

Krzysztof Wach

Entrepreneurship in the European Union: Workbook for Students



**CRACOW
UNIVERSITY
OF ECONOMICS**

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Krzysztof Wach

**Entrepreneurship
in the European Union:
Workbook for Students**

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UNIVERSITY
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Introduction



This workbook is designed for students that explore knowledge in the field of European entrepreneurship, especially how small and medium-sized enterprises (SMEs) can operate in the markets of the member states of the European Union (EU) by linking two academic fields, namely entrepreneurship and international business from the European perspective.

Various examples, tasks, exercises and case studies included in this workbook are utilitarian and they serve only as a basis for substantive discussion for educational purpose, and not as a basis for assessing the presented companies. Descriptions of cases have been simplified, so that you can easily discuss them in class without a preliminary analysis of. Thus, instead of the popular case method, consisting in analysing extensive descriptions of cases, the incident method was applied, which is the simplified version of case method.

This workbook is divided into seven chapters, moreover each chapter offers also a summary exercises aimed at consolidating the knowledge and basic concepts.

The first chapter (*Entrepreneurship and SMEs in the EU*) contains tasks related to general problems of European integration and the EU policy in favour of small and medium-sized enterprises.

The second chapter (*Environment for Entrepreneurship in the EU*) covers the tasks on the European business environment and the EU freedom of establishment and the other freedoms of the single market supporting entrepreneurship in the European Union.

The third chapter (*Internationalization of SMEs in the EU*) gives a good insight into international entrepreneurship in a European perspective.

The fourth chapter (*Taxation and Tax Competition in the EU*) provides presents the fiscal conditions for starting and running a business in the EU and its member states.

The fifth chapter (*Standardization and Certification in the EU*) includes exercises devoted to the issues of standards, norms and certificates in the Single European Market.

The sixth chapter (*Cross-Culture Differences in the EU*) include exercises devoted to different cultural issues in member states of the EU and tries to show how to cope with the difficulties resulting from cross-cultural issues.

The seventh chapter (*Revision Quizzes*), being the last section of the workbook, provides summary tests verifying the knowledge gained thought the whole course.

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1

Entrepreneurship and SMEs in the EU

1.1. GENERAL ISSUES IN THE EU STUDIES

Topic:	Member states of the European Union and its enlargements.
Objective:	A student is familiar with the basic facts on the European Union and its enlargements.
Method:	Quizdown gaming method
Course:	The quiz should be done individually or in teams of 2-3 students.
Time limit:	10 minutes

1. In what years the European Economic Community (EEC) and the European Union (EU) were created? How many countries are there in the EU? Which countries were the first/last? Point out the years of the enlargements and the member states:

Years	Member states

2. Point out countries belonging to the following organizations.

Name	Member states
EU	Old (EU15): New (EU13):
Eurozone	
Schengen Area	
EEC	
EFTA	
EU Customs Union	
Euro Mint Agreement	

1.2. CONTEXT OF EUROPEANIZATION PROCESSES

Topic:	Europeanization process, its dimensions and context
Objective:	A student knows the nature of Europeanization, especially its role for doing business and entrepreneurship.
Method:	Quizdown gaming method
Course:	The task should be done by teams of 2-3 students, or individually.
Time limit:	10 minutes

Characterize main twelve dimensions of Europeanization in the context of the European Union:

Dimensions	Explanations
Non-economic dimensions	
Territorial Europeanization	
Sociological Europeanization	
Research and Education Europeanization	
Legal Europeanization	
Institutional Europeanization	
Political Europeanization	
Geopolitical Europeanization	
Economic dimensions	
External macroeconomic Europeanization	
Internal macroeconomic Europeanization	
Mesoeconomic Europeanization	
Microeconomic Europeanization	
Managerial Europeanization	

1.3. IMPORTANCE OF SMES IN THE EU

Topic:	Role of small and medium-sized enterprises (SMEs) in the European economies.
Objective:	A student is aware of the role of micro-, small, medium-sized enterprises in the modern economy, especially taking the EU into special consideration.
Method:	Quizdown gaming method
Course:	The task should be done by teams of 2-3 students, or individually.
Time limit:	10 minutes

1. Match the relevant figures to the main indicators for SMEs in the EU:

- | | |
|---|-----------------------|
| ___ 1) Share of SMEs in all enterprises | a) 9 out of 10 SMEs |
| ___ 2) Share of SMEs in total employment | b) 7 out of 10 SMEs |
| ___ 3) SMEs generate ca. of GDP | c) 1/3 |
| ___ 4) SMEs generate of value added | d) 2/3 |
| ___ 5) are microenterprises | e) 3/4 |
| | f) 99.8% |
| | g) 75% |
| | h) between 50 and 60% |

2. Compare the overall figures for SMEs in the EU with your home country.

1.4. CALCULATING THE SIZE OF THE BUSINESS

Topic:	Definition of small and medium-sized enterprises (SMEs)
Objective:	A student is aware of the criteria describing a micro-, small, medium-sized and large enterprises and is able to calculate the size of businesses according to the EU rules.
Method:	Incident method applying calculations.
Course:	The task should be done by teams of 2-3 students, or individually.
Time limit:	30 minutes

Read carefully given descriptions of the enterprises and estimate their size and independence type, taking into consideration the EU definition of SMEs especially including the independence criteria:

Case 1. A local business from Kraków, *Anakonda* sp.j., employs on average 7 workers annually. Its annual turnover for the previous financial period (the calendar year) amounts to 4 million PLN (please make the assumption that 1 EUR is 4 PLN), while the total annual balance compiled for the 31st of December of the previous year, was 6 million PLN. Moreover, the firm owns 15% shares in one of the companies that produces pasta and is located nearby Krakow, which employs 150 workers and its annual turnover amounts to 10 million PLN and its total annual balance is slightly lower.

Independence:	Employment:	Annual Turnover:	Annual Assets:
.....
The size of the enterprise:			

Case 2. *Mercury* sp. z o.o. is a business localised in Warsaw (central Poland). It employs on average 10 people per year. Its annual turnover for the previous financial year, was 23 million PLN and its assets were 3 million PLN. The owner of 25% of *Mercury*'s shares is Hungarian company *Forint* Kft, that employs 249 people. Its turnover comes to 8 million EUR and its total annual balance for the previous financial year amounted to 1million EUR.

Independence: **Employment:** **Annual Turnover:** **Annual Assets:**

.....

The size of the enterprise:

Case 3. *Giewont* sp.k., is a firm whose headquarter is in Zakopane (southern Poland). It employs 3 people On average, not taking into consideration its owner. Both, its annual turnover and its total annual balance, after converting to EUR, amounts to 49 million. The firm does not own any shares in any other enterprise and none of other enterprises is the owner of its shares.

Independence: **Employment:** **Annual Turnover:** **Annual Assets:**

.....

The size of the enterprise:

Case 4. *Złoty Róg* sp.j., based in Nowy Sącz (southern Poland), is very rapidly developing business in the IT sector. It currently employs 18 people, however its profits are not influential. Last year its turnover was just less than 10 million EUR. Its total annual balance, compiled for the 31st December of the previous year, amounted exactly 10 million EUR (on the basis of the correct exchange rate of the Central Bank). This business, legally ran as the partnership according to Polish commercial law, is partly dependent on its parent company (which owns more than half of the shares) with the headquarter in Amsterdam (The Netherlands). The Dutch holding (owning the Polish subsidy) employs on average 249 people per year and its turnover and assets amount to 42 million EUR.

Independence: **Employment:** **Annual Turnover:** **Annual Assets:**

.....

The size of the enterprise:

Case 5. The annual turnover of *Casanova* sp.j. from Tarnów (south-east Poland), is relatively small and fluctuates around 400 thousand PLN. Its total annual balance for the previous financial year reached nearly 43 million EUR. In January, the firm employed 300 people, however the decrease in profits caused redundancies and decrease of the workforce to 150 people (starting from February). In December the firm was forced to dismiss a number of people again, leaving only 15 employees together with the board of directors, two of them on part-time posts (1/2 of the full time job).

Independence: **Employment:** **Annual Turnover:** **Annual Assets:**

.....

The size of the enterprise:

Case 6. John Smith and Anna Alabaster carry out economic activities, being the owners of a civil partnership operating under the name *John Smith and Anna Alabaster Electric Engineering* in a legal form of a civil partnership. They registered their business in Krakow in 2001. In the previous calendar year their firm employed (not counting owners who do not have the status of employees) 8 full-time employees. In the summer months (June - August) they additionally hired 2 more workers seasonally, but one of them full-time and the other one only one-fourth of the time. From November to the end of the year they offered to Alfred Kowalski, a cousin of John Smith, a management contract, giving him the control of the business and full duties. Since September, one of the workers took maternity leave and plans to take advantage of parental leave afterwards. Their firm regularly accepts apprentices and trainees being sent to them by the Municipal Labour Office in Cracow (on average one person per month). In February, the firm hired a smart female student of the Cracow University of Economics offering on an hours contract (*umowa zlecenie*). The student worked for three months only, then left before the examination period at her university.

Its net annual turnover for the previous accounting year (by the way the same as the calendar year) amounted to about 8 million PLN (it should be assumed that 1 EUR = 4 PLN). Half of the turnover was taxed at a 23% VAT rate, and the other half at a rate of 8%, which means that the gross turnover was much higher.

Its total assets as of the 31st of December of the last year amounted to 10 million PLN (please assume that 1 EUR = 4 PLN), and was higher compared to the previous year by 50%.

In addition, Mr. John Smith (one of the owners of the civil partnership) in January of last year, registered his own business under the name *John Kowalski Electro-Tool Repair*. He employed in his own business 10 employees on average. Net sales amounted to 4 million PLN, and the gross turnover to 4 920 000 PLN. The assets of the business fluctuated around 10 thousands PLN.

Independence:	Employment:	Annual Turnover:	Annual Assets:
.....

The size of the enterprise:

1.5. MODULE QUIZ

Topic:	European Union actions for entrepreneurship.
Objective:	A student is aware of basic facts in European integration and its implications for European entrepreneurship.
Method:	Quizdown gaming method
Course:	The quiz should be done individually or in teams of 2-3 students.
Time limit:	10 minutes

Exercise 1. Circle the proper answer(s):

1. Four basic freedoms of the Single European Market include:
 - freedom to provide services
 - free movement of capital
 - free movement of persons
 - free movement of information
2. Small enterprise according the EU definition is a unit:
 - in which the State Treasure holds no more than 20% of shares
 - which employs up to 50 employees annually on the average
 - in which other enterprise holds at least 25% of shares
 - whose assets do not exceed 43 million EUR
 - none of the above answers are correct
3. On 8 February 2008, the former Euro Info Centres (EICs) were transformed into:
 - Enterprise Europe Network (EEN)
 - Business Cooperation Network (BC-NET)
 - Bureau de Rapprochement des Entreprises (BRE)
4. Operating in the years 1987–2008 Euro Info Centres were:
 - the project of the European Commission supporting SMEs
 - institutions receiving the applications from SMEs to obtain structural funds
 - functioning as non-profit organizations
 - created as informative units for candidate countries and new member states only
5. The role of SMEs in the European economy were given its awareness in:
 - Single European Act
 - Treaty of Rome
 - Lisbon Strategy

Exercise 2. Explain the following abbreviations and/or acronyms:

- a) BEST
- b) JEREMIE
- c) BAS
- d) ECAP
- e) EMAS
- f) MAP
- g) EIP
- h) CIP
- i) COSMA

Exercise 3. Complete the missing phrases:

1. Within the European Commission the Directorate General responsible for small and medium-sized enterprises (DG XIII) was created in the year, however its current name is DG
2. The first Integrated Programme in favour of small and medium-sized enterprises and the crafts was implemented for the years
3. Small Business Act for Europe of 2008 includes basic actions at the level of the European Union and all member states.
4. European Charter for Small Enterprises of 2000 includes basic actions at the level of the European Union and all member states.
5. The European Parliament declared as the European Year of Small Business and Craft.

Exercise 4. Briefly answers the following questions:

1. What are four basic forms of providing services according to the European Court of Justice?

2. What is the difference between the freedom to provide cross border services and the freedom of establishment providing services?

3. What are the duties of the employer delegating its employees to work in other member states of the EU?

4. On what two freedoms is based European freedom of establishment?
 a)
 b)
5. What two main categories of employees does the key personnel include?
 a)
 b)

Questions for Discussion!

1. Why do businesses being active in Europe should or even must understand the role of the EU and how it works?
2. What are the main implications of European integration for European business?
3. How do you explain why European business has been more proactive in pursuing reforms in the EU than domestic governments?

RECOMMENDED READINGS

- Wach, K. (2012). European Context of Internationalization (chapter 2). In: N. Daszkiewicz & K. Wach. *Internationalization of SMEs. Context, Models and Implementation*. Gdańsk: Gdańsk University of Technology Publishers, pp. 21-39.
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2

Environment for Entrepreneurship in the EU

2.1. LEGAL AND ADMINISTRATIVE ASPECTS OF STARTUPS

Topic:	Legal and administrative framework for doing business and startups in the European Union.
Objective:	A student is familiar with the basic conditions for starting and doing business in the European Union and its member states.
Method:	Incident method
Course:	The task should be done in teams of 2-3 students or individually.
Time limit:	15 minutes

(A) Suggest the optimal solutions in situations described below by indicating the relevant member state(s):

Case 1. Mr. Anthony Goldman has ambitious plans of starting and running his own business. In order to fulfil his dreams, he collected a substantial amount of financial funds. His cosmopolitan orientation is manifested not only in his passion for travelling and learning about different cultures, but primarily in the interests of the world's economy and European business environment. Moreover, it is worth noting, that Mr. Goldman has good working knowledge of several foreign languages. Choosing a destination country for his new venture, he cares about a friendly climate for doing business characterized by free market principle of economic freedom. Which countries in the final stage of decision making should be considered as the location of his business?

Case 2. Several friends from Wieliczka, a township nearby Krakow, plan to form a limited liability company LLC in one of the European Union member states. Although, collecting appropriate funds was a bit challenging for them, they succeeded. Now they are focused on the lowest possible costs of the business registration. Which country will be optimal for them?

Case 3. Ms. Barbara Planfull and her several friends from a small township near Warsaw plan to set up a limited liability company LLC in one of the European Union member states. They have already gathered sufficient financial funds. Now they are ready for a speedy establishment of their company, which is quite crucial for them. Which country will be optimal for them?

Case 4. Mr. Adam Kowalski and his several friends from Katowice (south Poland) want to establish a limited liability company (LLC) because of the good image of this legal entity among the European public. Unfortunately, they do not have significant financial resources. In what country should they set up a company taking the involvement of the lowest possible capital into consideration?

Case 5. Ms. Magda Moneyteller wants to start her own one-man business in one of the countries of the European Union. She mostly cares for low costs of registration, and relatively favourable period of waiting for the registration. Which countries should she think of as the best location for her business?

(B) Compare business external environment on macro level in Poland with a selected other EU member state taking the basic comparative criteria into consideration:

Criteria	Poland	Country:

2.2. REVIEW OF LEGAL ENTITIES IN THE EU

Topic:	Legal forms of doing business in the European Union and its member states.
Objective:	A student can characterize the four basic national legal forms of doing business as well as three EU legal entities.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	25 minutes

The freedom of establishment guarantees a free choice of the legal form of business, selecting between any of the national legal forms in a particular country and any of the common EU legal forms.

In each member states there are different legal forms depending on the national business law, however there are four basic forms, which have a lot of common in all member states. Briefly present their basic legal characteristics by filling in the gaps in the table A.

In all member states of the European Union there are four legal forms for European cooperation, and what is more some others are planned to be launched. Briefly describe their basic characteristics by completing the gaps in the table B.

A. Criteria for the national legal form choice in the member states of the EU					
Criteria	Forms	Sole proprietorship	General partnerships	Limited companies	
				Private	Public
Size of a firm					
Minimal capital					
Registration					
Costs					
Memorandum of association					
Assets					
Responsibility					
Legal status					
Management					
Dissolution					
Taxation					

B. Criteria for the Pan-European legal form choice in the EU				
Forms Criteria	European Economic Interest Grouping	European Company	European Co-operative Society	European Grouping of Territorial Cooperation
Launching year				
Abbreviation				
Purpose				
Partners				
Registration				
Legal entity				
Size				
Minimal capital				
Structure				

2.3. LEGAL FORMS OF DOING BUSINESS IN THE EU

Topic:	Legal forms of doing business in the European Union and its member states.
Objective:	A student can characterize the four basic national legal forms of doing business as well as three EU legal entities.
Method:	Incident method The task should be done in teams of 2-3 students or individually.
Time limit:	20 minutes

Suggest the most appropriate legal form for the following business activities (both the EU and national forms are possible):

Case 1. Mr. Adam Economic and his friend Mr. Paul Long-Term-Profiting are planning to internationalize the operations of their jointly conducted a limited liability company being registered in Poland. They plan to enter a market of one of old member states. They intend to sell into this new market stylish furniture manufactured in Poland, and additionally provide comprehensive after-sales services. What legal form will be most appropriate in this case?

Case 2. One of the Silesian bakeries *Bread* sp. z o. o. (south Poland) plans to enter the German market. For this purpose, a very large sum of financial resources was gathered. In 10 years' time, they plan to achieve 5% of the market share in the eastern German lands (*Länder*). The president of the company holds a *Diplom-Kaufman (Dipl.-Kfm.)* degree from the European University Viadrina in Frankfurt an der Oder. What legal form will be most appropriate in this case?

Case 3. The local government of Słubice (western Poland) and the local authorities of Frankfurt (Oder) (eastern Germany) as they both are the cross-border agglomeration of 80 thousands inhabitants, want to run cross-border transport together and wonder which legal forms will be the best for both parties in order to facilitate the everyday business operations as they must follow both Polish and German rules and laws.

Case 4. Mr. Martin Profit plans to open a business in one of the countries of the European Union, probably France or Slovakia. Unfortunately, he has little financial capital. In Poland, even in the early 1990s, he tried to run his own business, but unfortunately did not achieve success, mainly due to the high tax burdens and his individualism, which is a typical feature of his character and personality. What legal form will be most appropriate in this case?

Case 5. Limited Liability Company *Krakersik* sp. z o.o. headquartered in Poland with a share capital of 150 million EUR has its subsidiary in Spain, one branch in Germany and one in the Czech Republic, and also owns 49% of the subsidiary *Krakersik Italia* s.r.l. In recent years, the coordination of the issues related to accounting, taxes, and the change of the headquarter has become quite complicated. Therefore, the Board of Directors would like to change the organizational and legal form of the company. What form will be most advantageous in this case?

Case 6. Ms. Anna Piggybank and Ms. Aldona Lover are planning to launch a new firm in Western Europe. They have already gathered some financial capital, which will be needed to start a business. They also have a great idea for a business: opening a Polish restaurant in one of the capital cities in Europe. They know that they will need some assistance from the local tax and accounting advisors, but do not want to spend a disproportionate amount of money on the issues related to the registration. What legal form will be most appropriate in this case?

Case 7. Several companies from Malopolska Region (Małopolskie Voivodeship) in southern Poland are planning to intensify the cooperation with Austrian entrepreneurs from the region of Burgenland. They want to jointly promote their products in Austria and Poland and their regions of origin as a place to suitable for starting commercial contracts. Entrepreneurs from both countries are not interested in incurring considerable expenditures nor profits. What legal form will be most appropriate in this case?

Case 8. A couple of Polish groups of sugar beet producers (a producer group, PG) and their German counterparts (producer organization, PO) want to jointly promote their own interests throughout the Community – the European Union. They also want to jointly execute of future business ventures. Both sides don't want to make a very large initial capital, nevertheless they know that in order to make profits in the future, they need to invest tom funds now. What legal form will be most appropriate in this case?

2.4. QUIZ ON SELECTED ISSUES ON EUROPEAN ENVIRONMENT

Topic:	European freedom of establishment.
Objective:	A student is familiar with the basic conditions for starting and doing business in the European Union and its member states.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	15 minutes

Please make familiar with the latest issues of two reports, at first *Doing Business* prepared by the World Bank Group (<http://www.doingbusiness.org/>) and secondly the *Index of Economic Freedom* by the Heritage Foundation and the Wall Street Journal (<http://www.heritage.org/index/>). Then, based on the two above-mentioned rankings answer the following questions:

- In which the EU member state the registration process for the private limited company (Ltd.) is the longest and the shortest?
The longest: The shortest:
- In the EU there are two countries, which do not charge for the registration of the private limited companies (Ltd.). What countries are they?
..... and

3. The highest minimal share capital for the private limited company (Ltd.) in the EU countries is 35 000 euro. In which country?
.....
4. In the EU there are only 3 countries, where there is no minimum share capital legal requirements established for the private limited company (Ltd.), so it means that it can be amounted to only 1 euro. Please point out these three countries.
a) b) c)
5. Corporate taxation is very diverse in the EU countries. Please point out three countries with the highest and three ones with the lowest corporation taxation rates.
The highest: a) b) c)
The lowest: a) b) c)
6. While starting a business, the owner or the founder can choose one of the legal forms functioning in a country, where it is going to be run or can choose one of the Pan-European legal forms. What Pan-European forms of doing business exist in the EU?
a)
b)
c)
7. There are four main and two supplementary freedoms of the Single European Market. One of them concerns entrepreneurship. Please give its official name by the Treaty.
.....
8. Which countries of the EU are the best for doing business at present according to the World Bank (*Doing Business in Report*)?
.....
9. In which country the index of economic freedom is the best at present according to the Wall Street Journal and the Heritage Foundation?
.....
10. What countries belong to both Euro Zone and Schengen Area?
 - a) Cyprus, the Netherlands, Germany
 - b) Switzerland, Norway, Island, Lichtenstein
 - c) Slovakia, Slovenia, Estonia, Malta
 - d) Ireland, the United Kingdom, Cyprus
 - e) Sweden, Denmark, the United Kingdom
 - f) Sweden, Denmark
 - g) Lithuania, Latvia, Estonia

2.5. EXPANSION OF CORTEX CHEMICALS SP. Z O.O.

Topic:	Legal and administrative framework for doing business and startups in the member states of the European Union.
Objective:	A student is familiar with the basic conditions for starting and doing business in the European Union and its member states.
Method:	Incident method
Course:	The task should be done in teams of 2-3 students or individually.
Time limit:	75 minutes

Company overview

Cortex Chemicals sp. z o.o. has been a successful limited liability company since the mid-1990s, and its headquarters is located in Tarnow (south-east Poland). It deals with the production and import of food additives and chemicals, as well as with leading wholesale. The company imports the ingredients from Asian countries of about 65% and the rest mainly from Western Europe. In 2003, the company gained 103rd place among 1,400 most dynamically developing companies in Poland in the prestigious ranking of *Business Gazelles*, and in this regard earned 5th place in the *Malopolska* Region. This was the second award for the company within this ranking. The dynamic growth and development of the company was also honoured by the editors of the *Chemical Review*. In 2003, the company implemented a quality management system ISO 9001:2000 and successfully passed the certification audit. Among the company's foreign partners there are a Chilean company *Gelymar*, a German company *Dr. Paul Lohmann GmbH*, a Danish company *Chemimova*, a Taiwanese company *Vedan*, a Japanese company *Toray*, a Spanish company *Asua*, an Ukrainian company *Inkor*, an American company *ADM* and the multinational corporation *Rhodia* which operates primarily in North America and the Far East.

During one of the latest meetings of the board of the company, the top management has decided to amend the main headquarters or to establish a subsidiary in one of the three European Union countries. Members of the board are mainly interested in the Bulgarian, German and Cypriot markets. The CEO stressed that the objective of such a change should be based on cost reduction of the company's operations, mainly by changing the taxation of its income and the income of members of the board, while maintaining the company's operating costs at the current level. As suggested by one of the members of the board, it was decided to leave the production facilities and some warehouses in Poland.

Analytical tasks (team working)

A well-known consulting company was asked to analyse benefits and losses caused by changes in the company's headquarters to the selected EU countries. The consulting company hired a couple of assistants-trainees from the Cracow University of Economics. Your ongoing report is to be used by a main consultant for a further in-depth project report. If your work will be verified and evaluated positively, you can expect to be hired by this consulting company after the graduation of your university. Your direct boss asked you to prepare a preliminary analysis, which is to include the following steps:

- to develop objective criteria for the election of the target market of the venture location,
- to draft an initial review of the legal and economic conditions in the selected countries on the basis of the above criteria,
- to prepare the preliminary recommendations for the company.

Afterwards discussion (plenary session)

After completing your work in small teams, your results should be discussed with your professor and followed by a plenary discussion on the following topic: What factors should be taken into account when choosing the localisation of the venture on the European markets within the EU member states?

2.6. MODULE QUIZ

Topic:	European freedom of establishment.
Objective:	A student is familiar with the basic conditions for starting and doing business in the European Union and its member states.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	25 minutes

Exercise 1. Complete the gaps in the text.

1. European Company (*Societas Europaea*, SE) is one of the Pan-European organizational and legal forms of business in the European Union. The minimum share capital of this company amounts to euros. The company is officially registered in in the country where The organizational structure of the company may be based on two models: the model consisting of and or the model involving only
2. European Cooperative Society (*Societas Cooperativa Europaea*, SCE) is one of the EU organizational and legal forms of business in Europe. The minimum share capital of the company amounts to euros. The founders of this company may opt to select between the continental Europe and the English-French organization structure, the latter means that the company is managed and controlled by the
3. European Economic Interest Grouping (EEIG) is the oldest EU form of doing business being created in the year Unlike the forms of SE and SCE which are a kind of corporations, EEIG is The minimal share capital

Exercise 2. Match the minimum share capital to the legal forms of doing business by providing the appropriate letter (some letters may repeat, while others may remain unused).

- | | |
|---|------------------------|
| ___ 1) European Company | a) 100 thousand EUR |
| ___ 2) European Cooperative Society | b) 120 thousand EUR |
| ___ 3) European Economic Interest Grouping | c) 30 thousand EUR |
| ___ 4) limited private company (Ltd.) in the UK | d) 10 thousand PLN |
| ___ 5) limited liability company (sp. z o.o.) in Poland | e) 5 thousand PLN |
| | f) undetermined by law |

Exercise 3. Choose the proper answer(s).

1. The freedom of establishment within the Single European Market (SEM):
 - enables to startup companies, subsidiaries and branches
 - enables to purchase land and premises
 - removes physical and technical barriers to the free movement of persons
 - aims at fully mutual recognition of diplomas and other professional qualifications
2. Which of the following cases relate to the freedom to provide services:
 - a service provider moves temporarily to the country of a service recipient in order to provide services there
 - a service recipient goes to the country of a service provider in order to receive services there
 - both a service provider and a service recipient reside in their home countries, and only the product, being the result of services, exceeds the border(s) between their countries
 - both a service provider and a service recipient move out of their home countries, where they come from, to a third country where the service is performed
3. According to the EU legislation, the key personnel includes:
 - members of management and supervision boards
 - senior production technicians
 - section or department management
 - secretaries
 - persons responsible for recruitment and hiring workers

Questions for Discussion!

1. Why the currently available EU legal forms of businesses are not so popular among European entrepreneurs? What changes are expected by European business?
2. Why is the business environment so different across all 28 member states of the European Union? Is it somehow connected to the social and liberal model of market economy? Is free enterprise and free market economy rooted in the socio-cultural conditions across the EU member states?
3. To what extent is it fair to argue that economies of scale are being undermined as a source of competitive advantage, especially for European small and medium-sized enterprises (SMEs)?

RECOMMENDED READINGS

- McLaughlin, S. (2015). European organisation legal structures (subchapter 2.7). In: S. McLaughlin. *Unlocking Company Law* (pp. 66-69). 3rd ed. Oxon: Routledge.
- Wach, K. (2012). Community Legal Forms of Doing Business in the European Union (subchapter 2.2). In: N. Daszkiwicz & K. Wach. *Internationalization of SMEs: Context, Models and Implementation* (pp. 24-31). Gdańsk: Grańsk University of Technology Publishers.

3

Internationalization of SMEs in the EU

3.1. WITH AN INTERMEDIARY OR WITHOUT?

Topic:	Exporting strategies of European businesses
Objective:	A student knows the differences among various direct and indirect forms of exporting. A student can critically analyse the conditions determining the choice of a proper entry mode.
Method:	Incident method.
Course:	The task can be prepared in teams of 2-3 students or individually.
Time limit:	25 minutes

Exporting is one of the most popular entry modes, especially among small and medium-sized enterprises, however there are various forms of exporting (Figure 3.1).



Figure 3.1. Various modes of exporting

Source: K. Wach, (2014). Theoretical Framework of the Firm-Level Internationalisation in Business Studies (chapter 1). In: A. Duréndez & K. Wach (Eds.) (2014). *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena: Universidad Politécnicade Cartagena, p.23.

Two businesses are described below, which used different exporting strategies. After having read the text, answer the given questions.

Case 1. British company *Digital Ltd.*, which operates in the IT sector, collaborates with some other firms from Europe. The beginnings of international success of the company dates back to mid-1990s, when the company began exporting its computer games to the majority of the EU countries. The intensive demand on its products resulted with creation of the exporting department within the company in order to serve foreign contracting

parties. It caused investment expenditures (among others: extension of a warehouse base and mail-order unit). With regard to huge risk connected with bank credits on the investments, the company was forced to pay instalments and high interests. The exporting potential of the company is really noticeable (exporting department, warehouse).

Currently, the company applies mainly the mail ordering in order to avoid creating own network of distribution abroad, as most of exporting partners gave up the trade cooperation. To gain new contracts the company participates in numerous international fairs.

The company employs numerous programming and computer graphic specialists, however quite often – mainly because of employment costs of computer specialists – *Digital Ltd.* imports know-how as well as licences from the United States, as it is much cheaper and has a positive impact of the profit-and-lose account.

For the last two years the sale problems have appeared. The CEO and deputy presidents of the company explain it as a result of hard competition in the European markets as well as the appearance of cheap substitute products from Asian countries.

Case 2. The range of the Czech company *Komputerovnik s.r.o.* activity has been international since the beginning, mainly with regard to high-tech sector, in which it operates. The company employs excellent computer experts, mainly from Central and Eastern Europe (CEECs) as well as from Asia. The company is self-sufficient as far as know-how is concerned. The firm offers high quality products at competitive prices.

All exporting products are sold by the German intermediary and the products are dedicated mainly to Western Europe countries, where the products of the company are very popular among consumers. The owners of the company are satisfied with the German mediator because he is responsible for the majority of actions connected with exporting products. Last year the intermediary forced the company to lower the sale price, which caused the fall of profitability of exporting products for *Komputerovnik s.r.o.*

Last year, the exporting department was created in the company, however its range of activities was very narrow (mainly filling in the exporting documents). Three months ago, planning to achieve higher turnover, the company employed a couple of promotion specialists, who know the foreign markets very well. The owners of the company believe that it will help to achieve the assumed aim.

Analytical tasks (based on the case study)

1. Identify exporting strategies of the described companies, including the exact name of the entry mode.
2. Indicate mistakes, which were committed by the companies. If any?
3. Suggest the current solutions for the companies. What should they do now?

Theoretical tasks (based on textbooks, handbooks or sourcebooks)

1. Point out advantages and disadvantages of the exporting strategies used by the companies.
2. Point out the main differences between indirect and direct exporting.
3. Prepare the general SWOT analyses for various indirect and direct exporting modes.

3.2. EXPORTING STRATEGIES WITHIN THE EU

Topic:	Exporting strategies of European businesses
Objective:	A student knows the differences among various direct and indirect forms of exporting. A student can critically analyse the conditions determining the choice of a proper entry mode.
Method:	Incident method.
Course:	The task can be prepared in teams of 2-3 students or individually.
Time limit:	25 minutes

Exporting is one of the most popular forms of internationalization, especially among small and medium-sized enterprises. Two companies are described below, which used different export strategies. After having read the text answer the questions.

Case 1. *Excellence* d.o.o. was established in 2005 in Maribor as a Slovenian private limited liability company. Currently it employs more than 120 regular workers. It produces very modern and stylish plastic windows for houses, flats and offices. Their customers come mainly from Southern Europe, however their products reach also much more distant corners in Europe. At the beginnings, the owners of the company were afraid of entering international markets, nevertheless they succeeded.

The first international orders were received thanks to the interests of a Croatian selling company, which hired a Slovenian intermediary in order to search a solid domestic supplier. The intermediary's task was to buy windows from a couple of Slovenian small and medium-sized enterprises, mainly from *Excellence* d.o.o. and to provide them to the Croatian seller. The value-based commission was applied as the remuneration scheme. It was paid by the Croatian importer. The Slovenian company was satisfied with the cooperation, however it decided to reach new customers in more distant markets.

The company hired well-educated specialists, who graduated from international business from the very good university, and as a result the new export department was created. Its main goal was to sell the windows in Nordic Europe. They were not able to succeed in negotiations with Scandinavian customers, so they signed a contract with a German distributor having a well-established connections with Finish and Swedish wholesalers. The German company managed to negotiate a very low price, which in the long run led to unprofitable exports. Finally, the Slovenian company was forced to withdraw from the Scandinavia.

Currently the Slovenian company due to saturation of its domestic market, which caused overproduction, is searching for new opportunities on international markets. Despite the temporal difficulties they have earned a lot of profits during their exporting activities in Croatia.

Case 2. *Wahr-Sahr* GmbH was established in Berlin in 2010 by two partners coming from Central European countries. From the inception they offered computing services to international customers. The partners knew their native languages – Slovak and Czech, and had good working knowledge of German, but had difficulties in English. Thus, they were not able to communicate with international customers. When they were Erasmus+ students in Hamburg, they met a very entrepreneurial student from the Netherlands, who registered a many-sided business in Breda later on. He was so persuasive, that the partners of *Wahr-Sahr* GmbH agreed for all his conditions. He was their only and single middleman. They succeed to sell their IT products in France, Belgium, Luxembourg, the Nether-

lands and even in Island. Thanks to the cooperation, the Breda-based company reach very positive financial and profitable indicators, however the German company did its best to reduce costs, and ultimately reached the break-even point as exporting didn't meet their financial expectations. The Berlin-based partners had a very good reputation in international markets, as the customers were really satisfied with their products, but they had to work long hours not having enough reward for their hard work. The partners were aware that they had to change their basic international strategy, but were not sure how to face the current challenges.

Analytical tasks (based on the case study)

1. Identify (by giving the exact name) and compare exporting modes of the firms.
2. Indicate the mistakes, which were committed by the firms. If any?
3. Suggest the current solutions for the firms. What should they do now?

Theoretical tasks (based on textbooks, handbooks, sourcebooks)

1. Discuss the difference between an export commission house (ECH) and an export trading company (ETC).
2. Indicate the main differences between a foreign agent and a foreign distributor.
3. Give a brief description of a carrier and a rider as the sides of piggybacking.

3.3. INTERNATIONAL GROWTH OF JUSTONE SP. Z O.O.

Topic:	Entry modes and internationalization strategies of European businesses.
Objective:	A student knows entry modes, their basic characteristics, advantages and disadvantages. A student can critically analyse the conditions determining the choice of a proper entry mode.
Method:	Incident method.
Course:	The task can be prepared in teams of 2-3 students or individually.
Time limit:	45 minutes

Read the description of the international behaviour of the company and answer the questions below the text.

The company *JustOne* sp z o.o. is a private unlimited company, whose seat is located in Kraków. It operates within the textile sector. It deals with production and sale of clothes for both men and women as well as for the youth.

The company came into being in 1998 as Aldona Krawiec's initiative, a graduate of Italian School of Fashion. Her business partner is her friend yet from a secondary school, Justyna Bogacka, who inherited the considerable sum after her aunt from America. Unfortunately Justyna does not know anything neither on management, nor on fashion and tailoring.

In the years 2004-2009, due to the EU enlargement the company experienced intensive sale of its products. The annual turnover of the company in the year 2010 fell in comparison with the previous years about 25% and it amounted to 6 million PLN, however the forecasts for the current year are optimistic. Currently, the company employs 125 workers and plans to enlarge employment as far as production is concerned. These plans are connected with the optimistic forecast for the 3-year period.

The basic activity of the company – as initially intended by the owners – was and has been directed on the domestic market, however in the year 1999 two foreign companies (from Slovenia and Spain) turned with the offer of subcontracting. Aldona, as having been educated abroad, was always interested in foreign markets. Both owners of *JustOne* sp. z o.o., without any hesitation, undertook the co-operation which resulted in exporting of products under cooperants' trade mark. In the years 2000-2003 the export of goods to Slovenia and Spain amounted to 25% of total production of the firm. The part of production was allocated on domestic market (mainly via own distribution network).

International intentions of owners were not satisfied. Hence, the owners ordered from one of a marketing firms to carry out the market research in the EU countries, which showed, that the intensive demand on relatively cheap and good quality clothes is observed on German and Portuguese markets. The company with the help of Trade Section of the Polish Embassy in Berlin linked co-operation with a German distribution company, which was interested in importing *JustOne's* products. Unfortunately, one year later it turned out, that the sale of products of Polish company under her own trademark of *JustOne* on German market was completely poor and the German distribution company broke the contract.

JustOne didn't want to withdraw from the German market, hoping for a miracle. Meanwhile the company enlarged employment, and its store-houses filled up with the *prêt-à-porter* products. The owners of the company decided to go to the textile fairs in Hamburg (Germany). They coaxed a manager of one well-known German clothing business into the preliminary meeting. The German manager was very sceptical initially, however after having visited the company in Poland, as well as under condition of modernization of machine park, he agreed to sign a preliminary contract. The owners of *JustOne* used ESF and EFRD funds to modernize the machine park and to train their staff. Finally, the contract with the German company *Wahre GmbH* was signed. It was a subcontracting contract for many years. At the end of the year 2010 the sale of goods on German market amounted to 50% of general production. Simultaneously, *JustOne* sp. z o.o. had co-operation with Slovenian and Spanish companies initiated in 1999. However concerning the growth of production costs as well as the exchange rates and the results of the economic crisis in PIIGS (including Spain) and southern European countries, in the year 2011 those companies broke the co-operation, which caused the sale fall of *JustOne*.

Despite the negative circumstances, the company aimed much higher. At present, the owners of *JustOne* have linked the co-operation with the Portuguese partner. The geographical distance does not terrify them because demand on this market is intensive as far as *JustOne* products are concerned. The company is in a middle of the business negotiation with the Portuguese partner. They plan to run a joint venture company. Both sides have already decided to create a new trademark on Portuguese market, however *JustOne* will keep the production in Poland.

Theoretical tasks

1. Present briefly the general concept of stages model of internationalization as well as state and change variables in Uppsala model.
2. Present briefly three factors of the REM model of internationalization and discuss the analytical ways of them.
3. Present briefly motives for going international according to various typologies and classifications.

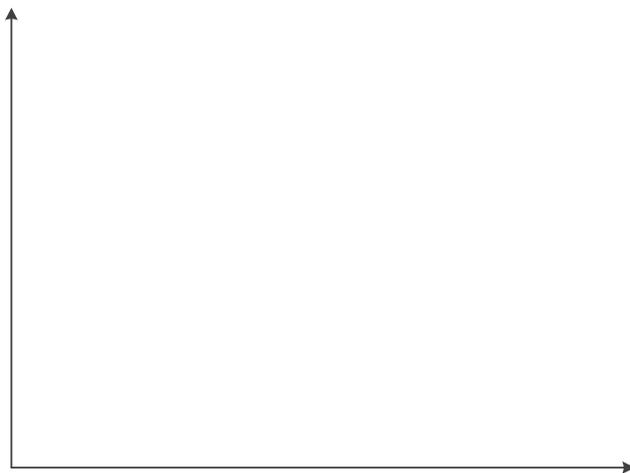
Analytical tasks

4. Name the entry modes applied by *JustOne* and describe briefly their circumstances.
5. Point out the motives of *JustOne* internationalization (push factor, pull factor, chance factor, entrepreneurial factor).

☞ for each stage/method from point #1

Step	Entry Mode	Motives / Factors
0	Operating on domestic market	
1		
2		
3		
4		

6. Characterize *JustOne* sp. z o.o. activities as far as the stages model of internationalization is concerned and show it using a graphic method for stages models.



7. Prepare REM analyses of *JustOne* activities.

☞ for the M-factor you may use the solution from point #1!

R – reason for all modes?	E – why these markets?

8. Briefly evaluate the latest plans of *JustOne* (creating a joint venture).

3.4. ONE DIRECTION AMONG ALTERNATIVES

Topic:	Entry modes in international businesses.
Objective:	A student knows advantages and disadvantages of the various entry modes. A student is able to make a comparative analysis and selection of the recommended entry modes. A student is able to conduct discussions in a cultural way.
Method:	Quizdown gaming method
Course:	The discussion should be led according to the given guidelines. There are two main phases of the discussion. The first phase is based on the discussion within three groups separately, all of which group leaders are selected. The second phase of discussion is led between the leaders of the groups.
Time limit:	45 minutes

Situational problem

Europeanization processes in the European economies aroused among entrepreneurs lively discussion on the strengthening the internationalization process of European businesses. Entrepreneurs and business in general still put their hopes in various actions in the European market(s), but wonder about the adequate expansion forms (entry modes). For this purpose, the Krakow Chamber of Entrepreneurs organized workshops that are dedicated to the selection of the appropriate entry modes. You have been invited by the organizers to take an active part in the work of three independent committees that emerges amongst themselves. These are:

- Committee in favour of exporting modes,
- Committee in favour of contractual modes,
- Committee in favour of investment modes.

Table 3.1. Pros and cons of various entry modes

Entry modes	Advantages	Disadvantages
Exporting modes		
Indirect export (generally)		
Direct export via a foreign agent		
Direct export via a foreign distributor		
Direct export via own distribution network		
Export grouping		
Piggybacking		
Contractual modes		
Subcontracting		
International licencing		
International franchising		
Turnkey operations		
Management contracts		
Investment modes		
Foreign branch		
Joint venture subsidiary		
Wholly-owned subsidiary		

Phase 1: Small Groups Discussion

All students should be divided into three groups, which correspond to the thematic committees (as stated above). These groups should analyse the pros and cons of the specified entry modes from the perspective of small and medium-sized enterprises (It is recommended to complete Table 3.1). After a long and rich discussion within the small teams, each group should choose from its members one representative (a leader) who will represent the group and its opinion in the next stage of the discussion.

Phase 2: Panel Discussion

Leaders of the committees were invited to participate in the panel discussion chaired by a moderator. The main theme of the discussion is as follows: *Which entry mode is the best and should be used by small and medium-sized enterprises?* The discussion should be led according to the art of the rhetoric and students should focus on the typical discussion skills (Table 3.2).

Table 3.2. Discussion skills for a moderators and participants

MODERATOR	PARTICIPANTS
Process Skill: Have an open discussion in which participants feel free to say what they think.	
<ol style="list-style-type: none"> 1. Support every person's right to his or her own opinion. 2. Use supportive to promote group interaction. 3. Distribute participation by calling on silent group members. 	<ol style="list-style-type: none"> 1. Talk to each, not just to the moderator. 2. Don't monopolize. 3. Ask others what they think. 4. Don't engage in personal attack.
Process Skill: Listen to others and keep the discussion focused.	
<ol style="list-style-type: none"> 1. State the issue at the beginning of the discussion. 2. Restate the issue to keep the discussion focused. 3. Summarize statements made by participants. 	<ol style="list-style-type: none"> 1. Listen to others' ideas. 2. Acknowledge others' ideas. 3. Question irrelevant remarks.
Process Skill: Analyse different points of view.	
<ol style="list-style-type: none"> 1. State areas of agreement or disagreement. 2. Ask for temporary agreements to break up deadlocks. 3. Ask for clarification. 4. Ask for reasons why someone holds a particular viewpoint. 	<ol style="list-style-type: none"> 1. Ask for clarification. 2. Ask for reasons for others' opinions. 3. Give reasons for your opinions.
Process Skill: Evaluate the effectiveness of a discussion.	
<ol style="list-style-type: none"> 1. Ask for a brief review. 2. Ask participants to explain viewpoints different from their own. 3. Ask participants to tell current opinion and how the discussion affected it. 4. Ask about the next step for the group or individuals. 	<ol style="list-style-type: none"> 1. Review the main points the discussion. 2. Explain viewpoints different from yours. 3. Tell your current opinion and how the discussion affected id. 4. Suggest the next step for the group or for you personally.

Source: M.D. Gall, M. Gillett (2001). The Discussion Method in Classroom Teaching. *Theory and Practice*, 19(2), p. 201.

Statements, expressions and any words of discussants are assessed both in terms of the essential content and discussion skills on the given scale (Table 3.3). The evaluation is carried out by the moderator.

Table 3.3. Panel discussion scoring

Criteria	Scores	Lider 1	Lider 2	Lider 3
Presentation of information based on theories (literature review)	+2			
Take a position (presentation of own opinion)	+2			
Notice of the analogy or similarity	+2			
Comment to the information, or the supplement	+1			
Paying attention to the mistake or problem	+1			
Off-the-topic statement or failure to follow the plan	-2			
Appropriate start of a discussion	+1			
Move the discussion forward	+1			
Pulling into the discussion a person being inactive	+1			
Interrupting others, to interfere in the discussion	-3			
Monopolizing the discussion (longer statements)	-2			
Personal attack (inappropriate remarks of a personal nature)	-3			
Apology to a discussant or a moderator	+1			
Total:				

Source: own study

Discussion summary

At the end of the discussion, it is necessary to comment both, the course of the discussion, and the information that were used in the discussion. Depending on the available time, it can be done by a professor only, or by all students using a round-table discussion. The group leader, who received the highest number of points by excelling their knowledge should be rewarded (e.g. by granting a bonus of 2 points for the course completion).

3.5. PIECZYWKO SP. Z O.O. OR GMBH?

Topic:	Building a strategy for a foreign market entry
Objective:	A student is familiar with the internationalization strategies building. A student is able to analyse and verify the situation of the company, defining its needs and proposing adequate international strategy. Ability of using source materials.
Method:	case study method and project method.
Course:	The project is to be elaborated individually or in small teams (3-4 students) depending on the individual preferences or the professor's recommendation.
Time limit:	1h of workshops + 10 h of student's individual work + 1h of consulting

Bread market in Germany

In the recent years the following trend could be noticed on the German bread market: German bread market is the largest in the European Union. Consumption market of bread in Germany is stable with a slight upward trend. Changes occur in the individual segments of the market, with an indication of the traditional bread substitutes - such as bakery packed products, crisp.

About half of the market is craft bakery (*Bäckerhandwerk*) and it noticed a decreasing tendency. The rest of the production was utilized by a large network of bakers. Bakers - craftsmen are members of guilds and associations that provide them support through the sharing of a range of different services on a local, regional and national levels, such as

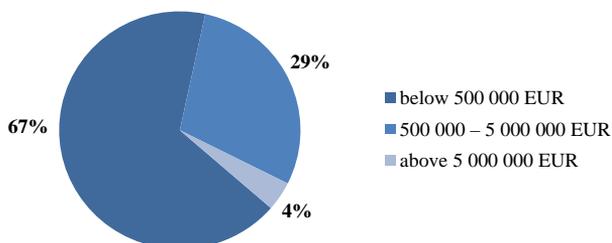
vocational training, advertising and public relations, management consulting, technology, legal advice of the business, quality management.

For several years we can observe the ongoing intensification of the process of concentration in the sector (Figure 3.1 and Table 3.4). Heated competition on the market of bakery products occurred after the appearance of discount bakeries, which offer a narrow range of products made from semi-frozen products.

Germany offers over 300 types of bread, but there are strong regional differences in their range, to be precise, the type of grain that is a major component of the products. According to the German Chamber of Craft Bakery German and the Society for Consumer Research (GfK), the German consumer preferences are as follows (Figure 3.2 and 3.3):

- Only 2% of people in Germany do not eat bread at all.
- Consumption of bakery products "away from home" represents 10% of their total consumption and shows a clear upward trend.
- The consumption of bakery products produced by the German bakeries on the basis of foreign recipes - such as bread French, Italian, Turkish is also increasing.
- Customer interest in dietary products clearly increases, and the same applies to low-calorie snacks.
- There is a significant difference in the amount of bread consumed in the western Länder (women - 137g, men - 160g per day) and the East German Länder (women -160g, men -184g per day).
- More people consume bakery products in the evening (84%) than in the morning (72%).
- The German menu includes statistically bread consumption five times a week, rolls four times a week, and other minor categories of baked goods such as pretzels, croissants about twice a week.
- 83% of Germans said that when abroad, they feel the lack of native-specific breads.
- In 2014 the private households in Germany bought approximately 1 832 million tonnes of bread. This represents a decrease of 3.9% over the previous year.
- In 2014, the average purchase of bread was 44.8 kg annually by one buyer (46.5 kg in 2013).

Share of enterprises in the industry



Share in the industry turnover

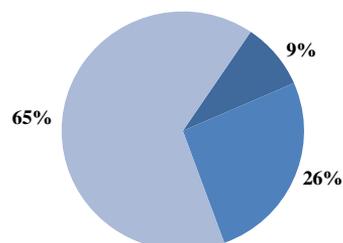


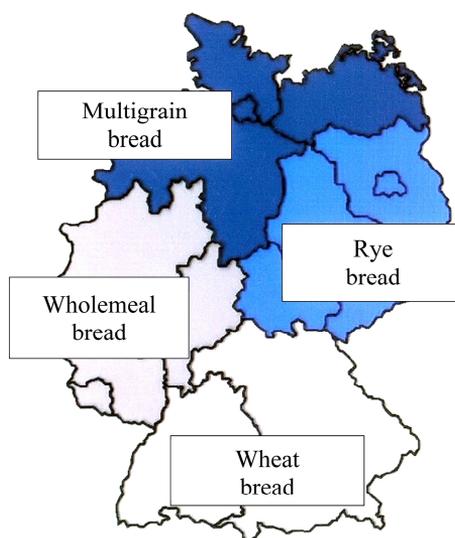
Figure 3.1. Turnover in the baking industry in Germany in 2013

Source: own compilation based on *Das deutsche Bäckerhandwerk: Zahlen, Fakten, Hintergründe 2014*, Zentralverband des Deutschen Bäckerhandwerk e.V., Berlin 2015.

Table 3.4. Development of the baking industry in Germany in the years 1997-2014

Criteria Years	Number of enterprises	Number of employees	Number of apprentices	Number of employees per one enterprise	Industry turnover net (without VAT) in billion EUR	Annual turnover net per one enterprises (without VAT) in EUR
1997	22 256	317 700	33 137	14.3	13.46	631 991
2000	19 813	318 200	34 884	16.1	13.52	690 722
2001	18 888	309 500	32 988	16.6	13.45	722 774
2002	18 169	300 200	31 482	16.8	13.01	726 959
2003	17 580	283 100	31 481	16.3	11.85	684 326
2004	17 178	272 300	32 968	15.9	11.76	695 000
2005	16 741	274 000	34 753	16.4	11.89	710 000
2006	16 280	275 700	36 209	16.9	11.88	730 000
2008	15 337	287 800	36 241	18.8	12.88	840 000
2009	14 993	292 500	35 257	19.5	12.87	858 000
2010	14 594	293 300	32 928	20.1	12.93	886 000
2011	14 170	292 400	29 808	20.6	13.35	942 000
2012	13 666	290 000	26 535	21.2	13.15	962 000
2013	13 171	283 800	23 067	21.5	13.18	1 001 000
2014	12 611	277 200	20 540	22.0	13.52	1 072 000

Source: *Das deutsche Bäckerhandwerk: Zahlen, Fakten, Hintergründe 2014*. Zentralverband des Deutschen Bäckerhandwerk e.V., Berlin 2015.

**Figure 3.2.** German consumer preferences bread by region in 2003

Source: A. Laskowski. *Strategia sprzedaży na rynkach UE na przykładzie rynku niemieckiego*. Cap Gemini Ernst & Young. Conference Paper. Kraków – June 16, 2003.

Company description

Pieczynko sp. z o.o. is a limited liability company based in Krakow. It was established in 1991. Last year, the company started the co-operation with a small company

from Rzeszów (eastern Poland), which produces breads and pastries under the logo of *Pieczywko*.

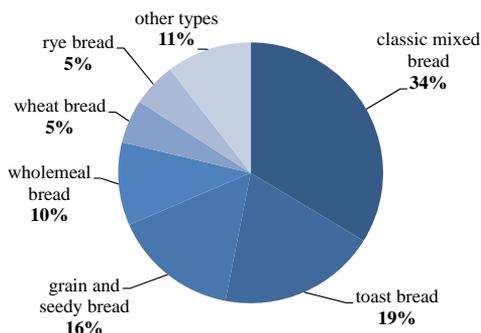


Figure 3.3. The market share of the various types of bakery products in 2014

Source: own compilation based on *Das deutsche Bäckerhandwerk: Zahlen, Fakten, Hintergründe 2014*, Zentralverband des Deutschen Bäckerhandwerk e.V., Berlin 2015.

Business profile

The main activity of the company is the production and sale of bakery products, both standard and according to specific individual occasional contracts. The company offers fresh bread (wheat, rye, wholemeal, multigrain), as well as bakery products with a prolonged expiration date. The company also manufactures confectionery products, including cakes, cookies - both fresh and packaged with an extended expiration date.

Structure

The production of bread is conducted in the new building, which is owned by the company. The building also contains offices. The company is managed by three partners-owners. Currently, the company employs 24 employees in total, including 5 white-collar workers, 10 people employed directly to the manufacturing, while others are driver-suppliers. The company uses a time bonus system, and so every employee has a fixed rate of salary between 2500 – 3500 PLN per month, and the a 20% discretionary bonus, granted by the Board on a monthly basis, depending on the efficiency of the company.

Finance

The company revenues include income from the sale of bread, while 95% of the bread is sold through intermediaries (retailers) and only 5% of products are sold in the bakery outlet. The bakery market of the company consists of three voivodeships in southern Poland: *małopolskie* (especially Kraków as the capital), *świętokrzyskie* (with Kielce as the regional capital) and *podkarpackie* (Rzeszów as the capital of the region). Monthly revenue of the company reaches about 600 thousand PLN (that is 7 200 000 PLN annually).

Development plans

During the latest meeting of the business partners it was suggested to expand into the European Union markets. The partners initially agreed that the best place to start the expansion is the German market. The Board of the company is also considering the intro-

duction of a quality system, but has no idea of what kind. One of the partners suggested to use the EU subsidy to obtain EU certification for small businesses.

Methodological tasks for students

1. Discuss with colleagues, and then briefly introduce methodological assumptions concerning the preparation of consulting projects. Is the methodology used by consulting firms relevant to the methodology of economics taught in universities? Is it worth improving? Should students use it while preparing their projects? (Try to broaden your knowledge on the methodology of market analysis and consulting projects. The library has several good pieces of literature on this topic).
2. Discuss in a small group, and then briefly introduce how should the process of organizing and planning the concept of the expansion of the EU market be run, from the creation of the idea to the implementation of the internationalization strategy for a small or medium business.
3. Which of the steps proposed by students in order to build a small business entry strategy for foreign markets is particularly important, and why?

Analytical tasks for students

Market Research

4. Rate the competitive situation on the bakery market in Germany (task environment as a part of external environment).
5. Identify and rate the specific formal requirements for a baking business in Germany.

International Strategy

6. Identify the motives for going international in case of *Pieczywko* sp. z o.o.
7. What entry mode into the German market would be the most appropriate for *Pieczywko* sp. z o.o.? What alternatives can the company use?
8. What should the strategy of the market entry include for *Pieczywko* sp. z o.o.? Do they need to do some adjustments to the market?
9. Estimate the cost of the expansion of *Pieczywko* sp. z o.o. to the German market while using the given method. Present calculations, assumptions and sources of financial data.

Strategic Behaviour

10. What is the relationship between the strengths and weaknesses of *Pieczywko* sp. z o.o. (internal environment) and the opportunities and threats which are caused by the specific competition in the bakery industry in Germany (external environment)?
11. Consider, the possibility of establishing cooperation between *Pieczywko* sp. z o.o. and a selected German partner.
12. What role will the brand (the company brand or the product brand) play in the case of *Pieczywko* sp. z o.o. entering the German market?

Project

Develop a comprehensive strategy for the entry of *Pieczywko* sp. z o.o. into the German market. Consider the following issues:

- research methodology (methodology of the prepared expertise),
- market research (analysis of the bakery industry in Germany),
- international strategy (proposition of the expansion strategy, including the choice of the entry mode),
- conclusion (final conclusions, implications and recommendations).

3.6. MODULE QUIZ

Topic:	Entry modes and international strategies in international businesses.
Objective:	A student knows entry modes, their basic characteristics, advantages and disadvantages. A student can critically analyse the conditions determining the choice of a proper entry mode.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	25 minutes

Exercise 1. Match the definitions to the appropriate entry modes:

export commission house (ECH) export/import broker export management company (EMC) export trading company (ETC)	part fit-up operations fastener operations repair and overhaul operations management contracting
1	a specialist in performing the contractual function, and does not actually handle the products sold or bought, bringing a buyer and a seller together
2	a semi-product which is sent abroad to continue to undergo various stages of the manufacturing process or treatment, and then returned to their country of origin,
3	goods are sent abroad to have it repaired and then return to their country of origin
4	an intermediary similar to EMC, but it usually takes the claim to the product before exporting
5	a representative of foreign buyers who is located in the exporter's home country, offering services to the foreign buyers such as identifying potential sellers and negotiating prices
6	a foreign firm acquires a type of a knowledge-based service of management from a domestic firm
7	reputable companies outsource their products in accordance with the specifications, based on supplied designs, projects, and sometimes providing materials
8	an intermediary specializing in particular types of products or particular countries or regions

Exercise 2. Complete the gaps in the text.

1. exporting requires long term credits.
2. A foreign agent acts of the exporter and its name.
3. are based on the executing the contracted investment in a given period of time in accordance with the requirements of the buyer (importer), as a result, transferring the complete investment.
4. occur when accumulated volume in production results in lower cost price per unit.
5. occur when resources can be reused from one business/country in additional business/countries.

Exercise 3. Choose the proper answer(s).

1. Which of the following modes offers the highest level of risk and the highest potential profits?
 - indirect export
 - direct export
 - subcontracting
 - wholly-owned subsidiary
2. Offering unique products and making use of economies of scale is typical for:
 - push factor
 - pull factor
 - chance factor
 - entrepreneurial factor
3. The REM model has:
 - two factors
 - three factors
 - four factors
 - multidimensional factors including three levels of analysis (macro, meso, micro)
4. What are the advantages of indirect exporting?
 - Low entry cost
 - High entry cost
 - Low financial risk
 - Very High potential profits

Exercise 4. Briefly answers for the following questions:

5. What is the role of a carrier and a rider in piggybacking?

.....

.....

.....

6. What are differences between a foreign branch and a foreign representative office?

.....
.....
.....
.....

7. What are differences between a foreign branch and an overseas subsidiary?

.....
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.....
.....

8. How are born globals (BGs) defined in the literature?

.....
.....
.....
.....

9. Who was the creator of a global paradox and what is it about?

.....
.....
.....
.....

Questions for Discussion!

1. What are the differences between particular investment modes taking into consideration both the ownership (branch, joint venture, wholly-owned subsidiary) and the way (brownfield vs. greenfield investment)? Which of them are used in what situations? Explain your opinion with real cases from your home country.
2. Which entry modes are most often used by SMEs and large corporations? Explain why?
3. What determinants should be taken into consideration while selecting an entry mode? In what way do these factors affect the entry mode choice?

RECOMMENDING READINGS

- Wach, K. (2012). Internationalization Strategies for SMEs (chapter 3). In: N. Daszkiewicz & K. Wach. *Internationalization of SMEs. Context, Models and Implementation*. Gdańsk: Gdańsk University of Technology Publishers, pp. 40-62.
- Wach, K. (2014). Market Entry Modes for International Business (chapter 7). In: E. Horská (Ed). *International Marketing within and beyond Visegrad Borders*: Kraków: Episteme, pp. 135-147.
- Wach, K. (2014). Theoretical Framework of the Firm-Level Internationalisation in Business Studies (chapter 1). In: A. Duréndez & K. Wach (Eds.) (2014). *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena: Universidad Politécnica de Cartagena, pp. 13-30.

4

Taxation and Tax Competition in the EU

4.1. OPTIMIZATION OF BUSINESS TAXATION IN THE EU

Topic:	Indirect and direct taxation of business in member states of the European Union
Objective:	A student is familiar with the basic fiscal conditions for doing business in the European Union and its member states.
Method:	Incident method
Course:	The task should be done in teams of 2-3 students or individually.
Time limit:	15 minutes

Suggest the optimal solutions in situations described below by indicating the relevant member state(s):

Case 1. The company *Bombaboa* sp. z o.o. based in Sopot (a part of a Tricity at the Baltic Sea) has been manufacturing and selling luxury yachts. The CEO of the company cares about low fiscal burdens on income or net profits of the company. Advise him to which member state within the European Union should the company move its headquarters?

Case 2. A huge part of the profits of the company *Tightwad* S.A. localised in Warsaw is paid to its shareholders. During the last general assembly of the shareholders, they decided to change the company headquarters. Which member state within the European Union will be best for shareholders?

Case 3. The Company *Pakamera* sp. z o.o. based in Ciechocinek (northern Poland) is focused on lowering the final price of their products, which are taxed with the standard rate. Their products note increasing demand in each EU member state, however due to cheap substitute products from Asian countries, the customers are not willing to pay more. In which EU country should they sell their products from the taxation perspective?

Case 4. Mr. George Enterprising wants to start his own one-man business (sole proprietorship) in one of the member states of the European Union. He cares about low taxation of his business income. In which country should he start-up and run his business in order to pay the lowest taxes in income?

Case 5. Mr. Adam Profitable leading his one-man business reached an annual income of 34 000 euro in the previous taxation year. The income was taxed as his personal income. He didn't receive any other income. In which country his economic activity in a given year will be preferably taxed?

Case 6. Mr. Constantine Merkel and her wife are planning a trip to one of the countries of the European Union. Mr. Merkel intends to launch a one-man business providing computer services. His wife and his dependents are not planning to take any economic activities including working and business. To which member states of the EU should they leave for, of course having tax regulations in their minds?

Case 7. Ms. Anna Satisfied (together with her friends) is planning to start a business (a limited liability company) and employ a couple of workers in her business. Although the financial funds are no problem for them, but all partners are willing to save money as they are very entrepreneurial and economic. Which member states of the EU will be optimal for them having in mind both the initial share capital and the day to day corporate taxation?

4.2. CROSS-BORDER COMMERCE IN THE EU

Topic:	Indirect taxation of business in member states of the European Union
Objective:	A student is familiar with the basic rules for VAT taxation of the cross-border commerce in the European Union and its member states.
Method:	Incident method
Course:	The task should be done in teams of 2-3 students or individually.
Time limit:	15 minutes

Read the following descriptions of cross-border sales and answer the following questions:

Case 1. Polish company runs an online store that sells computers and computer components. Due to the order made by a German company, the goods have been sent to Germany.

- What type of transaction should the Polish company indicate in the documentation?
- What VAT rate will be applied?
- Who and where deducts VAT? Are there any associated requirements?

Case 2. Polish company *Alfa* last year in July sent the goods to a private individual in Germany, not being VAT payer. The goods were transported from the warehouse in Poland to customers in Germany. The value of the mail-order sales made to Germany exceeded this year the limit of 100 thousand euros for mail-order sales.

- What type of transaction should show the Polish company indicate in the documentation?
- What VAT rate will be applied?
- Who and where deducts VAT? Are there any associated requirements?

Case 3. Polish company *Beta* in last summer sent the goods to an individual not being a VAT paper from Spain. The value of the mail-order sales made into Spanish territory does amounted to less than 35 thousand euros and not exceed that year limit for mail-order sales.

- What type of transaction should the Polish company indicate in the documentation?
- What VAT rate will be applied?
- Who and where deducts VAT? They are associated with this any requirements?

Case 4. In August last year one of the Polish company provided electronic services to a German company, which is a taxpayer in this country.

- Which country will be the place of taxation?
- Who and where deducts VAT?
- Does Polish company must issue a VAT invoice? Does it have to contain specific information?

Case 5. In August last year a Polish mid-size company provided electronic services to Russian companies in Moscow and St.-Petersburg.

- Which country will be the place of taxation?
- Who and where deducts VAT?
- Does Polish company must issue a VAT invoice? Does it have to contain specific information?

Case 6. In August last year, a very unknown Polish company provided electronic services to Hans König, being a resident in Germany, who of course is not a VAT payer.

- Which country will be the place of taxation?
- Who and where deducts VAT?
- Does Polish company must issue a VAT invoice? Does it have to contain specific information?

4.3. SOCIAL SECURITY IN THE EU

Topic:	Indirect and direct taxation of business in member states of the European Union
Objective:	A student is familiar with the basic rules on coordination of social security systems in the European Union and the European Economic Area.
Method:	Incident method
Course:	The task should be done in teams of 2-3 students or individually.
Time limit:	15 minutes

Read the descriptions of the examples on the coordination of social security systems in the European Union and the European Economic Area given below and then answer the attached questions:

Case 1. A Polish citizen, Mr. Adam Mediterranean, is employed exclusively in Greece. He performs his employment only in the area of Greece. The place of his permanent residence is in Poland, as he has a Polish citizenship. Which legal system on social security is applied (Polish or Greek)?

Case 2. A citizen of Ireland, Mr. John Richardson, residing in this country, in Poland he made an entry in the register of economic activities and intends to run a business in here. Of which country are the laws on social security applied (Polish or Irish)?

Case 3. Mr. Kris Catheline, a citizen of Belgium, founded in Poland a one-man limited liability company (sp. z o.o.). Of which country are the laws on social security applied (Polish or Belgian)?

Case 4. Mr. Antoni Kowalski, a Polish citizen, operates in Poland a non-agricultural business. As part of that activity, he is temporarily performing certain activities in the United Kingdom for a period of 12 months. Which social security laws will he be subject to for the period of his work in the UK (Polish or British)?

Case 5. Mrs. Aldona Magyar, who is a Polish citizen, runs a business in her home country. In addition, she registered a similar business in Hungary. He lives permanently in Poland. Which laws concerning social insurance is subject to Mrs. Magyar (Polish or Hungarian)?

Case 6. An Austrian citizen, Mr. Alfred Schmidt, runs a business in Poland on the basis of the entry into the business register. Besides, he is also an entrepreneur in the Czech Republic and Slovakia. Permanently he is living in Germany. Which laws in the field of social security shall he be subject to (Polish, Austrian, Czech, Slovak or German)?

Case 7. Mr. Rudolf Müller, having a German nationality, works in Germany and also conducts business in Poland. He lives in Poland because of the lower cost of living. He reaches Berlin only to work there (at his family, there is his temporary residence of living in Berlin). Which laws in the field of social security shall he be subject to (Polish or German)?

Case 8. Ms. Anna Nowakowska, a Polish citizen, is self-employed in Slovakia, near the Polish border. At the same time she is employed in Poland under a full contract of employment. Which laws in the field of social insurance is subject to Ms. Nowakowska (Polish or Slovak)?

Case 9. Mr. Markku Kuismin is self-employed in Finland, where he lives permanently. For a few days a month he is employed simultaneously in Poland. Which laws in the field of social security shall be subject to Mr. Kuismin (Polish or Finnish)?

Case 10. Mr. Frederick Goldman, holding a Polish citizenship, is self-employed in France. At the same time he is employed in Poland under a contract of employment (full time). Which laws in the field of social security shall be subject to (Polish or French)?

Case 11. A native of Poland and a resident of Poland, Mr. Artur Upstart runs a non-agricultural business in Poland (Frankly speaking, he is a shareholder in a civil partnership). In addition, he is employed under a contract of employment in Belgium. Which laws in the field of social security shall be subject to Mr. Upstart (Polish or Belgian)?

4.4. MODULE QUIZ

Topic:	Taxation and its optimization within the European Union.
Objective:	A student is familiar with the basic fiscal conditions for running business in the European Union and its member states from the perspective of taxation and tax competitiveness.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	25 minutes

Exercise 1. Answer the following questions:

1. Briefly discuss the VAT harmonization rules in the EU.
 - a) Basic rate can't be lower than
and its maximum
 - b) Reduced rate (or reduced rates) can't be lower than.....
and can be applied only to selected groups of products/services, namely:
 - (1)
 - (2)
 - (3)
 - (4)
 - c) Zero rate can be applied only

2. Point out three countries, where the standard VAT rate is the lowest and the highest.

<i>The lowest:</i>	<i>The highest:</i>
a)	a)
b)	b)
c)	c)

3. Point out three countries, where the effective corporate income taxation is the lowest and the highest.

<i>The lowest:</i>	<i>The highest:</i>
a)	a)
b)	b)
c)	c)

4. What is the Common Consolidated Corporate Tax Base (CCCTB)?

.....

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.....

.....

5. What is transfer pricing and why it is so popular among multinational corporations in Europe?

.....

.....

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.....

Exercise 2. Choose the proper answer(s).

1. The EU member states which have the highest corporate taxation are:
 - Malta, Germany, Poland
 - Malta, Belgium, Ireland
 - Malta, Belgium, France:
 - Cyprus, Bulgaria, Ireland
2. Which VAT rate is applied to luxury products?
 - a basic rate
 - a standard rate
 - a zero rate
 - any of the above rates depending on the decision of the national parliament
3. The example of the offshore tax haven in the European Union is:
 - Poland
 - Sweden
 - United Kingdom
 - none of the above

Questions for Discussion!

1. To what extent is there a spatial dimension in corporate tax competition in the EU? What role in tax competition is played by the region of Central and Eastern Europe?
2. Is tax competition really a problem for a modern globalised economy? Briefly present solid for and against this issue and finally express your own opinion.
3. What is the importance of fiscal burdens for economies competitiveness and for business? Are the rate values the only indicator for businesses? If not, what is also very important as for taxation and fiscal system are concerned?

RECOMMENDED READINGS

- Baskaran, Th., & Lopes da Fonseca, M. (2014). The Economics and Empirics of Tax Competition: A Survey and Lessons for the EU. *Erasmus Law Review*, 1, 3-12.
- Bénassy-Quéré, A., Trannoy, A., & Wolff, G. (2014). Tax Harmonization in Europe: Moving Forward. French Council of Economic Analysis. Retrieved on July 1, 2015 from <http://www.cae-eco.fr/IMG/pdf/cae-note014-en.pdf>
- Osterloh, S., & Heinemann, F. (2008). The Political Economy of Corporate Tax Harmonization – Why Do European Politicians (Dis)like Minimum Tax Rates?. *Discussion Paper* No. 08-108. Retrieved on July 1, 2015 from <ftp://ftp.zew.de/pub/zew-docs/dp/dp08108.pdf>

5

Standardization and Certification in the EU

5.1. STANDARDS IN THE FOOD PROCESSING INDUSTRY¹

Topic:	Food safety standardization in the European Union (including HACCP).
Objective:	A student is familiar with the principles and mechanisms of ensuring food safety in the European Union.
Method:	Incident method.
Course:	The exercise should be solved in teams of 2-3 students or individually.
Time limit:	15-20 minutes

Read carefully the following descriptions of the food companies and answer the questions listed below.

Case 1. *Co-Pak Ltd.* has been present on the packaging market since 1991. The beginnings of the business activity were difficult. On one hand, the company was struggling with the lack of capital, adequate and modern facilities and had modest housing conditions. On the other hand, the market showed a strong demand in the field of various forms of packaging. Fortunately, the owners did not treat the company as a substitute activity to their own work, but put a lot of effort in the development of the company. Because of their enthusiasm, and a thorough strategic plan they managed to find a strategic investor for the venture. This significant contribution of capital allowed to make necessary investments in the field of technical equipment and to carry out an overhaul of the production hall. Thanks to these investments a production capacity, efficiency and quality of the products manufactured in the company *Co-Pack Ltd.* increased significantly, which was reflected in the increasing number of regular customers. Up-to-date analysis of trends in the company's competitive environment helped to direct its development in the area of niche markets. Currently, *Co-Pack Ltd.* specializes in the production of advertising gadgets and packaging of solid products as well as spatial, dry and liquid products, but mainly groceries. In order to meet the needs of customers, the company has implemented a quality control system, which has been subject to a certification process. In 2010, the company received a certificate confirming the compliance of the quality management system with the requirements of ISO 9001:2000.

Case 2. *Catering-Max* is a small civil partnership founded in 2011 by two friends Ms. Anna Kowalska and Ms. Eva Rakowska. Despite the short period of operation, the business has already won a number of regular customers among large and well-known companies in the southern Poland market. Partly, this is thanks to business contacts of Ms.

¹ The task is adopted from: M.Najda, K. Wach (2006). *Małe i średnie przedsiębiorstwa w Unii Europejskiej. Materiały do ćwiczeń.* Kraków: Wydawnictwo Akademii Ekonomicznej w Krakowie, pp. 21-23.

Kowalska, who previously worked as an assistant director in a large publishing company and was responsible, among others, for organizing meetings, conferences, training sessions and banquets, both from the technical and gastronomic side. These responsibilities became an inspiration to start the business. Ms. Kowalska knew well the demand specifications in catering services, as well as she had direct contacts with many companies. The first customer of *Catering-Max* was the publishing house for which Ms. Kowalska had been working previously. Currently, the offer of *Catering-Max* is addressed mainly to companies and includes the culinary support of banquets, conferences, symposia as well as office catering (their culinary offer is very wide, ranging from a glass of wine to a complex buffet). In addition, the company collaborates with experts from various fields, who are able to design special decorations of banquet tables and rooms.

Since January 2014, *Catering-Max* has directed its services also to individual clients and organizes communion parties, weddings, birthdays and family jubilees.

Case 3. Mr. Roman Janowski had always been very satisfied with his work in the communal library in a small town in the southern Poland because he is a true literature lover. Unfortunately, the situation from the financial point of view was not that optimistic but also not tragic. Another passion of Mr. Roman was his flower and vegetable backyard. His commitment and gardening skills brought great results. One day, the owner of the well-known local restaurant *Al Dente*, Mr. Jan Wysocki, proposed Mr. Roman the cooperation on favourable terms. Mr. Wysocki offered a contract for the supply of vegetables from the garden of Mr. Janowski (including several varieties of tomatoes and peppers) to his three restaurants. Encouraged by his wife and his son (but the way both of them promised to actively help in the venture), Mr. Roman agreed for the cooperation and decided to utilize an additional hectare of land (inherited from a deceased uncle). Mr. Janowski received the investment loan thanks to the restaurateur's guarantee. It was not long until the vegetables from the garden of Mr. Janowski became an essential component of dishes in restaurants owned by Mr. Wysocki, to the satisfaction of customers and both cooperating parties.

Theoretical and analytical tasks

1. What is the relationship between GMP, GHP and HACCP? What are the consequences of any relationships? Justification of the answer is needed.
2. Which of the above mentioned business should implement GMP, GHP only and which of them HACCP? Justification of the answer is needed.
3. What are consequences for the lack of implementation of the required systems?
4. What are potential benefits and drawbacks of the HACCP system for the discussed companies? Is it possible to avoid the negative effects of the implementation of HACCP?

5.2. CLEANLINESS IN A COMPANY AND AT A STAND

Topic:	Food safety standardization in the European Union (including HACCP).
Objective:	A student knows the principles and mechanisms of ensuring food safety in the European Union.
Method:	Incident method
Course:	The exercise should be solved in teams of 2-3 students or individually.
Time limit:	15-20 minutes

Carefully read the descriptions of the food companies and answer the questions placed below.

Case 1. Mrs. Aldona Upstart runs in a district of Krakow, a small grocery store. Seasonally she employs an additional seller. Her husband helps her in the transport and delivery of products to the store as they mainly supply on agri-food market and use the supplies directly from producers. The annual turnover of the business is quite low, the selling space and storage space is limited to 30 m².

Case 2. Mr. Wiesław Samochodzik runs his own transport business under the name *Krak-Trans*. Due to signed long-term contracts with customers and partners, Mr. Samochodźić deals mainly with the transport of yoghurt. A colleague of Mr. Samochodźić, who is studying management and production engineering at the weekends, urges him to introduce the HACCP system. However, Mr. Samochodzik argues that food (yoghurt) is hermetically sealed and there are no risks in its business related to health security of transported goods.

Case 3. Mr. Adam King runs a hotel in the city centre, whose traditions date back to the beginning of the previous century. In recent years Mr. King has put on quality of service and management systems used at the hotel. They are currently the priority actions, since last year the number of visitors has fallen dramatically. Mr. King wants to apply the quality management systems in his business. An apprentice-student, within the framework of an agreement with the Cracow University of Economics, informed the owner about the HACCP principles as well as GHP and GMP rules. According to Mr. King, the owner of the Royal Hotel, it is not a typical example of a business in the food industry and is not interested in the implementation of these principles and rules. However the owner is thinking of the introduction of the ISO system.

Case 4. There is a school canteen at the junior high school, in which Mr. Chemikowski is the director. Lunches are prepared by the canteen staff who have valid medical examination. Lunches are funded thanks to the sponsorship deal signed with one of the big food companies. This sponsorship is a barter. The canteen manager called into the headmaster, who told the canteen manager that there was no need to introduce the HACCP system at the school since it was introduced by the manufacturer (a sponsor), which is a supplier of all products for the school canteen.

Case 5. Mr. Jarosław Gardeny with a group of five neighbours formed a producer group, They grow tomatoes and cucumbers, which they sell. Since they have been working together as a group, their profits increased significantly. The next five neighbours are planning to join this producer group.

Case 6. *Cigareta* sp. z o.o manufactures and sells tobacco products. The sale of cigarettes with low nicotine content provides the biggest profits. During the whole manufacturing process, the shift management pays a particular attention to work safety and hygiene, as in the production process there are many risks. The CEO sometimes jokingly mentions that it is not worth polluting cigarettes more, as they are already themselves sufficiently harmful to human health.

Analytical tasks for students

1. What food certification systems should be implemented by the above-mentioned businesses? Use Table 5.1. to identify the system.
2. Where should these businesses go to implement appropriate systems?
3. What threats are probably to occur in these businesses? To identify threats use the Table 5.1.

Table 5.1. Identification of threats in the food sector

A business	Required system	Examples of threats
Mrs. A. Upstar		
<i>Trans-Krak</i>		
Royal Hotel		
School canteen		
Mr. Gardeny		
<i>Cigareta sp. z o.o.</i>		

5.3. ORIGINALITY UNDER PROTECTION

Topic:	Geographical indications and traditional specialities in the EU
Objective:	A student knows the basic characteristics of three EU certificates of geographical indications and traditional specialities.
Method:	Incident method.
Course:	The exercise should be solved in teams of 2-3 students or individually.
Time limit:	10 minutes

Three schemes of geographical indications and traditional specialities within the EU promote and protect names of quality agricultural products and foodstuffs. They are (i) protected designation of origin (PDO), (ii) protected geographical indication (PGI), and (iii) traditional specialities guaranteed (TSG).



PDO Certificate



PGI Certificate



TSG Certificate

Case 1. A local firm based in Polish mountains The Tatras produces local wine being originating in a specific region, that has characteristics that are particularly linked to the place of origin through inherent natural and of course human factors, and which is produced, processed and prepared in the defined geographical area of the Tatras. Which geographical indication can be applied in this case?

Case 2. A producer group from the Tatras producing traditional *oscypek* according to traditional methods handed down from generation to generation. These are very old procedures, based on traditional methods. Which certificate would help producers in marketing?

Case 3. For a group of manufacturers of Krakow bagels (*obwarzanek*), it is clear that these are regional products, of which Krakow is famous not only in Poland but also in the world. Krakow bagel was even used in the advertisement of the Finnish airlines flying to Krakow. The producer group would like to obtain any EU certificate. Which certificate would help manufacturers to promote bagels worldwide?

Case 4. A regular sausage manufacturer from Wadowice (southern Poland, a home township of the pope John Paul II), would like to gain any EU certificate that secures its interests and grants the manufacturer the only right to sausage production and promotion. The manufacturer has done a detailed query, which shows that the sausage is produced according to traditional methods and a special recipe, and what is more, this product became famous in the whole sub-region of Wadowice. Which EU certificate or labelling would help the producer in promoting its sausages?

Case 5. A group of manufacturers of a regional product showed that its name directly refers to their region and even the specific location where the product is manufactured. Because their product is regional, the whole technological process (from the manufacturing of raw materials, through the core production to the preparation for sales) takes place in the area to which the name of the product concerns. The producer group is proud that both the characteristics and quality of the product are unambiguously associated with the specificity of the region where it is produced. Which EU certificate would help the producer group in the promotion of that product?

Case 6. A local food producer in Kraków produces local pizza, which are famous in Poland and known as Krakow style pizza (like New York style pizza versus Chicago style pizza in the USA). Pizza does not refer to the origin (Kraków, southern Poland), but highlights traditional character, either in the composition or means of production. Which EU certificate would help the producer group in the promotion of that product?

5.4. BIO- AND ECO-LABELLING IN THE EUROPEAN UNION

Topic:	Organic and ecological certification in the European Union.
Objective:	A student knows basic characteristics of bio- and eco-labelling in the European Union .
Method:	Incident method.
Course:	The exercise should be solved in teams of 2-3 students or individually.
Time limit:	10 minutes

Read brief descriptions of several European businesses and suggest the proper labelling:



European Flower



*European Leaf
(since 1 July 2012)*



*European Leaf
(till 30 June 2012)*



Green Dot



Recycling Symbol

Case 1. A small local business in Frankfurt (Oder), which is a manufacturer of the paper, plastic, metal and wood packaging, contributes to the cost of recovery and recycling of the these materials. This is done with household waste collected by the authorities in special yellow bags, as well as in containers in public places such as car parks and outside super-markets. The company would like to inform consumers about this fact on their packaging for promotional purposes.

Case 2. A medium-sized local business in Kraków produces disposable plates, which are capable of being recycled , they have not been recycled. The company produces also plastic cups, which contain 5% of recycled material. The company would like to use any symbols or certificates. What symbols would be the best for plates and/or cups?

Case 3. The company *Susana Ltd.* uses about 50% of processed raw materials to manufacture its own packaging under a collective system of collecting and processing waste, the company is a part of. The company would like to inform consumers about this fact on their packaging for promotional purposes.

Case 4. *Super GmbH* is a dynamically developing company, which in the whole process of production and sales of products minimized adverse effects on the environment. The Presidents of the company wants to place an appropriate sign on the packaging of products manufactured by the company indicating their bio and eco attitude.

Case 5. An unlimited Partnership *Maurycy* is a medium-sized business specializing in organic agri-food production. Its owner asked his friend, who is a Cracow University of Economics student for help in matching the desired label, which would be placed on products sold by the business that consumers can easily identify the organic product.

Case 6. John Smith runs a farm. It sells the products on the wholesale market in the uniform packaging. Production on his farm is completely natural. For the purposes of marketing their products would mark one of the green certificates. Which one?

Case 7. Mr. Marian Royalness has been running a family hotel (Royal Hotel) for many years. The hotel tries to reduce energy and water consumption. It encourages its staff to reduce waste production. Renewable resources and materials that are less harmful to the environment (e.g. no use of chemicals to the interweaving of pipes) are preferred when purchasing cleaning products. Recently the hotel has started the information campaign for environmental education.

5.5. SAFETY OF TOYS

Topic:	Standardization and certification in the European Union.
Objective:	A student is familiar with basic principles related to the provision of health security, life safety and environmental protection for newly launched products in the European Union related with the CE marking.
Method:	Incident method
Course:	It is recommended to work in small teams, but the exercise can also be solved individually
Time limit:	25 minutes

The company *Pakastas* sp. z o.o. manufactures and sells its own and imported plush toys. Among the imported products there are teddy bears from either the European Union countries as well as from China.

The Chinese toys, in contrast to the European ones, do not have the CE markings. Exporters from the EU countries, who import the toys and then deliver them to Poland, provided *Pakastas* sp. z o.o. with a copy of the declaration of conformity, but they are always prepared in an official language of their countries of origin. The top management team (TMT) of the company is wondering whether to submit a copy of a declaration to each product or to make it available to interested clients, who ask for it in a written form. It is also worth mentioning that toys imported to Poland from German Federal Republic (GFR) have a German GS safety mark.

The company *Pakastas* plans to launch two new products. One of them is thanks to assembly operations and all its components have the appropriate approvals and markings - including the CE marking (for those components for which it is required). These product possess also the Polish safety mark.

The second product is manufactured according to the formula developed by the designer of the company and the materials used in its production come entirely from China and India. In the fear of civil and legal liability, the management team of the company authorized one of its employees to assess the compliance of these products with the harmonized standards, and then instructed him to sign the declaration of conformity if everything is fine.

Analytical tasks

1. Can *Pakastas* enclose a declaration of conformity to its products issued in one of the official languages of the EU?

2. Is a declaration of conformity required to be enclosed to each product or is it allowed to do it only on request by *Pakastas*?
3. Can the company's top management team authorize a regular employee to assess compliance and to sign a declaration of compliance? Who, in this case, shall bear the responsibility?
4. Should *Pakastas* assess conformity of products imported from China and India? Who, in this case, should bear the responsibility?
5. Does the use of certified materials and components that already have the CE marking excuse *Pakastas* from the conformity assessment procedure?
6. Can *Pakastas* put on their products, in addition to the CE marking, the Polish safety mark B? Does the EU law place any restrictions on the placement of additional symbols and/or certificates in addition to the CE mark?
7. What conformity assessment procedure (modules A-H) should be used by *Pakastas* if it starts to manufacture products for which there are no harmonized standards or products that are not manufactured in full compliance with the standards?

5.6. CE MARKING IS ESSENTIAL²

Topic:	Standardization and certification in the European Union.
Objective:	A student is familiar with basic principles related to the provision of health security, life safety and environmental protection for newly launched products in the European Union related with the CE marking.
Method:	Quizdown gaming method
Course:	It is recommended to work in small teams, but the exercise can also be solved individually
Time limit:	15 minutes

Which of the following products should mandatory have CE marking while launching the products into the Single European Market?

1. a computer Mouse
2. a notebook
3. a kitchen mixer
4. a hairdryer
5. a vacuum cleaner
6. a carpet
7. a plush toy for children
8. a battery toy car (up to 20V)
9. plastic food wrap
10. long-life bread
11. a school textbook
12. a disposable paper packaging
13. a reusable plastic container
14. sports footwear
15. contact lenses
16. contact lens liquid for disinfection

² The task is adopted from: M. Najda, K. Wach (2006). *Małe i średnie przedsiębiorstwa w Unii Europejskiej. Materiały do ćwiczeń*. Kraków: Wydawnictwo Akademii Ekonomicznej w Krakowie, pp. 27-28.

17. a fire extinguisher
18. an AC adapter for the cell phone
19. a cooker
20. a gas heating stove
21. a washing machine
22. an electric oven
23. a flow heater
24. a humidifier
25. an electric Kettle
26. a yacht (18m length)
27. a kayak
28. a surfboard with a sail for windsurfing

5.7. MODULE QUIZ

Topic:	Normalization, standardization and certification in the European Union.
Objective:	A student is familiar with the principles and mechanisms of ensuring food safety as well as geographical indications in the European Union.
Method:	Quizdown gaming method
Course:	The task should be solved individually or in teams of 2-3 students.
Time limit:	10 minutes

Exercise 1. Choose the correct answer(s):

1. The EC certificate of product testing is required in the case of the application of such modules:
 - only A
 - H
 - C, D, E and F
2. The modular system of conformity assessment introduces various modules depending on:
 - person who carries out the assessment (i.e. the manufacturer, the third party)
 - stage of production (i.e. the design phase, the prototype phase, the production phase)
 - way of assessment (e.g. documentation checking, template-type approval, quality assurance)
 - national origin (e.g. a national company, a foreign company)
3. Full quality assurance in the process of assessing the safety of products:
 - is based on the module A
 - is based on the module H
 - applies to both the design phase and the production phase
 - applies only to the production phase

4. Global Approach (GA):
 - introduces rules for application and use of the CE conformity marking
 - ensure consistency in the approach to conformity assessment of products under EU legislation
 - makes supplementary rules in addition to the so-called New Approach (NA)
 - introduces a unified path of conformity assessment in the form of modules
5. EC Declaration of Conformity:
 - must be issued only in Polish
 - must be issued in one EU official languages
 - must always be attached to each product
 - can be attached to each product (only sometimes there is such an obligation)

Exercise 2. Match the appropriate quality systems to the descriptions of the companies that must be entered by typing the appropriate letter (some letters may be repeated).

- | | |
|--|------------------|
| ___ Company that produces food packaging | a) GHP / GMP |
| ___ McDonald's | b) HACCP |
| ___ Canteen in kindergarten | c) no applicable |
| ___ Farmer cultivating and selling tomatoes in greenhouses | |
| ___ Gainfully employed a truck driver of bread | |

Exercise 3. How should the entrepreneurs behave in two specific cases described below?

1. Mr. Alfred Profit is the owner of several food and beverage shops (or rather points of sales, as they look like) in Krakow, in each of the shops, there are up to 2 persons employed. Activities performed at each of these shops are very close to each other. Also training in the field of health and safety (H&S) are common. How the implement of an adequate system in shops owned to Mr. Alfred should be proceed? Are several gastronomic points of sales being in the possession of one owner treated for the purposes of standardization and certification in the food industry separately or together?
2. Mr. Jacek Iceman runs one of the largest factory in Krakow producing ice cream. Last year he implemented HACCP system in the factory, for which he was awarded the quality certificate, awarded by one of the local chambers of commerce. Last week, the local branch of the State Sanitary Inspection found salmonella poisoning among 34 customers of his company. Is the implementation of the HACCP system excludes liability for the consumed food poisoning?

Exercise 4. Explain briefly the abbreviations:

- a) REACH
- b) RoHS
- c) CSR

Questions for Discussion!

1. What is your opinion on the EU legislation dealing with issues that are relevant for the European consumer and/or the European environment (GHP, GMP, HAACP, CE, REACH, RoHS etc.)? Do you believe that business self-check is enough?
2. What is the relation between the health and safety standardization and certification and the corporate social responsibility of local businesses? Are indeed European businesses more social orientated and social responsible? What can we do to change the state-of-the-art?

RECOMMENDED READINGS

Implementation of procedures based on the HACCP principles, and facilitation of the implementation of the HACCP principles in certain food businesses (2005). Brussels: Health and Consumer Protection DG.

6

Cross-Cultural Aspects of Entrepreneurship in the EU

6.1. CULTURES IN THE BUSINESS WORLD

Topic:	Cultural barriers in business negotiations in the European market
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, including cross-cultural negotiation skills training.
Method:	Incident method.
Course:	The task can be solved individually or in teams.
Time limit:	20 minutes

Here are some cases of negotiations between companies from different European countries. Please evaluate them and identify any mistakes that have been committed.

Case 1. Representatives of an Italian company *Bella Nova* s.r.l. began, in Berlin, negotiations with partners with the German company *Sachen GmbH*. On the first day, without building unnecessary interpersonal relations, they went directly to the trade negotiations. Sandro Prodi, who was responsible for conducting negotiations from the Italian side, at the very beginning shortly identified short time frames for the negotiation of the contract terms.

Case 2. The representative of the German company *Pferd GmbH*, Mr. Schmidt, during a business meeting in London tried to be very clear and to precisely answer questions of his British partner. Unfortunately, Mr. James Taylor did not pay back with the same. To most of the questions from *Pferd GmbH*, the representative gave vague, circular answers. Herr Schmidt after a few days of difficult negotiations was annoyed and demanded precise answers from his partner. After a week there was a breakthrough in the negotiations and a contract to substantial amount was signed. Eventually, both partners were very glad.

Case 3. Representatives of the Greek company *Albatros APE* went to Copenhagen at the invitation of the Danish company *Atata ApS* to negotiate the conditions of purchase of a big consignment of intermediate goods. On the first day of negotiations, they were 5 minutes late for the appointment. Mr. Trangas, a representative of the Greek team, offered to start negotiations with a joint dinner, which, having regard to his previous experience, was a good step in the process of negotiations. At the dinner, he tried to establish a personal relationship with a Danish partner. Despite this, negotiations were difficult and time consuming. Danish party was more than once annoyed by the Greek way of negotiation. Mr. Trangas did not understand why the Danes did not appreciate his efforts. Ultimately, however, the contract was signed.

Case 4. Business talks between the Swedish company *Metro* AB and the Italian company *Amico* SpA were held in Rome, the capital city of Italy. Unfortunately, the first day created some significant difficulties. Italians assured their Swedish colleagues that they will do their best and give an answer the next day. In the evening, it turned out, however, that the problem could not have been solved. The next day, they very gently told representatives of the Swedish company that would not be able to change their position on the issue concerned. The Swedes were frustrated that despite previous assurances, the problem turned out to be too difficult for *Amico* SpA to be sorted out. Courteously, but firmly, they informed negotiation partners that they made a mistake, because the conditions that had been offered were beneficial and signing of the agreement was in the interest of both parties. Italians, playing for time, tried to change the direction of the discussion and asked a few questions related to family life of partners from the Swedish company.

Case 5. Mr. Josef Müller, a representative of the German company that manufactures electronic components for various electrical appliances, addressed his partner, Mr. Fabio Villanacci, from the Italian company producing household appliances throughout the whole process of negotiations per Dottore* Villanacci. In response, the representative of the Italian company addressed him back Herr Doktor** Müller.

* *Dottore* è la qualifica alle persone che conseguono un titolo di studio di livello universitario (laurea).

** Der *Doktor* ist der höchste akademische Grad.

Case 6. The Italian company involved in the international business with a German company, sent to Berlin one of his employees with the purpose of business negotiations. Ms. Mauro (that was the name of the representative of the Italian company) touchy about German punctuality, arrived at the agreed meeting sharp on time. The next meeting was set a week later in Rome. This time, a representative of the German company came to the meeting 10 minutes late due to traffic. He was frightened because he knew that the Italians believe in the principle that the seller must show respect to buyers. Their meeting began with an apology.

Case 7. Mr. Kowalski, an entrepreneur from Poland, went to Italy last summer, where he held business meetings with representatives of several Italian companies in three different cities of Italy, namely Milan (*Milano*), Rome (*Roma*) and Naples (*Napoli*).

During the negotiations in Rome (the capital city of Italy and the region of Lazio), to which came on time, he was surprised, as the Italian side was not quite ready. Italians were still looking for some important documents and improvised a lot. Both sides failed to achieve success in the negotiations.

For a meeting in Naples (the capital city of the Campania region) he was 45 minutes late, but a company representatives, with whom he talked, did not pay attention to this.

Considering Mediterranean temperament, to a meeting in Milan (the capital of Lombardy) he came 30 minutes late and began negotiations without giving any justification.

While returning to Poland, Mr. Kowalski was wondering how is the punctuality in Italy? Are there any rules? Is the national culture not the same? Or maybe everything is up to person you meet with?

Case 8. During the negotiations between the representatives of the Spanish company *Cactuso* SL with representatives of the German company *Stand* GmbH, the Spaniards were trying to keep intense eye contact with their partners all the time. At the beginning of

the meeting, strong handshakes were exchanged. Throughout the negotiations, the Germans tried to keep interpersonal distance no bigger than 30 cm, which certainly must have expressed their commitment to negotiations.

6.2. WORLD OF EUROPEAN CULTURES

Topic:	Cultural barriers in business negotiations in the European market
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, including cross-cultural negotiation skills training.
Method:	Quizdown gaming method.
Course:	The task can be solved individually or in teams.
Time limit:	20 minutes

Read the following characteristics of different cultural clusters in Europe and try to make as many matches with the clusters as possible (in other words each cultural cluster can be use more than once):

time commitments
 avoidance of interruptions
 separation of areas of life
 prioritization

multitasking
 flexible implementation
 spontaneity
 personal commitments

respect for rules and law
 unchangeable contracts
 facts and figures
 specifics are important

flexible contracts
 relations are important
 situational interpretation
 law is not always the law

equality is a value
 status is a result of merit
 authorities serve people
 decision maker are available

Germanic countries

Northern Europe

Scandinavia

Southern Europe

Central Europe

Eastern Europe

6.3. POLISH-BRITISH BUSINESS NEGOTIATION

Topic:	Cultural barriers in business negotiations in the European market
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, including cross-cultural negotiation skills training.
Method:	Method problem - activation: an incident method of R. Hacon.
Course:	The task can be solved individually or in teams.
Time limit:	20 minutes

Indicate the socio-cultural mistakes that they both committed in the story described above.

Polish company *Calineczka* sp. z o.o. (*Thumbelina* Ltd.) based in Kraków, has established extensive international contacts with business partners from Europe. The owner of the company, Arkadiusz Astoński, is currently in London, where he is to have a business meeting with a representative of the British pharmaceutical company *Concoran* Ltd., John Brown. Having analysed the course of the negotiation given below, indicate the mistakes committed by both sides, and then answer the questions below the text.

Mr. Astoński arrived at a meeting in the office of *Concoran* Ltd. on time. Fascinated by the British hospitality, he warmly greeted his British negotiation partner. Throughout the meeting he addressed his partner per Mr. Brown and the response was per Mr. Astoński. The Brit, in order to be well perceived, learned a few Polish words before the meeting, which he used with some difficulties during the talks. On the first day, Mr. Brown invited his Polish colleague for lunch, during which Mr. Astoński was still continuing business negotiations. At the beginning of talks Mr. Astoński asked how was Mr. Brown's wife and his two children. He obtained these personal information with the help of his personal assistant. Unfortunately, it turned out that Mr. Brown had only one child. Mr. Astoński was patting Mr. Brown on the shoulder from time to time, but he rather avoided an eye contact, because he was intimidated and slightly embarrassed by his fluency in English. When he offered the execution of the contract previously ordered by the British partner within three months, he felt very pleased when Mr. Brown raised his eyebrows. He assumed it was a sign which expressed recognition and astonishment at the potential efficiency of the Polish company, which he represented. During the negotiations various areas of concern were repeatedly raised but thanks to the ingenuity of Mr. Brown, they were quickly resolved. The Pole was surprised that the Brit often tapped his head. He felt offended all these times. Nevertheless, on the face of Mr. Brown ruled sympathetic smile. While discussing agreement issues Mr. Astoński was doing his best to be accurate and speak clearly. But he did not understand the attitude of the Brit, who from time to time used indirect expressions. Poor English skills could have been the reason of Mr. Astoński's lack of full understanding by Mr. Brown, therefore, as he explained to himself – no immediate response from the Brit.

Mr. Astoński tried all the time to be aloof and he did not express his enthusiasm. Friday was the last day of negotiations. The Pole came to the office of the British company wearing casual, sporty clothes. To his surprise, Mr. Brown was wearing a tie. However, he felt better when he saw that other employees were also dressed casually. After each meeting, as saying goodbye he was giving a handshake as a sign of respect. The negotiations lasted three days, and the results are satisfying for both parties. Now, one year after signing the agreement, both partners often talk to each other on the phone. Mr. Brown always

asks about a family life of Mr. Astoński, who has already turned to call his British colleague by his first name.

Theoretical tasks

1. Explain the concept of cultural transactionism.
2. Explain the differences between the synthetic and the organic models of organization by John Mole. Give examples of specific European countries for both models.
3. Explain the differences between individualistic and group model of leadership by John Mole. Give examples of specific European countries for both models.
4. Discuss briefly the standardization approach, adaptation approach and mixed (localized) approach to marketing activities in foreign markets.
5. Discuss the importance of socio-cultural differences in the process of conducting international business. Give some examples.

6.4. AN ALIEN IN EUROPE

Topic:	Cultural barriers in business negotiations in the European market
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, with the comparisons to American and Japanese cultures.
Method:	Incident method.
Course:	The task can be solved individually or in teams.
Time limit:	20 minutes

Here are some cases of negotiations between companies from different European countries and some non-European countries. Please evaluate them and identify any mistakes that have been committed.

Case 1. The representatives of one of American state universities came to Poland for a visit aiming to sign a partnership agreement. They wanted to have small talks first and started to discuss the historical issues of Europe. The Polish negotiators immediately got to the point and asked very detailed questions on the possible cooperation ways. The Americans, were a bit surprised, nevertheless they replied precisely. They welcomed very gladly the proposal of receiving American students in Kraków and kept commenting it with the phrase ‘awesome’. When the Polish partners asked about the possibilities for doctoral faculty exchange, the Americans replied it was a good idea, but didn’t want to make any commitments, they added it would be very beneficial for American students, but they said they had to check their vacancies. Polish partners were amazed with such a development in talks and commented it in the same way as Americans previously, by saying ‘awesome’.

Case 2. Mr. Fung from Shanghai was invited to Berlin for contract negotiations. His German partner welcome him very friendly and starting to use first names of the partners, as it was the way how it is done in English, despite the fact it was rather out of place for German tradition. Without building any unnecessary personal relations, which is typical for Germany, he started to get to the point. He asked his Chinese partner to provide a couple of very detailed facts on business conditions. The Chinese partner was very nice

and replied that he would do his best. Finally, the contract turned out to be out of Chinese interests.

6.5. CASE STUDY OF UNITED COLORS OF BENETTON S.P.A.

Topic:	Socio-cultural context of marketing in the European markets.
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, including cross-cultural negotiation skills training.
Method:	Case study method.
Course:	The task can be solved individually or in teams of 2-3 students.
Time limit:	25 minutes

This case study presents an international promotional strategy of Italian family business *Benetton Group S.p.A. (società per azioni)*. Advertising campaigns of the company are based on a conflict with the local socio-cultural environment, which is undoubtedly unconventional marketing behaviour. The majority of companies entering foreign markets strives to comply with applicable norms and values, but there are those who break the existing conventions in order to gain publicity in the media and society. *Benetton Group* belongs to the latter group of companies.

Introductory remarks

In every society there is a hierarchy of values resulting from the traditions, norms, education or religion. While entering a foreign market the company should adapt to the current values of the host market. In practice, many companies entering new markets unknowingly break the existing system of values. There are also examples of companies that deliberately try to carry out promotional activities in such a way as to come into conflict with the socio-cultural environment in a given market. A classic example is the Italian company *Benetton Group S.p.A.*, which is owned by Luciano Benetton and his family. The company consistently develops its image around the world using themes related to sports and the youth. Well known to all is their slogan *United Colors of Benetton* written in white letters on a green background. This Italian clothing manufacturer is one of the most scandalous publicity in international markets. Oliviero Toscani is considered the creator of such a line of action, the author of the most controversial billboards. Such campaigns trigger numerous protests, but sales of *Benetton* grows. The advertising slogan of the first advertisement campaign *All the Colors of the World* is maliciously formulated by some as *All Colors of the Scandal*.

Features of the *Benetton Group S.p.A.*

Luciano Benetton was only 10 years, when his father died in 1945. In the difficult post-war period a little boy from Venice was forced to sell newspapers on the street to help the family. In the 1960s, Luciano, together with her sister Guliana and three brothers decided to set up a small family business producing sweaters. In 1955, Luciano bought a used sewing machine and founded his own company. Guliana was involved in the design of new models, Luciano, in turn, was responsible for marketing issues. In 1966 the first factory of *Benetton* was opened, in 1968 the first store in Treviro, and in 1969 in Paris (Rue Bonaparte). At the end of the 1960s the company *Benetton* created the so-called democratic store. The novelty was a possibility to personally view the collection without interference of a seller.

Benetton currently operates in 120 countries around the world. It has a network of 7,000 own retail outlets, which generate an annual turnover of 2.1 million EUR. In Poland, *Benetton* have been operating since 1991.

The Executive Board of *Benetton Group* comprises the President, his deputies, 9 members and a secretary. Luciano Benetton as Chairman of the Board, and his youngest brother Carlo represent the company outside, are authorized to take actions in line with the objectives of the company, except for those which are reserved for the Board and the General Assembly of Shareholders. Luigi de Puppì as an administrative director is authorized to act independently as the administration of the company is concerned. Guliana, the sister of Luciano, is authorized on behalf of the Board of Directors to take independent decisions related to strategic introduction of new products. Gilberto Benetton is responsible for financial affairs and investment projects.

Marketing Objectives of *Benetton*

Since the late 1970s the company have been sponsoring sports events. In 1978, Trevisse Rugby Team, in 1981 the local basketball team, in 1987 Trevisse Volleyball Team. Diversifying its brand, the company invested in a new brand of Formula 1. In 1988, in addition to the clothing industry the company launched the perfume *Colors*, a year later they released the male version of this perfume, while in 1993 the new women's perfume *Tribu* was released. In 1992, *Benetton* bought the international biweekly published in English and French entitled *Colors*.

Benetton was the leader in the global production of knitted garment since 1982. The company's products are based on natural raw materials such as wool, cotton, linen or silk. Currently, the company headquarters is located in Italy having 15 factories in other countries. The company's goal is to create fashionable clothing from natural knitted materials of bright colours. The company offers a range of products ranging from elegant, classic jackets, a very courageous and defiant youth clothes. Today, the colours of *Benetton* clothing do not surprise anyone, but at a time when the company was created it was the main feature that distinguished it from the competition. According to the company's goals, the main target are young people aged 15-35, unconventional, intelligent, courageous individualists. *Benetton* also produces clothing for other age groups. The company's pricing strategy is based on the general assumption that *Benetton* clothing prices should be slightly higher than those of the competitors. However, due to varied assortment, prices also vary. *Benetton* signed agreements with three companies that produce clothing according to its designs. They are Polish companies: *Polo* from Kalisz, *Cedomen* from Ozorkow and *Iwona* from Łódź.

The company uses the exclusive distribution involving the sale of products in selected stores only. The distribution network consists of its own directly operated stores (DOSs), as well as a chain of stores operating on a franchising basis. It is worth noting that from the customers' point of view, all the shops are treated in the same way. The total number of stores amounts to approximately 7,000 in more than 120 countries, out of which 2,000 are DOS outlets. In 2001, *Benetton* introduced strategic changes in the distribution network. In the shopping centres of the world *Benetton* started to open megastores. In total, within one year *Benetton* opened up 100 such points.

The company operates primarily in the apparel industry with the well-established brand of *United Colors of Benetton*, but also such brands as *0-12*, *Sisley*, *Marceria*, *Tomato*. Additionally, the company also operates in three other areas: industry equipment and sports clothes (*Playlife*, *Nordica*, *Prince*, *Stele*, *Rollerblade*, *Asolo*, *Ektelonn*, *Grafalloy*,

Langert, Killer Loop); fast food industry (*Eurmercato, Finanzaria Autogril*) and investment sector (*21 Investimenti*). The product range is diverse. *Benetton* has several major brands due to the segmentation of the market. These are: *0-12* clothing for children; *Merceria* for women; *My Market* for elegant clothing for women and men; *Tomato* for young people; *Benetton* for universal clothing (unisex). Since 2001, *Benetton* introduced a new brand for teens between 11 and 16 years of *The Hip Site*. Each year, it created about 5000 new designs of clothing. However, the main advertised brand is *Benetton* (62.2% of total sales). The company also conducts advertising campaigns under the logo of its other brands. Additionally, the company also sells a license to use the logo of *Benetton* to other companies, thereby contributing to further expansion and brand promotion. The current strategic objectives of *Benetton* include:

- development of distribution networks;
- introducing new collections;
- multilateral development *Benetton's* sports industry.

Promotional Campaigns of *Benetton*

The first *Benetton* advertisement that was designed by a small Italian advertising agency in 1966, did not stand by anything in particular. In 1972, the company signed an agreement with the Paris advertising agency Eldorado.

1980s

In 1982, a photographer Oliviero Toscani, on behalf of the agency, began working with Luciano Benetton. His task was to create a new corporate image. Thanks to his concepts based on racial contrasts, the brand of *Benetton* quickly gained prestige. The first famous *Benetton* advertising campaign in 1984, was entitled *All Colors of the World*. The message was very simple, but funny and colourful at the same time. It showed images of six adults and six children in different colour combinations of skin and clothes, which showed the various races living in harmony.

A year later, in another campaign *Benetton* used motifs of pairs of people. Posters showed a very eccentric benefits of the products. The poster showing two little girls dressed in a sweater, which symbolizes the multi-purpose use of the product, might be a good example. The poster showing two little kissing black boys together having the flags of the USA and the USSR in their hair and painted them on their cheeks, turned out to be very controversial (Exhibit 1 in Figure 6.1). This poster was unfavourably perceived by the American community because of the use the national flag in the advertisement, which is for Americans one of the most important symbols of patriotic worship.

In 1985, one of the high-ranking representatives of UNESCO expressing themselves about products of *Benetton* used the phrase '*This is the united colors here!*'. Since then, the company decided to officially use these words as a slogan.

The campaign of 1986 is a metaphor for unification and equality. In the advertisement, the product disappears, and its place is taken by the message: all colours are equal as all people are equal. The commercials presented two different characters from different parts of the world, who wore clothes alluding to their national customs and traditions. They were used but such opposites as Israel and Germany, Iraq and Iran, Israelis and Arabs (Exhibit 2). Each poster depicted a pair, which was connected by the globe. Despite protests in France due to cultural stereotypes, the picture a young Jew embracing an Arab was awarded in the Netherlands. The year 1987 went under the slogan '*Benetton World of Jeans*', which later became permanent *Benetton's* advertising slogan for jeans.



Flags Campaign (1986)
Exhibit 1



Israeli and Arab (1987)
Exhibit 2



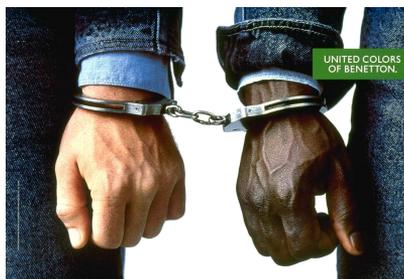
Adam and Eve (1988)
Exhibit 3



Joan of Arc and Marilyn Monroe (1988)
Exhibit 4



Black woman feeding white baby (1989)
Exhibit 5



Black and white hand linked by handcuff (1989)
Exhibit 6



A black hand and a white hand (1990)
Exhibit 7



Two children on potties (1990)
Exhibit 8

Figure 6.1. Selected Advertisements of *Benetton* in 1980s
Source: own compilation based on Benetton website resources

The advertising campaign in 1988 combined various cultures and legends, aspects of the present with historical figures. The protagonists of this campaign under the title '*United Superstars of Benetton*' were: Adam and Eve (Exhibit 3), Joan of Arc and Marylyn Monroe (Exhibit 4), Leonardo da Vinci and Julius Caesar. Eve's naked chest protruding from a denim jacket caused a scandal in the USA, but the same poster won a prize in the Netherlands.

In the same year, *Benetton* conducted advertising campaign for its brand of children's clothing 0-12, entitled *United Friends of Benetton*. Posters showed a pair of kids with masks; a wolf and a sheep, a cat and a dog.

In 1989 *Benetton* decided to dedicate its promotional campaign to racial equality and fraternity. One of the famous Toscani's posters depicted a black woman breastfeeding a white baby (Exhibit 5) making negative connotations of a black nanny from the South. Another poster showed a black and white hand cuffed together by handcuffs (Exhibit 6). The first picture provoked strong opposition from the Black community in the USA because it strengthened the stereotype of the black nanny, reducing it to the role of subordinate. At the same time the poster received the numerous awards in the history of *Benetton*, in Austria, Denmark, the Netherlands, France, the USA and Italy. Toscani won the Statuette of Lion at Cannes, and the campaign *United Colors of Benetton* won the World Grand Prix prize for the best advertisement. The campaign became a symbol of brotherhood in the world and search seeking the agreement despite differences.

1990s

Famous advertisements during the late 1980s and early 1990s included also a white wolf and a black sheep standing nose to nose, a little black hand on a big white hand (Exhibit 7), a piano duo showing little white hands being helped by big black hands, two children (one black, the other white) facing each other while sitting on their potties (Exhibit 8). Milan authorities, together with the local bishop opposed the campaign, arguing that the poster offends the feelings of the believers after the mass departing from the cathedral. This photo was removed from the largest billboard in the world (770 m²). In contrast to Italy this poster was awarded in countries such as Austria, France, Great Britain, the Netherlands and the United States. It is worth noting it won the Andy Prize of Excellence Awards in the USA and the Media and Marketing Europe Award in the United Kingdom.

In 1990s, the company still used the theme of confrontation between white and black. Posters while advertising a clothing company, paradoxically, did not present clothes at all, they used only symbols and controversies. A good example of controversial billboard might be a poster, released in 1990, showing a black child sleeping on a blanket with a white teddy bear.

The year 1991 is a series of controversial posters by Oliviero Toscani was released. One of the most famous examples based on conflict with the socio-cultural environment are billboards with a nun and a priest kissing each other in the mouth (Exhibit 9 in Figure 6.2). In Poland and Italy, this ads was negative perceived. The Polish Episcopate, but also right-wing politicians from Poland protested against the exposure of this poster. The billboard was even the reason for the conflict between the Christ of Mercy Archbrotherhood and *Benetton* that rented from the brotherhood premises for a shop in Krakow. The French Agency BVP (Bureau de Verification de la Publicite), which verifies the ads appealed to the owners of advertising space no to make this ad of *Benetton* public. In England this poster was awarded the Eurobest Award. This poster was well received in Germany, where it was awarded as well.



A Nun Kissing a Priest (1991)
Exhibit 9



Tongues (1991)
Exhibit 10



Mucus-covered New-born Baby (1991)
Exhibit 11



Devil and Angel (1991)
Exhibit 12



War Cemetery (1991)
Exhibit 13



Condoms (1992)
Exhibit 14



David Kirby Dying (1992)
Exhibit 15



A Human Bone (1992)
Exhibit 16

Figure 6.2. Selected Advertisements of *Benetton* in early 1990s

Source: own compilation based on Benetton website resources

Another poster of *Benetton*, the one presenting three children of different races, who were showing their tongues (Exhibit 10), was found to be pornographic in Arab countries, because in their culture, a tongue is considered indecent. Also in 1991, the poster showing a bloodied newborn with uncut umbilical cord still aroused protests around the world (Exhibit 11). Protests took place in many countries, including Italy, Germany, the United Kingdom, Ireland and France. In Palermo, the local authorities ordered the removal of billboards.

Also in 1991, in the UK, the largest protest sparked an advertising poster showing a black child as a devil, and the angelic-looking white child (Exhibit 12). The image was found to be racist.

Another famous poster of Toscani, used in this campaign, presented rows of crosses at an American war cemetery. This photo captivated its duality connecting war with peace (Exhibit 13). On the one hand it showed two colours – green and white – these are the symbol of peace, on the other hand it stressed the futility of loss of life caused by the war. The message of the poster was that while facing death and disease all people are equal, in a war no one wins – death is the only winner.

In 1992, the first advertising campaign about AIDS and safe sex was quite humorous including the poster depicting a cloud of coloured condoms (Exhibit 14). Other artistic image of Toscani showed leaves in full colours floating on the surface of the spilled oil.

Spring advertising campaign in 1992 used the seven real, candid images of life. These photos, taken by photojournalists, usually previously were published on the pages of famous magazines. An example might be a poster showed activist David Kirby suffering from AIDS, on his deathbed, surrounded by his loving and troubled family (Exhibit 15). This ad originally appeared in the magazine *Life*, and later around the world. Other posters depicted a shocking turn: an African insurgent holding a rifle in his hand and a human leg bone (Exhibit 16); overcrowded boat with a group of Albanian refugees coming to the Italian coast (Exhibit 17 in Figure 6.3); burning car as a result of a mafia attack; family weeping beside the bleeding corpse of a mafioso; two Indians during the flood in Calcutta. French agencies, which were the owners of billboards, refused to show the campaign on the grounds that the posters are cheap sensationalism that uses human tragedy for business purposes.

In June, 1993 a French newspaper *Liberation* published on the spread the advertising poster of *Benetton* made up of 56 small photographs of the genitals of men and women of different races and ages, including children (Exhibit 18). Most newspapers and magazines refused to publish the advertisement, among other things, it was censored in the British Isles. Two days later, the company *Eminence and Atlanta* presented an almost identical ad spot composed of exactly the same number of small photographs of the same part of the body this time covered with underwears. The campaign used the following slogan: *We like to dress them up!*

Also in 1993, AIDS was also one of the promotional campaign themes. Posters depicted in close-up different parts of the human body (abdomen, buttocks, arm, womb) with a tattooed inscription in English: *HIV POSITIVE* (Exhibit 20). The purple colour of tattoos caused veterinary associations of a stamp on the meat, or even tattooed numbers for prisoners in concentration camps. The campaign sparked sharp criticism in France. The French asked questions, whether unethical and inhumane issues can be used for the profit purpose. The French Agency for the fight against AIDS (AFLS), even brought the matter to court against *Benetton* and the advertising agency. It was even followed by the anti-campaign calling for a boycott of *Benetton*, entitled *United Boycott*.



Albanian Refugees (1992)
Exhibit 17



56 Male and Female Genitals (1992)
Exhibit 18



Girl with Doll (1992)
Exhibit 19



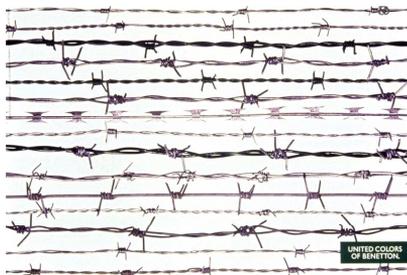
HIV Positive (1993)
Exhibit 20



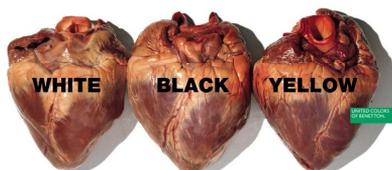
Children working in Latin America
Exhibit 21



Bosnia Soldier (1994)
Exhibit 22



Auschwitz (1995)
Exhibit 23



Three Hearts (1996)
Exhibit 24

Figure 6.3. Selected Advertisements of *Benetton* in mid-1990s

Source: own compilation based on Benetton website resources

The German Federal Court in Karlsruhe upheld a ban on publishing in Germany three advertising posters:

- a duck stained by oil from the wrecked tanker;
- a series of posters "HIV positive" (previously described) (Exhibit 20), and
- hard-working kids on a construction site in South America (Exhibit 21).

The Court held that a *Benetton* advertising deviate from the generally understood sense of decency, respect and tact. The ruling stated that the posters violate German standards, not because of the shocking nature or lack of connection with products of *Benetton*, but evoke in consumers pity for the suffering of animals and humans. In addition, the judges decided that such intensive use of the feelings of pity for commercial purposes violates the law on competition. *Benetton*, having lost the case in front of the German Supreme Court, promised to tone down their next advertising campaigns. As it might have been expected the company still maintained its policy of shock.

The new promotional campaign included such themes as refugees; the Holy Family; nuclear explosion; sexual orgy; Nazi greeting. Advertising posters used bit different slogans such as *Do you play life? as well as Do you play freedom?*.

In the same year, *Benetton* organized an international clothing charity in collaboration with the *Caritas* Switzerland, the *International Red Cross* and the *Red Crescent*. *Benetton* used in the campaign the slogan *Empty your wardrobes*. Thanks to the campaign 460 tons of used clothes were collected. In this campaign, a series of posters featuring smiling *Benetton* family members was presented. Luciano *Benetton* posed nude in one of the posters. This poster was named *I want my clothes back!*.

In February 1994, *Benetton* campaigned for peace. The most shocking advertising was a photo showing the bloodied pants and a T-shirt belonging to a Bosnian soldier Marinko Gagro (Exhibit 22), who was killed during the war in Yugoslavia. On the billboard it was written in the Serbian language: "I, Gojko Gagro, the father of the deceased Marinko, would like all that remained after my son to be used in the name of peace and against war." Advertising was supported by a number of pacifist organizations around the world. The international community, in addition to many controversies drew attention to the issue of war in the Balkans.

In contrast, the autumn campaign of 1994 was very diversified, it formed a mosaic of thousands of people making up the word AIDS.

The year 1995 provoked another scandal. *Benetton* planned to place photographs of barbed wire from Auschwitz Concentration Camp of Nazis on trams in streets of Milano (Exhibit 23). Milan Transportation Company ATM as a result of public opposition refused to place advertising on their trams.

The ad with the title "You cannot choose the sex" appeared in the French newspaper *Liberation*. The poster showed a hermaphrodite: half man – half woman photographed nude in profile. The newspapers also published a series of posters dedicated to homosexuality: two embracing men holding each other cheeks; two women (one white, the other black) wrapped in the same blanket holding together an Asian child.

The year 1996 brought another advertising scandal. *Benetton* presented to the world a poster showing a black stallion covering a white mare. The mayor of Nice forbade to put up this poster, arguing that it could encourage people to racism, or cause unhealthy approach to marriage. Another poster presented three human hearts that were described as white; black; yellow, which (Exhibit 24) in turn symbolized three different ethnic groups.

Also in 1996, *Benetton* in collaboration with FAO (Food and Agriculture Organization of the United Nations) organized a press campaign for the World Summit Conference of Food. Posters showed a single wooden spoon symbolizing hunger in the world.

In 1997, *Benetton* organized two campaigns. The first one was entitled "grain of rice". Posters using the contrast of black and white represented a black hand, on which a grain of rice were situated. The message was simple and clear to all. *Benetton* alluded to previously used contrasts and organized a year earlier campaign for the World Food Conference. In August, another advertising campaign was organized. This time, using the play of colours returned to the themes associated with joy, youth and sport.

In 1998, *Benetton* continued the same promotion policy. This year, three ad campaigns entitled "United Nations", "Enemies" and "Sunflowers" were released.

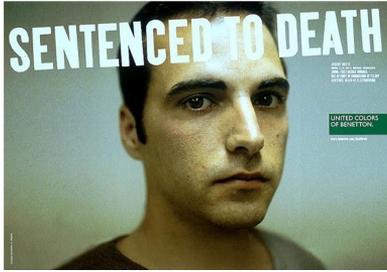
The year 1999 brought the campaign for peace, which supported the humanitarian actions for the people of Kosovo. Advertising posters depicted a red blood stain on a white background. *Benetton* also organized a campaign for Venice entitled *Contro Venezia, Per Venezia* (Against Venice, For Venice).

Early 2000s

In 2000, *Benetton* spent more than 20 million USD on advertising campaign entitled "The Present of those with No Future." The American magazine *Talk* included a 96-page colour pamphlet with images and stories representing comprehensive reports about murderers sentenced to death (Exhibit 25 in Figure 6.4). Only a short note about the crime was attached, the rest of the space was devoted to the presentation of feelings and interests of convicts. The way of the presentation of these people was outrageous and appalling in this case. *Benetton* hurt the feelings of families of the victims. *Sears*, the American network of stores, even withdrew *Benetton* products from the sale. Others have boycotted buying *Benetton* clothes. American politicians openly condemned this form of promotional strategy stating that "It's like *Benetton* went to bed with murderers – It's like *Benetton* used human blood in order to sell their goods". *Benetton* argued in response that the campaign is not about the victims, but about the death penalty, which is unethical, inhumane and non-religious.

On April 29, 2000 18-years of the cooperation between Luciano Benetton and Oliviero Toscani, ended officially. It contributed to the fact that the company has become known around the world for campaigns created by Toscani.

In 2001, *Benetton* conducted campaigns in cooperation with the United Nations entitled *2001 International Year of Volunteers*. Posters depicted celebrities, sometimes in controversial situations (e.g. in the nude). The campaigns in 2000s alluded to the original message of *Benetton*, they used the motives of joy, love, happiness, while stressing the racial contrasts and the use of a wide range of colours. *Benetton* was also engaged in some institutional social campaigns (Figure 6.4) such as *Food for Work* (2003), *Food for Peace* (2003), *Food for Life* (2003), *Food for Education* (2003), *Microcrediting in Africa* in 2008, *UNhate* in 2011, while some of the posters were really controversial, such as the one with the Pope, or *Unemployment of the Year* (2012).



The Anti-death-penalty Campaign (2000)
Exhibit 25



Food for Peace (2003)
Exhibit 26



Harmony of Religions
Exhibit 27



Gender Equality
Exhibit 28



Salesman and Subsistence Farmer (2008)
Exhibit 29



Victims (2008)
Exhibit 30



German Chancellor – French President (2011)
Exhibit 31



Unemployed Youth (2012)
Exhibit 32

Figure 6.4. Selected Advertisements of Benneton in 2000s
Source: own compilation based on Benetton website resources

Concluding Remarks

Socio-cultural factors are important in creating a positive image of the company and /or product in foreign markets. Each company is trying to adapt its promotional program to a given market hierarchy of values, prevailing traditions and religion, or ethical standards. *Benetton* led promotional campaigns on the contrary, deliberately tried to come into conflict with the socio-cultural environment in a given market. These actions brought the company and its products notoriety almost all over the world. As a result of such controversial promotional activities, *Benetton* an increase in sales of its products.

Analytical tasks

1. Give examples of companies that have used similar advertising strategies as *Benetton* in Poland, in Europe in America and in other parts of the world (Eastern Civilization versus Western Civilization).
2. Briefly characterize the style of *Benetton's* advertising campaigns and identify the advantages and disadvantages of such a style, please. What role do socio-cultural factors play for these campaigns?
3. Explain briefly the reasons for the controversies of the following posters:
 - boys with flags painted on their cheeks (1983),
 - a black woman feeding a white infant (1989),
 - boys on the potties (1990),
 - a priest from a nun kissing each other (1991),
 - HIV POSITIVE posters (1993),
 - hard working children on the construction site (1993).
4. Evaluate marketing activities of *Benetton* in Poland. What is the impact of these actions on the Polish advertising market at the time of formation of the advertising market in 1990s?
5. Evaluate the perception of *Benetton* advertising campaigns in Poland, then suggest your own marketing activities which could be attractive to consumers and, above all, try to adopt marketing activities to Polish conditions.

Plenary discussion

6. Give examples of companies that have used similar advertising strategies as *Benetton* in Poland, in Europe in America and in other parts of the world (Eastern Civilization versus Western Civilization).
7. Perform the discussion in the plenary group evaluating such a style of advertising campaign (for and against).

6.6. MODULE QUIZ

Topic:	Socio-cultural context of marketing in the European markets.
Objective:	A student knows and understands basic cultural differences relevant for business in the European markets, including cross-cultural negotiation skills training.
Method:	Quizdown gaming method
Course:	The task should be done individually by students.
Time limit:	10-15 minutes

Exercise 1. Match the corresponding author to the following concepts by typing the appropriate letter:

- | | |
|--|-----------------|
| ___ 1) high- and low-context cultures | a) G. Hofstede |
| ___ 2) four dimensions of culture | b) R. Gesteland |
| ___ 3) cross-culture business behaviour | c) R.D. Lewis |
| ___ 4) linear-active and multi-active cultures | d) E.T. Hall |
| ___ 5) entrepreneurship culture map of Europe | e) J. Mole |

Exercise 2. Choose the proper answer:

1. People are fundamentally task-oriented in:
 - relationship-focused culture
 - deal-focused culture
 - rigid-time culture
 - none of the above
2. Attaching great significance to punctuality and schedules in business is distinctive in:
 - rigid-time culture
 - fluid-time culture
 - relationship-focused culture
 - deal-focused culture
3. High-context culture is typical for:
 - The Germans
 - The Poles
 - The Brits
 - none of the above
4. Assimilation of cultures to each other not only in the EU but also in the world is known as:
 - cultural convergence
 - cultural divergence
 - cultural transactionism
 - cultural diversification

Exercise 3. Choose the proper answers:

1. The Spaniards entrepreneurs during business negotiations prefer:
 - to keep intense eye contact
 - to avoid eye contact
 - to keep comfort zone no more than 30 cm
 - to keep comfort zone at least 90 cm

2. Deal-focuses cultures include the following countries:
 - Nordic countries of Europe
 - Germanic countries of Europe
 - Latin countries of Europe
 - Central European countries
3. John Mole distinguished two models of organizations in Europe, namely:
 - individual organization
 - systematic organization
 - organic organization
 - group organization

Questions for Discussion!

1. What is ethnocentrism? Provide some examples from Europe and explain its implications for international business practice.
2. What do we mean by cross-cultural management and training? How would you train an international business manager?
3. Do you think that cultural differences between particular nations are more or less important than cultural variations within nations?

RECOMMENDED READINGS

- Gesteland, R. (2012). *Cross-Cultural Business Behavior: A Guide for Global Management*. 5th ed. Frederiksberg: Copenhagen Business School Press.
- Mole, J. (2003). *Mind your Manners: Managing Business Cultures in the New Global Europe*. 3rd ed. London: Nicholas Brealey Pub.
- Wach, K. (2003). Socio-cultural Framework of Advertisement on International Markets: A Brief Survey of European Advertisement Styles. *Studien des Institut für den Donaunraum und Mitteleuropa*, 6,141-150.
- Wach, K. (2015). Impact of Cultural and Social Norms on Entrepreneurship in the EU: Cross-Country Evidence based on GEM Survey Results. *Zarządzanie w Kulturze*, 16(1), 15-29. doi: 10.4467/20843976ZK.15.002.3037

7

Revision Quizzes

7.1. TRUE-FALSE TEST

Indicate which of the following statements are true (T), and which are false (F). This task should take no more than 10 minutes to be solved.

- | T | F | Statement |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Small and medium-sized enterprises account for over 99% of all enterprises currently operating in the European Union. |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. A foreign branch has a separate legal status. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Cooperation with foreign partners is the preferred entry mode for small and medium-sized enterprises especially in the context of networking. |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. The most frequently used entry mode by small and medium-sized enterprises is a joint venture. |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. The lowest standard rate of VAT is in Ireland. |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. The UK legislation does not specify the minimum share capital required for registration of companies. |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. In Denmark there is the highest stamp duty when registering a sole proprietorship business. |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Harmonization regulations of the New Approach replaced completely the existing regulations of the Old Approach. |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. In accordance with regulations of the New Approach it is mandatory to use harmonized technical standards. |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. The HACCP system is applied to all food processing businesses excluding the so-called primary production. |
| <input type="checkbox"/> | <input type="checkbox"/> | 11. Principles of Good Hygienic Practices (GHP) does not apply to small and medium-sized enterprises. |
| <input type="checkbox"/> | <input type="checkbox"/> | 12. CE-marked product can be launched in all EU countries. |
| <input type="checkbox"/> | <input type="checkbox"/> | 13. Negotiators from Great Britain uses relatively highly contextual style of communication. |
| <input type="checkbox"/> | <input type="checkbox"/> | 14. Most European countries are ceremonial in business. |
| <input type="checkbox"/> | <input type="checkbox"/> | 15. The more participants of the meeting are close to the organic model of the organization, the harder it is to predict who will appear and what will be the total number of representatives at the meeting business. |
| <input type="checkbox"/> | <input type="checkbox"/> | 16. Irregular exporting requires a lot of credits on the regular basis. |
| <input type="checkbox"/> | <input type="checkbox"/> | 17. Polish businessmen are always late for meetings. |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. Piggybacking is a form of cooperative exporting. |
| <input type="checkbox"/> | <input type="checkbox"/> | 19. A foreign branch is a synonym for a foreign representative office. |
| <input type="checkbox"/> | <input type="checkbox"/> | 20. REACH is a system for ensuring safety of food in the EU. |

7.2. SINGLE CHOICE TEST

Select the correct answers. Each question has one correct solution. The test should be solved within 15 minutes.

1. The most economic freedom for doing business measured by the *Index of Economic Freedom* is offered in such EU member states as:
 - Denmark, Ireland
 - Denmark, United Kingdom
 - Ireland, United Kingdom
 - Switzerland, Norway, Island
 - Poland, Slovakia, Czech Republic, Hungary
2. The minimal share capital of European Economic Grouping:
 - is at least 30 000 euros
 - is at least 120 000 euros
 - is not determined in the law
 - none of the above mentioned answered
3. SCE is the abbreviation for:
 - European Company
 - European Cooperative Company
 - European Private Company
 - European Economic Interest Grouping
4. The European Union economy holds over:
 - 20% of global trade
 - 40% of global trade
 - 60% of global trade
 - 99% of global trade
5. Overproduction is classified as:
 - push motive for internationalization
 - pull motive for internationalization
 - chance motive for internationalization
 - entrepreneurial motive for internationalization
6. export requires long-term loans.
 - Direct
 - Indirect
7. The EU member states which have the highest corporate taxation are:
 - Malta, Germany, Poland
 - Malta, Belgium, Ireland
 - Malta, Belgium, France:
 - Cyprus, Bulgaria, Ireland

8. No customs between member states is guaranteed by:
 - Free movement of goods
 - Free movement of persons
 - Free movement of capital
 - Freedom to provide services
 - Freedom of establishment
9. The four primary and two supplementary freedoms of the SEM are in force in:
 - 15 countries
 - 27 countries
 - 30 countries
 - 31 countries
10. In which EU member states the registration time for a typical Ltd. is the shortest?
 - Slovenia
 - Slovakia
 - Sweden
 - Spain
11. The minimal capital of the European Company (*Societas Europaea*, SE) is:
 - Not determined in the law
 - At least 1 euro
 - At least 30 000 euro
 - At least 100 000 euro
 - At least 120 000 euro
12. Which of the following modes offers the highest level of risk and the highest potential profits?
 - Indirect export
 - Direct export
 - Subcontracting
 - Wholly-owned subsidiary
13. High competitiveness pressures on the domestic market should be considered as:
 - Push factor
 - Pull factor
 - Chance factor
 - Entrepreneurial factor
14. What is the advantage of joint venture subsidiary?
 - Low entry cost
 - High entry cost
 - Low financial risk
 - Rather High potential profits

15. Low capital commitment is typical for:
- Direct export
 - Joint venture subsidiary
 - Wholly-owned subsidiary
 - Management contracts
16. The REM model has:
- Two factors
 - Three factors
 - Four factors
 - Multidimensional factors including three levels of analysis (macro, meso, micro)
17. Entering new foreign markets due to its potential profitability opportunities is classified as:
- push motive for internationalization
 - pull motive for internationalization
 - chance motive for internationalization
 - entrepreneurial motive for internationalization
18. Maria Ltd. employs 40 employees annually on average, its annual turnover is 2 million euro, and its assets are worth 10 million euro. Maria Ltd. as a business unit is considered to be:
- microenterprise
 - small enterprise
 - medium-sized enterprise
 - large enterprise
19. Recycling Symbol (Möbius Strip):
- means that manufacturer of the product contributes to the cost of recovery and recycling
 - is used to designate recyclable materials and states the percentage of recycled/used materials
 - is one of the EU certificates not allowed in other countries than 27 member states

7.3. MULTIPLE CHOICE TEST

Select the correct answers. Each question has more than one correct solution. The test should be solved within 15 minutes.

1. The reduced VAT rate according to the EU law can be applied to:
- Pharmaceuticals
 - Chemicals
 - Food
 - Luxury Products

2. Which countries belong to both Euro Zone and Schengen Area:
 - Poland
 - Malta
 - Cyprus
 - United Kingdom
 - Estonia
3. UNCTAD classification of affiliates includes:
 - a jointly-controlled entity
 - a subsidiary enterprise
 - an associate enterprise
 - a branch
4. What are the advantages of indirect export?
 - Low entry cost
 - High entry cost
 - Low financial risk
 - Very High potential profits
5. Which EU member states belongs to both Euro Zone and Schengen Area?
 - Malta
 - Cyprus
 - Slovakia
 - Estonia
6. EU's Freedom of Establishment enables to:
 - obtain any licenses and/or permissions in any MS
 - participate in any public/open tenders in any MS
 - buy and own land and buildings in any MS
 - sign any contracts in any MS
7. The Old Approach in the EU is applied for:
 - processed food
 - pharmaceuticals
 - chemicals
 - motor vehicles
8. If you do business with the Germans you must remember that as for cultural aspects they are:
 - low-context culture
 - rigid-time (monochronic) culture
 - reserved culture
 - formal culture

9. The HACCP System:
- is aimed to provide food safety for European customers
 - is applied for all food industry business in the EU
 - is applied for transportation business if they transport food
 - classifies three categories of threats, namely biological, chemical and physical ones
 - is voluntary in the EU
10. What are the objectives of the EU regional policy for the period 2007-2013?
- Convergence
 - Regional Competitiveness and Employment
 - European Territorial Cooperation
 - International Competitiveness and Green Innovativeness
11. European Social Fund ESF:
- came into being in 1975
 - came into being in 1994
 - is used to finance projects on infrastructure, investments innovation
 - is used to finance projects on trainings and employment
12. European Regional Development Fund ERDF:
- came into being in 1975
 - came into being in 1994
 - is used to finance projects on infrastructure, investments innovation
 - is used to finance projects on trainings and employment
13. Which EU member states belongs to both Euro Zone and Schengen Area?
- Malta
 - Slovenia
 - Slovakia
 - Estonia
 - Cyprus
14. The most economic freedom economies in the EU according to *the Index of Economic Freedom 2012* prepared by *the Wall Street Journal* and *the Heritage Foundation* are (select 2 countries):
- Ireland
 - Poland
 - Italy
 - Denmark
15. Polish business culture is:
- rather high-context
 - rather low-context
 - rather non-ceremonial
 - ceremonial

7.4. OPEN QUESTIONS

Prepare brief, however detailed enough, answers for the following 85 problematic questions for the final examination.

Small and Medium-sized Enterprises in the European Union:

1. What is the definition of SMEs in the European Union and its thresholds?
2. What is the historical background of the SME sector development?
3. What are the basic statistics on SMEs in the European Union?
4. What is the European Small Enterprise Charter?
5. What is the Small Business Act for Europe?

Freedoms of the Single European Market in favour of Entrepreneurship:

6. How can we define 'Europeanization'? What is the relation between Europeanization and European integration?
7. What is the territorial scope of the Euro Zone (how many countries)?
8. What is the territorial scope of the Schengen Area (how many countries)?
9. What are four primary and two supplementary freedoms of the Single European Market?
10. What is the territorial scope of the Single European Market freedoms? Does it include only member states of the EU?
11. What is SOLVIT?

Freedom of Establishment in the European Union:

12. What are the rules of the freedom of establishment and its functioning?
13. What are differences between the types of the freedom of establishment (primary and secondary)?
14. What are the fields of application of the freedom of establishment?
15. What are the corollaries of the freedom of establishment?
16. What are differences and similarities between the freedom to provide services and the freedom of establishment?
17. What are four dimensions of the freedom to provide services in the European Union?

European Business Environment in a Comparative Perspective:

18. What are the best and the worst member state of the EU as for law and legal system in favour for economic freedom?
19. What are the best and the worst member state as for the registration time for a typical private limited company Ltd.?
20. What are the best and the worst member state as for the registration cost for a typical private limited company Ltd.?
21. What are the best and the worst member state as for the minimal share capital for a typical private limited company Ltd.?
22. What are the best and the worst member states as for the entrepreneurial environment according to the World Bank (*Doing Business in*)?

Tax Competitiveness in the European Union:

23. What is tax competition? What is harmful tax competition? How is it different?
24. Where in the EU are there the highest and the lowest standard rate of VAT?.
25. Where in the EU are there the highest and the lowest corporate taxation rates?
26. Where in the EU is there the most beneficial taxation of dividends?
27. Where in the EU is there the highest income taxation of individuals?
28. What is the EU policy on the harmonization of excise duties (three groups for rates)? .
29. What is the EU policy on the harmonization of VAT (four rules for rates)?
30. What are VAT taxation rules for exports and intra-community supplies?
31. What are VAT taxation rules for cross-border mail orders within the EU?
32. What are the rules for social security coordination in Europe?

EU Legal Forms of Businesses:

33. What is detailed characteristics of European Economic Interest Grouping (EEIG) as well as its advantages & disadvantages for entrepreneurs?
34. What is detailed characteristics of European Company (SE) as well as its advantages & disadvantages for entrepreneurs?
35. What is detailed characteristics of European Cooperative Society (SCE) as well as its advantages & disadvantages for entrepreneurs?

Internationalization of Small and Medium-sized Enterprises within the EU:

36. What are the four motives for going international (push factor, pull factor, chance factor, entrepreneurial factor) and their characteristics?
37. What is the general concept of stages theories – their advantages, disadvantages, and especially critics?
38. What are the stages and the machoism of the Uppsala Model as one of the stages theories?
39. What are the factors of REM model?
40. What does the global paradox for SMEs mean and who is the author of this concept?
41. How is the OECD Globalization Index of SMEs structured and what are the levels?
42. What is transnationality index (TNI)?
43. What is internationalization index (II)?
44. What are the main modes (ways, forms, instruments) of business internationalization?
45. What is the characteristics of indirect export , its basic requirements, advantages, and disadvantages?
46. What is the characteristics of direct export, its types, requirements, advantages, and disadvantages?
47. What is the characteristics of export grouping its advantages, and disadvantages?
48. What is the characteristics of piggybacking, its requirements, advantages, and disadvantages?
49. What are differences between indirect and direct exporting?
50. What is the characteristics of subcontracting and its advantages, and disadvantages?
51. What is the characteristics of licensing and its advantages, and disadvantages?
52. What is the characteristics of franchising and its advantages, and disadvantages?
53. What is UNCTAD classification of affiliates?
54. What is the characteristics of a foreign representative office and its advantages, and disadvantages?
55. What is the characteristics of a foreign branch and its advantages, and disadvantages?

56. What are the characteristics of a foreign subsidiary and its advantages and disadvantages?
57. What are the characteristics of *joint venture* subsidiary and its advantages, and disadvantages?
58. What are the characteristics of *wholly-owned* subsidiary and its advantages, and disadvantages?
59. What are differences and similarities between a representative office and a branch?
60. What are differences and similarities between a branch and a subsidiary?

Standardization and Certification of Businesses in the European Union:

61. What is Old Approach? What are its basic characteristics?
62. What are four types of products for which Old Approach is applied?
63. What is New Approach and when is it applied?
64. What is Global Approach and what are eight modules A-H for?
65. Design phase and production phase in modules (which ones)
66. What is the difference between the EC declaration of conformity and the EC certificate of conformity?
67. What are the general characteristics of PDO? When is it applied?
68. What are the general characteristics of PGI? When is it applied?
69. What are the general characteristics of TSG? When is it applied?
70. What are the general characteristics of European Flower (EcoLabel)? Which products can it be applied?
71. What are the general characteristics of European Leaf (Organic Farming)? Which products can it be applied?
72. What are the general characteristics of Recycling symbol? Is it the EU system?
73. What are the general characteristics of Green Dot? Is it the EU system?
74. What are the general rules and characteristics of GHP and GMP? What are the examples of treats? What penalty can be applied?
75. What are the general rules and characteristics of HACCP? What kinds of business must apply HACCP? Are there any business activities excluded? What kinds of threats are protected? What penalty can be applied?
76. What is the difference between HACCP standardization and HACCP certification?
77. What is REACH system? Who must follow it? Is it compulsory?
78. What is RoHS? Is it compulsory?

Cross-Cultural Differences for Doing Business in the EU:

79. What are the examples of high-context and low-context cultures in the EU?
80. What are the examples of formal and informal cultures in the EU?
81. What are the examples of reserved vs. expressive cultures in the EU?
82. What are the examples of rigid-time vs. fluid-time cultures in the EU?
83. What are the examples of deal-focused vs. relationship-Focused cultures in the EU?
84. How Poland is positioned in all above classifications of cultures?
85. What is the comfort zone among various countries of the EU?



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