success that I have achieved?" or "How can I apply my learnings from this success to other parts of my life?" Improvement is a wonderful thing! It builds our strength and our confidence.

Third, optimize your efforts by doing it right the first time. We Americans are often quite poor in optimizing our efforts. We get so focused on just getting it done that we may not take the time needed to do quality work. This applies to our careers as well as our occupations. For example, rather than just sending out a résumé, we need to take the time to customize³ our resume to fit the needs of our potential employer. We need to take the same planning and project-management skills that we apply at work and apply them to our lives!

Q: _____

My most recent book, *The Ice Cream Maker: An Inspiring Tale About Making Quality The Key Ingredient in Everything You Do* (Currency, 2005), is an engaging story that defines the three-step process we have discussed. It can help anyone understand the basics of quality improvement.

Many of my readers have let me know that understanding the principles of quality has made a positive difference in their personal lives, as well as their business lives. I'm devoted to my own family and know how important our home life can be. Knowing that my book is making a positive difference on the "home front" makes me feel great!

Q: _____

¹ reduced in volume or size; made more compact

² to take up (a new idea, faith, etc.); adopt

³ to make (something) according to a customer's individual requirements

Marshall, as you know, I wasn't born in America. I chose to be here. I love this country. I feel deeply saddened when I see American companies losing the quality battle. If we aren't careful we can easily lose our global competitive advantage. While we need to change our organizations, we have to begin with human quality.

Change has to first start within each one of us. We may be running out of time. We need to change—and change quickly! Quality must be understood by all of us. Quality needs to flow from our heads—an understanding of why it's so vital and how to achieve it—to our hearts—passion to improve ourselves, our companies, and ultimately our great country. I want all Americans to share this concern and lead our revitalization.

Q: _____

Please invite your readers to visit my Web site at www.subirchowdhury.com or my company Web site at www.asiusa.com.

Q: _____

Absolutely! I'm at subir.chowdhury@asiusa.com.

Thank you!

by Marshall Goldsmith

Marshall & Friends April 4, 2007, 3:36PM EST

http://www.businessweek.com/careers/content/apr2007/ca20070404_050262.htm

Match each of the interview answers above to the right question.

- So improve the quality in everything you do. How do you do that?
- This has been very insightful. Thank you so much. How can someone learn more about your methods and strategies?
- Why are you so passionate about improving quality in America?
- What are a few points of advice you can give that will help everyone better understand what quality is and how to make improvements?
- Do you ever get feedback on the impact that your work has on families as well as organizations?
- You clearly love what you do and have been a success in your field. What secrets can you share that will help our readers grow in their careers as you have in yours?
- Is it O.K. for our BusinessWeek.com readers to e-mail you?
- In terms of career development, why is understanding quality so important?
- Do you mean that if I, as an individual, don't understand quality, I'm placing myself at a career disadvantage?

Answer the questions.

1. Why is passion not enough for a brilliant career?
2. What does an organization's success depend on?
3. What happens to companies that ignore quality?
4. How does the interviewee improve the quality in everything he does?
5. What three-step strategy is offered by the interviewee to improve the quality of one's business and life?

WHY HAVE A CODE OF ETHICS?

“There has been a dramatic increase in the ethical expectations of businesses and professions over the past ten years. Increasingly, customers, clients and employees are deliberately seeking out those who define the basic ground rules of their operations on a day to day...” (quote from the website of the International Ethical Business Registry)

“Why have a Code of Ethics?

- to define accepted/acceptable behaviours;
- to promote high standards of practice;
- to provide a benchmark for members to use for self evaluation;
- to establish a framework for professional behaviour and responsibilities;
- as a vehicle for occupational identity;
- as a mark of occupational maturity;”

“The need for special ethical principles in a scientific society is the same as the need for ethical principles in society as a whole. They are mutually beneficial. They help make our relationships mutually pleasant and productive. A professional society is a voluntary, cooperative organization, and those who must conform to its rules are also those who benefit from the conformity of others. Each has a stake in maintaining general compliance.” (Stuart Altmann, Chair, Ethics Committee, Animal Behavior Society.)

“...instruments for persuasion both of members of (a) profession and the public. They enhance the sense of community among members, of belonging to a group with common values and a common mission.” (Kultgen J, 1988. Ethics and Professionalism. Philadelphia; University of Pennsylvania Press. pp.212-213)

“A profession's ethical standards must be compatible with our common morality, but they go beyond our common morality. You could say that they interpret our common morality for the specific details of work of a particular occupational group.” (by Vivian Weil, from her paper “Prospects for International Standards”)

“The very exercise of developing a code is in itself worthwhile; it forces a large number of people...to think through in a fresh way their mission and the important obligations they as a group and as individuals have with respect to society as a whole.” (DeGeorge, Richard T. Military Ethics: A Code of Ethics for Officers. Washington: NationalDefenseUniversity Press, 1987.)

<http://www.ethicsweb.ca/codes/coe2.htm>

Read the quotations about a code of ethics. Make a list of reasons why it is important.

A CODE OF ETHICS

A code of ethics is a set of guidelines which are designed to set out acceptable behaviors for members of a particular group, association, or profession. Many organizations govern themselves with a code of ethics, especially when they handle sensitive issues like investments, health care, or interactions with other cultures. In addition to setting a professional standard, a code of ethics can also increase confidence in an organization by showing outsiders that members of the organization are committed to following basic ethical guidelines in the course of doing their work.

The format of a code of ethics can vary widely. Unlike more straightforward employee guidelines and codes, a code of ethics usually starts with a section that sets out the purpose, aspirations, and goals of the parent organization. For example, the 2002 code of ethics for the American Psychological Association (APA) begins: "Psychologists are committed to increasing scientific and professional knowledge of behavior and people's understanding of themselves and others and to the use of such knowledge to improve the condition of individuals, organizations, and society."

Following a general introduction to the function and goals of an organization is a section dedicated to setting out specific behavior standards for members. This section usually covers potential ethical issues such as confidentiality, partisanship, or misuse of information. In addition to addressing theoretical ethical minefields, a code of ethics often contains a section which outlines the procedures for handling grievances, both outside and inside the organization.

A well written code of ethics will be easy to follow and very clear, with sections that people can point to in order to illustrate specific issues. In the sense of organizations like the APA, members agree to support the code of ethics both because it is good practice and because it promotes their organization. A code of ethics also stands behind most scientific experimentation, ensuring that the results are valid and that the testing was carried out in an ethical way.

In the business world, some companies like to use a code of ethics to ensure that their employees act in a responsible manner. A business with a code of ethics may also be viewed more favorably by members of the public, which means that a code of ethics is a sound business decision. Adherence to a code of ethics may also be required for continued employment; an employee manual may include a clearly outlined code of ethics, for example, with a note that failure to follow the code is grounds for termination.

Many people also live by a personal code of ethics. Although your code of ethics may not be clearly written out, you may have some strong personal beliefs about various issues which help to guide your choices in life. Some people believe that having a strong personal ethical code and abiding by it is a very important tool for maintaining self integrity.

<http://www.wisegeek.com/what-is-a-code-of-ethics.htm>

Answer the questions.

1. What is a code of ethics?
2. In what spheres can it be vitally important?
3. What is the extra benefit from it?
4. What is the usual format of a code of ethics?
5. Why do most companies and organisations prefer to have a code of ethics?

OBAMA: A LEADERSHIP REPORT CARD

We disagree with the President on points of policy, but he's earned an A so far

“So ... how's Obama doing?”

This was the question floated by our host at a recent dinner party. In response, two people said they were disappointed, seven claimed to be on the fence, four asserted it was too early to tell, and three said flat-out great.

Where were we in the mix? Allow us to issue a preliminary “report card” on President Obama's leadership since taking office¹ to explain.

But first, note that we just used the word leadership. This column isn't about policy. If it were, we'd probably be on the fence², too. We passionately oppose the President's position on doing away with secret ballots for unionization votes, and we're suspicious of his cap-and-trade³ proposal, a version of which has done little for Europe. We also find the new budget alarming – with its optimistic forecasts and staggering short-term deficits.

On the other hand, we're generally positive about the Administration's reaction to the economic crisis. And we're strongly supportive of his foreign policy, which strikes us as sound and progressive.

But forget all that. Our grade for Obama is based on how he's doing on critical performance criteria as our country's CEO.

Let's start with vision, the “thing” without which a person simply cannot lead. And look, whether you like his politics or not, Obama's obviously got it. From the economy to the environment, education to health care, the President has articulated his goals to the nation.

Vision, though, is meaningless alone. To be an effective leader, you must communicate consistently, vividly, and so darn frequently that your throat gets sore. You can't, as we've said, communicate too much, especially when you're galvanizing⁴ change.

Who could disagree that Obama's nailing this challenge? Every time he speaks, which is often, he's thoughtful, expansive, and candid⁵. And he has also worked assiduously to get heard outside of Washington, even showing up on Jay Leno's set to reach beyond the “usual suspects.” Again, we wish that Obama's message was sometimes a different one, but when we heard his NATO press conference last Saturday – explaining America's “exceptionalism” – his lucidity⁶ and lack of arrogance rendered any criticism moot. He will surely be the next American President to carry the mantle of The Great Communicator.

Now to team-building, another strength of successful leaders. The potential for “palace intrigue” between Larry Summers and Tim Geithner, not to mention the White House staff and Hillary Clinton's high-caliber State Dept. organization, made us skeptical on this front at first.

We may have been overconcerned. The economic team seems to be working seamlessly, egos in check, despite all the pressure. And Hillary is refreshing in her new role, with the President clearly giving her the latitude⁷ to make a mark. (Her recent remarks about U.S.-Mexico relations were frank and overdue.) We give the President points, too, for Arne Duncan, who, with his bold support of merit pay and charter schools, looks to be a great choice as Education Secretary.

¹ begin work or acting in a certain capacity, office or job

² undecided as to which of two sides to support; uncommitted or neutral

³ emissions trading

⁴ to stimulate to action

⁵ free from prejudice; impartial

⁶ the quality, state, or art of clarity in thought and style

⁷ freedom from normal restraints, limitations, or regulations

Speed is another key attribute, and again, Obama can't be faulted. Weeks back, we actually worried he was moving too fast on too many fronts, diverting attention from the economic crisis. Since then, he has tightened his focus, making great strides¹, for instance, with the auto industry task force, which took decisive action with GM.

And then there's authenticity, the hallmark² of every effective leader.

Well, thank goodness for Michelle. Not that the President isn't "real", it's just that he remains somewhat cool in his affect. That's fine. But people crave³ humanity in their leaders. Luckily, his wife, with her warmth and broad appeal, is supplying it in buckets.

Before we begin to sound irrationally exuberant, remember that the President has yet to be tested on two key traits: resilience⁴ and the wherewithal⁵ to champion⁶ unpopular causes.

But 70 days is still plenty of time to get a sense of an executive's performance. And while we'd like to see his skills applied to different policies, when it comes to leadership, Barack Obama has certainly earned an A.

*Jack and Suzy Welch
Business Week, April 20, 2009*

Answer the questions.

1. Were you surprised by the results of the questionnaire that the authors carried out at the party?
2. What is the authors' attitude to Obama?
3. In what aspects can Obama be criticised?
4. What are the 7 crucial hallmarks of the effective leader?

Describe Obama's performance as a leader according to the above mentioned criteria.

¹ a step of progress; an advance

² an outstanding or distinguishing feature

³ to have an intense desire for

⁴ flexibility

⁵ necessary funds, resources, or equipment

⁶ to support; defend

FIRST MOVER ADVANTAGE

First mover advantage means that the first business into a sector can build marketing advantages no-one else may be able to match. This should provide the basis for a sustained competitive advantage that can amount to monopoly power.

First mover advantage is to be expected if the advantage is based upon a patented innovation. Often, though, it proves effective in the marketplace even though there is no obvious barrier to entry by a competitor. For instance, Wrigley's was the originator of chewing gum, and 50 years later still has over 80% of the highly profitable UK market.

Is being first always an advantage though? Multinational Procter & Gamble has always said, 'it's better to be right than to be first'. This article looks at the key issues and implications.

Benefits of being first

Marketing

There are many marketing benefits, both in relation to consumer image (being 'the original', such as Coca-Cola or Levi's) and in terms of marketing strategy.

The first company into a market can set price without the consumer having a reference point. Did the first CD players need to cost £1,000? Did tubes of Pringles need to cost over £1? Certainly not. But the customer was willing to pay without realising that the supplier was adopting a price-skimming strategy.

A further marketing benefit from being first is the ability to become established within the distribution chain — in other words, to be stocked by wholesalers, retail multiples and retail independents. The second brand in may find it hard to get shelf space, especially if the retailer intends to sell an own-label version of the product.

Operations management

Particularly if a penetration pricing approach has been used, the first mover should be buying in sufficient bulk to make it very hard for so-called 'me-too' producers to match the production costs. This means that the first mover is in a strong position to undercut the costs and therefore potentially the price of any new competitor.

When Cadbury's Wispa launched nationally, Chunky Aero was sold for months at 10p (half the price of Wispa), to make it hard for the Cadbury product to get established. If the first mover's market advantage is backed by patents (as with the Dyson cyclone cleaner), it may have enough time operating as a monopoly to fund high levels of research and development, and come up with further breakthroughs to keep one step ahead of potential competitors.

Finance

For the reasons cited above, first mover advantage can lead to exceptionally high profit levels for as long as it takes for effective competition to arrive.

People

Good people want to work for the best company. If Microsoft is the number one in software, then who better to work for? The originator of a market may benefit from being able to recruit the best people without necessarily having to pay higher wages than the competition.

How to be first

Getting into a market (or new market sector) first can be a result of many factors. In some cases there may be a genuine insight that one individual or firm has that others lack. James Dyson saw the potential for his dual cyclone cleaner, whereas other companies did not. For example, he offered to license the product to Hoover before setting up on his own, but Hoover turned it down. In other cases, there may be a technological breakthrough that only one company

has made, such as Wall's inventing the process for producing the soft water ice used to coat a Solero.

In the majority of cases, though, firms are competing on the basis of speed. Each one is trying to be the first to market with an idea that is a response to market conditions known to all. When Dixons developed the Freeserve internet service provider, it was only a few weeks ahead of WH Smith, but the weeks proved crucial. Similarly, in spring 2000, Persil washing powder tablets were launched nationally while Ariel tablets were still being test marketed. Persil gained substantial market share as a result. So Unilever (Persil) beat Procter & Gamble (Ariel) by being bolder, and going straight from market research to a national launch rather than checking out the product in a regional test.

Being first takes not only boldness but also good organisation. Product design and build quality must be excellent, or else early users will spread the word that the product is to be avoided. In London's West End, a musical that has a poor opening night and awful reviews may close within a week. If speed overwhelms quality, the consequences can be disastrous.

This is where simultaneous engineering can be invaluable, as it imposes the self-discipline that comes from careful teamwork. Designers must talk to (and agree drawings with) production engineers, so that work on the new production line can be started while the finishing touches are still being made to the design concept. When handled effectively, for example at car producers such as Toyota, this approach can cut development times substantially. If, therefore, an oil crisis puts petrol prices up dramatically, Toyota will be able to bring out a new, super-fuel-efficient car long before rivals such as Ford,

Is being first always best?

One of the technologies that has shaped the modern world is the 'wafer-stepper'. This is the machine that photographically etches microscopic circuits onto the silicon chips at the heart of computers, mobile phones and every other piece of electronic equipment. Developments in wafer-step technology have enabled the amount of information that can be stored on a microchip to be increased 250,000- fold over the past 30 years, while the price paid per bit of information has fallen 30,000-fold. A wafer-stepper machine costs up to £7m pounds and weighs about 15 tonnes. Worldwide sales in 2000 amounted to about £4000m.

This market was originally developed by an American company, Perkin-Elmer, and by the mid 1980s another US firm (GCA) was dominant. But both companies lost out in the 1990s to Nikon and Canon of Japan. Since then, a Dutch rival (ASM), which floated from the giant Philips corporation in 1995, has grown to take a 34% market share. The secret to long-term success proved to be expertise at producing incredibly powerful and accurate lenses. Nikon benefited from its camera expertise, while ASM forged an alliance with the German firm Zeiss, a 150 year-old maker of high-quality lenses.

This demonstrates that in high- technology sectors, being first may buy some time, but unless a sustained competitive advantage can be built, market share will slide towards the best quality or most innovative supplier.

Other firms have become world market leaders despite arriving late into a market, These include Sony (Playstation), Airbus Industrie (the European consortium that has seized world market leadership in jet aircraft from Boeing). Procter & Gamble (Pamper's Disposable Nappies) and Tropicana (now bigger in orange juice than Del Monte). In each of these cases, the success has been based upon the product: product quality and/or product innovation. This inevitably requires a high level of investment and a huge amount of risk. For Sony and Airbus Industrie, the research and development expenditure was massive. For Tropicana, the investment was mainly in subsidising early loss- making years before customers came to accept paying a high price for a superior product.

The strategic issue

In some companies, the focus is upon being innovative — being first is regarded as a status symbol. Despite its Playstation success, Sony has always prided itself on its revolutionary innovations, such as the Minidisc. The US corporation 3M and the British minnow Dyson take the same view. Therefore a substantial proportion of revenues are budgeted for scientific research (Dyson spends more than 10% of revenues on R&D, compared with the UK average of below 2%). Working within such a business should be exciting, as innovations require risk-taking and entrepreneurial attitudes. Therefore sparky, bright, perhaps young people will be the focus for recruitment,

For those who would rather get it right than get in first, a more cautious, calculating mindset will be needed. Staff will need to be good analysts rather than great innovators. Resources will be focused more upon production and quality control, strong sales networks and foolproof administration. Retail customers have to be wowed by efficiency rather than novelty. The culture of the workplace will therefore be affected markedly by the 'first versus best' strategic issue.

As with most aspects of business, we can find successful examples to prove any point, but the real conclusion must be that there is no single best strategy. What matters is that firms should know their own strengths and build on them. The only wrong approach is to have no clear strategy at all.

Jan Marcou 
Business Review, September 2001

Answer the questions.

1. What does the first mover advantage mean?
2. What marketing benefits does the first mover advantage have?
3. Are there any benefits for operations management?
4. The first mover advantage can lead to high profit levels, can't it?
5. What companies do people want to work?
6. What factors help be first?
7. Is being first always best? How do you think?
8. What is the best strategy?

Complete the summary of the text.

First mover advantage means that the first business into a sector can build no-one else may be able to This should provide the basis for a ... competitive advantage that can ... to monopoly power.

First mover advantage is to be expected if the advantage is based upon a

Benefits of being first

- The first company into a market can . . . price without the consumer having a reference point. The first company is able to become . . . within the distribution chain.
- If a penetration pricing approach has been used, the first mover should be buying to make it very hard for so-called "me-too" producers to match the production costs.
- First mover advantage can lead to exceptionally high profit levels for as long as it takes for

- Good people want to work for the best company. The originator of a market may benefit from being able to ... the best people without necessarily having to pay than the competition.

How to be first

Getting into a market can be a result of many factors:

- G..... i.....
- T..... b.....
- S....
- G... o.....
- S..... e.....

Is being first always best?

Multinational Procter & Gamble has always said, "It's better to be ... than to be first". In high-technological sectors, being first may buy some time, but unless a sustained competitive advantage can be built, market share will slide towards the best quality or most innovative supplier.

The strategic issue

The real conclusion must be that there is no single best strategy. Firms should know their own strengths and build on them. The only wrong approach is

NORTHWESTERN MUTUAL'S ED ZORE ON STAYING RELEVANT TO CUSTOMERS

A conversation with Ed Zore.

Read the conversation and match the questions to Ed Zore's answers.

- *How do you know whether you're staying relevant?*
- *So what's wrong with focusing on innovation?*
- *What's the best way for a company to stay on top of its game?*

It is relevance, not just innovation, that matters to customers, says Ed Zore, president and CEO of Northwestern Mutual, the 150-year-old insurer that is consistently ranked by Fortune as the most admired company in life and health insurance and is the U.S. market share leader for total individual life insurance premiums. For Northwestern Mutual, staying relevant to customers means watching the right dashboard gauges, including the one that shows "persistence" - the percentage of customers who stay with the company year after year.

.....

There's obviously nothing wrong with innovation. Innovation is great as long as it improves your ability to provide value to the customer, but too often it doesn't. In technology industries, you have to come up with a new gizmo every month. I heard a 50-minute speech in which a CEO must have used the term "innovation" 35 times. And I'm sitting there trying to figure out what he means. I don't have a clue. He's not talking about making the stuff work. He's not talking about making it useful.

Don't innovate just for the sake of being innovative. Stay relevant that's the name of the game, no matter what industry you're in. Being relevant means lowering costs, improving customer service, or generating business. An innovation doesn't make sense if it can't do that.

.....

We have several ways of measuring relevancy. One is results. You can see if you're relevant by how you're performing. Your results tell you if you understand the business. Our company is exceptionally good at managing the fundamentals: Long-term investments. Low expenses. Careful underwriting. We believe that one of our obligations as a mutual company is to provide as much value as we can to our policy owners. That's one reason we're so proud of how greatly our dividend payout exceeds even our closest competitors'. We've also stayed relevant by adding new products and services that are consistent with our initial value proposition. But, of course, any company can benefit from looking at its results and the value it provides customers.

Another measure is: Are we gaining or losing ground? If we're gaining on the competition, we're moving in the right direction. If we weren't growing, we'd probably be decaying, because we wouldn't be able to keep good people. Our numbers show we're doing well.

We also gauge relevance by listening to our customers and to our 7,500 financial reps. Our reps are our eyes and ears in meeting with clients, assessing client needs and implementing our financial security value proposition. They let us know what's working and what's not. We have committees of reps - for investment products, long-term care products, life insurance, disability insurance - zillions of committees of reps that give us focused feedback, not just random sales reports, and we take their input very seriously. And persistence is a number we religiously track - it's the rate at which customers stay with the company from year to year. Right now it's 96.5%, and it keeps creeping up. Alongside that, we measure the level of complaints per

unit of sale and per rep. That not only saves us money, but it also provides us with information we can use to keep improving customer service.

.....
To stay relevant, you've got to keep increasing the value you deliver to customers. Here's one example: Several years ago, we figured out how to restructure policies to create more value for policy owners, and we gave it to them retroactively at no increase in premium. Nobody else did that. We did it a couple of times - we do it with all our products today. We're adding some features to a long-term care policy, and we plan to add them retroactively to all the policies out there. We'll go to our policy owners and say, "Look, we just made this better for you." It's good for the customer, and it's good for the field force that sells the policies, because they don't have to apologize.

Our goal is to have customers for 40 to 50 years and to be around to pay their claims and help them achieve financial security. We want to make sure we're here when they need us. General Motors would love it if everybody came back and bought a GM car, and how do you do that? By making sure there's substance under the chrome, not just flashier chrome.

*Thomas A. Stewart
Harvard Business Review, December 2007*

Are these statements true or false? Correct the false ones.

1. Customers care more about innovation than relevance.
2. Sometimes innovation doesn't provide any value to the customer.
3. To be relevant you should lower costs, improve customer service, generate business.
4. Good performance is the best measure of relevancy.
5. You are relevant if you gain on the competition.
6. You shouldn't listen to your financial representatives. They are too subjective.
7. To keep increasing the value you deliver to customers can help you stay relevant.

WHEN PUBLIC SPEAKING IS ENEMY №1

It's happening again. Your pulse is racing, your palms are sweating, and your voice is choking up. No, you're not being robbed at gunpoint; you're about to address a group of your most promising potential investors.

Can public speaking actually cause such panic and dread? "Some people fear it more than they do death," says Kim Dower, author of *Life Is a Series of Presentations* and owner of Kim-From-L.A. Literary and Media Services. "The idea of failure in front of a group is terrifying. The anxiety is so real and so physical.

"Whether it's a new business prospect or a band of venture capitalists you're trying to influence, the fear factor can drastically inhibit the delivery of your pitch. Even experts in their field often experience "imposter syndrome¹," Dower says. "We think when we get up, we won't know what we know. We don't believe our own talk."

And if you think your type of business excuses you from having to perform under such scrutiny², think again. Defeating your nerves and developing a gift for persuasive gab is critical to success in business.

"The two most important skills to your career success are the ability to speak and write well," says Diana Booher, a communication consultant to Fortune 500 clients, key-note speaker and author. "Ideas are a dime a dozen. It's what you have documented, e-mailed and filed for the world or what you've spoken in front of a group that gets noticed," she says.

The Power of Preparation

The good news is you can transform the apprehension and dread that consumes you prior to a presentation into the passion and positive energy you need to wow an individual or crowd. Preparation is what gives most polished speakers an advantage over others. This means knowing your audience and mission.

"Everyone listens and takes in information in a different way," Dower says. "Tailor your talk accordingly. For example, school teachers like to have an outline, as opposed to salespeople who tend to shoot from the hip and are more impromptu³."

To make a winning first impression, you'll also need to look the part. For instance, if you're a woman talking to a group of businessmen, don't show up in a long skirt and shawl, Dower says. "Look like the people you're talking to." A good rule of thumb is to dress like the senior decision-maker in the group. You should also ensure your look doesn't compete with your message. Don't wear loud jewelry or anything that reveals too much cleavage.

Since people judge how credible you are by your appearance, your posture, movement, gestures, facial expressions and demeanor⁴ should be smooth and natural, Booher says. "If you're standing rigidly still, are breathless and not pausing, people can see through to your lack of self-assurance." If possible, she advises to behave as you would when with a group of friends, focusing on your facial animation, hand placement and energy level. If you're launching a new product line or trying to get a budget passed, it's that one-on-one connection you need to get others to believe and invest in you.

Also, before a presentation or speaking engagement, listen to the radio and watch television. Analyze why you switch from one station to the next and what makes certain guests annoying. Are they argumentative or defensive? Take note of these turn-offs and don't emulate them. Discover what is alluring about someone's style and copy it.

¹ a psychological phenomenon in which people are unable to internalize their accomplishments

² a careful examination

³ made or done without previous preparation

⁴ behavior

To relax before your opening remarks, Booher recommends finding your fans. "Don't glance at sour, grumpy-looking people who aren't with you. When you first start, you're the most nervous, so pick out smiling faces who are eager to be there and focus on them," she says.

Avoiding Common Mistakes

To draw your audience in early on, make sure you begin with your bottom line message. Poor communicators try to cover all their bases before giving the punch line, Booher says. People, however, tend to get lost in the details and start looking at their watches. Instead, walk in and start with your main point, then provide background and fill in the gaps, she advises.

Your likeability factor will also increase if you're perceived as humble, informal, kind, genuine and funny, rather than arrogant and aloof¹. However, Booher says to never start with humor. "If you're not good at it and people don't react favorably right off the bat, your confidence will be destroyed, and you may not recover."

Another common mistake is relying on PowerPoint presentations. "You become a slide narrator and put people to sleep most of the time," Booher adds. "Audio-visual technology should be your support - a reminder of what point comes next, not a crutch."

When organizing your speech, it's wise to overprepare. Anticipate questions so you're not caught off guard. If you get a question you didn't plan on, you can still save yourself by changing spots in the room or taking off your glasses to buy yourself a few extra seconds. Honesty is another good policy to follow when you've been stumped. "People will respect and empathize with you if you respond honestly, saying, 'That's a very good question. I don't want to give you an incomplete answer,' or 'I'd like to double-check my figures. May I get back to you on that,'" Booher says. You can also use humor to deflect your embarrassment.

Above all, if a comment comes at you from left field, don't take it personally. Stick to the points you want to make, regardless of what you're asked. Don't go off message or on a tangent. Remain fueled by the passion you have for your ideas, Dower advises.

If you find yourself truly falling flat and losing your audience, rely on your presentation arsenal to switch gears. Use personal examples, statistics or jokes, or physical aids like brochures, quizzes and business cards to divert a question or change the direction of the conversation.

Overall, remain confident and remember the reasons for your talk, Dower says. "When we are there for some sort of higher reason, it takes away the self-consciousness, allowing us to focus and give to the group."

Erika Prafder
Entrepreneur.com

Answer the questions.

1. Why can public speaking cause panic and dread?
2. What are the two most important skills to your career success?
3. Why should you tailor your talk?
4. How to make a winning first impression?
5. What are common mistakes?
6. Is it possible to avoid these mistakes? How?

¹ remote

STRATEGY – COMPETITIVE ADVANTAGE

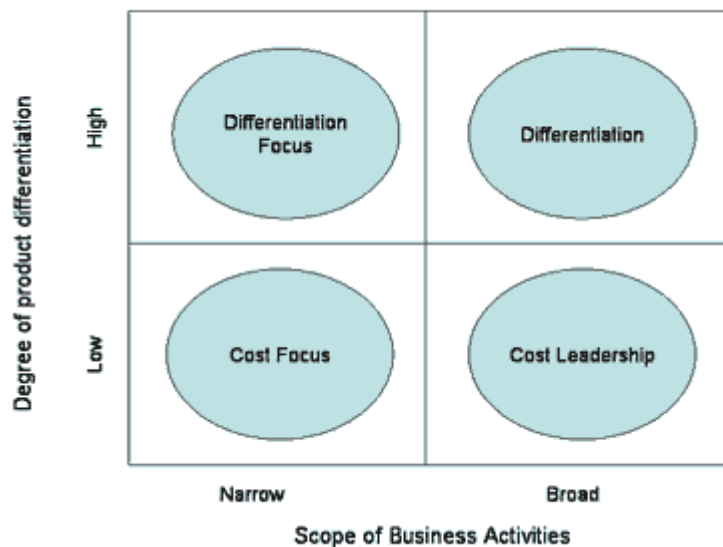
Competitive Advantage - Definition

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

Competitive Strategies

Following on from his work analysing the competitive forces in an industry, Michael Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a businesses' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarised in the figure below:



The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Strategy – Differentiation

This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

Examples of Differentiation Strategy: Mercedes cars; Bang & Olufsen

Strategy - Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed

minimising costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Examples of Cost Leadership: Nissan; Tesco; Dell Computers

Strategy - Differentiation Focus

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

Examples of Differentiation Focus: any successful niche retailers; (e.g. The Perfume Shop); or specialist holiday operator (e.g. Carrier)

Strategy - Cost Focus

Here a business seeks a lower-cost advantage in just one or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".

Examples of Cost Focus: Many smaller retailers featuring own-label or discounted label products.

http://tutor2u.net/business/strategy/competitive_advantage.htm

Answer the questions.

1. What is a competitive advantage?
2. What are the ways to gain a competitive advantage?
3. What strategies does Michael Porter offer to gain a competitive advantage?
4. What strategies can be applied to a broad range of market or industry segments?
5. What strategies are suitable for a narrow market or industry?
6. What is the essence of the differentiation strategy?
7. Why is the differentiation strategy associated with a premium price?
8. Which strategy helps to become the lowest-cost producer?
9. What enables businesses to offer the lowest price?
10. What does the cost leadership strategy help achieve?
11. What is the crucial difference between the differentiation strategy and the cost leadership strategy?
12. How are the differentiation strategy and the differentiation focus strategy different?
13. What should be ensured to adopt the differentiation focus strategy successfully?
14. How are the differentiation strategy and the differentiation focus strategy different?
15. In what is the cost leadership strategy different from the cost focus strategy?

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