

Syllabus of the course

**BUSINESS AND MANAGEMENT**  
**IN A GLOBAL CONTEXT**

Third and fourth semesters

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### **1. Course description**

The course provides a review of international management as a area of theoretical development as well as a field of practice. It comprises the problem areas of globalization, world economy and modern approaches to organisation and business. Main blocks of the course are trends and drivers of globalisation, political, economic and legal environments of international business, business ethics and corporate social responsibility in the modern world, international trade and investment, international business strategy, organisation of international business, functional areas of international management (marketing, R&D ect.) global information systems management. The course includes elements of economics, general management theory, psychology, anthropology and sociology. Business cases are used as application of theoretical concepts.

The main objective of the course is to present modern concepts of international management to the students and help them to develop skills in analysis of global business both in terms of its internal functioning and interaction with the different types of environment. The purpose of discipline - acquaint students with principles of international management, to demonstrate the use of marketing tools in the international markets and decision-making in this field.

The concrete aims of the course are:

- disclose modern trends in international management;
- consider strategies of international markets' penetration;
- identify the specificity of the international business and management;
- show methods to apply the principles and techniques of international management in domestic organizations to enhance international cooperation.

### **2. Learning Objectives & Outcomes**

Students must be:

(Universal outcomes)

- able to carry out occupational or applied activities in an international environment;

(Professional outcomes)

- able to formulate and substantiate his own point of view on the socio-economic processes in Russia and in the world;
- able to critically evaluate the main trends of modern economics, competently lead a discussion about the arguments in favor of each of them;
- able to prepare an informational review and / or analytical report using domestic and foreign sources of information;
- able to find organizational and managerial decisions and ready to take responsibility for them;
- able to critically evaluate the proposed options for management decisions and develop and justify proposals for their improvement, taking into account the criteria of socio-

economic efficiency, risks and possible socio-economic consequences.

### 3. Methods of Instruction:

- lectures;
- seminars;
- case study;
- reports and presentations;
- written home assignments;
- self study.

### 4. Reading list

#### a. Required:

1. Peng, M. and K. Meyer *International business*. London: Cengage Learning, 2011.
2. Willcocks, L. *Global business management foundations*. Stratford: Steve Brookes Publishing, 2013
3. Hill, C. *International business: competing in the global marketplace*. New York: McGraw Hill, 2010.
4. Dunning, J., Lundan S. *Multinational enterprises and the global economy*. Cheltenham: Edward Elgar Publishing, 2008.
5. Mintzberg, H. *Managing*. London: Financial Times/Prentice Hall, 2009.
6. Мескон М. Х., Альберт М., Хедоури Ф. *Основы менеджмента* / Пер. с англ. М.: Вильямс, 2017.
7. Грифонова Н.В., Максимцев, И.А., Майзель А.И., Пивоваров И.С. *Международный бизнес*. – СПб,: Питер, 2018.
8. *Управление человеческими ресурсами*. В 2-х частях/ Под ред. С.А.Баркова, В.И.Зубкова. – М.: ЮРАЙТ, 2017.

#### b. Optional:

1. Барков С.А. Инновационная бюрократия// ЭКО, 2018, №1. – С.72-89.
2. Барков С.А., Дорохина О.В. Объединения компаний как социальный процесс: современные реалии// Вестник МГУ, Серия 18: Социология и политология, 2017, №2. – С.27-48.
3. Барков С.А., Денильханов А.Х. Формы организации бизнеса. – М.: ИПО «У Никитских ворот», 2018.
4. Бобина, М. А., Грачев М.В. *Стратегические альянсы*. - М.: Дело, 2008.
5. Бузгалин А.В., Калганов А.И. *Глобальный капитал*. – М: Едиториал УРСС, 2007.
6. Вернер Р. Скрытая власть. *Как разбогатевшие государства и влиятельные инвесторы контролируют весь мир*. – М.: Манн, Иванов и Фербер, 2014.
7. Гельвановский М.И. *Глобализация. Проблемы конкуренции и интеграции*. – М.: РГГУ, 2014.
8. Гемават П. Мир 3.0. *Глобальная интеграция без барьеров*. – М.: Альпина Паблишер, 2013.

9. Гидденс Э. *Ускользящий мир. Как глобализация меняет нашу жизнь.* – М.: Весь Мир, 2004.
10. Гозман О.Л. *Бизнес – это FUN! От российского стартапа до международной компании.* – М.: Альпина Паблишер, 2009.
11. Гринспен А. *Эпоха потрясений. Проблемы и перспективы мировой финансовой системы.* – М.: Юнайтед Пресс, Альпина Паблишер, 2017.
12. Дэниэлс, Д., Радеба Л. *Международный бизнес: внешняя среда и деловые операции.* – М.: Дело, 2006.
13. Льюис Р.Д. *Столкновение команд. Успешное управление международной командой.* – М.: Инфотропик Медиа, 2013.
14. Мальковская И.А. *Многоликий Янус открытого общества. Опыт критического осмысления ликов общества в эпоху глобализации.* – М.: ЛКИ, 2014.
15. *Многоликая глобализация. Культурное разнообразие в современном мире/* Под ред. П.Л.Бергера, С.П. Хантингтона. – М.:Аспект Пресс, 2004.
16. Наумов С.В. *Управление международной конкурентоспособностью в системе первоочередных практических задач модернизации экономики России.* – М.: Весь Мир, 2013.
17. Нейсбит Дж. *Мегатренды.* – М.: АСТ, Ермак, 2003.
18. Перкинс Дж. *Исповедь экономического убийцы.* – М.: Претекст, 2015.
19. Турбан Г. В. *Экономика и управление внешнеэкономической деятельностью.* – Мн.: БГЭУ, 2007.
20. Хасбулатов Р. И. *Мировая экономика* – М: ЮРАЙТ, 2016.
21. Хилл Ч. *Международный бизнес (International Business: Competing in the Global Marketplace).* – СПб.: Питер, 2013.
22. Oshri, I., Kotlarksy J., Willcocks L. *The handbook of global outsourcing and offshoring.* Basingstoke: Palgrave Macmillan, 2011.
23. Bhagwati, J. *In defense of globalization.* New York: Oxford University Press, 2007.
24. Dicken, P. *Global shift: mapping the changing contours of the world economy.* London: Sage, 2010.
25. Hall, P. and D. Soskice (eds) *Varieties of capitalism.* Oxford: Oxford University Press, 2001.
26. Hofstede, G. *Cultures and organizations.* New York: McGraw Hill, 1997.
27. Johnson, G., Whittington R., Scholes K. *Exploring corporate strategy.* London: Financial Times/Prentice Hall, 2010.
28. Laudon, K. Laudon J. *Management information systems: managing the digital firm.* Harlow: Pearson, 2012.
29. North, D. *Understanding the process of economic change.* Princeton: Princeton University Press, 2010.
30. Rugman, A., Collinson S. *International business.* Harlow: Pearson Education, 2012.
31. Willcocks, L. Lacity M. *The new IT outsourcing landscape.* London: Palgrave, 2012.
32. Williamson, O. *The economic institutions of capitalism.* New York: Free Press, 1985.

## 5. Special Equipment and Software Support

- laptop;

- projector;
- Internet connection;
- MS Word, MS Excel;
- Internet resources:
  - <https://my.london.ac.uk> – Virtual Learning Environment (Student Portal) – course programs, samples of exam papers and a lot of other useful information for UoL courses.
  - <http://www.ecsocman.edu.ru> – Russian federal educational portal with a lot of articles and other information on economics and management.
  - <https://hstalks.com/business/> – Business and management collection with video lectures and case studies.
  - <http://www.expert.ru> – “Expert” magazine – one of the most popular and influential business magazines in Russia.
  - <http://www.aup.ru/books/i002.htm> – Electronic books on management.
  - <http://www.managementnews.ru> – Management news in Russia
  - <http://www.mevriz.ru> – “Management in Russia and abroad” – magazine focused on international business
  - <http://www.rjm.ru> – Russian management journal.

## 6. Grading System and Examination Type

As forms of final control students pass 3 mid-term tests (delivered in the 1, 2 and 3 study modules) and 1 exam (in the spring session as part of the British program).

Forms of continuous assessment are: solution case studies in seminars, preparation of reports, homeworks, writing 2 essays on the most important issues addressed in the course.

A grade is calculated as weighted average with the following weights:

$$G = 0,25 * (0,35 * G_{\text{hacw-1sem}} + 0,25 * G_{\text{test1}} + 0,4 * G_{\text{test2}}) + 0,15 * G_{\text{test3}} + 0,1 * G_{\text{hacw-2sem}} + 0,5 * G_{\text{exam}}$$

hacw-1sem – home assignments & class work in the 1<sup>st</sup> semester

hacw-2sem – home assignments & class work in the 2<sup>nd</sup> semester

Explanation of the formula:

1<sup>st</sup> semester (1<sup>st</sup> + 2<sup>nd</sup> modules):

- 35% - results of continuous assessment (except for midterm tests) in the first and second study modules: solution case studies in seminars (12%), preparation of reports (9%), writing essay (9%);
- 25% - result of the mid-term test (test 1) in the first study module;
- 40% - grade for the winter exam (test 2).

Final grade:

- 25% - final grade for the first and second study modules;
- 15% - results of continuous assessment (except for midterm tests) in the third and fourth study modules: solution case studies in seminars (7%), preparation of reports (4%), writing essay (4%);
- 10% - result of the mid-term test (test 3) in the third study module;
- 50% - grade for the final (external London) exam.

In case of a failing total grade on the 100-point scale, the lecturer has the right to give a passing total grade on the 10-point scale, if the student received a high grade for a final examination (recommended threshold - the exam grade should be no less than 50 points on the 100-point scale).

Examination is in writing.

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

All grades are given initially out of 100. The final grades are also transferred to 10- and 5-points grades in accordance with the ICEF Grading Regulations (par.3) available at [https://icef-info.hse.ru/goto\\_icef\\_file\\_29833\\_download.html](https://icef-info.hse.ru/goto_icef_file_29833_download.html)

Retakes are organized in accordance with the [HSE Interim and Ongoing Assessment Regulations](#) (incl. Annex 8 for ICEF). Grade determination after retakes is done in accordance with ICEF Grading Regulations (par. 5) available at [https://icef-info.hse.ru/goto\\_icef\\_file\\_29833\\_download.html](https://icef-info.hse.ru/goto_icef_file_29833_download.html)

## 7. Course plan

№	Topic:	Total	Contact hours		Self-study
			Lectures	Seminars	
<b>SECTION 1. INTRODUCTION TO THE GLOBAL BUSINESS ENVIRONMENT</b>					
1.	<b>Internationalization of the economy and the globalization of business</b>	8	2	2	4
2.	<b>Features, purposes and objectives of the international business</b>	16	4	4	8
<b>SECTION 2. INTERNATIONAL BUSINESS ENVIRONMENT</b>					
3.	<b>Features of the international business environment</b>	24	6	6	12
4.	<b>Economic factors of international business environment</b>	16	4	4	8
5.	<b>Political factors and principles of state regulation</b>	16	4	4	8
6.	<b>Legal international environment</b>	16	4	4	8
7.	<b>Socio-cultural environment of international business</b>	22	6	6	10
<b>SECTION 3. INFORMATIONAL BUSINESS STRATEGY</b>					
8.	<b>Methods of obtaining and processing information in international business</b>	16	4	4	8
9.	<b>Attractiveness of international markets and organizational capacity</b>	14	4	4	10
10.	<b>Entry penetration strategies</b>	22	6	6	10
11.	<b>Creation of subsidiaries abroad</b>	22	6	6	10
<b>SECTION 4. INTERNATIONAL BUSINESS MANAGEMENT</b>					
12.	<b>Organizing international business</b>	16	4	4	8
13.	<b>International dimensions of human resources management</b>	22	6	6	10

14.	<b>Motivation and compensation in international management</b>	22	6	6	10
15.	<b>Global sourcing of production and services</b>	22	6	6	10
	<b>Total:</b>	270	68	68	134

## Course outline

### **SECTION 1. : INTRODUCTION TO THE GLOBAL BUSINESS ENVIRONMENT**

#### **1. Internationalization of the economy and the globalization of business**

Characteristics and consequences of business globalization process. A notion of multinational (global) company. The changing role of corporations in modern business. Drivers of globalisation.

The internationalization of a company: main stages of internationalization. Internationalization theories: Uppsala (Sweden) internationalization model, transaction cost analysis model (model R. Coase), network model of internationalization. Organizational motives of internationalization (active and reactive)

#### **2. Features, purposes and objectives of the international business**

Aims and functions of international business. Main types of international business. The development of the multinational enterprise (MNE): internal (national) company, export, multinational company.

Main causes for national companies of entering the international market. Main problems of the international marketing.

### **SECTION 2. INTERNATIONAL BUSINESS ENVIRONMENT**

#### **3. Features of the international business environment**

Analysis of the international business environment as the basis of the international strategy of the company. The duality of a world economic space emerging: trends of globalization and localization.

4 types of the international environment: a neutral international environment, multicultural environment, transnational and global environment. Main factors of international business environment: economic factors, political factors and principles of state regulation, legal, socio-cultural, climatic, technological factors etc.

#### **4. Economic factors of international business environment**

General characteristic of a country's economic systems and models of market economy. Main indicators of countries' classification (GDP per capita, Human Development Index, competition level, etc.).

The CAGE and Porter Diamond frameworks for analysing business management environments

Main forms of economic integration on regional markets: free trade zone, customs union, common market, economical union. Advantages and disadvantages of regional integration.

The macroeconomic results of globalization for a country: economic growth level, inflation and the exchange rate, features of foreign trade strategy, the current account balance, public debt, poverty.

Key indicators of national market, analyzed in international business: the state of supply and demand, market size, capacity and accessibility of the markets, price level, competition structure etc.

## **5. Political factors and principles of state regulation**

Political stability. Modern political systems. The main risks of doing business abroad: country risk, currency risk, bank risk, financial risk. Insurance as a protection against risks.

Government regulation of the economy. Basic forms of government regulation: the form of free trade and protectionism. Direct instruments of state regulation. Indirect instruments of state regulation.

Exit barriers at the foreign market. Proactive barriers: tariff (duty and tariff payments) and non-tariff (import and export quotas, limiting and price subsidies, licensing, currency circulation limiting ...). Behavioral barriers: market barriers (demand, language problems, specific of distribution system, administrative interference) and enterprise barriers (access to information, psychological barriers, management team barriers).

## **6. Legal international environment**

Legal regimes: MFN and national regime. Types of legal systems and their features: common law (Anglo-Saxon legal model), and civil law system (continental legal model), and the system of theocratic law. Equal rights: national, supranational and international law. Unification of the international law.

International private law. Main sections of private international law. Business law and international sale agreements. The legal framework of economic activity governing. Intellectual property relations regulation. Labor law. Tax regulations. Marketing mix legal regulation.

## **7. Socio-cultural environment of international business**

Socio-cultural environment studies: specificity national organizations and national consumer. The influence of national culture on organizational culture. "4 +1" Typology (G. Hofstede): power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance, long-term/ short-term orientation. Typology of business cultures (R. Lewis): monoaktivnye, poliaktivnye and reactive culture.

Basic social institutions, determining the specific socio-cultural environment: the family, education and religion. The consumption patterns of society. Language features of markets and the problem of translation. Nonverbal communication specificity in different business cultures: facial expressions, gestures, body movements. The physical features of the consumers.

Business ethics and corporate social responsibility. The problem of business sustainable development on global markets.

Balancing global, regional and local factors when conducting business internationally.

### **SECTION 3. INFORMATIONAL BUSINESS STRATEGY**

#### **8. Methods of obtaining and processing information in international business**

Informational Management System for international business research. Marketing research of foreign markets. External market research and the capacity of the enterprise.

Benchmarking. Types of benchmarking: competitive benchmarking, functional, general and internal benchmarking. Features of competitive intelligence. Methods of obtaining secret information about competitors. The problem of corporate information protecting.

The main methods of primary data obtaining: observation, experiment and survey.. Secondary information for marketing research in Russia and abroad. Secondary information sources abroad: credit bureaus, chambers of commerce, banks, specialized agencies (marketing, consulting, brokerage), registration chambers, stock exchanges etc. company book as a source of information.

Foreign market researches organizations.

#### **9. Attractiveness of international markets and organizational capacity**

Attractiveness and competitive advantage in international markets. Four-stage model of market choice: preliminary selection, macro segmentation, of market segments' identification, the final selection of markets. The grouping of countries into categories. Global portfolio. Market coverage choice and strategic management.

Main elements of business partners' competitiveness in the international market. Approaches to the competitiveness assessment of the manufacturer: the method of comparative advantage, the method of the equilibrium of the firm and the industry, structural-functional method, the method of "profiles", matrix methods.

#### **10. Entry penetration strategies**

Factors of an entry strategy choice. Three main groups of strategies: export strategies (low level of control risk, the high degree of flexibility), contract strategy (separation of control and risk, participatory interest), hierarchical or investment strategy (high level of control and risk, low flexibility).

Export strategies. Indirect exports: methods, advantages and disadvantages of indirect exports. Direct export: investment in export operations, the advantages and disadvantages of direct exports. Hproblem of transportation costs versus other costs.

Contract strategies. Contract management. Contract Manufacturing. Licensing. Licensing and franchising as a way to enter the foreign market. Management contracts. Turn key contracts. Other types of collective contracts/ Joint ventures and strategic alliances.

Hierarchical (investment) strategy. The benefits and risks of direct investment. Organization of subsidiaries: buying a local company, investing "from scratch."

#### **11. Creation of subsidiaries abroad**

Types of subsidiaries: brokerage and agency company, production company profile, business investment and financial profile. The benefits of using subsidiaries abroad in international business.

Division of countries into groups by the level of taxation, government control over business activities, subsidiaries creation costs. Features, advantages and problems of creating subsidiaries in "tax havens." Free economic zones.

## **SECTION 4. INTERNATIONAL BUSINESS MANAGEMENT**

### **12. Organizing international business**

Different types of organisational structure in international business. Line-functional, multidivisional, project and matrix structure. Structure versus culture. Merges and acquisitions as a source of business restructuring.

Elements (substructures) of organizational system and their functions. Elaborating economical and social substructures of MNE. Detection and reasonable coordination of formal and informal structures of an organization. Structural levels of an organization and the problem of the execution of decision making in the frames of organizational structure.

Organizational changes in global business. Organizational changes as a process of permanent adaption of organization to the environment. The features of the changing organizations. The dynamic of organizational changes process. Methods of organizational changes: unilateral action, the division and delegation of authority. The resistance to organizational changes and methods of its neutralization.

### **13. International dimensions of human resources management**

Functions of human resource management: planning, recruiting, selection, performance appraisal, compensation, training and development. ,

Approaches to managing people in different countries and business cultures. Managing expatriates and multinational workforces.

Interactions with employees. System of labor relations. Bargaining power of personnel in global business. The procedures for the resolution of labor disputes in different countries. The possibility of creating the relations of trust and unity by management. Contract as a mean of managing labor relations. Key questions of labor relations. Hiring conditions. Types of hiring contracts. The future of collective contract. Conception of labor relations by J. Barbash. The decline of the role of trade unions. Social institutes that guarantee the protection of rights for employees.

### **14/ Motivation and compensation in international management**

Global pay and incentivisation practices. Staff motivation. Need-motivational sphere of the individual: the need, motive, goal, decision, action, result (reward). The concepts of motivation, motivating and stimulating. Motivating programs in international business: design of work tasks, new methods of labor rewarding.

Involvement and participation of employees in company's management: M. Armstrong. Developing mutual adherence, delegation and direct communications. Developing staff adherence strategy. Forms and levels of worker's involvement and participation in international management. Participation in task solving. Participating in consultations and representation. Workers participation schemes in the profit and

capital sharing. Formal and informal participation means. Joint consultative committees, enterprise councils, directors from workers. Problems of implementing involvement and participation systems in MNE.

## **15. Global sourcing of production and services**

Global sourcing choices/ 'Make-or-buy' problem. Production concepts and developments. Sourcing of business services. Strategic sourcing issues of emerging locations and country attractiveness.

Product Strategy: standardization and adaptation of commercial policy. Commercial policy areas in international business.

Commodity chain characteristics. Product innovation approaches. Ensuring the quality and competitiveness of products in foreign markets. Assortment management policy. International product life cycle.

Features of marketing policy in international marketing. Requirements for optimal system sales. The main forms of selling goods. Selecting supply channel on the international market, the criteria for selection. Channels of distribution and their control. Selection of a mediator. Logistics management. Impact of e-commerce distribution strategy. The specifics of international retailers.

### **Topics for essays:**

1. Business globalization – economic and cultural consequences.
2. The role of multinational corporations in modern world.
3. WTO and other international organizations as regulators of the global business.
4. Global brands and consumption unification.
5. The problem of strengthening of anti-globalist movement in modern world.
6. Advertising in international business.
7. Global electronic commerce.
8. Free economic zones: functioning features.
9. Brand's influence on business investment attractiveness.
10. European Union: problems of regional integration.
11. Competitive intelligence: the problem of corporate information saving.
12. Marketing wars as a form competitive struggle in global economy.
13. Global and local competition: contradictory challenges for business strategy.
14. Direct and portfolio investments in global business.
15. International Marketing features. Specifics of global and multinational marketing.
16. Political environment of international business: principles of governmental regulation.
17. Legal environment of international marketing. Main section of international private law.
18. The process of marketing researches in international business. Benchmarking. Marketing intelligence.
19. Analyzing and choosing segments of international markets.
20. Export versus other entry strategies.
21. Contract strategies in international business: features of managing by contract and producing by contract.

22. Joint ventures in global economy: history and future trends.
23. Franchising as a form of cooperation with foreign partners.
24. Licensing as a type of entry strategy. Features of licensed production.
25. Main reasons of organization's entry to foreign market.
26. Main steps of economic environmental analysis in international business.
27. Socio-cultural environment of international business.
28. Cross-cultural interaction and understanding problem in international management.
29. Structural transformations of multinational companies in the postindustrial economy.
30. New trend and challenges in world labour market. Peculiarities of the work force in the international business.

### **EXAMPLES OF CASE-STUDY**

#### **Drug testing goes offshore**

Patients can be recruited for clinical trials of drugs 10 times faster in Russia than in the United States, shaving precious time and millions of dollars off the drug-development cycle. From Azerbaijan to Nigeria, pharmaceutical companies are increasingly shifting clinical trials to emerging markets—as much as 40 percent of all drug trials. And they are doing it by outsourcing many of those trials to contract research organizations, which in turn subcontract the work of finding patients to local doctors. Merck's Vioxx and Zocor were tested in Russia and other developing countries, as were many of Pfizer's billion-dollar drugs, before gaining approval in the United States. While the vast majority of the trials are conducted without problems, there have been enough instances of ethical abuse and breakdowns in the scientific process to cause concern.

A lawsuit still making its way through U.S. courts alleges that Pfizer tested a meningitis drug on Nigerian children without their consent, resulting in five deaths. And there have been charges over the years that other trials have endangered patients or have been conducted without proper ethical review.

The shift of drug testing to poorer countries is largely being driven by economics. Running a trial for a drug in the United States costs ten times more (about \$30,000) than in Rumania (about \$3,000). In less developed countries paperwork can be minimal and this means saving time and money. In the United States "there is a lot of useless bureaucracy and . . . too many middlemen" says Robert Califf, co-chair of the Clinical Trials Transformation Initiative and Duke's Vice Chancellor for clinical research. "Right now most of the money is going to the middle people," he says, referring to the monitors who are sent to trial sites in the United States to check on the experiments.

#### **Discussion questions:**

1. Do you think it is appropriate for a pharmaceutical firm to conduct most of its clinical trials in less developed countries? Why or why not?
2. The Food and Drug Administration (FDA) in the United States requires that all trials submitted to it meet internationally accepted guidelines, known as Good Clinical Practice, that demand "the establishment of local review boards; ask government health ministries to approve all trials before they begin; warn against excessive payment to doctors; and outline how to obtain informed consent and avoid taking advantage of vulnerable patients." But as noted by Ward Cates, president of the research arm of nonprofit Family Health

International. “How do you meet procedures required by the FDA in settings where electricity is going off two hours a day?” In your view, how can a pharmaceutical company ensure that clinical trials meet the FDA standards noted above? Is this realistic? Explain your answer.

3. Some companies argue that, cost savings aside, there are important benefits to more clinical trials overseas. From a mechanical standpoint, testing on ethnically diverse populations may offer more insight into the ways drugs can affect different people. And patients who would otherwise not receive any help get medication and treatment during the trials. Lastly, it helps drug companies penetrate new markets badly in need of new treatments. Russia’s drug market is estimated at \$5 billion this year, India’s at \$5.4 billion. Do you believe that these positive aspects outweigh potential problems with clinical trials overseas? Why or why not? Should the U.S. government become more involved in regulating these practices? Explain.

### **Modern trends in corporate leadership**

Corporate bosses are being hired and fired like never before. Corporate bosses were coming and going at an unprecedented rate. They had not by then seen half of it. Investors (and the boards that represent them) will become less patient with bosses who cannot produce results that exceed those of the previous accounting period. It’s a rare chief executive who was in the job a decade ago.

A number of changes in the business environment are adding to the stresses of the top job, and increasing the fall-out rate. The flattening of the corporation, for example, that was such a feature of corporate restructuring in the 1990s, left those in charge with a wider span of control. Instead of typically having four or five people reporting directly to them, bosses have come to have a more demanding eight or nine.

At the same time, globalisation has forced chief executives to travel more in order to keep in touch with their far-flung empires. Chris Jones, the 45-year-old chief of J. Walter Thompson, a global advertising agency, resigned in January after suffering a life-threatening DVT (deep vein thrombosis) on a flight from New York to Geneva. Long-haul fliers are thought to be particularly susceptible to DVT, and CEOs of global companies cannot easily avoid long-haul flights.

The need to be on top of every new development in information technology is also putting new strains on bosses, most of whom were brought up in the pre-computer era. Some companies are trying to circumvent the problem by appointing a leader who is already IT-literate. Tom Glocer, the 41-year-old who takes over in July as the boss of Reuters, for example, used to write simulation software when a lawyer in New York. Few IT-specialists, however, yet seem to come with the full range of talents considered essential for the leader of a large corporation.

It is the job of companies’ boards to choose new leaders, and several things prevent them from getting better at it. For a start, the board invariably includes the old CEO, a person whose motives for choosing a successor can rarely be entirely pure. The more successful (and powerful) the CEO, the more influence he has in making that choice, a formula that can lead to disaster.

Mr Bennis, a professor at the University of Southern California’s Marshall School of Business, says that when they have to choose a new leader, boards “typically go into a kind of collective trance, rhapsodising about ‘leadership’ and the big need for it without ever taking even the first steps to define what they mean by the term.” If pushed, they refer to quantifiable things—paper qualifications, for example,

or breadth of experience. Those who appreciate that great leaders must have immeasurable qualities as well tend to turn to outside headhunters for help.

Boards are further hindered in making good choices by two well-embedded misconceptions. The first is the enduring idea that leaders are somehow born and not made: that genetic make-up counts for more than training and experience.

The second was most famously raised in an article by a Harvard professor, Abraham Zaleznik, in 1977 in which he argued that, "Because leaders and managers are basically different, the conditions favourable to one may be inimical to the growth of the other"—ie, long experience as a manager is poor training for a leader. Over time, this encouraged boards to look outside their own organisations for CEOs more than they might otherwise have done.

Zaleznik's point may have been valid in the 1970s when firms were full of managers who did little more than sift information. It is not so true today. The corporate restructuring of the 1990s has squeezed out most such jobs. Corporate managers now have responsibility for bits of their group's profit and loss at a much earlier stage in their career. No longer is their experience "inimical to the growth" of a leader, if it ever was.

In any case, some of the most successful leaders of recent years have had no working experience outside their own organisation: Jack Welch of GE, for instance, (Time magazine's "CEO of the 20th century") joined the company in 1960 and is due to retire this year; Sir Brian Pitman, who led Lloyds/TSB at a time in the 1990s when it was one of the best-performing companies in Europe, joined the bank in 1952 and never worked anywhere else.

There are, of course, some things that corporate leaders do unquestionably have in common. CEOs remain, as they always were, overwhelmingly white, male and over 50. And so do the people who select them. A study of outside directors in Britain, published by PricewaterhouseCoopers in January this year, reported that even today "almost all non-executive directors are white, male and in their 50s". It is no surprise that people like to choose people like themselves.

Henry Ford II, the man who revitalised the family-car business after the second world war, ensured that his management methods did not get in the way of his jet-setting lifestyle. And Charles Edward Merrill, founder of Merrill Lynch, was a notorious philanderer known to his friends as "Good Time Charlie". He was so busy having a good time that he did not start the firm that bears his name until he was 54, by which time he was on to his third marriage.

However, boards which look for the umpteen necessary and sufficient qualities of great leaders are largely wasting their time. In its report on "Developing Leadership for the 21st Century", the recruitment consultants Korn/Ferry rightly wrote: "Business in much of the developed world still pays too much attention to the search for charismatic leadership, rather than engaging in the more difficult but less chancy task of permitting and developing leadership throughout its organisations." Dana Kaminstein, who works on the Wharton School's leadership programme, says that the majority of what is written about leadership "falls into the trap of romanticising the individual".

The truth is that there are many people within every corporation who are capable of leading it if they are given the right experience and encouraged to develop certain talents. A number of great companies recognise this and either ask business schools like Wharton or Harvard to run special programmes to help them develop leaders internally, or they do it themselves. Aegon, for example, runs such programmes via its own semi-virtual Aegon University, while GE has a much-

admired “experienced leadership programme” which includes opportunities for participants to discuss real live issues with the chairman and board members.

There is a danger for such companies that they end up preparing people to run other companies. GE is a notoriously rich source of American CEOs. And Nabisco Holdings, a big food company, must be getting something right too. This week it provided its third head of a major corporation in as many months, with the announcement of Richard Lenny’s move to Hershey Foods. He follows colleagues who have gone to head Gillette and Campbell Soup.

It is not easy, however, to design effective leadership programmes. How much time should participants spend in the classroom and how much out there “leading”—be it up a rock face or in a virtual business? The value of real experience is well demonstrated by the way in which some of the top consulting firms have become a rich source of CEOs. It is almost as if the experience that consultants gain from hand-holding clients through hard times constitutes the ideal leadership programme.

This is ironic, since top consulting firms themselves tend not to have a leader in the accepted sense, even though they count among the most successful commercial organisations of recent years. Accenture and McKinsey, for instance, are partnerships which choose one partner to become, essentially, *primus inter pares*. Mr Collins suggests that McKinsey did have the sort of leader that he claims is essential to turn a good company into a great one. But Marvin Bower, the legendary nonagenarian, is so unassuming that he did not even get rid of the irrelevant Mr McKinsey’s name and try to replace it with his own.

Undoubtedly, some of the skills of leadership can only be learnt on the job. Many CEOs report, with hindsight, that it took them about 18 months before they felt they had “mastered” their role at the top. But many of the issues that they face are the same (only larger) than those faced by the leader of any small division within their organisation. Today’s “empowered” junior managers are far better prepared to become leaders than were their predecessors.

**Discussion questions:**

1. What is the basic difference between “industrial” and “post-industrial” leader?
2. How the turnover in top-management could influence companies’ functioning and efficiency?
3. How managers could use different origins of position and personal power to become corporate leaders? Is it now easier or more difficult to become a leader? (Discuss different aspects of nowadays business)
4. What is the difference between project leader and leader in an organisation? Which leadership style tends to be more instrumental (autocratic)?

**Crisis in the strategy-consulting industry**

It is as if a neutron bomb has hit the consulting industry. Pay a visit to your local management-consulting shop, and you will find that the building is intact but many of the people are gone. See the rows of empty desks, once filled with eager young MBAs. Listen to consultants, poor things, complain about having to work for nothing.

Compared with accountants, law firms and share analysts, consultants have at least escaped the most serious charges of abetting the bull-market misdeeds of America's former corporate darlings. Perhaps rightly, since consultants lay claim only to their wonky ideas and advice, rather than responsibility for execution.

Even so, this year is likely to be a disaster for billings. Some firms, including McKinsey, have called on partners to put up extra capital. To be sure, the economic

downturn has depressed corporate spending. Yet companies struggling with a dismal economy presumably need advice now more than ever.

How has business strategy evolved over the past three decades? The Boston Consulting Group could illustrate it very well. BCG is one of a handful of global consultancies that advise the top management teams of big corporations. There are a lot of ideas the firm has been selling to top managers for the past 35 years—in many cases with a lot of success.

In the early 1970s, for example, the firm emphasised the “experience curve”. This idea arose out of BCG’s work inside semiconductor plants in the 1960s, when it discovered that average costs fell by a quarter every time output doubled. It later confirmed this tendency in several other industries. If firms could achieve lower average costs through experience, they should, BCG argued, try to win the battle for market share, even at the expense of current profits.

The next big idea was corporate portfolio strategy: the notion that head office could add value by allocating capital among many different divisions. The trick for senior executives, BCG argued, is to identify the “cash cows”—divisions that generate lots of cash but have low growth prospects—and to milk those cows to supply more deserving business units. The theory provided a popular rationale for conglomerates.

In the liberated capital markets of the 1980s, this idea took a beating. What are investors for, after all, if not to decide which businesses are most deserving of their money? As the takeover market heated up, and big conglomerates were broken into pieces, the idea lost favour.

In the late 1980s, as the pace of change in many industries picked up, a firm’s ability to develop new technologies and products became more crucial. The popularity of the experience curve began to wane, and BCG gave it a facelift through the notion of “time-based competition”. In BCG’s view, experience was the key to winning the innovation battle as well: just as firms should seek increased market share to gain a cost advantage, they should introduce new products faster to gain a technological head-start.

So why, since the peak in 2000, have top consultants cut staff by up to one-third? By one estimate, revenues at the top firms are shrinking by 10% a year. From this depression, predicts one firm’s analysis, the industry will return to its late 1990s levels only in 2007.

One reason is the aftershock of the dotcom boom, which led headcounts at the top-tier firms—McKinsey, Boston Consulting Group, Bain and Booz Allen & Hamilton—to double after 1994. Worse still is the crisis of confidence in consulting. Clients feel betrayed by some consultants’ past advice to spend heavily on dotcom projects. It seems they are now wary of the latest bright ideas of even the best strategic firms—if there are any. As clients bargain for lower fees, some consultants have taken on less lucrative work for governments, especially America’s, which is increasing its demand for consulting.

What does the future hold? Even as “pure” strategy projects suffer, the broader range of consultants seem to be thriving. Accenture, a huge consulting outfit specialising in IT installations and outsourcing, had a stellar summer. Human-resources and pension consultants have prospered, thanks to a move towards outsourcing. When confronted with the choice of a one-stop shop or a specialist boutique, more clients are opting for focus.

The stock market bubble disguised a long-term decline in the appetite of many firms for core strategic consulting, which prompted consultants to move into more

marginal activities. Especially in America and Britain, booming capital markets tempted strategy consultants to take on investment bankers in areas such as advising on mergers and acquisitions. But this business, too, is now depressed.

The underlying problem facing strategy consulting is now impossible to ignore. It has its origins over 20 years ago. Today's big strategy consultants rode to their current fame on the back of three forces. One was the rise of the personal computer, which allowed the greenest business-school graduate to analyse any firm's performance using fancy statistical tools. Another was the emergence of a new quasi-science of management, with readily marketable ideas, such as those of Harvard Business School professor Michael Porter, whose "five forces" approach is now taught to nearly every business-school student. A third was the appearance of a competitive threat to American firms from Japanese companies. This so scared American bosses that they were willing to pay a fortune to any consultant bearing a solution.

Strategy has now become almost a commodity. A boom in business-school graduates means that every new manager is well-versed in the latest academic ideas. Top strategy firms' alumni have been very successful in bringing, say, the "BCG way" with them to their new employers. The advice of a management consultant has lost its mystery. Thanks to all this management consultants may no longer have a profitable business model.

Might the top firms disintegrate? When Arthur D. Little went bust, its various practice areas were snapped up by the proliferating niche consultancies, which range from energy specialists to economic and technology firms. If being a partner of a big strategy consultant increasingly means giving more money and taking less, partners (actual and potential) may conclude that they are better off in a niche of their own.

Finding the next big idea might help, though after fads ranging from "business process re-engineering" to "the war for talent" to "Internet time", it will be a tough sell. What sort of idea might emerge next? Partha Bose, of Monitor sees consultants becoming like poets and psychologists, peering into the minds of customers. Consultants may find rich pickings in the increasingly fashionable fields of "behavioural" economics and finance, which are based on rigorous study of human behaviour.

The consultants have every incentive to find good (i.e., marketable) new business ideas. Perhaps strategy firms will emerge from the crisis looking more like think-tanks, spreading the best management ideas, without invading clients' offices with armies of billable 20-somethings. Yet, as think-tanks are typically rich in ideas, but poor in profits, the consultants had better hope for a more lucrative destiny than that.

#### **Discussion questions:**

1. Why clients of consultant firms have become disappointed? What are the main reasons for crisis in strategy-consulting industry? How they are connected with the situation in management theory?
2. What kinds of changes in external environment of firms have influenced the strategy-consulting industry? Is it possible to use the universal managerial tools now?
3. Could these universal tools be used in Russia, concerning its "young" market?
4. With what departments in companies consulting firms must firstly interact – R&D, marketing, personnel etc.?