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# ADAPTIVE OPTIONS

*When Change Is Not Enough.....*

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### Adaptive Options

- A news-journal published two times annually in the Spring and Fall.
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## Welcome to the Editor's corner



With the current edition, Adaptive Options begins a new phase in its development—the phase of bringing the journal to a much wider international audience and getting the articles published within it international recognition. In part, this is accomplished by being listed in some international databases under the **ISSN 1855–5918**. Further, Adaptive Options is now also available online (see page 2 for the link) where you can read this edition and previous editions of the journal in full and free of charge. Our efforts to still further internationalize the journal is heavily dependent on our editorial board and regular subscribers to Adaptive Options. With this in mind, I would like to take this opportunity to thank the members of the editorial team and all the contributors for their efforts in bringing the journal this far and hope that we can continue to count on you to help raise this journal to even higher international standards in the future.

The journal continues to focus on change and adaptation ranging from how you and I deal with change on a personal level to how companies, institutions, management and even countries are best served dealing with change. The scope is thus fairly broad, but the message of the need for adaptability in today's changing world remains precise. If you have an interesting thought-line on how change is affecting you or your environment, then Adaptive Options would be more than pleased to receive your thoughts for publication in an upcoming edition. Optimal articles are precise, current and aimed at managers and academics for quick to-the-point reading.

The current issue offers seven such articles. The lead paper written by *Wim Vanhaverbeke and Nadine Roijackers*, examines how *methods of open innovation* can become lucrative during economic downturns and help companies maximize returns from their innovative activities. The second paper by Bojan Nastev puts the phenomenon of the shadow economy under scrutiny and asks who is doing it, what are the effects and how do we best combat it. The third paper by Timo Herold and Christopher Stehr looks at proposing hypernorms in order to be more sensitive to foreign and local codes of ethical conduct. In the fourth paper, Nicolai Grue Nymark's contribution, which is the winner of this edition's student representation, debates the use of politeness phrases and provides a thoroughly interesting perspective on the decline of its use in Danish society. The final three contributions by Brigitte McKee, Rune Gulev and Simona Yiannaki offer insight into the intertwinement of culture and leadership performance, the changing impact that sizes of markets may have on companies now and the role of CSR within banking after the wrath of the financial crisis has been felt, respectively.

With these excellent contributions in store, I wish you happy readings and welcome you to this slightly belated release of the fall 2009 edition of Adaptive Options.

Rune Ellemose Gulev  
*Editor*



## How Open Innovation can help firms deal with crisis?

By Wim Vanhaverbeke and Nadine Roijackers

*In this article the authors discuss how open innovation can benefit companies during financially strained times. Further, they add depth to the discussion on which sectors and with which intensity open innovation can be most profitable.*

### Abstract

*Open innovation has become popular these days. Chesbrough defines open innovation as “the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively”<sup>1</sup>. The new imperative for innovating companies is that they can and should use external as well as internal ideas and both internal and external paths to market, when they seek to maximize returns from their innovation activities.*

Open innovation is not only an interesting option in economical stale periods but also in economic downturns like we experience today. The current economic crisis poses new challenges for innovation strategies in established companies. Most companies freeze or reduce their R&D budgets. We provide some arguments how open innovation can be helpful in reducing costs of R&D and, more importantly, how it can create opportunities for growth which are in some cases more attractive than in years of strong economic growth.

The benefits of open innovation during the current economic downturn have only recently been analyzed. Chesbrough and Garman<sup>2</sup> have recently published a Harvard Business Review article (June 2009) in which they present five different moves as to how firms can benefit from open innovation in an economic recession where cash availability for innovation projects is strictly limited. These five moves emphasize the benefits of inside-out open innovation, which refers to processes whereby a company places some of its innovation projects or assets outside its corporate boundaries. In this way companies can generate extra licensing income, nurture partner relationship, develop and expand ecosystems, create spin-offs, and share costs and risks of major innovation projects with external partners. We propose six additional benefits of applying open innovation during a period of downturn which have not been mentioned in this article.

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### 1. Cash is not only king... but it also opens new strategic options for financially sound companies

Before the current financial and economic crisis capital was abundant. Firms could finance their innovation efforts with external money. They could acquire technology from other firms and organizations even when their financial position was weak. Since the economic crisis most firms emphasize cost cutting to become cash-positive. Innovation through internal-R&D, external technology acquisition and long term growth are no longer management priorities. Because many of their competitors are paralyzed by the crisis, cash rich firms can now create a competitive advantage when they continue or boost their R&D projects. Continuing the R&D investments while other companies have to slow down their technological innovation efforts inevitably creates a head start. Cash rich firms can also easily acquire external technology as start-up companies have a hard time to find extra financing in the seed or venture capital markets. The current downturn thus opens up new strategic options for financially healthy companies!

### 2. Profiting from a depressed venture capital market

The current crisis has drastically reduced the availability of seed and venture capital money. Portfolio firms that are not cash positive have a hard time to survive and face major problems to finance growth. Cooperation with large firms may be relatively more interesting compared to times where venture capital money is abundant. Moreover, new ventures have a low valuation: Venture capital-backed start-ups are sometimes valued today at less than 50% compared to similar ventures two years ago. Corporate investors should thus invest in or acquire small companies in a downturn rather than in periods where the market is crowded. Similarly, the turmoil in the venture capital-market also opens up possibilities for companies that have never been active as a corporate investor. As investments in high-tech ventures become cheaper they may invest in these small firms in order to acquire new top technologies.

### 3. Increasing R&D efficiency through joint R&D

Innovation becomes more complex and thus more costly. Huge savings are possible when companies jointly develop new technologies. These savings can of course also be realized in

times of economic growth but the pressure to increase R&D efficiency through cooperative agreements is stronger in downturns. We usually think of bilateral forms of R&D collaboration but the most interesting and creative forms of open innovation are large scale, consortia-like initiatives<sup>3</sup>. These consortia are advanced organizational forms of open innovation with specific managerial challenges. Intellectual property-issues, for instance, have to be resolved when different companies work together. In consortia, it is important to understand that intellectual property-ownership is not always necessary to create a competitive advantage. On the contrary, ensuring the use of and access to intellectual property is essential. In joint R&D initiatives firms may gain even when they do not own the intellectual property and pay royalties (at a reduced rate) for the jointly developed technology.

### 4. Profiting from emerging technology markets

Companies can also reduce R&D costs and speed up the time to market by making use of the services of technology brokers like Innocentive, Ninesigma, and many others. These brokers increase the efficiency of the technology market considerably by shifting the balance further in the direction of more external technology acquisition. Brokers are only one type of open innovation facilitators. There is a rapidly increasing flock of small start-ups that deliver all kinds of services which facilitate open innovation activities of companies: examples are technology auctions, intellectual property-exchange, crowd-sourcing, intellectual property bounty hunters, etc. Making use of these "open innovation facilitators" may be even more interesting during a period of downturn since they provide cost efficient ways to acquire technologies and ideas. Some of these services may also help firms in searching for external uses of intellectual property that are stranded in the company.

### 5. Opening (partially) R&D centres

A corporate R&D centre is the centrepiece in a closed innovation paradigm. As more and more technological knowledge becomes abundant, companies have started to open up their research and development to access and absorb technology from the outside while changing the role of internal R&D.

*The current crisis has drastically reduced the availability of seed and venture capital money.*

*Portfolio firms that are not cash positive have a hard time to survive and face major problems to finance growth.*

The current economic situation is pushing some companies to go one step further in reorganizing the research centre(s) of their company. Top management of Philips for instance made a bold move in 2009 when it decided to open up its world leading corporate research centre for third parties. Part of its technological research will be available for companies in search for leading edge technologies. This implies that Philips is turning its corporate R&D from a cost centre into a profit centre. The organizational problems related to this transition are considerable but when the dust settles, Philips might increase the return on its research efforts considerably. The basic reason is that the same research capabilities can be used in different application areas and are no longer restricted to the businesses in which Philips as a company is active.

### 6. Speeding up globalization strategies

Successful innovation implies in many cases that firms introduce innovative products timely on the market on a global scale. In an economic downturn firms do not have enough resources to finance the introduction of their new products in foreign markets. Licensing-out the technology to a local producer abroad during an economic recession then makes sense:

- First, it enables the innovating firms to introduce their product early on in the product life cycle.
- Second, the introduction takes place before competitors have a chance to get a foothold in that market.
- Third, royalty income provides money that the firm could not spend otherwise. In this way, the company can develop the next generation of technology during the downturn and can be ready when economic growth accelerates again.
- Finally, the licensor may negotiate to make the licensing

agreement limited in time. The licensor can decide not to continue the licensing deal and sell directly to foreign markets.

### Conclusion

Open innovation is not only about opening up the innovation process in firms. In this short contribution we have shown that companies can also make use of open innovation practices during economic downturns. The advantages of open innovation in economic recessions have been analyzed by Chesbrough and Garman in a recent Harvard Business Review article (June 2009) and we added six more moves as to how firms can benefit from open innovation in a downturn. Rather than being a restriction on open innovation practices, recessions seem to incite forward looking companies to move ahead with open innovation. We hope that the 6 moves that are presented here - together with those suggested by Chesbrough and Garman - will encourage managers to accelerate open innovation practices in their companies.

- 1.** H. Chesbrough, W. Vanhaverbeke and J. West (2006), *Open Innovation: Researching a New Paradigm* (UK: Oxford University Press, p 1).
- 2.** H. Chesbrough and A. Garman (2009); *Use Open Innovation to Cope in a Downturn: Five strategic moves will help you reduce the costs of supporting R&D today while preserving opportunities for growth tomorrow.* Harvard Business Review, June.
- 3.** One interesting example is the Center for Translational Molecular Medicine (CTMM) ([www.ctmm.com](http://www.ctmm.com)). This center is dedicated to the development of medical technologies that enable the design of new and "personalized" treatments for cancer and cardiovascular diseases. It is a public-private consortium that comprises universities, academic medical centers, medical technology enterprises and chemical and pharmaceutical companies.

## Shadow Economy in Slovenia – A Survey Approach

By Bojan Nastev

*In this article Bojan reveals some very interesting findings related to a recent survey on the shadow economy (e.g. legitimate work that is not reported to tax authorities) and presents his view as to how we can better tackle the shadow economy and its adverse affects.*



### ABSTRACT

*In this article I put forward the results of a unique survey of the shadow economy in Slovenia conducted in 2007, stating that: (1) the production side takes place in notoriously known activities such as agriculture, manufacturing, construction, trade and repair of motor vehicles, tourism, and other personal services; (2) the participants vary to some degree with respect to gender and (less to) age; (3) the shadow economy in Slovenia accounts to around 15 percent of the GDP; (4) the productivity in the shadow economy is on average 3 percent higher than in the official economy; and finally (5) I propose that the policy of reducing the shadow economy is better served if focused on the production side in the sense of improving entrepreneurial environment and governments' efforts to channel entrepreneurial activities from the shadow economy into the official one.*

In the paper I deal with the phenomenon of the shadow economy in Slovenia, where I use the direct approach of studying the phenomenon: the survey. The survey was carried out in April 2007 among more than 4600 inhabitants in Slovenia aged 15 and above, stratified over the twelve statistical regions in Slovenia. 890 filled-in questionnaires were returned, of which 96 conducted work in the shadow economy. With respect to five variables (gender, education, age, status, and region), the sample has been somewhat weighted to obtain a more representative sample.

The shadow economy is an ambiguous phenomenon: nor the definition nor the

notions are clearly defined. I refrain from debating about the definition and the contents of the phenomenon itself. Nevertheless I follow the shadow economy being defined as the productive activities whose products are legal but the production itself is deliberately concealed from authorities. In this respect, conducting a legal work, e.g. lawn mowing, and not reporting it (thus also not issuing a proper (i.e. taxable) invoice), is in fact a shadow economy. On the other hand, dealing with drug trafficking (or any other illegal activity) does not count as a shadow but as a black economy.

#### **Production side of the shadow economy**

Activities of the shadow economy are presented in

Table 1 with respect to the standard classification of activities, NACE Rev. 1. The table reveals that the activities in the shadow economy take place in various industries, prevailing being agriculture, manufacturing, construction, wholesale and retail trade and repair of motor vehicles, hotels and restaurants, vivid are also other community, social and personal service activities and education. Furthermore, shadow economy exhibits seasonality at the activity level; e.g. agriculture, manufacturing, construction, wholesale and retail trade and repair of motor vehicles, hotels and restaurants, and education.

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Table 1: Shadow economy by activity (total and by gender)

Activity	Shadow	Male	Female
A – Agriculture, Hunting and Forestry	16,8	13,8	21,5
B – Fishing	2,9	2,0	4,7
C – Mining and Quarrying	0,0	0,0	0,0
D – Manufacturing	12,9	14,1	10,9
E – Electricity, Gas and Water Supply	3,2	5,1	0,0
F – Construction	10,1	15,5	1,4
G – Wholesale and Retail Trade; Repair of Motor Vehi-	12,1	12,2	11,6
H – Hotels and Restaurants	11,4	8,4	16,1
I – Transport, Storage and Communications	0,6	0,8	0,0
J – Financial Intermediation	0,6	0,9	0,0
K – Real Estate, Renting and Business Activities	1,3	1,2	1,3
L – Public Administration and Defence; Compulsory	0,0	0,0	0,0
M – Education	6,7	5,1	9,8
N – Health and Social Work	2,9	1,3	6,0
O – Other Community, Social and Personal Service Ac-	16,7	19,5	12,4
P – Private Households with Employed Persons	1,8	0,2	4,4
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

People who participate in the shadow economy do so more out of economic need, e.g. having enough money to get through the month, rather than for wealth accumulation.

From the survey I can conclude that on average men are more prone to the shadow-economy activities, yet different conclusions can be reached when checking this issue on an activity level (see table above). Males dominate the activities of manufacturing and construction; females are more prevalent in agriculture, hotels and restaurants and education.

Furthermore, younger (between 26 and 35 years of age) and unemployed (and not registered at the Employment Service) are more present in the shadow economy, whereas education plays no significant role in this re-

spect. The survey also revealed that work in the shadow economy appears as a seasonal work, being paid via student work (which has lower taxes) and is a somewhat permissible act.

In financial terms, the income from the shadow economy for one third of people presents less than 10 percent of what they earn in the official economy. Furthermore, above 61 percent of the money earned in the shadow economy is spent in the official economy. Only 17 percent is returned to the shadow economy for further spending and slightly above one fifth is destined for savings. This clearly indicates that the

shadow economy is more of a help to survive than a way of accumulating wealth.

Based on the survey, the shadow economy in Slovenia in 2007 represents 15.6 percent of GDP (12 to 19.1 percent of GDP in a 95-percent confidence interval). For a proper comparison one would need to compare this estimate with estimates following the same procedure (survey). On average, developed countries exhibit a shadow economy of about 10 to 15 percent of GDP. On the other hand, less developed countries exhibit 30 and more percent. Consistent worldwide estimates for the size of the shadow economy



are presented in Schneider (2007). But he used the macro modelling approach - one needs to bear in mind, that direct methods provide lower estimates of the shadow economy. Taking all this into account, the Slovenia's share of shadow economy is in line with its line of development, but by far not negligible.

The survey also revealed that the money for spending in the shadow economy comes from earnings generated both in the shadow and the official economy. Furthermore, it is evident that goods/services of food and non-alcoholic beverages, clothing and footwear, furnishings, household equipment and routine household maintenance, transport (including the repair of motor vehicles), and miscellaneous goods and services (where one can find also financial and personal services) are the most important purchasing groups of products in the shadow economy.

### Policies to tackle the shadow economy

The reasoning to fight the shadow economy lies in the consequences the shadow economy comprises. However, there are not only negative but also positive consequences. The latter comprise higher flexibility, lower prices for consumers, job creation and income generation, and in some cases can even act as an incubator for daring entrepreneurial activities. On the other hand, the shadow economy poses unloyal competition to the firms in the official sector, non-compliance with rules and standards, and, above all, shadow economy means the government collects fewer taxes. In Slovenia, with the estimate of 15.6 percent of GDP, the tax loss due to the shadow economy is estimated to be over 6 percent of GDP.

The policies to fight the shadow economy can range from very restrictive ones to the other extreme situation, the *laissez faire* policy, where no prosecution whatsoever is being enforced. In the former case the result would be pushing such activities into illegal (even criminal) activities, hiding more and more from the restrictive authorities. Also, this would mean the demolition of all the positive consequences of the shadow economy, which is far from appropriate, especially in the current, global economic crisis. In the latter case very few taxes might be collected. The proper solution lies

somewhere in between.

I propose the policy to be focused on the production side rather the consumption side. Namely, the latter requires higher efforts to produce results: imagine a hard time for different government bodies when pursuing consumers for the receipts for their purchases. Also, bearing in mind that encouragements are superior to prosecutions, the most appropriate way of fighting the shadow economy is to "work" on the production side in the sense of improving entrepreneurial environment and governments' efforts to channel entrepreneurial activities from the shadow economy into the official one - and the supply side will follow.

### Summary

In summary I can state that shadow economy is far from negligible in Slovenia, amounting to around 15% of GDP, covering in general all activities and groups of people, both production-and consuming-wise. Yes, some specifics are present: males are in general more prone to shadow economy, yet some activities turned out to be female dominated. The shadow economy exhibits itself more in activities of agriculture, manufacturing, construction, tourism and personal activities. However, people working within the shadow economy in Slovenia do so more out of economic help rather than wealth accumulation. Thus, combating it needs to be planned accordingly.

I propose to address the issues of encouragements of working in the official economy (rather than strict prosecutions), focusing primarily on the entrepreneurial incentives and reducing tax and administration burdens. Furthermore, these activities are to be economy-wide; activity-specific approaches, besides being more costly, tend to shift shadow activity to other activities - and redistribution does not mean diminishing shadow economy. One also needs to bear in mind that reducing the size of the shadow economy is a long-term process. Therefore, consistently increasing incentives to work officially will pay-off in the long run, i.e. reducing the size of the shadow economy and its negative consequences.

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## Business Ethics: A possibility to adapt hypernorms in corporate codes of ethics

By Timo Herold and Christopher Stehr

In this article, the authors present their newest findings relating to how the use of hypernorms can facilitate internationalisation and be sensitive to both home and host country codes of ethics.

### ABSTRACT

*With regard to economic globalization, there are no obligatory rules at the global level. The problem for a company is determining which norms and values the company should follow. Should it comply with norms of the country of origin or with norms of the host country?*

*It is important for an internationally acting company to have a code of ethics, to show their responsibilities to its stakeholders. This paper shows the results of a research about hypernorms and how they can be part of a corporate code of ethics. The hypernorms which were developed in the research could be a basis for companies to develop their own corporate code of ethics. Also managers of international acting companies could compare their code of ethics with the developed list of hypernorms. Companies and managers need to consider the appropriate use of such hypernorms in order to avoid a conflict between codified norms of the home country and cultural norms of the host country.*

### Introduction

Business ethics has become a focus of corporate management's attention in recent years. This is caused on the one hand by public pressure and on the other hand by a change of the strategy of the companies to respond to this pressure. Both were activated by a public notice of scandals, like corruption or a violation of working or environmental standards. In light of such incidents, companies are compelled to deal with ethical questions just in the same way they do with their well-known business strategic questions.

In times of economic and entrepreneurial globalization, companies do not act nationally but internationally or globally. Thus, an adjustment of the corporate ethics to an international or global framework is necessary. There are no compulsory laws at the global level. The companies cannot align their behavior to a global valid framework of norms and laws. There are no obligatory rules on global level to which a company could comply. Only some rudiments like the OECD guidelines for multinational corporations exist. On the other side, national legislation is losing its influence on companies.

The managers of these firms have to decide to which norms and values they want to conform in their daily work. Figure 1 shows that the deficient international law and the loss of influence of national law leading to the necessity of a voluntary self-commitment.

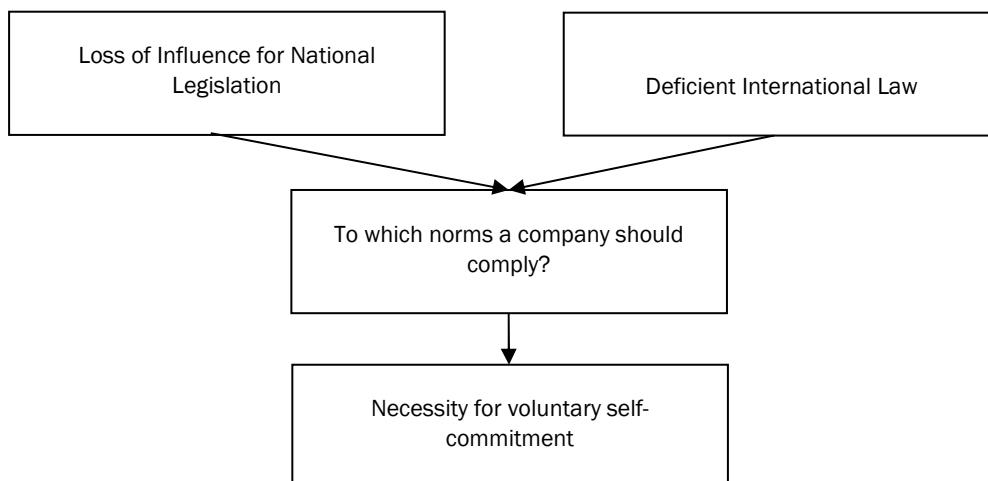


Figure 1: Necessity for voluntary self-commitment (own drawing)

### Challenges for a global corporate code of ethics

A code is a catalog of norms, which are binding standards for human behavior. There are different names for codes of ethics in practice, such as corporate guidelines, business principles or codes of conduct. In this article the term code of ethics is used to summarize all its variable denotations.

The content of a code of ethics are the written business principles, ethical norms and values of conduct of a company. It describes the responsibility for the internal and external stakeholders and so it regulates the relationship of a company to its employees, customers or suppliers. Other aspects such as environmental protection can be part of a corporate code of ethics as well.

In a global context, a code of ethics can help to complete the imperfect framework of regulations. In this context a company can strengthen its credibility and legitimize its activities and so generate trust from its stakeholders.

The challenge at the global level for a code is the possible conflict between the codified norms and the ethical norms of the host country in which the code is transferred. If a code is based on an ethnocentric view the code can cause problems with the employees of the host country. Either they do or do not accept the norms, or they have troubles with their conscience because of different cultural norms in their family. The codified norms should not be contradictory to the ethical norms in the host country. Hypernorms can be a possible opportunity for a common base. In an empirical study Spicer et al. (2004) show, that a hypernorm can be an orientation for managers when they are confronted with ethical decisions.

### Developing Hypernorms for a Code of Ethics

The term hypernorm was coined by Donaldson and Dunfee. A hypernorm can be defined as a fundamental moral rule for all humans. Hypernorms are reflected in the religious, philosophical and cultural beliefs (Donaldson and Dunfee 1994). They are those norms which are concretized in the respective social and cultural context

and become manifested in the community. The common validity of hypernorms is assumed (Donaldson and Dunfee 1995).

Donaldson and Dunfee say that there is evidence for norms to be hypernorms; if two or more of the indicators are fulfilled a hypernorm status is supported. For this purpose they posted the following list with eleven indicators for a hypernorm (Donaldson and Dunfee 1999, 60).

1. Widespread consensus that the principle is universal.
2. Component of well-known global industry standards.
3. Supported by prominent nongovernmental organizations such as the International Labour Organization or Transparency International.
4. Supported by regional government organizations such as the European Community, The OECD, or the Organization of American States.
5. Consistently referred to as a global ethical standard by international media.
6. Known to be consistent with precepts of major religions.
7. Supported by global business organizations such as the International Chamber of Commerce or the Caux Round Table.
8. Known to be consistent with precepts of major philosophies.
9. Generally supported by a relevant international community of professionals, e.g., accountants or environmental engineers.
10. Known to be consistent with findings concerning universal human values.
11. Supported by the laws of many different countries.

The research was oriented on these indicators. With the study a minimum of two criteria should be fulfilled for each norm. For this reason, the norms are derived from the standards and regulations shown in figure 2. To review the norms interviews are made with representatives from different religions, e.g. Buddhism, Christianity, Hinduism, Islam, Judaism and Confucianism. Further the interviews are done with representatives from non-governmental organizations (NGO).

*In a global context, a code of ethics can help to complete the imperfect framework of regulations. In this context a company can strengthen its credibility and legitimize its activities and so generate trust from its stakeholders.*

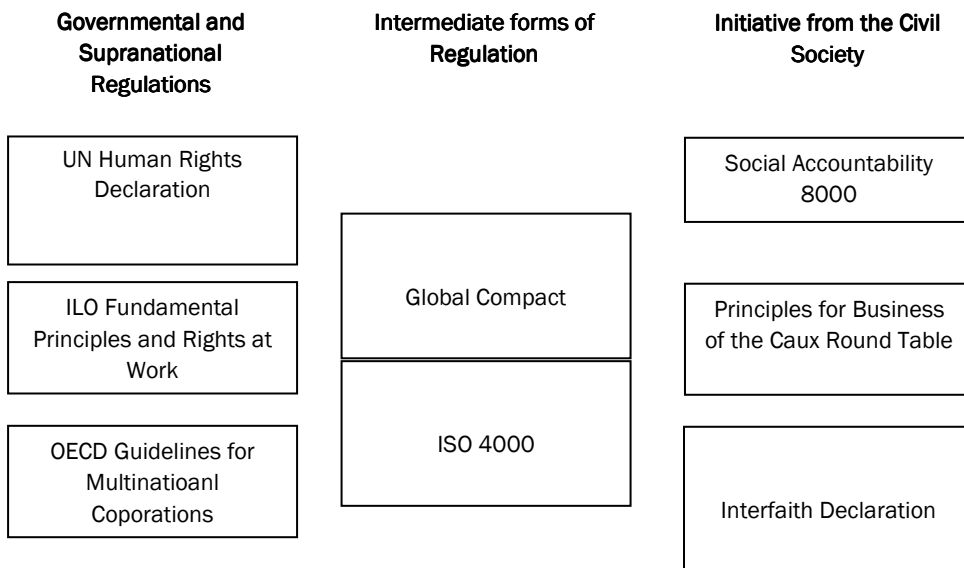


Figure 2: Sources for hypernorms (own drawing)

### Results

By deriving norms out of the named standards it was possible to develop a preliminary catalogue of norms. The reviewing of the norms with interviews leads to an exclusion of some norms. These norms are identified as inconsistent with the principles of religions, standards supported by NGOs or as not practicable for companies. In the end 16 norms could be identified as hypernorms with the definition given in this article. Some of the areas of responsibility are combined because in these areas only one or two norms are left. Following are the norms shown by their area of responsibility.

#### Responsibility for the employees

In the first interviews six norms could be developed as hypernorms for business.

1. A company must not put physical or psychological pressure on its employees. This means every type of physical punishment and physical or mental coercion.
2. A company has to provide conditions of work, which are not a danger for the health and security of its employees.
3. A company has to provide a remuneration, which makes it possible for its employees and their families to cover their basic need of food, clothing, accommodation and health care.
4. A company must not discriminate against its employees on the basis of race, color, gender or religious denomination
5. A company must not benefit from compulsory labor. Compulsory labor should be defined according to the ILO convention 39.
6. A company has to build a framework which makes it possible for its employees to act ethically, e.g. with a code of conduct.

#### Responsibility for customers and suppliers

The areas of responsibility for customers and suppliers are combined because of elimination of norms by interviews in these two areas. For this combined area a set of the following norms could be identified.

1. A company must provide its customers the quality and service agreed.
2. A company must provide all relevant information for the correct use of its products to its customers.
3. A company must commit itself not to conduct fraud or deception regarding the characteristics of its products.
4. A company must pay its suppliers according to the terms of price and date agreed.

### Responsibility for environment and society

The two areas environment and society are combined to one area. In this combined area the following six norms are included.

1. A company has to commit itself to use as few natural resources as possible for its production. On the other side it has to recycle as many resources as possible.
2. A company has to review its business strategic decisions regarding possible environmental risks of its production process, products or services.
3. A company has to review its business strategic decision regarding its effects on the society where the company operates, e.g. plant closure.
4. A company must not be involved in corruption or support corruption by its employees.
5. A company has to make a contribution to the public budget by paying taxes in the country it operates. For this reason it is necessary to know and to comply with the tax laws of the different countries.
6. A company has to respect the intellectual property of other companies or persons.

### Implications

An international acting company has to face ethical challenges, because of the deficient global law and the requirements of several stakeholders like the employees in the country of origin and the host country and also national or international Non-Governmental Organizations. Regarding this, a company has to show its corporate social responsibility to its stakeholders. A corporate code of ethics is the first step for a company to signalize its corporate social responsibility. Such codes could prove pivotal in changing the behavior of e.g. managers and should be encouraged throughout organizations. But a company has to decide which norms have to be codified in such a code.

The introduced hypernorms can be a basis for a corporate code of ethics. They serve conflicts which are thought to be illegitimate in every country. For the management of an internationally acting company the mentioned norms could be considered as a guideline for developing its own code of ethics. The mentioned hypernorms are an indication for norms which should be part of a corporate code of ethics and they should be applied in a code of ethics in an international acting company. They show which kinds of responsibility are important in every national culture. Also the hypernorms can be used to review an existing code of ethics and an alignment with the mentioned hypernorms is possible. Because of the assumption that these norms are globally valid, the norms could be component of the code in every country. So the employees are not in conflict with their own cultural norms.

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## Why bother with antiquated politeness phrases?

By Nicolai Grue Nymark

*How does our use of language affect our daily interaction? In this article, Nicolai addresses some key challenges facing Danish society today. The paper was chosen for publication out of over 150 student contributions.*

Earlier this year I watched a TV show<sup>1</sup> in which the distinguished Danish poet Søren Ulrik Thomsen (1956 -) presented a few personal experiences of his own. In this article I echo several of the points that he has voiced and that I myself have experienced and agree fully with.

Prompted by a recent vacation to the USA and the natural exchange of politeness phrases practiced there, and having returned to Denmark, I was surprised to notice that everybody around me seemed to find it embarrassing when I finished a visit in the supermarket with a “goodbye” to the saleswoman, whom almost found it intimidating. I suddenly became aware of the fact that the existing code of practice had become to carry out such interactions without exchanging a single word. Even the amount to pay can be read on the monitor. A dialog in such a relation is only initiated if one part feels the urge to complain. This code of practice however, has not always been the case in Denmark. Over the last few decades, a tremendous amount of politeness phrases have deteriorated from the Danish public domain.

In the USA these phrases are important because of a substantial cultural difference within the country. Civil norms of politeness phrases act as a mutual acknowledgement of the counterpart and implicitly says; “I recognise you as my equal, despite of our social and economical differences because we are both citizens.” Hence, a symmetrical relation between the two parts is articulated and confirmed through these forms of politeness.

The civil norms of politeness phrases originate from a class society and they are implicit verifications of mutual ac-

knowledgement despite differences in social, cultural and economical status. But in a Denmark, characterized by its widespread equality, it has almost become offending. Our reciprocal equality is so obvious - so why do you intend that it might not be?

The change towards less use of politeness phrases in Denmark can almost be pinpointed to a certain date. The repeal of exchange of politeness phrases as the code of practice in the Danish public domain stems from the Youth Revolt in the late 1960's.

### **But what was the foundation of this repeal?**

It was the fact that Denmark had become a society of consensus. We Danes did not any longer need to say anything because we had already negotiated everything in place. We completely agreed upon our relation before the interaction initiated.

The saleswoman had, through her labour union, negotiated her rights and the customer had achieved his rights respectively. At the same time we acknowledge the supermarket as a respectable and fair business upon entering the shop, and accept the price level when we approach the check-out. Nothing needs to be spoken. Everything is implicit, and Danes will understand and accept that communication is reduced to a minimum. Things only become explicit if one of the parties feels the need to assert their rights - if we feel our rights are violated. Our implicit cultural behaviour is to a large extent no hurdle when dealing intra-culturally - when Danes interact. However, with multiculturalism on the rise in Denmark, this verbally minimalistic method of interaction can no longer be the sole communi-

cation option.

The pitfalls of this form of communicative implicitness are well exemplified with an experience that recently occurred to me. Upon hailing a taxi in Copenhagen I received no reply after giving the taxi driver, (a Muslim man), the directions. The driver drove very fast and chose a way that I was not familiar with. I had not initiated with any “Hello Sir”, and hence not received any “How can I help You, Sir?” in return, so it did not seem natural for me to comment on the speeding. On the contrary I felt insecure about the situation. My imagination started spinning and the thought of this foreign mans motives further frightened me. At the end of the ride I found myself very angry with him and chose to punish him by not abiding by the rules of offering politeness phrases, not tipping him and furthermore addressing him in an imperative way; “I want a receipt.”, the dialog ended. The driver was himself visibly upset.

From my observation post in life, I propose that such experiences indicate the potential danger inherent in the lack of exchange of politeness phrases as the code of practice. Denmark is no longer the home of a homogenous nation but instead constantly evolving towards greater diversity and multiculturalism. The reason why I experienced the foreign taxi driver who was speeding could in the first place spring from a misconception or idea on their part about our disregard towards their ethnicity, cultural background or religious beliefs. At the same time I begin to question their motives as well.

Wise after the event, I support Søren Ulrik Thomsen's reflection that a simple initial exchange of politeness phrases could have prompted a conversation that very likely would have pre-empted these misconceptions, and hence

Increasing multiculturalism challenges the notion of homogeneity in Danish society, and the development towards a closer integration with cultures different from the Western European collectively calls upon a reawakening of these civil norms of politeness phrases.

avoided the conflict.

Even though the experience above could be seen as a deliberate analogy of the largest Danish international crisis in decades, (the strikingly injudicious cartoons of the Muslim prophet Muhammad in 2006), this correlation is in my point of view sadly enough only symptomatic of the problems.

#### **Pure form and no substance**

The reason why the norms of politeness phrases originally were discontinued was because they apparently had become pure form and no substance. When the moral value of achieving economical and social equality had almost reached a status of a priori axioms, then expressions and conducts *from* class society was automatically perceived as *equal to* class society, and thus not only out of fashion but directly repulsive.

The atmosphere among the progressive had not only matured to the point where they could abstain from former conducts - to do so even became a goal in itself. It was exactly this very logic that spurred the repeal of exchange of civic politeness phrases. The Youth Revolt partly defined themselves in opposition to these norms. That generation looked upon the civic norms as rigid forms that covered the "true human being". That is definitely a criticisable antithesis. On the contrary, I believe that these civic norms are actually a civilising factor. I believe that if you are well versed in them, then you will have enhanced capabilities to interact, and thus act in civilisation.

The phrases of politeness emanate from the age of Enlightenment and were later implemented as civil norms during the democratization of Europe. They embraced a dual purpose. First of all they actually signalled equality. Second of all they signalled good manners, cultivation and a knowledgeable human being. This indicates that the idea of politeness phrases, as containing the above purposes, has to be accepted into the general populations' idea of enlightenment before it becomes a success. Exactly as the general idea of enlightenment in the Danish population in the late 1960's and onwards was defined as being completely opposed to the politeness phrases and succeeded accordingly in this belief.

If this understanding of the dual purpose of these politeness phrases is not implemented in the population's general idea of

enlightenment, then these phrases will exactly appear as pure form and no substance.

#### **Not just a shabby cliché**

As indicated in the beginning, the point where the civil norms of politeness phrases were looked upon as solely form began when the Danish welfare society was reckoned as being fully unfolded. During the previous times of class society the reasons behind the use of politeness phrases had seemed obvious, even though its true function remained tacit. But increasing multiculturalism challenges the notion of homogeneity in Danish society, and the development towards a closer integration with cultures different from the Western European collectively calls upon a reawakening of these civil norms of politeness phrases.

Especially in the Danish case this development towards a closer integration with foreign cultures is not just a shabby cliché, as the Danish society increasingly will be dependent on labour supply from abroad.

In OECD's latest World Economic Outlook, the growth of the Danish GDP in the period 2011-2017 is forecasted to be the 4<sup>th</sup> lowest among the 29 countries. This condition is first and foremost a consequence of massive shortages in the labour supply. Thus it is an absolute necessity if Denmark is to keep pace, that more immigrants successfully take part in the Danish labour market. In longer terms this is absolutely vital for the preservation of the welfare state that the Danes are so fond of.

#### **The incarnation of Modernity**

Søren Ulrik Thomsen points out that a different aspect reflected by the politeness phrases - repelled by the Danes or not - is actually Modernity. In the pre-modern village everybody knew everybody. The big city life, however, is an inseparable part of Modernity. An urbanite is on a daily basis forced to interact with complete strangers. And this coexistence is possibly regulated by civil norms of politeness phrases. The Danish Youth Revolt discontinued this practice in the belief that transgressing these unwritten boundaries would result in greater freedom. He looks at it the other way around. In his perspective, these norms actually gave the individual the possibility of anonymity. If you just comply with the norms, then retirement from further engagement in the public domain is completely legitimate. Beneath this conduct you can be a Muslim, Chris-

tian, Agnostic or Atheist. You can have the political beliefs and sexual orientation you want, because these matters are not contained within the exchange of the politeness phrases. They simply ask that you acknowledge me for who I am – a fellow citizen, and a fellow human being. Looked upon in this way these norms constitute the incarnation of Modernity.

Because Denmark continuously faces even greater interdependence with foreign cultures - in its denotative meaning - a re-incarnation of the substance of the civil norms of politeness phrases is more vital now than ever before.

### The confused boy in class

Cultural characteristics are remarkably peculiar; one can try to deal with them on a structured metaphysical level, and still not be able to emancipate oneself from them. After my horizon on the subject was broadened after attending a multicultural management course, I had a remarkable experience in another class with multicultural participants. We were asked to talk to the person sitting next to us, and then later introduce our new acquaintance in plenum. After a very flattering introduction, an American individual finished his presentation of a Ukrainian girl with "... and I wish that I in many ways were much more like her"; said as if it was the most comfortable thing the world. My spontaneous reaction was ambiguous. As I realised that it was not a joke, I felt awkward and it seemed as if I was the only one taking notice. After the event, this seems to me as a clear-cut case in which I, a young Dane, was completely unable to decode what happened around me. A Dane would never have unfolded such an outspoken praise of another person. We Danes have accustomed each other to play down this practice with such a magnitude, that we apparently react dumbstruck when exposed to such praise. In my view, this is

yet another adverse effect of our homogenous culture. At least it indicates that cultural characteristics are such a deep-rooted phenomenon, that even the broad-minded youth is often more restrained than admitted.

Another and final feature of the exchange of politeness phrases is the fact that they are not value-laden. They are neither Danish nor Muslim; they are civil! Even though civil norms of politeness phrases can sound old-fashioned and abandoned, the reality of increasing multiculturalism calls upon a re-awakening of these norms.

The cultural characteristics of small, homogeneous societies in which welfare states have developed are many. To what extent different nationalities are provoked by the problems of the last 40 years of Danish "navel gazing" - I cannot tell. Especially as I am now clearly realizing how much I view these civil norms from within my own cultural background.

One thing is certain, the exchange of politeness phrases as the code of conduct in the public domain is nowhere near sufficient to solve all conflicts based on cross-cultural differences. However in a Denmark unaccustomed to deal with cultural diversity, a revival of these civil norms is in my perspective "low hanging fruits", and should be seen as a valuable remedy to ease intercultural clashes on so many levels that it calls for an article of its own.

<sup>1</sup> *The Power of Thought* (Tankens Magt), DK4, 12. May 2009

<sup>2</sup> OECD Economic Outlook no. 85

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## Cultural Competence and Leadership Performance

By Brigitte Wallace McKee

In this article Brigitte questions the link between cultural competencies and the level of leadership performance that we arrive at and proposes several themes that should be further investigation in order to better illuminate their intertwinement.

*The need for streamlined research*—In the last ten years, the field of cultural competence has emerged predominantly as a strategy for improved performance in health care, addressing the disparity in health care identified amongst different ethnic groups in the United States (Betancourt et al., 2002). Additional Internet searches on cultural competence reveal similar application of this topic to the fields of communication, social work, and education. Terms such as “intercultural competence,” “cross-cultural” and “multicultural competence” is often used in the literature to describe this topic. Recently, the concept of cultural competence has extended to other disciplines such as public administration (Rice, 2007) and executive man-

agement (Trompenaars and Woolliams, 2008).

Focused study is needed on executive leadership performance in multicultural settings due to increased multicultural work environments and executive desire to manage and leverage cultural diversity (Matveev and Milter, 2004). In management science, the topic arises in the areas of human resources training and diversity management, expatriate management, and intercultural management. However, a search of library databases and the Internet for scholarly articles on the topic, “influence of cultural competence on executive leadership performance” reveals few academic articles and empiri-

cal research on this exact topic. Despite this, one will find many consulting services that offer assessment or training programs. This calls into question the theoretical foundations for such services.

*An initial study of the issue*— To investigate the influence of cultural competence on leadership performance, I defined the variables for research based on theoretical models from Fons Trompenaars and Peter Woolliams, Mitchell Rice, and Philip Harris (Harris, 2004). For my study, cultural competence (as independent variable) in the context of organizations and multicultural settings is adapted from Rice’s model as well as Trompenaars and Woolliams’ conceptualization. Cultural competence is defined in Table 1 as a set of abilities.

Table 1. *Definition and measurement of cultural competence*

Cultural Competence Ability	Level
Operate effectively in different cultural contexts	Low
Provide services that reflect the different cultural influences of constituents/ clients	High
Learn new patterns of behavior and apply them appropriately + above	High
Reconcile differences and leverage business benefits + above	High
Manage and leverage business benefits of diverse teams and employees + above	High

Table 2. *Definition and measurement of effective leadership performance*

Leadership activity	Effective Performance Measurement
International assignments	Innovative, team players, people who think in terms of diversity, who want to learn, and who value freedom of choice are desired by global companies
Team leadership	Effective co-optition between passion and control; able to take the “helicopter view”
Multicultural work environments	Reconcile differences between team members’ cultural background, sex, age and ethnicity as team roles
Productivity increases	Via a reconciling organization where strong core values support managers ability to manage change, overcome crises, focus on longevity, achieve retention goals, develop motivation, identify and realize productivity

Four leadership activities (as dependent variable) defined in Table 2 focused the study: international assignments, team leadership, productivity increases, and multicultural work environments. Other relevant leadership activities, but outside the scope of this study, include mergers/acquisitions, marketing, and product design.

Next, I investigated the influence of cultural competence on leadership performance via a survey containing management dilemmas. These dilemmas, posed in a two-by-two matrix diagram, were designed to capture the relationship between the independent and dependent variables. This method adapts a model previously used by Dr. Jerry Glover (Glover, 2005) to survey adaptive leadership responses to management dilemmas.

My research hypothesis was that cultural competence does influence leadership performance. Thus, the majority of respondents would select solutions to the dilemmas that reflect both high cultural competence and high leadership performance. The research used a mixed methods approach including survey and interview methods. In stage 1, a conceptual model was developed and used to create a survey with management dilemmas. This tool was revised over two trial studies. In addition, two experts (Bronheim, 2008; Marshak, 2008) were interviewed to discuss the nature of the research problem. In stage 2, the survey tested the research hypothesis that there would be an influence of cultural competence on leadership performance. A sample population of 36 experienced military officers was targeted for my initial study. My study assumed that the nature of a U.S. military officer's work in resolving dilemmas in multi-cultural environments made the group a reliable sample. 20 respondents answered the survey over a two-week period.

*Analysis of findings*—Survey data indicated that the majority of answers selected (78 percent) were high leadership performance. Of the high leadership performance answers, the majority (78 percent) reflected high cultural competence. These findings supported the research hypothesis that cultural competence does influence leadership performance.

My first stage of research focused on developing the survey tool and interviewing experts to frame the research problem. This stage revealed the difficulties that exist in defining and measuring the independent variable, cultural competence and also raised the issue of leadership performance (and any role of cultural competence) being context-dependent. This feedback helped me to grasp why I was unable to find empirical studies on my exact research problem and to recognize the limitations of my research.

Findings from this study are limited due to the nature of the sample population and size, and the exploratory nature of the designed survey. Its mixed methods procedures provided conceptual understanding of the research topic, but the overall research design and experiment did not lend itself to rigorous statistical analysis. This was due to one sample being tested, and no established technique to differentiate the group according to levels of cultural competence.

I did not attempt to add to the theoretical literature establishing frameworks for developing and assessing cultural competence. Future studies might do this by investigating correlations between areas such as an individual's education level or work experience and its influence on survey score. To increase the reliability and validity of the survey tool, multiple scenarios for activity types could be developed so that respondent choices are measured against a larger answer pool.

*Conclusions and recommendations*—The survey tool tested how individuals solved management dilemmas by applying high or low levels of cultural competence. Separate studies must take place for a more comprehensive understanding of the influence of the independent variable on the dependent variable.

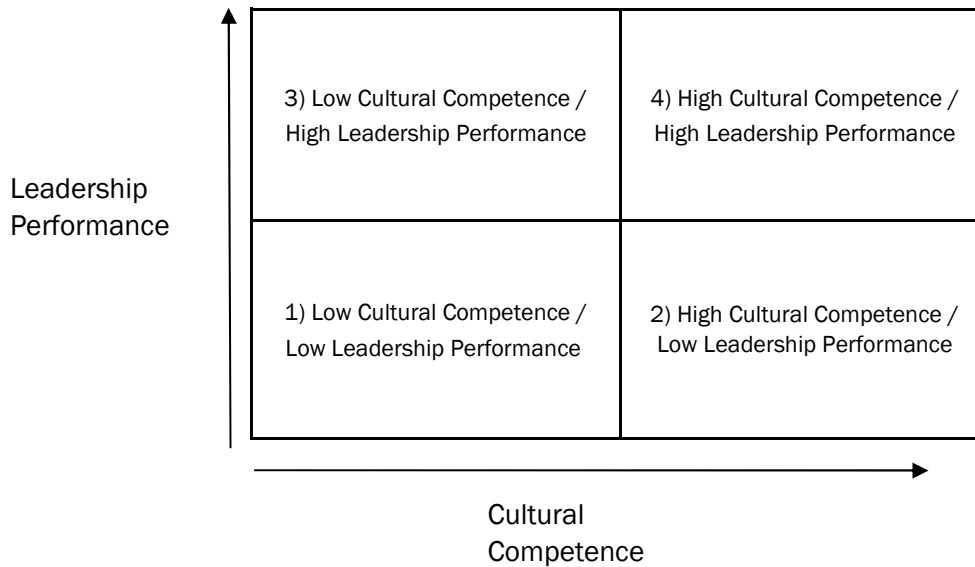
I recommend future research on the relationship between cultural competence and leadership performance allowing for more in-depth statistical analysis by having several sample groups. Also, a qualitative study may lend itself better to practitioners who desire a greater understanding for the concept of cultural competence and the nature of the relationship between cultural competence and leadership performance.

Sample questions for future research:

1. Do people with more work experience demonstrate more or less cultural competence when solving management dilemmas as opposed to people with less work experience?
2. Does cultural competence influence leadership performance more when there is an unequal power distribution between individuals or organizations?
3. At what stage of a decision-making process does cultural competence influence leadership performance?
4. What role does cultural competence play in low leadership performance situations?

*Survey data indicated that the majority of answers selected were high leadership performance. Of the high leadership performance answers, the majority reflected high cultural competence. These findings supported the research hypothesis that cultural competence does influence leadership performance.*

Finally, studies of leadership performance often extend to three levels: individual, team, and organization. Future research can address how cultural competence influences leadership performance for both the team and organization levels. Research of this type is especially critical to training and development efforts for executives in multicultural environments, a ubiquitous scenario in today's business world.



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## The Small Home-Market Advantage

By Rune Ellefmo Gulev

It used to be “The Large Home-Market Advantage”. Large developed countries in the world (e.g. Germany, USA, Japan, UK, etc.) would have sufficiently large enough home markets to allow firms to grow strong and competitive, which, when going international, provided them with an advantage. Within their national boundaries of considerable size, customer availability would be vast and domestic firms could reap the benefits of economies of scale and scope. When investments into companies were made, they would be large allowing those companies to excel in comparison to the smaller investments companies from smaller countries were granted. When market trends were detected, the home market would be large enough to support sufficient R&D resources to be allocated towards exploiting the trend. Companies from large countries thus not only had a large customer base to rely on but also had considerable supplier and resource advantages that many small country companies had a harder time getting access to.

However, as globalization continues to gallop forward, it appears that the rules of the game are changing and the balance of advantages with it. Earlier,

home markets were protected by some form or another of trade protection which favoured larger markets; domestic firms within the large market could operate freely to a large number of consumers. As trade barriers are going extinct in much of the trading world, the advantage of the large home-market may be diminishing, and the earlier comparable disadvantages of the small home-market may be reversing.

In a fully globalized world with no trade barriers, which does not exist and never will but which we are shifting towards, there is only one large domestic market. In broad terms, for the companies in large markets, the emphasis in the decades past was mainly on product specialization. The need for product adaptability was secondary as their large home customer base was mostly homogenous. Customers in Northern Germany as well as Southern Germany were satisfied with Siemens products, East and West coast Americans equally enjoyed Kraft foods, etc. Conversely, companies operating from small countries had to specialize in diversification in order to reach sufficient customer numbers. Rather than only emphasizing product excellence, variability with regards to product, business strategy,

operating philosophy, etc. were emphasized so to cater to many different markets around the world. For instance, in some small countries such as Norway and Denmark, the payment of bribes and ‘smear-money’ for companies to do business in some third world countries is tax deductible. This is a prime example of how adaptability has been at the core of every aspect of the business chain. Companies from small countries have been forced to be adaptable and creative in order to compete internationally.

As the world becomes one large market, I believe it is likely that the benefits of adaptability will exceed the benefits of product specialization. I base this assertion on the premonition that the difference between a home market of 5 million people opposed to 200 million becomes insignificant when the global market (i.e. the world), for which access is as easy as the home market, equals seven billion people. The companies of the large markets that have achieved product specialization will continue to do well internationally as there is a global demand for their superior product specialization. However, where they previously could disregard niche players from foreign markets as any serious

*With the consequences, good and bad, of continuing globalization, the playing field for businesses may be changing. Small country companies may be gaining a competitive edge granting them a vicious bite in consideration of their comparatively small size.*



A niche player that corners a world market is no longer a peripheral threat and can quickly grow to become a world-market leader.

threat to their market share, they now need to take them seriously. A niche player that corners a world market is no longer a peripheral threat and can quickly grow to become a world-market leader. Through a history and culture of rapid adaptability, many small country firms are able to adjust to trends around the world more quickly and acclimatize their strategies appropriately. In Darwinistic terminology, the agility of the small and quick seems to provide a formidable adversary to the bite of the big and powerful as globalization and incentives for global trade continue to excel.

#### Further repercussions?

Could it be argued that the advantages of the small home market even extend themselves to the political sphere? Probably not, but when looking at some institution that are expected to represent global or at least a conglomeration of countries, it can be difficult to assign leaders for key positions from large countries as this would disturb the neutrality with which that institution

is expected to conduct itself with. While this is a highly complicated assertion, it might explain some of the reasoning behind the appointment of the EU presidency to Belgium's Prime Minister Herman Van Rompuy, Danish Ex-Prime Minister Anders Fogh Rasmussen as NATO General Secretary and Bulgarian politician Irina Georgieva Bokova as Director-General of UNESCO, just to mention a few examples of small country leaders occupying multinational and powerful positions. Appointing leaders from large countries might sit poorly with leaders of other large countries, and hence opting for small country leaders is an acceptable settlement for all parties.

Whether speaking economically or politically, it appears that globalization harbours many inherent advantages for the smaller countries of the world. The large home-market advantage may not be so advantageous anymore and small country companies may be enjoying this demise the most.

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## CSR's role within banking in the post financial crisis

By Simona Mihai Yiannaki

As the financial crises seems to be subsiding, Simona looks ahead and addresses the role that Corporate Social Responsibility can and should have on banks within Europe in the future.

### **Are European banks facing new problems? Or is it the same Mary with a different hat?**

At current, the problems existing within the E.U. banking system are made more visible, probably as a result of European governmental elections taking place in many European countries that cause lobbyist to emphasize problems rather than solutions. This paper sheds some light on the debate and provides some solutions to separate troubled banks from performing ones.

From an investor's standpoint, apart from investing money in big banks that have been bailed out, possible choices for good deals looks broadly like this:

1. On the investment banking flank, the geography of the market is still important and dependant on the ABS (asset based securities) or on other derivatives and structured products playgrounds (e.g. Latin America, U.S. or Asia usually). Latin American banks will continue to experience trouble for many decades to come, the Asian markets are on steady growth, while the entire U.S. banking system does exhibit quite a few recovery signs. Further, if we take a look at European banking operations in Central and Eastern Europe plus Russia, then these banks investment payback looks fast, too. But, when rumors indicate that the German and French banks are getting into deeper trouble this may have a push effect on those banks' share prices. Such rumors benefit those investors who sold before (or want to buy now) and hence can buy back their shares at cheaper prices. In other words, there is more room for speculative transactions.

2. If you target the commercial banking side, your investment success depends on the way these banks refinance their business and on the degree of write-offs they still have (Something no one actually knows exact figures of). Yet, in this area things look better since refinancing cost is reaping at only 1%, but new business is growing slower as most former performing commercial banks sit on the bailout cash for now, waiting to see new regulation changes on capital requirements. Still trouble may be pending if bailed out banks continue with their mistakes on either commercial or investment areas or if they are exposed to deals in those industries and markets most affected by this financial crisis.

3. If European governments prefer to make more funds disappear into bank bailouts, then they will not show a disadvantageous picture of their banking system as they will not want to discourage investors/electorate and general clientele. However, the worst thing these governments can do is to pick up some almost-fallen banks as this gives the impression of financial distress that would further discourage investors.

### **Are customers' needs identical all over Europe?**

Business is guided by the "garbage in garbage out" rule; people want to take credit anywhere it is feasible possible providing that the bank has achieved a certain level of trust. For centuries banks' trustworthiness has been a very important trait and for the past few decades it has been fostered by the corporate social responsibility concept (CSR), nowadays enhanced through sustainable development strategies. If banks do not push for lending deals it must imply that they are doing something else more profitable. The question

then becomes, what other deals are they pursuing and why were these banks then bailed out in the first place?

French bank bailouts are no different than German, Swiss or British ones. The trouble for them all started with engaging in toxic assets transactions. Now, there is a normal temptation to stay away from such deals origination. Also, it is a fact that the latest financial crisis has affected both good and bad portfolios of customers, but there are several basic proper risk management appraisals still available. So, what should investors do next? Do we go for the good guys and leave apart the bad ones, either customers or banks or choose only the corporate socially responsible ones?

Certainly, in this respect customers' needs may be similar across cultures, but customer service is quite different between the U.S. and the European cultures. Based on recent academic related research and work in Europe (countries including Austria, Germany, Hungary, Greece, Romania and Switzerland) we found significant differences in customer service and customer satisfaction patterns. These differences are interesting enough to encourage and explore a potential research study in this area in the near future. Customer service seems to have much lower value in Europe compared to the US, where "the customer is king" and the attitude of "the customer is always right" seems to have little value in Europe. We tend to provide evidence that the American attitudes, perceptions, values, benefits, and significance related to customer service should be given more attention by European business in order to enhance their business profits, customer loyalty, repeat sales, and eventually corporate social responsibility.



*Apart from the value-significance perspective, the financial perspective is not sufficient to evaluate the level of neither CSR nor any other perspective individually. A bank or any company may have outstanding employee benefits but if they go into financial distress, those benefits become null.*

The literature review exhibits differences pivoting around relationship management in banking starting from the early 1970's and it is likely to continue to exist since the cultural and economic environments between these two continents are extremely different. An interesting idea for research would be not to try to change this situation, but rather to understand its causes and effects and be able to predict some future actions on it. Hence, perhaps a customized approach, despite being an expensive managerial tool, will yield higher profits eventually and provide an enhanced image for the bank, bringing back the most needed element of trust, at least.

### **Does regulation makes things tick in banking?**

In any free market economy, the private sector must be left to its own mechanisms to operate efficiently, with reasonable government intervention when needed. It is the overregulation of the past several decades which has ironically caused the current economic crisis; too much regulation has lead to deregulation, which has been randomly used and manipulated. Politicians need to understand that it is only by reducing regulations that the global economy will be able to avoid a full scale economic meltdown, rather than by adding new draconian prohibitions to an already overregulated industry. Then, who should change things and situations? Sadly, no one had a look at CSR in terms of banks and customer relationship and in connection to specialized banking and financial services regulations.

Some may look at CSR as "the policy and practice of a corporation's social involvement over and beyond its legal obligations for the benefit of the society at large" (Enderle and Tavis, 1998), while others (Lerner and Fryxell, 1988) suggest that CSR describes the extent to which organizational outcomes are consistent with societal values and expectations. But for simple people and for the retail business, as an extension, being socially responsible identifies very much with the rationale that businesses are more likely to do well in a prosperous society rather than in a crisis affected one (McIntosh et al., 1998).

There are various terminologies associated with CSR, such as: corporate philanthropy, social disclosure, company's environmental

record, workforce diversity, financial health and tendency to grow, community involvement, ethical lending, all depending on cross-cultural differences. What it is interesting is that when defining CSR as 'financial health and tendency to grow', Stanwick and Stanwick (1998) provide evidence that profitability of the firm encourages managers to implement programs that enhance the level of CSR.

Apart from the value-significance perspective, the financial perspective is not sufficient to evaluate the level of neither CSR nor any other perspective individually. A bank or any company may have outstanding employee benefits but if they go into financial distress, those benefits become null.

Instead, strong banks, just like companies, are alleged as more pro-social as they can offer employees more advancement chances (Fombrun, 1998). Considering this normative aspect of CSR, it is noticeable that this concept is of 'no single value state' (Frederick, 1991) neither in bank relationship management nor in banking generally. Moreover, it becomes redundant to regard it as a cause of failing relationship management skills within financial crises context, but more of a compulsory moral etiquette for all banks and corporations that take the lead in applying such a concept. So, in the end, the questions becomes: to be or not to be small or big, and to be or not to be regulated and display high levels of corporate socially responsible?

Eventually, the essence of the answer relates to:

1. Trouble may still be pending if any bank continues in making mistakes in either commercial or investment areas or if it is exposed to deals in those industries and markets most affected by this financial crisis. Regulations should clarify these aspects, since the repercussions of the financial crisis are still being felt on both sides of the Ocean.
2. Although the financial crisis has affected both good and bad portfolios of customers, there are still proper risk management methods available that banks should not be discouraged from using.
3. In order to reap business opportunities and recreate links, do not try to change cultural differences in rela-

tionship management between countries, but rather understand their causes and effects while being able to anticipate innovative solutions.

4. A customized relationship management approach, despite being expensive, will yield higher profits and provide an enhanced image for the bank boosting trust related issues.
5. Banks' financial health and tendency to grow is likely to do well in a prosperous and in a socially responsible society, so choose CSR organizations to either invest in or work for.
6. In the end it is advisable to target investments in strong larger banks, which are alleged as more pro-social and hence better investments from both internal and external stakeholders' viewpoints.

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