

INTERNATIONAL MARKETING  
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# INTERNATIONAL FRAGMENTATION

Impacts and Prospects for  
Manufacturing, Marketing,  
Economy, and Growth

**Edited by**  
**Anshu Saxena Arora and**  
**Sabine Bacouel-Jentjens**



# International Marketing and Management Research

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Anshu Saxena Arora • Sabine Bacouel-Jentjens  
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# International Fragmentation

Impacts and Prospects for Manufacturing,  
Marketing, Economy, and Growth

palgrave  
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## FOREWORD

The eight pieces which constitute the fourth volume in the International Marketing and Management Research Series again are a testimony to the diversity, depth and complexity of the evolving field of international business as it seeks new conceptual bases to further the process of research and imparting it with the needed relevance that business decision-makers can expect. This volume titled *International Fragmentation: Impacts and Prospects for Manufacturing, Marketing, Economy, and Growth* is part of a long-term effort, in the Palgrave Macmillan series, directed by Professor Anshu Saxena Arora, to plumb in depth the range of international business policies and practices with a fresh look and new frames of analysis. There has been a clear and ongoing trend towards increasing internationalization of products but also services in the past decades; fragmentation is associated with globalization as a conceptual framework. Fragmentation of vertically integrated production processes implies that segments (production blocks) locate in different geographical areas, perhaps in different regional markets and different countries, as they are pursued by competing firms, as key actors. Various links, including marketing and economic policies, are required to coordinate such fragmentation, and it is in these links that significant economies of scale are to be found.

Such links are found in the increasing convergence in business education and training, evolving towards harmonization of rules and processes, enhanced effective cross-cultural communication and optimal global supply chains. In this context, the need for strong international marketing-oriented relationships is highlighted, with firms relying heavily on such relationships efficiently and effectively to move products, services and

brands across international borders from idea generation, raw material extractions to the final consumer in the global value chain. Therefore, it is of the essence to explore the concept of international fragmentation through a variety of lenses to achieve a fuller understanding of the process as it evolves in the context of globalization 4.0 (which consecrates the rise of the large and small emerging markets and of the fourth industrial revolution (automation, data exchange, internet of things, artificial intelligence, and new manufacturing technologies)). This latter process is now well under way as the Davos World Economic Forum of January 2016 amply explored. The fourth industrial revolution is predicated on mastering the process of fragmentation and, of necessity, the technologies and concepts of value chain organization which draw together virtual and physical systems. Globalization 4.0 and the fourth industrial revolution, as long-term and long-wave cycles, are arising in roughly the same time frame, hence the timely nature of this series of topical and exploratory essays around the core theme of fragmentation. International product and process fragmentation can also, paradoxically, lead to disagglomeration of economic activity which runs counter to suggestions found in the “new economic geography” and fast-paced economic globalization literatures.

This volume is organized in five sections, addressing various facets of international fragmentation through different disciplinary perspectives. The first section is built around the core concept of manufacturing through the lens of Indian small manufacturing firms which seek to achieve competitive advantages in the global economy through supply chain efficiencies. The second section finds its disciplinary footing in marketing, management and fragmentation, and is considered through the lens of consumers’ responses. The marketing section considers the salient question of luxury brands, moving away from the more traditional production processes, and focusing on upward movement across classes linking them through luxury fashion and brands.

The third section of this volume is viewed through the rubric of macroeconomic policy issues. The section’s chapter examines the effect of Chinese investment in Africa and the diversity of trading patterns found in Africa, resulting in significant trade fragmentation which China is best able to leverage in the design of a continental strategy of investment. The fourth section, in its key chapter, considers the convergence of business education on a global basis and the evolution of curricular and programmatic education norms in preparing the next generation of global managers which will handle fragmentation under condition of Globalization 4.0.

It focuses on the French business educational system as viewed through the rising generation of millennial students and consumers of this converging educational framework. The last and fifth section contains three carefully selected and reviewed case studies which cut across the range of issues considered in the prior parts of this fourth volume. This volume is excellently framed in bringing together a variety of views and approaches and raising some challenges for future streams of fertile research.

John R. McIntyre

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PART I

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# Manufacturing

# Indian Small-Scale Manufacturing Firms: Achieving Competitive Advantage

*Katrina Savitskie, Sandipan Sen,  
and Sampath Ranganathan*

**Abstract** Managers today need access to opportunities and insights that enable their firm to achieve a competitive advantage in the marketplace. Supply chain initiatives (e.g., integration and flexibility) are of interest because of their proven benefits. This research examines information sharing, in conjunction with supply chain integration and flexibility, to determine their impact on competitive advantage for small-scale manufacturing firms in India. Our findings indicate that supply chain integration has a significant impact on supply chain flexibility, however not in the direction hypothesized. Unfortunately the other hypothesized relationships (information systems to supply chain flexibility and supply chain flexibility to competitive advantage)

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did not manifest. We will use these results as the impetus for further research in this area.

**Keywords** Information sharing • Supply chain integration • Supply chain flexibility • Competitive advantage • India • Partial least squares (PLS)

## 1.1 INTRODUCTION

In business today, there is significant concern about the challenges of doing business under environmental uncertainty. Firms tend to emphasize supply chain flexibility more in times of increased uncertainty (Swamidass and Newell 1987), given that supply chain flexibility is a critical driver of supply chain performance (Vickery et al. 1999; Sánchez and Pérez 2005; Aprile et al. 2005; Stevenson and Spring 2009). It is important that critical supply chain management (SCM) issues like SCM flexibility are researched (Vickery et al. 1999), especially as firms strive for coordination and collaboration with channel partners and customers (<http://cscmp.org/about-cscmp/definitions.asp>).

The Indian market is growing, thus the logistics function is expected to do even more to assist the firm to meet market requirements (Wu and Cheng 2008). Indian managers are paying more attention to supply chain initiatives due to the continued growth (approximately 12%) of the manufacturing sector in recent years and the allocation of 12–15% of firm revenues to logistics (Arshinder et al. 2007; Selko 2008). Hence we need to provide managers with suggestions to better utilize resources to succeed. In a dynamic manufacturing environment like India, achieving a competitive advantage is important. The proposed model examined the influence of information sharing and supply chain integration on supply chain flexibility and, ultimately, competitive advantage in the context of South Indian small-scale manufacturing firms.

## 1.2 THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The theoretical framework used in our study is based on the resource-based view (RBV) of the firm (Wernerfelt 1984), which recognizes that a bundle of resources (e.g., human, physical, and organizational capital) impact firm performance (Wernerfelt 1984). The concept of RBV has been expanded to include external capabilities by some researchers, given

the realization that firms also utilize some critical *external* resources and that interfirm relationships contribute to the firm's competitive advantage (McEvily and Zaheer 1999; Das and Teng 2000; Araujo et al. 1999). Mathews' (2003) "extended resource-based view of the firm" concept suggests both internal and external assets enable a firm's competitive advantage and a firm's supply chain network is an important external resource. Araujo et al. (1999) concludes that the collaborative relationship between two partnering organizations impacts supply chain flexibility, provided that the firm has easy access to its suppliers' capabilities while making operating decisions. The following sections identify the constructs employed in this study along with the proposed hypotheses.

### 1.2.1 *Information Sharing*

Information sharing refers to the amount of sensitive information that is willingly shared among partners (Monczka et al. 1998). Sharing information with both upstream and downstream partners is vital for the entire supply chain to function seamlessly (Mason-Jones and Towill 1997; Balsmeier and Voisin 1996). Researchers have found that information sharing can be a source of competitive advantage for the firm (Novack et al. 1995; Jones 1998) because it enables the partners to work as a single unit (Stein and Sweat 1998). While it is clear that improved performance can result from freely sharing information (Tompkins and Ang 1999), many managers see their company's sensitive information as a source of competitive advantage and are reluctant to share it with anyone (Vokurka and Lummus 2000).

### 1.2.2 *Supply Chain Integration*

Supply chain integration is the extent to which the activities within the firm and among supply chain partners are cohesive (Stock et al. 1998; Narasimhan and Jayaram 1998). Supply chain integration encapsulates the following three sub-dimensions:

1. Functional integration: The firm's functional areas (e.g., purchasing, logistics, or marketing) cooperate with the focus often being on cost minimization (Turner 1993; Stevens 1989).
2. Internal integration: The relationships between the critical sub-functions are linked into one transparent unit so each function knows what the other functions are doing to maximize customer satisfac-

tion, while still achieving internal targets (Narasimhan and Jayaram 1998). Once internal functions are integrated, effort turns to the involvement of key suppliers and critical customers to align both groups with the firm's objectives (Narasimhan and Jayaram 1998).

3. External integration: Collaborating rather than competing occurs across the entire supply chain (Vokurka and Lummus 2000) to enable a faster response to customer requirements (Magretta 1998).

### 1.2.3 *Supply Chain Flexibility*

Supply chain flexibility represents the firm's ability to handle nonstandard orders and to adjust to changes in production levels or product functions and features. Pujawan (2004) determined that highly flexible supply chains improve firm competitiveness. Research has suggested that there are five flexibility dimensions: (1) the ability to handle alterations to customer specifications and non-standard orders, (2) the ability to produce products with many features, (3) the ability to adjust to sudden changes in customer demand, (4) the ability to reach an extensive market consistently, and (5) the ability to handle the final customer demands (Vickery et al. 1999). There is a clear need for greater insight into the factors that influence supply chain flexibility because, to be flexible and to achieve a competitive advantage, a firm needs to have internal functional collaboration along with collaboration with its key suppliers (Vickery et al. 1999).

### 1.2.4 *Competitive Advantage*

Competitive advantage indicates how well an organization is able to outperform its competitors (Porter 1985; McGinnis and Vallopra 1999). Often the sources of competitive advantage are a result of long-term firm practices (Tracey et al. 1999) based on the strategic objectives of the firm (Giffy et al. 1990). Many researchers have examined competitive advantage; as a result, the following dimensions are used in this study: (1) price/cost, (2) quality, (3) delivery dependability, (4) product innovation, and (5) time to market (Vickery et al. 1997; Tracey et al. 1999; Rondeau et al. 2000).

Competitive pricing is the firm's ability to compete by pricing products and services at the lowest levels (Rondeau et al. 2000), which often leads to a large share of the market. Quality is indicated by the customer's expectation that he or she is getting a good value for money (Rondeau et al. 2000). Dependable delivery is achieved when the product is delivered to the customer when promised without exception (Rondeau et al. 2000). Product

innovation is the organization's ability to introduce products without problems with the desired features to address the changing needs of the marketplace (Rondeau et al. 2000). Time to market is the firm's ability to beat the competition in the race to get new products to the market (Li 2002).

### 1.3 HYPOTHESIS DEVELOPMENT

Sánchez and Pérez (2005) have shown that increased communication between suppliers and manufacturers influences the level of flexibility of the firm. Furthermore, in times of uncertainty, relevant information is vital (Duncan 1972), and firms may go so far as to use noncompetitive internal and external networks as information gathering forums (Johnston 2004). These forums enable managers to brainstorm solutions or at least determine the types of information needed to better respond to marketplace challenges. Therefore, the previous research has demonstrated the importance of supply chain flexibility and the critical role information sharing has on the firm's ability to respond to changes in the marketplace; thus, this leads us to the following hypothesis:

*H<sub>1</sub> As information sharing level improves, the firm's level of supply chain flexibility also improves.*

Supply chain integration is crucial for firm performance, and firms often forge partnerships as a part of their integration efforts within functions and external to the firm with critical partners. As previously mentioned, functional, internal, and external integration are the key dimensions of supply chain integration. The items utilized specifically address cross-functional teams, integrated information systems, and activities shared with supply chain partners. The alignment of supply chain practices makes the firm more agile, responsive, and flexible to react to a dynamic marketplace (Lee 2002). A more integrated supply chain is one of the resources a firm uses to improve overall supply chain flexibility; hence, we hypothesize:

*H<sub>2</sub> As supply chain integration improves, the firm's level of supply chain flexibility also improves.*

Supply chain flexibility requires internal collaboration along with external collaboration with key suppliers (Vickery et al. 1999). Supplier capabilities must include responsiveness to marketplace changes, which may be achieved through increased information sharing between the collaborating

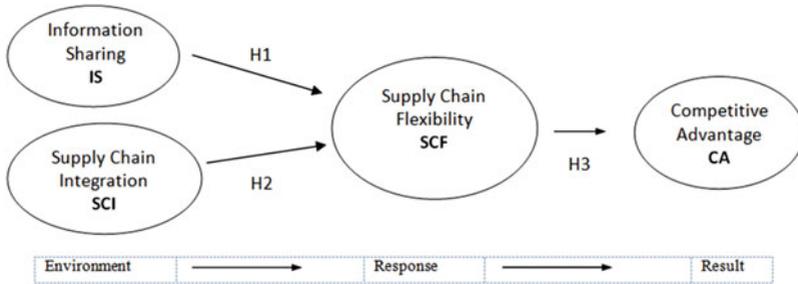


Fig. 1.1 Study model

organizations (Squire et al. 2009). Sanchez and Perez (2005) collected data from 126 Spanish automotive suppliers and found a positive relation between superior performance in flexibility-related capabilities and firm performance, especially in times of uncertainty. Supply chain flexibility is an essential ingredient for developing strategic SCM since it plays an important part in helping the firm to excel in the multiple dimensions of “competitive advantage” (e.g., speed, quality, and cost) (Ketchen and Hult 2007). Hence, we hypothesize (Fig. 1.1):

*H<sub>3</sub> As supply chain flexibility improves, the firm’s competitive advantage also improves.*

## 1.4 METHODOLOGY

The Indian small-scale manufacturing sector in Coimbatore (a district in the state of Tamil Nadu in southern India) is the objective of this exploratory research. The backdrop of the manufacturing industry was used to increase internal validity. Based on information from the Census of India (2001), Coimbatore has a growing manufacturing sector and is known for its small-scale industries (e.g., wet grinder and pump manufacturers). India has over 12.34 million small-scale firms employing more than 30 million people. It accounts for 34% of exports and contributes 6% of India’s gross domestic product; thus, it plays an important role in the Indian economy (Venkataramanaiah and Parshar 2007). From a list of 792 small-scale manufacturing firms provided by the Coimbatore District Small Scale Industries Association (CODISSIA), a random sample of 80 firm owners was taken, and they were then contacted to participate in the survey research project. Each firm owner was solicited by graduate

**Table 1.1** Profile of study respondents ( $n=75$ )

<i>Description</i>	<i>Mean</i>
Number of products manufactured by firms	1.86
Number of years in business	6.48
Number of customers	9.41
Number of suppliers	6.23

students to participate in the study, which resulted in 75 completed questionnaires (a 94% response rate). Given that graduate students personally contacted each owner, the total number contacted was limited to 80 firms. Table 1.1 provides respondent details. Validated measures from existing studies (e.g., Li 2002) were used to develop the questionnaire with Likert-type items, with scales ranging from 1 – *strongly disagree* to 5 – *strongly agree* (see Table 1.2 for the scale items).

#### 1.4.1 Analysis and Results

In this study, we used the SMARTPLS 2.0 software of Ringle et al. (2005) to evaluate our data. The reliability for each construct indicated its level of internal consistency, and all scales had a Cronbach alpha above 0.7, which indicated that the scales are reliable (Nunnally 1978). Harman’s single-factor test was conducted to test the presence of common method bias. All items in the four study variables were entered into an exploratory factor analysis. If a substantial amount of common method variance is present, one general factor will account for the majority of the covariance among the variables (more than 50% of variance). However, exploratory factor analysis indicated the presence of four distinct factors, and the first factor explained only 28% of variance. Hence we conclude that study variables do not suffer from common method bias.

SMARTPLS 2.0 software (Ringle et al. 2005) was also used to test convergent and discriminant validity of the constructs. We found that the construct validity of the study constructs was poor. The average variance extracted (AVE) of supply chain integration and information sharing was above the 0.50 threshold, but the AVE of supply chain flexibility and competitive advantage was below the 0.50 level. Further, the  $t$ -values of factor loading for most items in information sharing, supply chain flexibility, and competitive advantage were below the 2.0 level, indicating that convergent validity of the study constructs could not be established (Fornell and Larcker 1981). Removing items with poor loading, regard-

**Table 1.2** Factor loadings

<i>Item</i>	<i>Factor loading</i>	<i>t-value</i>
<b>Information sharing (AVE = .68, <math>\alpha</math> = .89)</b>		
Our trading partners are informed in advance of our changing needs	0.31	0.80
Our trading partners share proprietary information with us	0.67	1.34
Our trading partners share business knowledge of core business processes with us	0.10	0.23
<b>Supply chain integration (AVE = .81, <math>\alpha</math> = .88)</b>		
Cross-functional teams are frequently used for process design and improvement in our firm	0.38	29.44
There is a high level of integration of information systems in our firm	0.28	10.21
There is a great amount of crossover of the activities of our firm and our trading partners	0.43	15.25
<b>Supply chain flexibility (AVE = .41, <math>\alpha</math> = .89)</b>		
Our supply chain is able to		
Rapidly adjust capacity so as to accelerate or decelerate production in response to changes in customer demand	0.95	115.86
Rapidly introduce large numbers of product improvements and variation	0.84	58.62
Handle rapid introduction of new products	0.92	20.13
<b>Competitive advantage (AVE = .18, <math>\alpha</math> = .86)</b>		
We provide customized products	-0.20	0.90
We alter our product offerings to meet client needs	-0.24	0.92
We provide dependable delivery	0.65	1.48
We are able to compete based on quality	-0.33	1.19
We offer products that are highly reliable	0.49	1.49
We offer high-quality products to our customers	-0.46	1.51

less of the combination of items, generated the same results. To continue with this research initiative, we elected to retain even the low weighted items. The measurement properties of the scales and their descriptive statistics are presented in Tables 1.2 and 1.3.

The research hypotheses were also tested with the SMARTPLS 2.0 software (Ringle et al. 2005). Partial least squares (PLS) path modeling was used because it does not require the same rigid adherence to rules about the distribution of the data or the sample size needed for model validation and testing and is more appropriate for our sample size of 75. Test results indicate that no hypotheses were supported in the direction intended. However, we did have a significant negative relationship between supply

**Table 1.3** Mean and correlation table

	<i>IS</i>	<i>SCI</i>	<i>SCF</i>	<i>CA</i>
<i>IS</i>	1.00			
<i>SCI</i>	0.12	1.00		
<i>SCF</i>	-0.13	-0.93	1.00	
<i>CA</i>	-0.39	-0.24	0.23	1.00
Mean	3.82	3.24	2.73	3.65
SD	0.39	0.52	0.48	0.56

*Note:* All correlations are significant  
*IS* information sharing, *SCI* supply chain integration, *SCF* supply chain flexibility, *CA* competitive advantage

**Table 1.4** Heuristics of the path model

<i>Hypotheses</i>	<i>Path coefficient</i>	<i>t-value</i>	<i>R</i> <sup>2</sup>
H <sub>1</sub> : information sharing → supply chain flexibility	-0.02	0.47	
H <sub>2</sub> : supply chain integration → supply chain flexibility	-0.93	41.86*	0.87
H <sub>3</sub> : supply chain flexibility → competitive advantage	0.23	0.88	0.05

\*Significant at  $p > .01$

chain integration and supply chain flexibility, but it was not as hypothesized. Given our poor construct validity, this is not surprising. The model explains 87% of the variance in supply chain flexibility and 5% of the variance in competitive advantage (Table 1.4).

### 1.5 DISCUSSION AND IMPLICATIONS

This exploratory study employed items and constructs that were previously tested by other researchers (e.g., Li et al. 2006). The hypothesized relationships among the constructs were developed based on the tenets of RBV theory and extant literature. In a dynamic manufacturing environment like India, achieving a competitive advantage continues to be an objective, and thus managers need a clear understanding of options available to facilitate this goal. The proposed model examined the influence of information sharing and supply chain integration on supply chain

flexibility and ultimately on competitive advantage in small-scale manufacturing firms.

In our effort to add to the supply chain literature, we undertook this research; however, the findings of the study were not as expected. The first issue is that factor loadings for our constructs were lower than the preferred cutoff. We elected to retain the items because the multi-item scales were operationalized successfully in other research. Handfield (2011) suggested that when models don't work, researchers need to look at the measures. Upon review, we do think the items reflect the concepts intended, but perhaps the emerging market environment played an unexpected role in how the participants responded to the items. Clearly the effort to administer the survey to the owners of small-scale manufacturing should have included a pretest in that environment. Had this step been performed, we might have found that these items do not work in that environment, either due to the lack of advanced understanding of the concepts or because the existing strong relationships and informal communication networks may mean structured, formal procedures are not needed.

The ultimate outcome is that, due to the poorly loaded items, the weak constructs did not work as hypothesized in our model. The only significant finding in this study is that supply chain integration has a negative relationship with supply chain flexibility—which counters our hypothesis. This counterintuitive finding may be due to the nature of small organizations where employees have to perform many roles which, when combined with a culture that values relationships, may translate into respondents who don't see the difference in the two concepts. Based on the poor outcome of our study, we recognize the need for future research. Holweg (2011) stated, "After all, a relevant problem or real-world phenomenon will not go away just because the results did not confirm the predictions derived from existing theory!" (p. 20).

## 1.6 DIRECTIONS FOR FUTURE RESEARCH

There are a number of options for future research. Primarily, we need to undertake better scale development to ensure that items selected best represent the overall construct concept. As research progresses, examining the impact of mediating factors such as the age of the company, the level of sophistication of supply chain partners, and the extent of management training can be considered. The mediating and moderating

effects may play an important role in manufacturing in emerging markets like India. Other researchers have successfully used small samples (Auramo et al. 2005; Stank et al. 1999), but the small sample size of this study is a limitation, and researchers should strive for a greater representation of the Indian manufacturing community. Finally, future studies may consider expanding the research into large-scale manufacturing to see how their responses compare to those of the small-scale manufacturing sector.

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PART II

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# Marketing

## Should the Devil Wear Prada? Analyzing Consumers' Responses to Luxury Branding

*Esmira Gheisary*

**Abstract** The chapter focuses on the analysis of luxury and the major definitional and conceptual issues involving luxury in the fashion industry. In the midst of rising globalization and a daily changing economy, luxury brands play a vital role in political, social, and business spheres by fulfilling people's physical and psychological needs. This research provides a framework for an investigation into the consumption and management of luxury in today's society. Further, it examines the different consumers' perspectives of luxury, sometimes known as "semi-luxury," and its impact on the market. The aim of this research is to give a sense of the characteristics of luxury and semi-luxury brands to academics and practitioners in the luxury fashion industry. These characteristics are derived from focus groups, one-to-one interviews, and online surveys. Finally, the chapter offers insights and pointers for future research.

**Keywords** Luxury fashion brands • Brand names • Brand attitudes • Emotional attachment • Engagement

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## 2.1 INTRODUCTION

Luxury can be compared to beauty in the sense that luxury (beauty) lies in the eyes of the beholder. One man's trash can often be described as another's treasure and vice versa. When identifying where luxury and necessity (Bearden and Etzel 1982) divide, we have three tiers of living to analyze: first, there is a tier of the bare necessities of life; second, the minimum amount to achieve basic happiness; third, the point of material euphoria that is often reserved for the wealthy and rich (Meyers 1890). To understand what is and is not considered luxury, one must consider situational relativity, temporal relativity, regional relativity, and economic relativity, all of which describe the time, place, culture, and financial standing of those giving their definition of luxury (Buttner et al. 2006; Nyeck 2004; Valtin 2004). When determining luxury, all aspects should be analyzed under normal conditions without relying on individual cases. We often identify luxury as simply having more than enough to satisfy a need, but sometimes the desire for wealth and luxury is fueled by an individual's own greed and desire to be envied (Berthon et al. 2009).

A philosophical–sociological understanding of luxury brings us into the realm of intangibles and broadens the definition of luxury into all that is desired, whether it is tangible or not (Berry 1994; Sombart 1922). Some examples that often fall within this category are talents, gifts, and love; everything desired is luxury (Sombart 1922). From the microeconomic perspective of luxury, the focus shifts to the direct relationship between price, income (Chaudhuri 1998), demand, and availability within that given market (Deaton and Muellbauer 1980; Poll 1980). The economic side of things shows us how demand can drive the price up, but depending on the economic class, it may or may not be considered a luxury due to the amount of income generated. Ultimately, availability determines its luxury value, because if something is rare and in demand, then it is luxurious (Meffert and Lasslop 2003). Managerial understanding of luxury examines how a company can market itself as a luxury brand by only focusing on the small consumer market that can realistically purchase its products (Matthiesen and Phau 2005). Gucci, Louis Vuitton, and Bentley are examples of companies that focus on the consumers who are in the upper financial class and have the disposable income necessary to buy their product. Determining how to market a product or who to market to is a major question, so many companies rely on consumer behavioral studies (Dubois and Czellar 2002; Heine 2009) to determine which products to market

and which consumers to market them to. Marketers must understand preferences, demographics (Dubois and Duquesne 1993), culture (Casaburi 2010), and situational factors (Dubois and Laurent 1996). In addition, companies maintain their positions as luxury companies by not lowering prices and not flooding the markets with their product, and in return their products remain rare and in high demand by those who can afford them.

A brand is the image (Esch 2010) that consumers think of when they think of a particular company. Some brands are viewed as cheap and inexpensive, while others are viewed as better quality and expensive (Kapferer 2008). Expensive brands are nearly always associated with luxury (Meffert and Lasslop 2003). They make up some of the most desired and rare products in the world. Their prices can sometimes reach as much as 100 times more than their cheap and inexpensive counterparts. Some luxury brands also offer more affordable products that are still considered luxury in other financial classes (Kapferer and Bastien 2009). Often, this is an attempt to become a realistic luxury name within other classes outside of the wealthy and rich. An example would be Maserati, which offers a semi-affordable luxury sedan starting at \$65,000 and also a high-end \$2.2 million car for the wealthy and rich.

The brand's identity (Aaker 1997) determines how the brand will be viewed in a given market. By promoting certain products at a particular price to specific consumers, brands are able to establish their identity (Esch 2010; Kotler et al. 2009). It lets the world know what they stand for, and it distinguishes itself from the other brands. The two main components that identify a brand's identity are the physical and the abstract components (Kapferer 2008), with the physical being the quality and everything tangible associated with the product and the abstract being the intangible image that is associated with the brand. There is also an emotional connection (Aaker 1997) that is often made between a brand and the consumers, and in some cases there's a loyalty (Heine and Trommsdorff 2010) that goes far beyond the normal connection. An example that is commonly used would be between Apple and its customers, because customers often become emotionally attached to Apple's products.

This research focuses on defining luxury and luxury brand types, and it analyzes the luxury brand type—engagement—attitude framework for gauging consumers' perceptions and responses toward luxury brands. The next section, literature review, describes in depth luxury and non-luxury brands, types of luxury brands, and consumer engagement attitudes toward luxury branding.

## 2.2 LITERATURE REVIEW

### 2.2.1 *Luxury Versus Semi-luxury Brand*

The definition of luxury is often broad and can easily be interpreted as vague. For the sake of this discussion, the general measuring stick used to determine which items can be deemed luxury is separated into four categories: price, rarity, extraordinariness, and quality (Kromrey 2009). Not all luxury brands score high in all categories when measured and, therefore, there's a wide variety of luxury brands (Kapferer and Bastien 2009); those that measure as luxury in a given category are oftentimes much higher than the next best item in that particular category. As a result there are semi-luxury brands that exist, as shown in Fig. 2.1; these are known as premium and masstige brands, and they also score high when measured on the luxury scale.

Premium brands and products are high-quality items that are more common, affordable, and appeal more to the masses than luxury brands and products (Kapferer and Bastien 2009). Though premium brands score high on the luxury scale, they do not score within close proximity to luxury brands. For example, the Ritz Carlton in comparison to the Hyatt and the Holiday Inn (Murphy 2011) would be considered a luxury, while the Hyatt would stand as the premium and the Holiday Inn as the masstige.

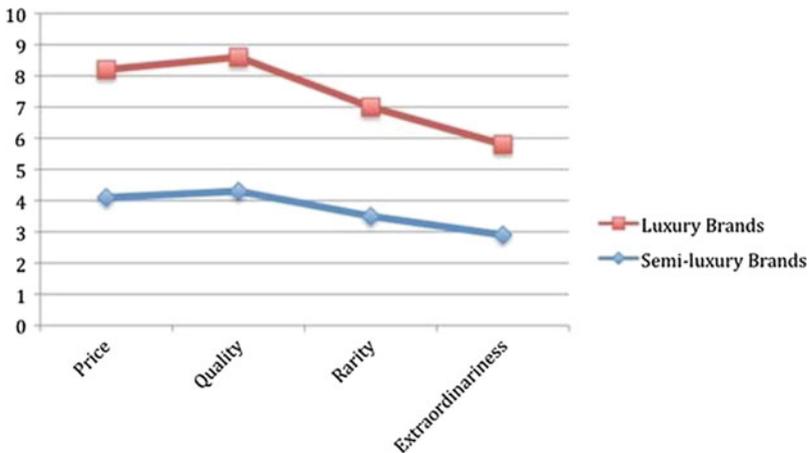


Fig. 2.1 Luxury brands versus semi-luxury brands

A masstige brand is often a brand that falls somewhere between luxury and non-luxury. Brands that fall into this category tend to offer a high-quality product or service to the masses. With affordable pricing, masstige products are typically seen as a more practical buy for those concerned with their budget (Kapferer and Bastien 2009). What they lack in quality and rarity, they typically make up with lower prices and ready availability. Masstige products are generally marketed more toward the middle class than any other class. Examples of masstige brands are companies such as Olive Garden, Victoria's Secret, and Target.

### 2.2.2 *Types of Luxury Brands*

Luxury brands are broken down into different ranks and categories based on quality, price, and rarity (Kromrey 2009). They are separated into entry-level brands, connoisseur brands, star brands, and elite brands (Hieu-Dess and Esteve 2005). Entry-level brands are more affordable and less rare, while the elite brands set the standard for how luxury is to be measured. Elite-level brands are often priced much higher than any other brand type and can consist of the most rare services and products. Brands that would fall under the entry level would be Ralph Lauren, Lacoste, and Express (Kapferer and Bastien 2009). Elite-level brands would be Chanel and Harvard, in their respected categories.

Connoisseur brands (Nueono and Quelch 1998) that specialize in niche markets are often not known outside of that small market. These brands usually specialize in a specific service or product and are considered the standard in their field. Star brands are very different from connoisseur brands in the way that they advertise and strive to appeal to as many as possible. Customers outside of the star brand target group usually know brands that are considered star brands because they are household names. Starbucks is an example of a star brand; coffee drinkers and non-coffee drinkers alike know it.

Consumers develop different types of feelings toward brands depending on how the brand is marketed and how they actually receive it (Barthes 1971). This is seen as the foundation for the initial engagement between the consumer and the brand; first impressions are everything. Some brands come across to consumers as down-to-earth everyday brands, while others are seen as a rarity and, depending on financial status, even farfetched. However, some customers are willing to pay more than they can actually afford because of a personal attachment that has been forged between the consumer and the brand.

### 2.2.3 *Prototypical Brands*

The prototype theory identifies the knowledge about a certain category that is represented by an abstract prototype in the form of a list of typical attributes (Hoffmann 1986). In the minds of consumers it can be the brand that, in essence, defines the central representation of a category, in other words possessing the average or modal value of attributes of that category. Often, consumers prefer prototypical brands rather than less prototypical brands (Barsalou 1985). The reason they prefer more prototypical brands is because these brands are ready to offer more attributes that are characteristic of the category. Moreover, these attributes are more favorable and valued. More important, these prototypical brands are the origin of that certain category, and, therefore, they are more recognizable and preferred (Gordon and Holyoak 1983). These brands have the advantage to build brand loyalty among their consumers and become the leader of that category. For example, Levi's is the leader in the jeans industry, and Coca-Cola is the leader and "first-comer" in soda selling. Further, when a customer thinks of a particular product category, he or she will first think of a brand that represents it, and that is the prototypical brand. For most people, when they think of luxury cars, they tend to imagine Rolls Royce due to its luxury attributes, characteristics, and standing as the leader in its category. Whatever the case, consumers perceive the category prototype as representative of the entire product category.

## 2.3 CONCEPTUAL FRAMEWORK AND HYPOTHESES

The luxury fashion industry is believed to be one of the most profitable industries in the world at more than US \$252 billion annually. To maintain this level of success, luxury fashion brands develop the best luxury fashion products for the market. Due to the importance and high profitability of the fashion industry, research needs to examine consumers' perceptions of luxury and semi-luxury brands and their motivation as a driving force to purchase high-end products.

The luxury fashion industry consists of both luxury and semi-luxury brands. Semi-luxury brands are those that do not reach the highest level of price and extraordinariness as luxury brands, but they are above the line of something that is considered merely necessary. The results of the investigation related to consumers' purchasing power for luxury fashion brands are of major importance for the research. They reveal that the intention to purchase fashion products is determined by consumers' behavior toward

luxury and semi-luxury fashion brands. According to Gentry et al. (2006), consumers consider semi-luxury fashion brands to be the best alternative to luxury brands due to the lower prices but same or similar quality of goods. Keeping up with the latest fashion trends gives consumers satisfaction when purchasing the semi-luxury brands as well. The following hypotheses will determine the cause and effect relationship between the consumers' behavior and consumers' engagement:

*H1a Consumers' behavior toward luxury brands has a strong effect on the consumers' engagement toward brands.*

*H1b Consumers' behavior toward semi-luxury brands has a strong effect on the consumers' engagement toward brands.*

Value consciousness is defined as a “concern for paying lower prices, subject to some quality constraint” (Lichtenstein et al. 1990). Most buyers of luxury fashion brands pursue prestige and image benefits but may be unwilling to pay a higher price for it. For a lower price and slightly lower quality, semi-luxury brands are still considered “value for money” (Wang, Zhang and Ouyang 2005). Thus, a positive relationship is predicted between value consciousness and attitude toward luxury and semi-luxury fashion brands. Based on the discussion above, the hypotheses are as follows:

*H2a Consumers' value of luxury brands has a direct positive effect on the consumer's engagement toward brands.*

*H2b Consumers' value of semi-luxury brands has a direct positive effect on the consumer's engagement toward brands.*

Consumers' perceptions about brands are caused by brand recognition and the brand's distinctive features such as high-quality or trend-setting designs. Due to the emotional attachment toward brands, consumers are more likely to engage in purchasing luxury or semi-luxury brands. Once the attachment is formed, the mind and behavior of consumers become influenced by their desire to purchase the product and enjoy higher levels of satisfaction. Wyner (2003) defined the term “attachment” as “how much the brand has entered the consumer's mind and influenced behavior.” It is implied that brand engagement can exist among those who use luxury and semi-luxury fashion brands and that both feelings and thoughts may be involved. Additionally, supported by numerous findings, attitude influences consumer choice. According to the theory of planned

behavior, purchase behavior is determined by the purchase intention, which is in turn determined by the attitudes. Luxury brands affect consumers' engagement and make the brands more desirable. Therefore, it can be postulated as follows:

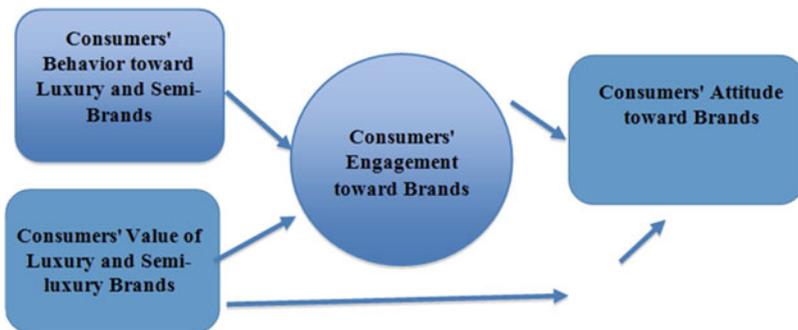
*H3a Consumers' engagement toward luxury fashion brands has a positive effect on consumers' attitudes toward them.*

*H3b Consumers' engagement toward semi-luxury fashion brands has a positive effect on consumers' attitudes toward them.*

Attitude can be defined as “a learned predisposition to behave in a consistently favorable or unfavorable manner with respect to a given object” (Schiffman and Kanuk 1997). Regardless of how favorable or unfavorable products are, consumers can make purchases based on their value consciousness. If there is no preference or attachment in consumers' attitudes toward luxury and semi-luxury brands, the intention to purchase a certain product will be based on its monetary or social value, good quality, or uniqueness regardless of brand recognition or brand loyalty. Consequently, the hypotheses are (Fig. 2.2) as follows:

*H4a Consumers' value for luxury fashion brands has a high relationship with consumers' attitudes.*

*H4b Consumers' value for semi-luxury fashion brands has a high relationship with consumers' attitudes.*



**Fig. 2.2** Conceptual framework of consumers' behavior and value—engagement attitude toward luxury and semi-luxury brands

## 2.4 METHODOLOGY

### 2.4.1 *Procedures*

In order to find out what drives consumers to a particular brand, the researcher chose a collage approach to gain a visual representation for what would engage and motivate consumers. The volunteers were asked, “What makes this brand to be called as luxury?” (Creswell 1994; Hall and Rist 1999). Collages bring an interesting aspect to expressing feelings, thoughts, and emotions. They bring light to those “gray areas” of life and reach areas where words often fall short (Boddy 2005). Collages can show the thought process and how someone arrived at a particular place emotionally and psychologically. Often, as we tour through our thoughts, we remember things, ideas, places, and feelings by the images from those particular moments; seldom do we ever think of them in words. Overall, collages open a more direct form of communicating certain thoughts, ideas, and emotions (Boddy 2005).

In addition to collages, a small group of volunteers was gathered and asked a series of questions. Each volunteer was interviewed. One-on-one interviews are an effective way to collect data and provide useful background information on each of the participants (Ryan et al. 2009). However, the interview is more than a conversational interaction between two people and requires considerable knowledge and skill on behalf of the interviewer. The one-to-one interviewing format consisted of a series of prepared questions that also left room for the subjects to freely respond (Rubin and Rubin 2005). With the freedom of one-on-one interview questions, the researcher was able to subtly collect more information from each person; participants willingly chose to go in depth on each question without knowing that each question was meant to further elucidate their thinking. One-to-one interviewing allows for valuable information and data to be collected in its purest form, due to the fact that the respondents are answering each question unrestricted and willingly. When analyzing consumers' buying habits, crossing paths with their emotions and personal beliefs is inevitable; some volunteers are not completely comfortable disclosing this information in a group setting.

Also, an online survey was conducted in order to collect and analyze consumers' perceptions toward prototypical brands. Subjects were given three ads about prototypical brands and asked questions referring to these ads so that the researcher could identify participants' thoughts and

perceptions about particular products and brands. An online survey is an effective tool due to its fast data gathering, its low cost, and its accurate answers. It also provides a quick way to organize collected data for ease of analysis.

### 2.4.2 *Sample and Data Collection*

The data was collected at a southern historically black college and university (HBCU) in the USA. Twenty-four participants from the focus group and 17 from the small group responded to the experimental questionnaire used for research and analysis. The researcher put together a group that was very diverse along gender, race, and ethnic lines. By creating a more diverse group, data collected is less likely to be viewed as biased generalizations (Pannucci and Edwin 2010).

To steer each one-on-one interview into the topics that were most needed for the research, a guide was set in place (Krueger and Casey 2000). The guide was a strategically assembled array of questions that naturally drove each participant into disclosing more relevant information (Krueger and Casey 2000); the guide included questions such as: “How do you define luxury?”, “What type of car, house, clothing brand do you think of as a luxury brand?”, “Can you afford it?”, “If you cannot afford what is luxury for you, how do you treat yourself?” Those being interviewed were not made aware of the guide or the complete focus of the questioning.

During the focus group, each participant was asked a series of questions in reference to cars, jewelry, handbags, and perfumes to see how each individual participant perceived each brand or product as luxury or semi-luxury. The questions were administered for 15 minutes to obtain enough information to analyze. The focus group was asked to create a collage to distinguish luxury and semi-luxury products, while the smaller group of volunteers was asked to answer questions pertaining to brands and products freely; each one-to-one interview lasted 30 minutes.

There were 73 participants for the online survey regarding the prototypical brands. Analysis of respondents clearly showed that female participants numbered more than male with 58.90% female and 41.10% male responses. The largest age range included 21–25-year-olds with 69.86% or 51 participants. The second-largest age group was 31–35-year-olds with 15.07%, or 11 respondents. The 41 years and older group comprised 4.11%, while the

smallest group of participants was the 15–20-year-olds comprising 2.74%. With regard to ethnicity, the majority were African Americans with 53.42%. The other highest group was White (Caucasian) with 17.81%. Asians were 12.33%, and African French were 6.85%; the rest of the participants were marked as other.

## 2.5 RESULTS

The information collected from the interviews yielded many interesting findings in regard to how each participant perceived certain brands as luxury or semi-luxury, as well as bringing to the forefront the different variables that determine consumer perceptions of a brand as luxury or semi-luxury.

### 2.5.1 *Focus Group*

The findings from the focus group appeared to be a reliable source of data to analyze and to provide an informative assessment of consumers and what drives them to a particular product.

As illustrated in Fig. 2.3 below, the lines that are closer to the center are most important for consumers while shopping. Most participants in the focus group measured quality as the top driving force when shopping or thinking of a particular brand. The second largest indicator of luxury for consumers was price. With the third largest group of participants identifying it as a driving force, a brand's name played a major role for consumers when choosing a particular product or service, or as a brand to identify with. From the data collected, the category "need to be recognized in peer group" ranks last as a motivation factor for consumers or for identifying brand as luxury.

### 2.5.2 *Small Group*

The findings from the one-to-one interviews revealed that most of the respondents viewed luxury as rare opposed to considering its actual monetary value. The scarcity of an item seemed to be the driving factor in whether to label it as a luxury. In most cases, the rarer something is, the more people are willing to pay for it (Meffert and Lasslop 2003). One respondent described luxury as "something rare and scarce."

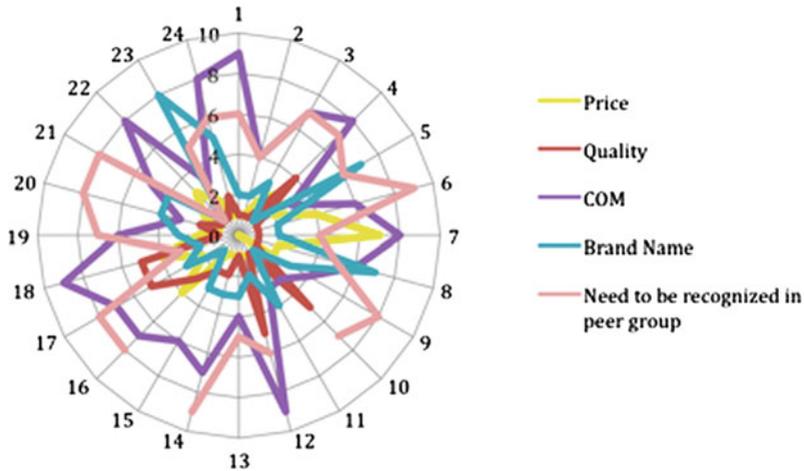


Fig. 2.3 Consumer perception of luxury branding based on focus group

Respondents stressed the importance of luxury items differentiating themselves from everyday items. In order for them to consider an item luxurious, it must have a certain level of rarity, and the more common it becomes, the less luxurious it is deemed to be (Meffert and Lasslop 2003). Once luxury items begin to lose their scarcity, they start to fall into the category of semi-luxury. Semi-luxury items are items that have become more of a norm, but are still not purchased by the masses (Gentry et al. 2006).

Among the many reasons to purchase luxury items, social acceptance ranked high with many of the respondents (Mick and DeMoss 1990). Getting the approval of their peers and others around them is their driving force for shopping, as well as for other aspects within their lives. The sense of belonging, being socially acceptable, and having things that seemingly separated them from the “have-nots” in the world is one their top priorities and top motives (Ryan and Deci 2000). Along with the need for social acceptance, respondents also expressed loyalty toward designers, mottos, and overall missions of certain brands; consumers love their brands. One of the respondents mentioned how she was infatuated with Prada, but due to her financial situation, she treated herself occasionally to Miu Miu, which is also produced by Prada at a more affordable price and is often seen as semi-luxury (Moore and Doyle 2010).

### 2.5.3 *Online Survey*

An online survey was conducted to determine prototypical luxury brands of those who were voluntarily surveyed. In order to collect data and analyze results, four ads were given to volunteers. The first two ads presented campaigns of luxury bags for Louis Vuitton and Prada. The other two ad campaigns were about the luxury cars Audi and Mercedes-Benz. According to the results, consumers are more aware of the Louis Vuitton brand than Prada. Even if aware that the product was made in China, consumers would prefer Louis Vuitton instead of Prada as they love this brand more, and it is more recognizable for them, therefore making this brand the prototypical luxury brand in terms of bags. As for the cars, the results revealed that there is no big difference in consumers' preferences toward Audi or Mercedes. When the volunteers were asked if their next purchase would be either Audi or Mercedes, both scored similarly as consumers prefer both brands. Though no preference was identified, volunteers were more aware of the Mercedes brand, perhaps because it is more recognizable to them. Therefore, the Mercedes-Benz brand is a prototypical luxury car for consumers. Also, consumers were aware that these cars are luxury cars that are made in Germany. An interesting outcome from the survey is that the country of origin is important in this case. If the country of manufacture was China, consumers would prefer Audi more than Mercedes-Benz, theoretically identifying an Audi as a semi-luxury car when comparing it to Mercedes-Benz because consumers would not make the same judgment if they knew that the country of manufacture is China.

## 2.6 DISCUSSIONS AND CONCLUSION

The purpose of this research was to investigate consumers' perceptions toward luxury and semi-luxury brands. Specifically, this study focused on consumers' behavior toward luxury and semi-luxury brands, consumers' value of them, and consumers' engagement and attitude toward luxury and semi-luxury brands.

Based on the results of the focus group study of luxury brands and semi-luxury brands, consumers are influenced by a large number of variables on a daily basis that dictate their perceptions of a brand. For a brand to be recognized as a luxury brand, often it must appeal to consumers as exclusive, rare, and trendy (Meffert and Lasslop 2003). Moreover,

the results from an online survey revealed a bigger picture of what consumers perceive as a prototype luxury brand. The more the brand is recognized in the social environment, the more people think that it is a prototype brand in its given category. Therefore, consumers define prototype brands as luxury brands because they come to mind first for any given category, and consumers often perceive them as exclusive and extraordinary.

Findings from one-on-one interviews revealed that for many consumers it is essential to treat themselves to luxurious items as a way of coping with whatever life has dealt them, as well as rewarding themselves for different monumental moments in their lives. Luxury items are often looked to when choosing something to raise a person's morale (Ryan and Deci 2000). Analysis of the responses to questions during interviews showed that what one individual sees as luxury, another sees as semi-luxury for many reasons. The value of a particular luxury item depends on a number of variables in that person's life. In some instances, an item that is often seen as semi-luxury may be accepted as a luxury item due to the lack of availability in a given area. In contrast, items that are often seen as luxury items can be seen as semi-luxury due to the everyday nature of the item in an area; an example would be the difference between a cozy bungalow in Hollywood, California, and that same bungalow in a small cottage community. A consumer's perception of luxury could be influenced by a number of factors including, and not limited to, social class, gender, race, and demographical location. Those with lower incomes generally define luxury brands that higher-income consumers would generally see as semi-luxury or non-luxury (Kapferer and Bastien 2009).

The results of this study should be interpreted with a few qualifications. With only a small number of participants, it did not accurately illustrate a diverse study population. Related to this characteristic of the sample, some of the dimensions appear to be culturally bound, which suggests that a cross-cultural study would bring valuable insights to understanding the cultural issue of luxury perception, luxury fashion brands, and motives to gift oneself with luxury fashion. Limitations could also be seen in the consumer side of the study due to the student population and their average income or their lack of income. A more diverse and random study population is needed to accurately depict consumers and their relationship with luxury and semi-luxury brands. Future research is required to determine a more effective way to measure consumers' perceptions of luxury and semi-luxury brands. Future research will also focus on how consumers'

engagement and attitude toward luxury and semi-luxury brands influences their shopping choices. Future data collection will require a more diversified subsample. These changes can help future research better understand consumers' relationship with brands.

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# The Influence of Culture on Leader–Member Exchange and Job Satisfaction of Subordinates: A Vietnamese Study

*Uyen Hill*

**Abstract** Experienced human resource professionals recognize the importance of maintaining and promoting employees' job satisfaction in talent management and retention. Scholars have done extensive research on job satisfaction of workers in developing economies in North America and Western Europe. However, there is limited research available on workers in developing countries, specifically workers in contemporary Vietnam. The chapter investigates Hofstede's six cultural dimensions of Vietnamese employees on individual levels. The chapter aims to study the relationships between individual cultural dimensions and the quality of the leader–member exchange and between the leader–member exchange (LMX) quality and job satisfaction of Vietnamese employees. Studying the influence of culture on job satisfaction of workers in developing nations is important for both domestic and international managers. Managerial implications, limitations, and future research are also discussed.

**Keywords** Culture • Cultural dimensions • Leader–member exchange • Job satisfaction • Vietnamese employees

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### 3.1 INTRODUCTION

Vietnam is an attractive market with large target market combining with “low-cost production sites” and young and energetic labor force (Meyer et al. 2006). With over 60% of the population in the workforce and more getting into the domestic and international business environment, it is important for leaders to know their employees’ well-being, including job satisfaction to enhance job performance and productivity. Measuring and maintaining employees’ job satisfaction benefit in numerous ways including employees’ job performance, organizational citizenship behavior (subordinates’ positive outlook on the organization, coworkers, and the job itself), customer satisfaction, absenteeism, turnover, and workplace deviance (Fu and Deshpande 2014; Bouchkenooghe et al. 2013; Quedraogo and Leclerc 2013; Dello Russo et al. 2013). Active (“leaving the organization”) or passive (“passively allows conditions to worsen”) reactions to job dissatisfaction can be majorly destructive (Robbins and Judge 2013). This study links the cultural aspects, Hofstede’s cultural dimensions in particular, to the relationship between supervisors and employees and their job satisfaction.

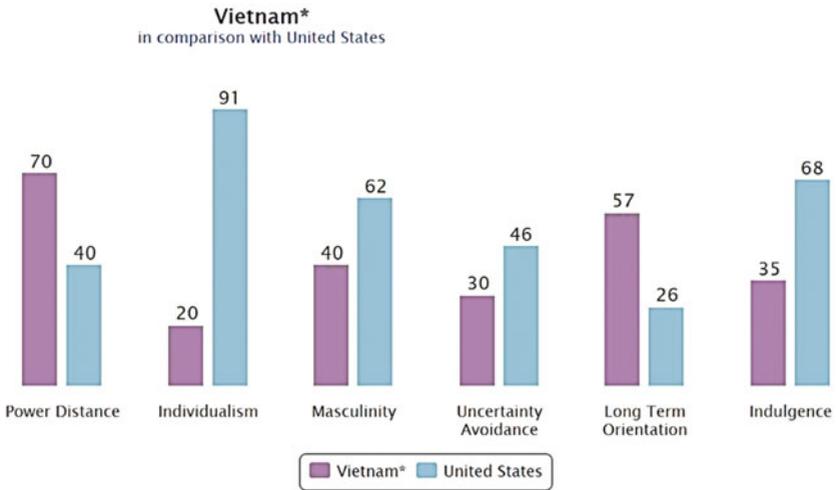
Culture is the “traditional (i.e. historically derived and selected) ideas and especially their attached values” (Kluckhohn 1951) and “interactive aggregate of common characteristics that influence a human group’s response to its environment” (Hofstede 1984). Many researchers have studied the relationships between a country’s culture and its other aspects such as health (Iwelunmor et al. 2014), communication (Miulescu 2014; Horner 2011), education (Capatina 2015; Farah and Steiner-Khamsi 2014), psychology (Williams et al. 2014; Lehman et al. 2004), and especially business (Claus et al. 2013; Russette et al. 2008; Halkos and Tzeremes 2008). Researchers have studied the numerous effects of culture on many facets business such as organizational and individual work performance (Leach-Lopez 2013; Duff et al. 2012), ethics (Gift et al. 2013; Li and Persons 2011; Scholtens and Dam 2007), and organizational citizenship behavior (Ersoy et al. 2012). These studies have helped international business leaders comprehend their diverse workforce. Each culture, greatly influenced by their traditions and customers, has their own business methods in trying to achieve the bottom line. By distinguishing Hofstede’s cultural dimensions such as individualism/collectivism, masculinity/femininity, long-/short-term orientation, power distance (PD), and uncertainty avoidance, studies have given business leaders broad and

detailed guidelines of what was expected in different business environments (Yacout and Hefny 2015; Musabira and Matusitz 2015; Manrai and Manrai 2011).

As many as studies about different business aspects in Vietnam (Malesky et al. 2015; Pincus 2015; Cox et al. 2014; Meyer et al. 2006; Han and Baumgarte 2000), there is still a need to measure Vietnamese workers' job satisfaction and the causes of their job satisfaction. One of the few studies to address employees' satisfaction is Duong's study (2013) about the "factors that affected the job satisfaction of ... 178 academic members from three public universities of Ho Chi Minh City in Vietnam" (p. 346). However, the study only focuses on the specific group of higher educators and does not address the influence of culture on each indicator of job satisfaction. This chapter studies the general population of the workforce: office employees in public and private companies. This chapter aims to study the relationship between employees' individual levels of Hofstede's five cultural dimensions—PD, collectivism/individualism, masculinity/femininity, uncertainty avoidance, and long-term orientation—and the quality of leader-member exchange, in turn affecting the employees' job satisfaction.

This study is significant because of its target participants (Vietnamese millennials as majority of their workforce) and timely approach in the contemporary and ever-changing Vietnam. With previous valuable knowledge on cultural effects on business practices, this study verifies its accuracy and deepens its clarification. With the new findings, organizations can define their businesses' core values, mission, vision, codes of conducts to better serve their internal customers, and satisfy their contemporary necessities and wishes. Most importantly, middle-level and first-line managers can understand their subordinates' new personal and organizational behaviors, and correspondingly adjust their leadership styles. This study aids business practices domestically: for domestic managers to adjust and improve their business conducts to their young employees, and internationally: for international managers to know what to expect, learn from, and choose the best approach to work and communicate effectively with their domestic counterparts and subordinates.

The purpose of this research is to help domestic and international managers and business leaders adjust their business practices and improve their interpersonal and profession relationships with their subordinates to accommodate the young and energetic workforce of contemporary Vietnam. The theoretical framework (Fig. 3.1) highlights the positive or negative relationships between each cultural dimension (PD, collectivism, masculinity, uncertainty avoidance, and long-term orientation) and



**Fig. 3.1** Cultural dimensions' score of Vietnam and the USA (*Source:* The Hofstede's Center, <http://geert-hofstede.com/vietnam.html>)

leader–member exchange (LMX) quality, in turn affecting subordinates' overall job satisfaction. Vietnamese participants are surveyed to measure their individual levels of cultural dimensions, quality of their LMX, and job satisfaction (survey instruments are included in Appendix A).

## 3.2 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This section details literature review on LMX theory and Hofstede's five cultural dimensions of PD, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long-/short-term orientation, and indulgence. This section also proposes a conceptual framework of the influence of culture on LMX quality and job satisfaction.

### 3.2.1 *Leader–Member Exchange Theory*

When first introduced by Dansereau et al. (1975), LMX theory was called the vertical dyad linkage theory to emphasize the “dyadic relationship” between a leader and a follower. The quality of dyadic relationship with the leader, based on the leader and the member's “personality and other

personal characteristics” and “how well they work with the leader and how well the leader works with them,” classifies a subordinate as an in-group or an out-group (Northhouse 2013; Dansereau et al. 1975). In-group subordinates are willing to go beyond their “formal employment contract (defined roles)” to take on extra tasks, stay late to finish a project on time or early, and give more input in a project or an issue (Northhouse, 2013). To a leader, in-group subordinates definitely appear more favorable; hence, the leader reciprocates by giving in-group subordinates more resources, and by entrusting them with more important and possibly more rewarding projects, the leader and the subordinate recognize the “mutual obligation” to each other (Graen and Uhl-Bien 1995). On the other hand, out-group subordinates affix to their job description, come to work just to do their tasks, and are much less involved, not willing to invest in anything more than their contract. The theory later shifted focus from the in-group and the out-group to the significance of quality of the relationship to organizational outcomes (Graen and Uhl-Bien 1995). The relationship now is classified as high- or low-quality LMX. The LMX quality variable in this research is also graded as high or low.

### 3.2.2 *Power Distance*

Within the context of an organization, PD is defined as the acceptable amount of unevenly distributed power, or “inequality” between managers and employees (Hofstede 2011). Managers and employees, or leaders and members, in organizations with small PD actively and directly participate in decisions making, share information, and work together to accomplish day-to-day goals (Hofstede 1984). Usually their “communication [channel] is informal,” and every person’s voice matters. In contrast, organizations with large PD are highly centralized and have clear organizational structures (Vietnam). Sweetman (2012) emphasized the negative effects of large PD on “the multiple-level relationships and open communication required for innovation” in “many Asian-headquartered corporations.” Figure 3.1 illustrates cultural dimensions’ scores of Vietnam (in gray bars) in comparison with the USA (in blue bars). With a score of 70, Vietnamese have high acceptance for large PD like many other Asian and Middle Eastern countries, which means leaders and members in Vietnam know their places and act accordingly to their legitimate power and official status. This is because, “In large power distance cultures, everyone has his or her rightful place in a social hierarchy” (Mooij and Hofstede 2011, p. 182).

The moment a leader and a member accept the unevenly distributed power between them, the supervisor sets interpersonal boundary with that subordinate. This means the leader and the member agree to a mental contract in which the subordinate acknowledges and abide to the supervisor's power and authority. Following their professional relationship, the personal relationship between the leader and the member also leans toward the acceptance of the power difference.

*H1 The larger the power distance between a leader and a member, the poorer is the leader-member exchange quality.*

### 3.2.3 Individualism/Collectivism

Individualism “describes the relationship between the individual and the collectivity which prevails in a given society” (Hofstede 1984, p. 148). People who identify themselves as individualists “think for themselves” and act upon their uniqueness to achieve tasks and goals in the workplace (<http://geert-hofstede.com/united-kingdom.html>). Employees, even when working in teams, are expected to be independent and proactive; hence, most bonuses, raises, and promotions are rewarded individually based on each employee's performance. Contrarily, countries that possess collectivistic characteristics are family liked where everyone works for the greater good of the whole, not just himself or herself (Hofstede 2011). Mooij and Hofstede (2011) distinguished individualism and collectivism by pointing the consciousness in the “I” and the “we,” respectively. While organizations in collectivist countries are highly task oriented, close interpersonal relationships and interactions are more appreciated; therefore, everyone wants to belong and be accepted by their superiors and peers. “Preserving harmony and avoiding loss of face” for themselves and for others is strongly encouraged and appreciated in collectivist cultures (Mooij and Hofstede 2011). Once an employee feels like he or she has become a part of the work family, then that person is exceedingly committed and loyal to the organization and the work itself. Individualists value “self-reliance,” their own capabilities, interests, and personal accomplishment, while collectivists emphasize the importance of the “group” to each individual in term of belonging, relations, achievement, and conformity (Hsu 1983; Ho and Chiu 1994). Individualism/collectivism can be “reflected in the way people live together” (Hofstede 1984, p. 148). Markus and Kitayama (1991) highlighted “the fundamental relatedness of individuals to each

other” of people with high level of collectivism (dominantly Asian cultures). On the other hands, in individualist cultures such as American, such “overt connectedness” is unappreciated. People in individualist cultures would rather remain independent and unattached to others, while people in collectivist cultures “stress on belonging” (Hofstede 2011). In individualist cultures, “task prevails over relationship,” while in collectivist cultures, relationship triumphs over task (Mooij and Hofstede 2011). Regardless of interpersonal or strictly professional relationships between a leader and a member, such individualist behaviors lead to the second hypothesis.

*H2 The greater the member’s level of collectivism, the greater is the leader-member exchange quality.*

### 3.2.4 Masculinity/Femininity

Masculinity and femininity dimensions refer to “what motivates people” (Vietnam n.d.). Employees of masculine countries strive to be on top of their fields and are proud of their personal “successes and achievements in life.” These masculine cultures are often referred as “winner takes all.” In contrast, employees in feminine cultures act and work with a modest and harmonic approach. Femininity dimension is much aligned with the low PD dimension where employees emphasize the organization’s achievements rather their own. Another distinguishing characteristic between masculine and feminine cultures is the “male and female roles” (Mooij and Hofstede 2011). In masculine cultures, men assume the responsibilities of making and bringing home the money, or hold jobs that were more male dominated, while women work in professions that are female dominated and undertake household responsibilities. In contrast, in feminine cultures, such assumption is not recognized, men and women share the household responsibilities and do not dreadfully underline the gender aspect in job preferences (Mooij and Hofstede 2011). Similar with individualists, subordinates with high level of masculinity strive not only to be different from every else but also to rise above and be on the very top. In addition, along the process of striving on top, subordinates or members with high level of masculinity might challenge their leader’s official authority and power. The masculine characteristics illustrate those of the performance orientated. A person who is performance orientated works to prove his or her “superiority over others” and, in turn, suspends the relationship with his or her leader (Janssen and Yperen 2004).

*H3 The greater the subordinates' masculinity, the poorer is the leader–member exchange.*

### 3.2.5 *Uncertainty Avoidance*

Uncertainty avoidance refers to “the extent to which people feel threatened by uncertainty and ambiguity and try to avoid these situations” (Mooij and Hofstede 2011, p. 183). With a low score of 30, Vietnamese are open to ambiguity, new changes, or innovation. Vietnamese value practicality more than fixed and unnecessary rules, which means there is always room for new learning opportunities and experience (Vietnam n.d.). Subordinates with high level of uncertainty avoidance are those who fear the unknown and unstructured. They are bounded by the need of knowing what will work and what will not, what will succeed and what will not. Baker and Carson (2011) stated that subordinates with high levels of uncertainty avoidance actively seek to “[attach] themselves to the dominant [work] groups ... and modeling behavior after group norms,” in hope of being accepted, and avoiding uncertainty of the surrounding environment and arising problems. Clugston et al. (2000) stated, “The high aversion of risk coupled with the fear of loss of security suggests that attachments are based on feelings of having to stay in relationships” (p. 23). Therefore, they will maintain the harmonic relationship with their leader to minimize the chances of facing uncertainty and running into the unexpected.

*H4 The greater the member's uncertainty avoidance, the greater is the leader–member exchange quality.*

### 3.2.6 *Long- and Short-Term Orientation*

Long-term orientation presents “the extent to which a society exhibits a pragmatic future-oriented perspective rather than a conventional historic or short-term point of view” and “how every society has to maintain some links with its own past while dealing with the challenges of the present and future” (Vietnam, n.d.; Mooij and Hofstede 2011, p. 183). Hofstede considered Vietnam, with a moderate long-term orientation score of 57, a “pragmatic culture,” in which people show understanding toward change while working hard and saving for the future. Organizations and employees in countries with high long-term orientation score believe in

the long-term sustainability and stability of the whole organization and act accordingly to maintain such goal. Luczak et al. (2014) found, in a study comparing the effects of cultures on business conducts of Indian and American business owners, that compared to their American counterparts, Indian business owners, who possess long-term orientation, are future oriented, which means they work in a way that preserves to the long-term success and relationships.

Hofstede and Minkov (2010) showed that countries that are short-term orientated (goals are set to be achieved in short periods) are also individualistic and indulgent in which people's "main work values are freedom, rights, achievement, and thinking for oneself." "Old age" was interestingly discussed as favorable or unfavorable in the long-term and short-term orientated cultures, respectively (p. 469, 467). Most importantly, Hofstede and Minkov (2010) concluded that "people's ways of thinking are culturally constrained," which means the same person born and grown up in two different cultures could have different sets of values and beliefs. Luczak et al. (2014) stated, in one of his earliest studies, that Hofstede (1991) also linked individualism and collectivism with masculinity and femininity, respectively. Managers and employees in collective and feminist cultures make business decisions and deliver their work in tribute "to the formulation of cultural norms and values." As subordinates with long-term orientation strive for stability and sustainability, they aim to maintain a harmonic and beneficial relationship with their supervisors and colleagues. The professional and personal relationship between a leader and a member could also be on the ground that both parties believe in longevity and other related longevity-based beliefs.

*H5 The greater a member's long-term orientation, the better is the leader-member exchange quality.*

### 3.2.7 *Leader-Member Exchange Quality and Job Satisfaction*

Job satisfaction refers to the "positive feeling about a job, resulting from an evaluation of its characteristics" (Robbins and Judge 2013, p. 74). Some grounds of job satisfaction include the job itself such as "training, variety, independence, and control ... [and] interdependence, feedback, social support, and interaction with co-workers outside the workplace" (Robbins and Judge 2013, p. 81). Pay does affect job satisfaction, but is mostly only applicable to workers in poor countries. As a member works

directly with their supervisor or leader on a daily basis, the quality of their exchange plays a major role in determining how the job is done and evaluated by the supervisor. Janseen and Yperen (2004) concluded, “a lower quality of leader-member exchange was associated ... with lower job satisfaction” (p. 379). On the other hand, high-quality LMX is positively related to members’ job satisfaction (Graen and Uhl-Bien 1995; Monahan 2013). By approaching from a social identity standpoint, Loi et al. (2014) proved the indirect but positive relationship between LMX quality and job satisfaction through the mediating role of organizational identification. Vukonjanski et al. (2012) studied and proved the significance of “the relationships between the GLOBE [(Global Leadership and Organizational Behavior)] organizational culture dimensions, facets of job satisfaction and the leader-member exchange relation in Serbian organizations.” GLOBE organizational dimensions (House et al. 2004), based on and extended from Hofstede’s cultural dimensions, focus more on the organizational aspects of individuals than the cultural. These dimensions include uncertainty avoidance, future orientation, PD, institutional collectivism, humane orientation, performance orientation, in-group collectivism, gender egalitarianism, and assertiveness. Overall, it is safe to hypothesize that the member’s job satisfaction can be positively affected by the quality of the exchange with his or her leader.

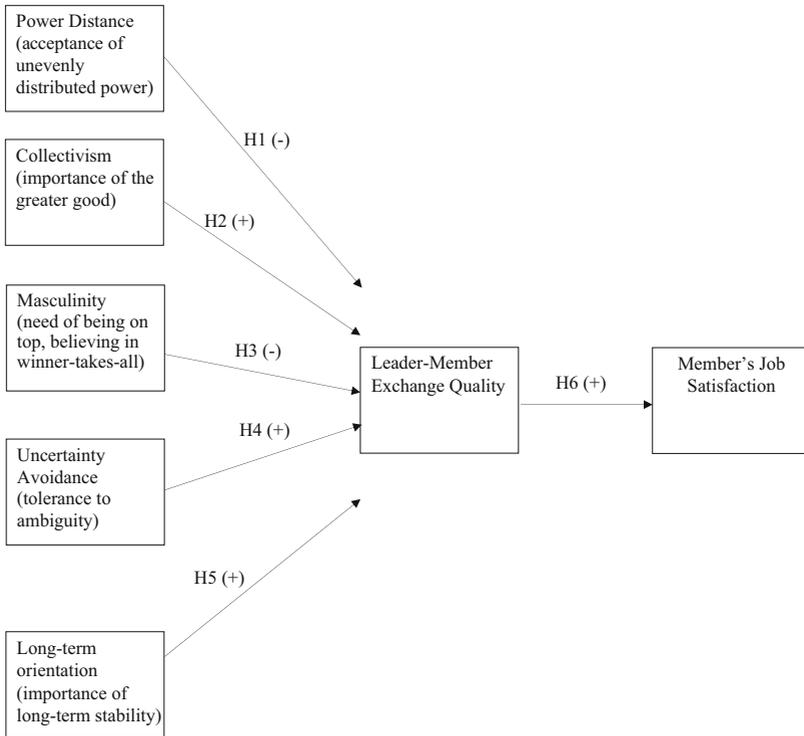
*H6 Leader-member exchange quality is positively related to the member’s job satisfaction.*

### 3.3 RESULTS

A total of 104 Vietnamese participants were surveyed using scales including PD, masculinity, collectivism, uncertainty avoidance, long-term orientation, and a background information form (see Appendix A). Data was analyzed using partial least squares (PLS) and, more specifically, SmartPLS version 2.0 (Ringle et al. 2005). Tables 3.1, 3.2, 3.3 and 3.4 were formed.

### 3.4 DISCUSSION

Results supported hypotheses one, three, four, five, and six. At the 90% confidence level, the positive relationship between PD and LMX is significant. Unlike hypothesis one, which predicted the inverse relationship between PD and LMX, results showed Vietnamese workers who accept and



**Fig. 3.2** The relationships between culture, leader-member exchange quality, and job satisfaction

are in a relatively high PD environment do have a high-quality exchange with their supervisors or leaders. This may be because as in a high PD culture like Vietnam, workers expect certain level of PD, as it is the norm; hence, maintaining such PD may actually increase the quality of LMX (Mooij and Hofstede 2011). At the 95% confidence level, the direct relationship between long-term orientation and LMX is significant. The positive relationship between uncertainty avoidance and LMX is significant at the 99% confidence level. Employees who exhibit high levels of long-term orientation and uncertainty avoidance have high exchange quality with their supervisors. This can be explained by the fact that these employees value long-term relationships and harmony and want to avoid uncertainty and ambiguity; hence, they will clearly want to maintain a high level of

**Table 3.1** Demographics of respondents

		<i>Percentage of respondents (%)</i>
Gender	Female	51.08
	Male	48.92
Age	18–23	13.46
	24–29	63.35
	30–35	9.62
	36–41	5.77
	42–47	3.96
	48–53	1.92
	54–59	1.92
Highest education	High school diploma/GED	11.54
	Two-year Degree	25.00
	Bachelor's	51.92
	Master's	10.58
	PhD	.96
Working status	Full time	77.88
	Part time	22.12

exchange with their supervisors, especially in an expected circumstance. The negative relationship between masculinity and LMX is also significant at the 99% confidence level. As predicted, employees who exhibit high levels of masculinity experience a lower exchange quality with their supervisors. Lastly, at the 99% confidence level, the strong positive relationship between job satisfaction and LMX quality is significant. Employees who are in good relationships and work well with their supervisors go beyond their assigned tasks and have better workdays, which leads to an overall job satisfaction.

### *3.4.1 Managerial Implications*

Since Vietnam is a high PD culture, Vietnamese employees expect a certain level of PD between the managers and the employees. Therefore, regarding working with Vietnamese counterparts and subordinates and managers, international managers who are from a low PD culture may apply and maintain a high PD environment to increase the quality of LMX

**Table 3.2** Overview of indicators and measures of reliability and validity

<i>Constructs and indicators</i>		<i>Outer loadings</i>	
		<i>Point estimation</i>	<i>t-value</i>
Power distance ( $\alpha = .63$ , AVE = .22, CR = .29)			
PD1	People in higher positions should make most decisions without consulting people in lower positions	.731	2.140
PD2	People in higher positions should not ask the opinions of people in lower positions too frequently	-.332	1.084
PD3	People in higher positions should avoid social interaction with people in lower positions	.524	2.212
PD4	People in lower positions should not disagree with decisions by people in higher positions	-.057	.256
PD5	People in higher positions should not delegate important tasks to people in lower positions	.409	2.053
Collectivism ( $\alpha = .73$ , AVE = .15, CR = .04)			
C1	Individuals should sacrifice self-interest for the group	.108	.432
C2	Individuals should stick with the group even through difficulties	.740	1.544
C3	Group welfare is more important than individual rewards	.280	1.016
C4	Group success is more important than individual success	.054	.204
C5	Group loyalty should be encouraged even if individual goals suffer	-.210	.607
C6	Group loyalty should be encouraged even if individual goals suffer	-.488	1/043
Masculinity ( $\alpha = .70$ , AVE = .46, CR = .76)			
M1	It is more important for men to have a professional career than it is for women	.519	3.523
M2	Men usually solve problems with logical analysis; women usually solve problems with intuition	.484	2.815
M3	Solving difficult problems usually requires an active, forcible approach, which is typical of men	.708	5.283
M4	There are some jobs that a man can always do better than a woman	.912	11.969
Uncertainty avoidance ( $\alpha = .85$ , AVE = .60, CR = .88)			
UA1	It is important to have instructions spelled out in detail so that I always know what I'm expected to do	.655	11.263
UA2	It is important to closely follow instructions and procedures	.824	30.199

*(continued)*

**Table 3.2** (continued)

<i>Constructs and indicators</i>		<i>Outer loadings</i>	
		<i>Point estimation</i>	<i>t-value</i>
UA3	Rules and regulations are important because they inform me of what is expected of me	.861	47.721
UA4	Standardized work procedures are helpful	.820	26.573
UA5	Instructions for operations are important	.703	11.192
Long-term orientation ( $\alpha = .71$ , AVE = .40, CR = .79)			
LO1	I believe in careful management of money (thrift)	.490	7.976
LO2	I believe in going on resolutely in spite of opposition (persistence)	.733	14.279
LO3	I believe in personal steadiness and stability	.788	22.161
LO4	I believe in long-term planning	.645	9.562
LO5	I believe in giving up today's fun for cusses in the future	.506	6.343
LO6	I believe working hard to success in the future	.560	8.052
Leader-member exchange ( $\alpha = .88$ , AVE = .67, CR = .91)			
LMX1	You know where you stand with your supervisor and you usually know how satisfied your supervisor is with what you do	.714	26.644
LMX2	Your supervisor understands your job problems and needs	.834	55.440
LMX3	Your supervisor recognizes your potential	.856	51.402
LMX4	I have enough confidence in my supervisor that I would defend and justify his or her decision if he or she were not present to do so	.824	47.186
LMX5	Your working relationship with your supervisor is effective	.863	54.700
Job satisfaction ( $\alpha = .85$ , AVE = .43, CR = .88)			
JS1	The way my boss handles his/her workers	.794	44.069
JS2	The competence of my supervisor in making decisions	.703	34.294
JS3	The way my job provides for steady employment	.757	25.230
JS4	The chance to do something that makes use of my abilities	.723	19.921
JS5	My pay and the amount of work I do	.650	14.031
JS6	The chance for advancement on this job	.555	31.858
JS7	The working conditions	.757	7.880
JS8	The way my coworkers get along with each other	.458	5.242
JS9	The praise I get for doing a good job	.323	20.807
JS10	The feelings of accomplishment I get from my job	.678	22.872

$\alpha$  Cronbach's alpha, AVE average variance explained, CR composite reliability

**Table 3.3** Latent variable correlations

<i>Construct</i>	<i>PD</i>	<i>C</i>	<i>M</i>	<i>UA</i>	<i>LO</i>	<i>LMX</i>	<i>JS</i>
Power distance (PD)		-.06	-.19	.17	.20	.33	.13
Collectivism (C)			.17	.16	.01	.12	.02
Masculinity (M)				-.07	-.16	-.22	-.22
Uncertainty avoidance (UA)					.31	.31	.21
Long-term orientation (LO)						.30	.13
Leader-member exchange (LMX)							.70
Job satisfaction (JS)							1.00

**Table 3.4** Path coefficients and  $R^2$  of structural model

<i>Constructs and indicators</i>	<i>Path coefficients</i>		<i>Hypotheses</i>	
	<i>Point estimate</i>	<i>t-value</i>		
LMX ( $R^2=.28$ )				
PD	.238	1.848*	H1	Supported
C	.101	.833	H2	Rejected
M	-0.179	4.557***	H3	Supported
UA	.144	4.266***	H4	Supported
LTO	.097	1.978**	H5	Supported
JS ( $R^2=.49$ )				
LMX	.700	31.255***	H7	Supported

\* $p < .10$ , \*\* $p < .05$ , \*\*\* $p < .01$

because Vietnamese subordinates recognize and accept such PD. Finally, to increase their subordinates' job satisfaction, managers should focus on enhancing the exchange quality with their subordinates. As subordinates' relationships with the supervisors improve, subordinates will be more satisfied at the work and become workers that are more productive.

### 3.4.2 Limitations and Future Research

As the sample size was relatively small, future research can use a sample size that is larger or has different demographics. This model did not specify industries of the participants as in different fields; the quality of the LMX and job satisfaction may have little to no relationship. With respect to PD and LMX, the study did not emphasize and compare a relationship between a domestic employee and an international manager versus

a relationship between a domestic employee and a domestic manager. Moreover, cultural dimensions' scores may vary across different industries. Instead of Hofstede's six cultural dimension scales, new research can utilize the GLOBE project's nine cultural dimension scale of performance orientation, uncertainty avoidance, humane orientation, instructional collectivism, in-group collectivism, assertiveness, gender egalitarianism, future orientation, and PD (Grove 2005). This new scale will provide a broader view on cultural dimensions with an organizational approach, in hope to provide clearer understanding of cultural characteristics of the sample size.

### 3.5 CONCLUSION

Studying job satisfaction is of high priority to not only human resource managers but also all managers across the organizational functions. It is important for managers to observe, comprehend, and analyze the new professional behaviors of their millennial employees to better serve their needs and increase their job satisfaction. The chapter studied the relationship between culture, using Hofstede's six cultural dimensions of PD belief and uncertainty avoidance and high levels of individualism, masculinity, long-term orientation, and indulgence, and the quality of the LMX, which, in turn, influences employees' job satisfaction. All cultural dimensions, with the exception of masculinity, all positively affect the quality of the exchange between the employees and their supervisors. Moreover, the quality of the exchange between a supervisor and a subordinate has a strong and positive effect on subordinates' job satisfaction.

## 3.6 APPENDIX A: MEASUREMENT SCALES

### 3.6.1 *Power Distance Belief Scale*

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*Power distance belief*

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	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
1. People in higher positions should make most decisions without consulting people in lower positions	1	2	3	4	5

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*Power distance belief*

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
2. People in higher positions should not ask the opinions of people in lower positions too frequently	1	2	3	4	5
3. People in higher positions should avoid social interaction with people in lower positions	1	2	3	4	5
4. People in lower positions should not disagree with decisions by people in higher positions	1	2	3	4	5
5. People in higher positions should not delegate important tasks to people in lower positions	1	2	3	4	5

*Source:* Dorfman, P. W., & Howell, J. P. (1988). Dimensions of national culture and effective leadership patterns: Hofstede revisited. *Advances in International Comparative Management*, 3, 127–150

### 3.6.2 *Collectivism–Individualism Scale*

*Collectivism*

	<i>Strongly disagree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly agree</i>
1. Individuals should sacrifice self-interest for the group	1	2	3	4	5
2. Individuals should stick with the group even through difficulties	1	2	3	4	5
3. Group welfare is more important than individual rewards	1	2	3	4	5
4. Group success is more important than individual success	1	2	3	4	5
5. Individuals should only pursue their goals after considering the welfare of the group	1	2	3	4	5
6. Group loyalty should be encouraged even if individual goals suffer	1	2	3	4	5

*Source:* Yoo, B., N. Donthu and T. Lenartowicz, 2011. Measuring Hofstede's five dimensions of cultural values at the individual level: Development and validation of CVSCALE. *J. Int. Consumer Market*, 23: 193–210. DOI: [10.1080/08961530.2011.578059](https://doi.org/10.1080/08961530.2011.578059)

### 3.6.3 *Masculinity Scale*

<i>Masculinity</i>					
	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
1. It is more important for men to have a professional career than it is for women	1	2	3	4	5
2. Men usually solve problems with logical analysis; women usually solve problems with intuition	1	2	3	4	5
3. Solving difficult problems usually requires an active, forcible approach, which is typical of men	1	2	3	4	5
4. There are some jobs that a man can always do better than a woman	1	2	3	4	5

*Source:* Yoo, B., N. Donthu and T. Lenartowicz, 2011. Measuring Hofstede's five dimensions of cultural values at the individual level: Development and validation of CVSCALE. *J. Int. Consumer Market*, 23: 193–210. DOI: [10.1080/08961530.2011.578059](https://doi.org/10.1080/08961530.2011.578059)

### 3.6.4 *Uncertainty Avoidance Scale*

<i>Uncertainty avoidance</i>					
	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
1. It is important to have instructions spelled out in detail so that I always know what I'm expected to do	1	2	3	4	5
2. It is important to closely follow instructions and procedures	1	2	3	4	5
3. Rules and regulations are important because they inform me of what is expected of me	1	2	3	4	5
4. Standardized work procedures are helpful	1	2	3	4	5
5. Instructions for operations are important	1	2	3	4	5

*Source:* Yoo, B., N. Donthu and T. Lenartowicz, 2011. Measuring Hofstede's five dimensions of cultural values at the individual level: Development and validation of CVSCALE. *J. Int. Consumer Market*, 23: 193–210. DOI: [10.1080/08961530.2011.578059](https://doi.org/10.1080/08961530.2011.578059)

### 3.6.5 *Long-Term Orientation Scale*

#### *Long-term orientation*

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
1. I believe in careful management of money (thrift)	1	2	3	4	5
2. I believe in going on resolutely in spite of opposition (persistence)	1	2	3	4	5
3. I believe in personal steadiness and stability	1	2	3	4	5
4. I believe in long-term planning	1	2	3	4	5
5. I believe in giving up today's fun for cusses in the future	1	2	3	4	5
6. I believe working hard to success in the future	1	2	3	4	5

Source: Yoo, B., N. Donthu and T. Lenartowicz, 2011. Measuring Hofstede's five dimensions of cultural values at the individual level: Development and validation of CVSCALE. *J. Int. Consumer Market*, 23: 193–210. DOI: [10.1080/08961530.2011.578059](https://doi.org/10.1080/08961530.2011.578059)

### 3.6.6 *Indulgence Scale*

#### *Indulgence*

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
1. I believe in personal life control	1	2	3	4	5
2. Freedom of speech is important	1	2	3	4	5
3. Leisure is highly important	1	2	3	4	5
4. I remember positive emotions	1	2	3	4	5
5. More people should be actively involved in sports	1	2	3	4	5
6. Maintaining order in the nation is not a high priority	1	2	3	4	5

Adapted from Hofstede, G. (2011). *Dimensionalizing Cultures: The Hofstede Model in Context*. Online Readings in Psychology and Culture, 2(1). <http://dx.doi.org/10.9707/2307-0919.1014>

### 3.6.7 *Perceived Relationship Between Supervisor and Subordinates Scale*

#### *LMX 7 questionnaire*

	1	2	3	4	5
1. You know where you stand with your supervisor and you usually know how satisfied your supervisor is with what you do	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
2. Your supervisor understand your job problems and needs	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
3. Your supervisor recognizes your potential	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
4. I have enough confidence in my supervisor that I would defend and justify his or her decision if he or she were not present to do so	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
5. Your working relationship with your supervisor is effective	Strongly disagree	Disagree	Neutral	Agree	Strongly agree

*Source:* "Relationship-Based Approach to Leadership: Development of Leader-Member Exchange (LMX) Theory of Leadership Over 25 Years: Applying a Multi-Level, Multi-Domain Perspective," by G. B. Graen and M. Uhl-Bien, 1995, *Leadership Quarterly*, 6(2), 219-247. Copyright © 1995

### 3.6.8 *Perceived Job Satisfaction Scale*

#### *Perceived job satisfaction*

	<i>Very dissatisfied</i>	<i>Dissatisfied</i>	<i>I can't decide</i>	<i>Satisfied</i>	<i>Very satisfied</i>
1. The way my boss handles his/her workers	1	2	3	4	5
2. The competence of my supervisor in making decisions	1	2	3	4	5
3. The way my job provides for steady employment	1	2	3	4	5
4. The chance to do something that makes use of my abilities	1	2	3	4	5

*Perceived job satisfaction*

	<i>Very dissatisfied</i>	<i>Dissatisfied</i>	<i>I can't decide</i>	<i>Satisfied</i>	<i>Very satisfied</i>
5. My pay and the amount of work I do	1	2	3	4	5
6. The chance for advancement on this job	1	2	3	4	5
7. The working conditions	1	2	3	4	5
8. The way my coworkers get along with each other	1	2	3	4	5
9. The praise I get for doing a good job	1	2	3	4	5
10. The feelings of accomplishment I get from my job	1	2	3	4	5

Source: D. J. Weiss, R.V. Dawis, G.W. England, and L.H. Lofquist, *Manual for the Minnesota Satisfaction Questionnaire* (Minneapolis: University of Minnesota Industrial Relations Center, 1967). Evaluated in J.L. Price and C.W. Mueller, *Handbook of Organizational Measurement* (Marshfield, MA: Pitman, 1986), pp. 228-31

### 3.6.9 *Background Information*

#### 1. Gender:

Male \_\_\_\_\_ Female \_\_\_\_\_

#### 2. Age Group:

18-23 \_\_\_\_\_ 24-29 \_\_\_\_\_ 30-35 \_\_\_\_\_ 36-41 \_\_\_\_\_  
 42-47 \_\_\_\_\_ 48-53 \_\_\_\_\_ 54-59 \_\_\_\_\_ 60 and over \_\_\_\_\_

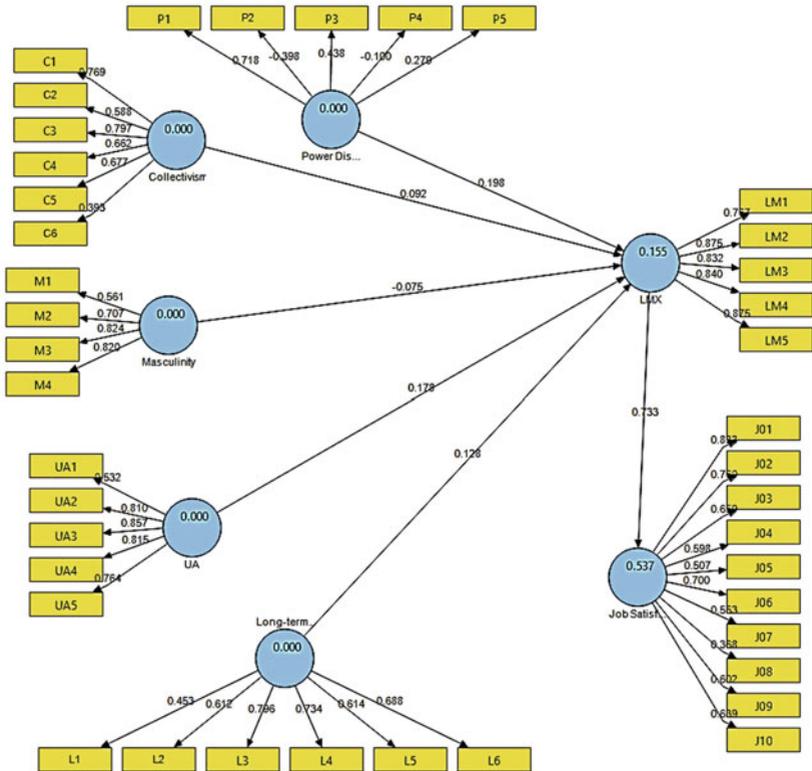
#### 3. Highest Education:

High School Diploma/GED \_\_\_\_\_ Two-year Degree \_\_\_\_\_ Bachelor's \_\_\_\_\_  
 Master's \_\_\_\_\_ Ph.D.'s \_\_\_\_\_ Others \_\_\_\_\_

#### 4. Working Status

Full-time \_\_\_\_\_ Part-time \_\_\_\_\_

### 3.7 APPENDIX B: OUTER LOADINGS (POINT ESTIMATIONS AND T-VALUES) OF THE MODEL



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PART III

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# Economy

# The Growing Economic Role of China in Africa: The Case of the Democratic Republic of Congo

*Emmanuel Naniuzeyi*

**Abstract** The economic rapprochement between China and African countries has become the subject of debates in various intellectual forums. While most African leaders welcome China's involvement in various development projects, some western officials and scholars are critical of this economic relationship. For the past 16 years, since the first China–Africa forum held in 2000, China has been carrying out projects under the agreements signed with various African countries. The positive outcomes of the Chinese investments in most countries are still elusive as far as the welfare of the masses is concerned. This chapter examines the factors that determine China's policy toward Africa in general and the Democratic Republic of Congo (DRC) in particular. While endorsing African countries' right to diversify their trading partners, the chapter highlights some impediments that affect the successful economic partnership between China and the DRC.

**Keywords** China • Africa • Economic partnership • Democratic Republic of Congo

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## 4.1 INTRODUCTION

One of the most significant developments in Africa's external relations in the dawn of this twenty-first century is the economic rapprochement with non-western countries such as Brazil, India, and China. Of all the non-western countries, China has been the most aggressive in promoting policies and strategies that have resulted in many long-term economic agreements with African countries. Indeed, dissatisfied with the lack of economic progress from decades of relations with the western countries, some African leaders are persuaded that China offers the plausible alternative to the eradication of poverty and the promotion of economic development. Throughout sub-Saharan Africa, Chinese state enterprises are actively involved in economic projects, and, through the China–Africa forum, Chinese and African leaders exchange ideas on how to strengthen their economic relations. New loans and debt cancellations are some of the means used by China to strengthen its rapprochement with African countries. As a result, China is gaining deeper access to the exploitation of various mineral resources that used to be the exclusive domain of the western countries. The Democratic Republic of Congo (DRC) is one of the sub-Saharan African countries that has signed long-term agreements with Chinese state enterprises. Over a period of 35 years, the Chinese will invest in various projects and use the funds generated from the exploitation of mineral resources as reimbursement. While some pundits applaud the end of western control over Africa's mineral resources, some scholars and western leaders are suspicious of the lack of transparency in various economic deals between China and some African countries. From the Africanist perspective, the question should not be whether western or non-western countries must have the exclusive right to invest in projects designed to promote development in Africa. The question should be what impact any economic agreement may have on the eradication of poverty and promotion of development in Africa. By looking at the growing economic role of China in Africa with focus on the DRC, this chapter will address the following questions: How do the Congolese masses benefit from the economic agreements between China and the DRC? Can the Chinese do better than the western countries that had exclusive control over Congolese resources from the precolonial period to the 2000s?

To address these questions, the chapter will first examine the historical evolution of China's economic relations with Africa. This will be followed by an analysis of China's involvement in the DRC. An assessment of the

economic, political, and social implications of the Chinese involvement in Africa will be the focus of the third section. The conclusion of the chapter will be drawn in the last section.

## 4.2 CHINA'S ECONOMIC RELATIONS WITH AFRICA

China's economic involvement in Africa must be understood in reference to its overall foreign policy objectives. Every country formulates its foreign policy on the basis of its national interest. Therefore, national interest is the primary factor that determines the foreign policy objectives of any sovereign country. These objectives, as far as Africa is concerned, have shifted as a result of China's changing role and aspirations in the global arena. Clearly, China's current foreign policy objectives are quite different from its past policies. Indeed, in the 1950s and the 1960s, China's foreign policy toward Africa and other third world countries was based more on ideology than pragmatism or realpolitik. China pursued a foreign policy that stressed peaceful coexistence and respect for other states' territorial integrity and sovereignty. Obviously, this reflected a stand against colonialism and underscored China's support to the liberation struggles in territories controlled by western countries. Therefore, assisting revolutionary liberation movements was at the core of China's engagement in Africa. Most of the leftist liberation movements in Africa had some kind of relationship with China, Cuba, or the Soviet Union. In this context, the Sino-Soviet alliance was contemplated to stand up against the western threat to the national security of China. Robert Sutter (1978) suggests that

PRC foreign policy up to 1958 was influenced primarily by international pressures on China. The start of the cold war and the buildup of U.S. strategic power in East Asia prompted the Chinese to move closer to their ideological allies in USSR-leading to the establishment of the Sino-Soviet alliance in 1950. (p. 4)

However, China's assistance program was later revised in the late 1950s following its ideological split with the Soviet Union. The Sino-Soviet split traces its root in the divergence of interests between both countries and, more importantly, in the ideological interpretation of the Marxist philosophy. Referring to the Sino-Soviet split, Joseph Camilleri (1980) stresses the following point:

But after 1958 one could detect a sharp conflict as to what policy the communist bloc should pursue in its relations with the outside world, and as to what weight should be accorded to Chinese and Soviet perceptions and interests in the formulation of such policy. Reference has already been made to the conflict of interests arising from the Soviet Union's reluctance to provide China with nuclear capability; the Soviet vacillation in supporting the Chinese claim to Taiwan; the Chinese opposition to the reduction of tension with the United States; the Chinese determination to give wholehearted support to revolutionary armed struggles in underdeveloped areas. But it would be inaccurate to regard these differences simply in terms of the disparity between the strategic or diplomatic positions of the two countries. For inextricably interwoven with considerations of national interest were the conflicting ideological perceptions of the two protagonists. (pp. 68–69)

Hence, the Sino-Soviet split had a significant impact on Chinese policy toward Africa. Only liberation movements aligned to the philosophy of Mao Tse Tung were qualified to receive assistance from China. However, the common dominator in the Chinese and Soviet policies toward Africa was the opposition of both countries to western colonialism. In spite of the Sino-Soviet split, both China and the Soviet Union were strongly supporting the efforts to end colonialism in Africa even when their assistances went to different political movements. For instance, in helping Africa get rid of the western domination, the Soviet Union and China found themselves, on some occasions, assisting opposing liberation movements in countries such as Angola and Zimbabwe. During the liberation struggle in Zimbabwe, the former Soviet Union provided material support to Zimbabwe African People's Union (ZAPU), while China backed Mugabe's Zimbabwe African National Union (ZANU). In Angola, the former Soviet Union assisted the Popular Movement for the Liberation of Angola (MPLA), while the National Front for the Liberation of Angola received massive military support from China. The Sino-Soviet split, on the other hand, facilitated the rapprochement of China with major capitalist countries such as West Germany, Japan, and Great Britain (Robert Sutter 1978, p. 33). In spite of this rapprochement, China was still critical of both the Soviet and western imperialisms. As far as Africa is concerned, the foreign-aid objectives of China, as summarized by Warren Weinstein and Thomas Henriksen (1980), were based on three imperatives:

First, Africa served as a battlefield against both American imperialism and Soviet social imperialism...Second, China has sought the recognition and support of the African States, both as members of the international community and as members of the third world... Finally, according to Chinese perceptions, Africa constituted a stage in the world's unfolding revolutionary struggle against capitalism, imperialism, and social imperialism. (pp. 118–119)

The growing economic power of China in the 1990s and the need for oil and other natural resources to sustain its economic growth have brought new dimensions in China's foreign policy. Ideology is no longer at the core of China's foreign policy. Pragmatism has become the foundation upon which China's foreign policy is formulated. The search for new sources of material resources and new markets for China's products have significantly elevated the position of China to active player in the global arena, especially in Africa. China no longer considers the western countries as the dominant players in economic relations with Africa and promises to transform Africa in a way that Europe never did during the more than 80 years of its occupation of Africa. In short, China wants to bring development to Africa and African leaders are jumping at this opportunity. To be competitive in the global arena, China embraced market-orientated policies at home and in its trade relations (Henry Nau 2012, p. 298). Since 2000, China has initiated a forum where African leaders meet and discuss economic development projects with Chinese leaders. The first China–Africa forum was held in Beijing in 2000, and Addis Ababa, Ethiopia, was the host of the second forum in 2003. The next forums were held respectively in Beijing, China (2006), Sharm el-Sheikh, Egypt (2009), and Beijing, China (2012). Clearly, the level of China's engagement in Africa is changing the landscape of economic cooperation between African countries and the rest of the world. At the moment, China has become the third-largest trading partner of Africa after Europe and the USA. If this trend continues, in the next 20 years China may become the most important African trading partner. This prospect is causing some alarm in the western world. Drawing from the works of various scholars such as Ian Taylor, Chris Alden, and Michael Wines, Jeremy Youde (2007) has summarized the objectives of China's foreign policy toward Africa in the following terms:

Many trace the closeness of China and African states to China's desire to cultivate strong friendships with states that will overlook its human-rights record, its need to ensure resource and food security, its attempts to deny Taiwan a place at the international table, and Africa's attractiveness as a market for mass-produced low-quality goods. China's fast-growing economy undoubtedly needs the resources and the raw materials available in African states in order to sustain its growth. In addition, much of its trade on the continent focuses on countries with which, for political or economic reasons, many western states refuse to trade. China and these African states serve as important economic lifelines for each other. (p. 4)

This clearly highlights the fact that China's interest in Africa is triggered by political and economic considerations. It is safe to argue that China has become more pragmatic in its relation with African states to the point that its economic agreements are based on its national interest. To be specific, ideology no longer constitutes a determinant of China's foreign policy. China understands the political impact of its relationship with African countries whose presence in various international arenas carries a significant weight. A close relation with African countries provides China with political support in international organizations where issues pertaining to human rights violation are sometimes leveled against Beijing. Getting the support of a large number of African states is seen by China as the best way to squash potential resolutions condemning China. In short, China needs the voting power of African countries in forums such as the General Assembly of the United Nations and the Human Rights Council. China's economic incentives such as foreign aid and debt cancellations have been attractive to African governments since no preconditions are attached to them compared to foreign aids from the western countries. As long as its interests are served, China is willing to work with any African country. Internal politics or human rights violations do not dictate China's policy toward any African country. The official policy of China is based on the five following principles: reliable friendship, sovereign equality, nonintervention, mutually beneficial development, and international cooperation (Jeremy Youde 2007, p. 4). These principles imply that China would not interfere with the domestic affairs of African states. The Chinese tend to portray the western countries as paternalistic because of their concerns over corruption, undemocratic practices, and violation of human rights. This Chinese approach is attractive to some African leaders who are sensitive to criticisms from the international community. However, it triggers concerns among African masses and intellectuals. For the next ten-plus

years, China intends to spend billions of dollars to promote trade and build infrastructure across the continent.

In the 2006 China–Africa forum held in Beijing, 48 heads of African states and Chinese leaders pledged to reinforce cooperation and trade between Africa and China. The forum set a target of \$100 billion of trade between China and Africa by 2010. Referring to China’s involvement in Africa, Polgreen and Howard (2008) has argued that

from South Africa’s manganese mines to Niger’s uranium pits, from Sudan’s oil fields to Congo’s cobalt mines, China’s hunger for resources has been a shot in the arm, increasing revenues and helping push some of the world’s poorest countries further up the ladder of development. But China is also exporting huge volumes of finished, manufactured goods—T-shirts, flashlights, radios and socks, just to name a few— to those same countries, hampering Africa’s ability to make its own products and develop healthy, diverse economies.

One of the outcomes of the economic rapprochement between China and Africa is the access to Chinese products by African markets. The proliferation of cheap Chinese goods is affecting local industries that cannot compete with Chinese goods as far as prices are concerned. This concern seems to be ignored by some African states, who are lured by Chinese incentives that include weapons sales, student scholarships, new loans, and so on. As Denis Tull (2009) puts it:

Increased aid, debt-cancellation, and a boom in Chinese-African trade, with a strategic Chinese focus on oil, have proven mutually advantageous for China and African state elites. By offering aid without preconditions, China has presented an attractive alternative to conditional Western aid and has gained valuable diplomatic support to defend its international interests (p. 323)

Human rights activists continue to condemn China’s attitude toward countries that violate human rights. Indeed, China does not tie financial packages to political conditions. Whether corruption is rampant in a particular country or human rights are violated, China is ready to do business. As a matter of fact, over the past few years, China has cancelled the debts of 31 African countries totaling about \$1.27 billion (Tull 2009). Many of these countries, like Zimbabwe, have a poor record of human rights protection. To date, the economic involvement of China in Africa continues

to grow at a fast pace. The discovery of new oil reserves in the African continent has provided China with more incentives to be an active player in Africa. Speaking of oil fields in Africa, Tull argues that

bolstered by a massive infusion of investments of \$360 bn (2001–2030) that transnational companies have announced to make, production could reach 13 million barrels per day in 2020. Regardless of these projections, Africa's contribution to China's overall oil imports is already significant. In 2004, Africa's share of Chinese overall oil imports reached 28.7%, up from 25.2% in 2003. Angola, Beijing's most important African oil supplier, exported 117 million barrels to China in 2004, a 60% increase from the previous year. With a share of about 13% of Chinese oil imports, Angola came close to the level provided by China's leading oil supplier, i.e. Saudi-Arabia (125 million barrels). (pp. 329–330)

While China's presence throughout the African continent is applauded by most African leaders, who consider it as an important step toward economic progress, some observers question the Chinese motives. A focus on the DRC can help understand the impact of Chinese economic involvement in Africa.

### 4.3 CHINA AND THE DEMOCRATIC REPUBLIC OF CONGO

China's engagement in the DRC is consistent with the overall goals and objectives of its foreign policy in this twenty-first century. The need for political support in the international community, the search for natural resources to sustain its growing economy, and the need to find markets for its products are some of the determinants of China's foreign policy toward Africa in general and the DRC in particular.

In the 1960s, when the DRC became independent, China's presence was insignificant. Its first diplomatic action was to recognize the secessionist government of Gizenga in Stanleyville following the assassination of Patrice Lumumba. Its diplomatic representation ended after the reconciliation of Gizenga and the national government of Cyrille Adoula. In the 1970s, when Mobutu decided to embark the country on the path of authenticity with diplomatic overtures toward all countries, a new relationship was developed with Mao's China. Mobutu bragged about Chinese loans which waived interest charges in contrast to western loans. During this period of time, China agreed to help promote agriculture in

the country and build some facilities such as a new stadium and a new parliament building. The Chinese were also encouraged by the anti-western rhetoric of Mobutu whose relation with the West became strained as a result of the nationalization of private firms in the country. Under Mobutu's politics of "Zairianization," private enterprises that belonged to foreign investors were nationalized and given to Congolese citizens. Many of these Congolese had no skills in running business, and the outcome was disastrous. In any case, tension between the west and the Congolese government reached its peak during this period of time when Mao Tse Tung suddenly became Mobutu's role model. After his visit to China, Mobutu encouraged Congolese to follow the example of the Chinese who kept their cities clean and worked hard to produce enough food to feed themselves. However, this close relation with China was brief as Mobutu reconciled with the West in order to protect his power.

The return of China to the DRC has been facilitated by the policy of Joseph Kabila whose development project centers around five priorities. This project requires an extensive amount of money and China is willing to pump this money through its state enterprises in exchange for Congo's mineral resources. In the process of finding solutions to the myriad of problems the country is facing, the Congolese government has been lured by attractive offers from the Chinese government. In 2007, the agreement signed between the Congolese government, represented by the minister of infrastructure, public works, and reconstruction, and the Chinese government, through a group of Chinese enterprises and banks represented by Mr. Li Changjin, guaranteed the funding by China of development projects in exchange for the exploitation of mineral resources. The accord was adopted by the Congolese parliament without the participation of legislators from opposition parties who denounced the contract as another form of exploitation. In any case, according to the agreement reached between China and the DRC, the Congolese government would receive \$9 billion of Chinese investments. Of the \$9 billion, \$3 billion will be used to renovate the crumbling mining sector which has been inefficient due to corruption, mismanagement, and many years of wars, and \$6 billion will be allocated to infrastructure projects. A portion of the loans provided by China Development Bank was designed to create a Congolese incorporated company called SOCOMIN (Societe Congolaise Miniere) jointly owned by the Congolese (32%) and two Chinese-owned companies, China's Sinohydro Corporation and China Railway Engineering Corporation (68%). According to John Farmer and Ann Talbot (2008),

the Chinese State companies have been granted rights to two large copper and cobalt concessions representing around 10.2 million tonnes of copper and 620,000 tonnes of cobalt. The DRC produced 500,000 tonnes of copper annually in 1989 at its highest levels of output.

The project includes a 3400-km highway, a 3200-km railway, 31 hospitals with 150 beds, 145 health centers each with 50 beds, 4 large universities, the parliament building, and 20,000 apartments. In return, the Congolese government will pay China with copper, cobalt, and road tolls until China recovers its money. According to the agreement, SOMININ will pay off \$12 billion in investments and mining infrastructure thanks to the revenues generated by the sale of copper over a 15-year period. It seems that China is in a winning position in this type of agreement. To John Vandaele (2008),

the Chinese have hedged their position quite aggressively. The first profits will be used to repay the mining investment, something that is typical of most private joint ventures with Gecamines. The agreement also says that the Congolese government has to guarantee the safety of the investments and the repayment of the infrastructure works. Any disputes would be settled by the arbitration tribunal of the international Chamber of Commerce in Paris, and not through Congolese courts, that have a reputation of being corrupt.

In spite of the fact that the agreement allows one in five workers to be Chinese, there is a proliferation of Chinese in various sectors of the economy including economic activities that fall outside the projects financed under the agreement. Therefore, in addition to having access to Congolese markets, China is also exporting labor force to the DRC. In a country where the unemployment rate is above 50%, exporting an unskilled labor force may be a source of social tension. Clearly, the agreement seems to benefit China more than the DRC. Indeed, China will have access to much needed copper and cobalt for its development projects at home. In addition, China will certainly reap billions of dollars in the 30-year contract which can double or triple what was spent in investment and infrastructure projects. The tax exemptions and the special privileges given to China compared to other foreign investors give China an upper hand in these joint ventures with the DRC. According to the Belgian consul, Guy Sevrin, cited by Gwen Thompkins (2008), "it is not clear how they will do their business here. There is no transparency in Chinese investments in the DRC". Many believe that China is being given preferential treatment

by the Congolese government. It seems that China and the western countries are not being held to the same standard. While the western countries are required to respect the Congo's mining code, China is not. Alluding further to Chinese investments in the DRC, Thompkins (2008) refers to John Skinners, manager of a mining company, who made the following statements: "This money is part of the mega-surplus that China gets from trading with the US. They don't know what to do with this money. And \$9 billion is not a big amount of money to the Chinese. Look at the benefit they're getting. They're getting to do infrastructure with Chinese companies, they get a stake in a mine that guarantees a huge amount of copper into the future for Chinese industry, and it gives them a serious foothold in Africa". In any case, there is nothing wrong in making profit from investing in a business venture. The western countries that are critical of Chinese investments have made huge profits from their investments in Africa since the colonial period. The Chinese engagement in the DRC should be supported because the DRC has the right to diversify its trading partners. However, any investment should benefit the people at large, and not the elite, who should be held accountable for any mismanagement and corruption. There must be transparency in the contracts that the Chinese sign with the Kabila government. Building roads, hospitals, and universities is good for any country, but there must also be some serious studies of the balance sheet between what the Chinese get in extracting mineral resources and what the Congolese get. It is also worth noting that the economic relation between China and the DRC does not have a positive impact on the promotion of human rights in the DRC, given the Chinese policy of noninterference in the internal politics of its partners. As of now, several human rights organizations have expressed concerns over the physical eliminations and arbitrary arrests of journalists, opposition leaders, and activists who are critical of the present regime. Can the Congolese people count on the Chinese government to exercise pressure on the Congolese government? The answer is no.

#### 4.4 THE IMPACTS OF THE CHINESE ECONOMIC INVOLVEMENT IN THE DRC

It has been more than six years since the DRC signed the agreement with Chinese companies to build infrastructure, hospitals, and universities. In short, the agreement has been expected to modernize the country and improve the socioeconomic conditions of the average Congolese citizens.

In spite of additional negotiations and revisions of the agreement, the Congolese people are making an assessment of the Chinese economic involvement in the DRC. In the May 27, 2013, edition of *Radiokapi*, Moise Ekanga, executive secretary of the office of the coordination and monitoring of the Chinese-Congolese program of construction made the following points: “Roads, bridges, buildings and other infrastructures have been built in Kinshasa as well as in provinces but there is still a lot that needs to be done”. He also added that the proliferation of new residential homes in Kinshasa and the emergence of a qualified Congolese labor force in public constructions are attributed to the agreement. The enlargement and rehabilitation of the Lumumba Boulevard in Kinshasa is another outcome of the agreement, according to Congolese authorities. However, to most observers, the agreement has still not met the expectations of the Congolese people. Indeed, driving in Kinshasa has always been a nightmare for lack of adequate roads. Potholes, traffic jams, and lack of traffic lights are some of the main problems confronting Congolese people on a daily basis. The National Road 1 from Kinshasa to Matadi seems to have been built to respond to the needs of the elite who need to have easy access to the port for the imports and exports of their goods. In the colonial period, the railway was built between Kinshasa and Matadi for the export of raw materials to Europe. Within cities and between cities, the roads are in bad shape. Actually, the flow of goods from rural to urban areas has not seen a major improvement due to a lack of adequate roads and transportation. What about the eradication of poverty and the creation of jobs? The unemployment rate is above 50% in the DRC ([www.tradingeconomics.com/congo/unemployment-rate](http://www.tradingeconomics.com/congo/unemployment-rate)). The government has the obligation to create jobs for millions of Congolese who are unemployed. However, the agreement with China allows Chinese enterprises to bring a significant number of workers from China even though they are unskilled. This is not in the interest of the people of Congo.

It is obvious that the agreement has not changed the landscape of unemployment in the DRC. Indeed, the unemployment rate is still high today compared to what it was seven years ago. However, the presence of a large number of Chinese is becoming alarming as Congolese citizens feel that jobs are being taken over by Chinese. Even in the streets and markets, Congolese are competing with Chinese in the sale of local products. In spite of the government’s guarantee to restrict the number of foreign workers in some economic sectors reserved for Congolese citizens, the reality on the ground gives a different picture. It is clear that

the agreement between the DRC and China has provided Chinese with immense opportunities for jobs and businesses. If Chinese are coming to the DRC in large numbers, that is not the case for Congolese who want to migrate to China. Obtaining a visa to go to China is not easy for most Congolese while unskilled Chinese workers are making it to the Congo in order to perform manual works. In this context, the agreement seems to work in the Chinese favor.

#### 4.5 THE POLITICAL IMPLICATIONS OF CHINA'S ECONOMIC RELATIONS WITH THE DRC

The DRC is a country in transition to democratic governance. Congolese people have suffered a great deal from the colonial period when they were treated almost as slaves in their own native land. After independence, the hopes of Congolese people vanished when they realized that only the elites were reaping the benefits of freedom. Their struggles for freedom and liberties became an uphill battle under the Mobutu regime that was determined to crush any resistance to his power. Mobutu's reign ended with a rebellion led by Laurent Kabila from the eastern part of the country. The objective of the rebellion was to restore the rights of the Congolese people. The assassination of Laurent Kabila catapulted his son Joseph Kabila to power in 2006. The latter was elected president of the DRC. However, the Congolese people are still fighting for their democratic rights and freedoms. The eradication of poverty, the right to obtain employment, the protection of human rights, and the consolidation of democracy are some of the values that must be promoted in the DRC. For Congolese, foreign assistance can play a significant role in promoting freedom, democracy, and human rights if it is given with preconditions. External pressure can help liberate political prisoners and protect journalists and human rights activists. Even though western powers have a record of supporting dictators that protected their interests, they also use their economic power to curb the degree of oppression exercised on citizens. Several African leaders were subject to western pressure and accepted that they should liberalize their political systems. However, China's disregard of corruption and violation of human rights creates a gap between the impoverished masses and the Chinese government. China's position amounts to a sort of conspiracy with autocratic governments against the masses. African people want international institutions and foreign governments to stand with them in their struggle for freedom, democracy, transparency, and

economic development. Any foreign institution that cares about the welfare of African people should speak up against corruption, illegal enrichment, violation of human rights, and abuse of authority that are still prevalent in many African countries.

#### 4.6 CONCLUSION

As a sovereign nation, the DRC has the right to engage in economic relations with all countries as long as the interest of the DRC is preserved. It has the right to diversify its economic partners in international trade. Indeed, it is imperative that developing countries in general and the DRC in particular diversify their economic ventures to end the dependency that was imposed on them since the colonial period. The western countries cannot continue to control the exploitation of mineral resources in the DRC. However, whether dealing with the West or East, all negotiations must look at the interest of the people and the country before making meaningful decisions. Exploitation, regardless of its shape, form and origin, is unacceptable. The Congolese government should do business with China as long as its national interest is not compromised. Unfortunately, the current contracts with China were done hastily without the involvement of the whole parliament. In addition, there seem to be some secret deals that are attached to the agreements, and these secret deals are unknown to the public. In this context, it is not clear, for example, whether the Chinese benefit from tax exemptions when exporting goods to the DRC. Additionally, given the China's record on democracy and human rights, issues pertaining to freedom of expression and citizens' rights are unlikely to be of concern to them. Instead of blindly accepting relations with China without adequate protection for its citizens, the Congolese parliament has the responsibility to promote and protect the interest of the Congolese people whose aspiration for freedom, democracy, and decent living conditions is conspicuous. Normally, through investigations and audits, the executive branch must be subject to permanent supervision designed to make transparent any dealing with other countries. Sadly, the parliament itself has not been a strong institution that can exercise control on the executive branch. The current parliament in the DRC is not able to play this role effectively since it is indirectly controlled by the executive branch. So far, the agreement has not contributed to reduce poverty and unemployment in the DRC in a significant way. The lack of transparency and honest conversation among the political leaders constitutes one of the

obstacles to the successful implementation of the Sino-Congolese agreement. A revision and renegotiation of the agreement may be necessary to ensure that the interests of the country and the masses are protected.

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PART IV

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# Education

## Accreditation in a French Business School from the Student Perspective

*Hailee Tindale*

**Abstract** This chapter focuses on student perception of international accreditation within a French business school. It illustrates that while students generally perceive accreditation positively, they actually know very little about it. The chapter attempts to make a modest contribution to existing literature by addressing the absence of the student voice in studies on international accreditation in business education so far. It also attempts to emphasise to both schools going through the accreditation process and the accrediting agencies themselves that students may not be as well informed on the process as these institutions assume. This has obvious implications for the success of an accreditation process. More importantly, as their knowledge of accreditation can play a key role in a student's choice of educational institution—a major life choice for a young person—it raises the issue of who should educate students on the subject of international accreditation and how this may responsibly be done.

**Keywords** Higher Education • Quality Insurance • Accreditation • AACSB • EQUIS • France

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## 5.1 INTRODUCTION

Quality assurance (QA) in the area of higher education (HE) is a topic of controversial debate. Both research and anecdotal evidence reveals a major divergence of opinion on the key ingredients of ‘quality’ in HE. There also seem to be as many differing viewpoints as there are stakeholders: faculty, institutional managers, QA organisations, the business world and so on. QA in the context of accreditation, which has now become a major way of signalling a quality institution, will be examined from a student’s point of view. The missing student voice in this debate is the principal focus of this chapter. The question that this chapter addresses is, how do students perceive accreditation? So far it seems that this has been almost entirely overlooked in the literature.

This is an important question as surprisingly little research has been done regarding what students themselves know about accreditation and what it means to them. This is even more surprising, given that leading international accreditation organisations—the Association to Advance Collegiate Schools of Business (AACSB) and the European Quality Improvement System (EQUIS)—both consider students as major stakeholders. From a research point of view, more study in this area would contribute to the body of knowledge about accreditation. From a practical point of view, this also seems an important question as students are supposed to play a major role in the accreditation process. Properly understanding how students perceive accreditation would form a useful base first for ensuring they take ownership of a particular accreditation project going on within their institution and second for ensuring that they are adequately equipped for accreditation visits.

First, a review of the literature of QA in HE in general will be carried out before moving on more specifically to accreditation. How quality and accreditation are defined will be examined as well as how QA in HE differs from other QA mechanisms and why it has emerged as such an important component of modern HE. The literature review section will be concluded by examining what is said about different stakeholders’ perspectives, focusing on students. This theme will then be developed within the national and institutional context of a particular institution, outlining the research approach, discussing the findings and concluding with recommendations for future research and practice.

## 5.1 LITERATURE REVIEW

### 5.1.1 *Quality Assurance*

There seems to be a great divergence of opinion on the subject of QA in HE. Most commentators agree that the subject requires more objective analysis based on empirical evidence. Central to the often-heated discussion is a lack of framework or common understanding. The much-cited Harvey and Green (1993) explain this by saying that ‘quality means different things to different people’ (p. 9). Brennan and Shah (2000, p. 1) sum up the lack of objectivity in the debate as follows:

‘The assessment and management of quality in higher education seems to arouse enthusiasm and cynicism in roughly equal measure...The growth of quality assessment can be likened to the growth of a world religion...this is not a good basis for dispassionate analysis’.

Most commentators agree that while QA in HE was common before the 1990s, it underwent a dramatic expansion after that due to increasing commercialisation. Brennan and Shah (2000) argue that quality in HE was not ‘invented’ in the 1990s. They maintain that ‘universities and other institutions of higher education have always possessed mechanisms for assuring the quality of their work’ (Brennan and Shah 2000, p. 2) but that before the 1990s the philosophy was ‘to find good people and let them get on with it’ (Brennan and Shah 2000, p. 3). They go on to add that this process is now accompanied by more quantitative ‘processes which regulate *how* people “get on with it”’ (Brennan and Shah 2000, p. 3).

The liberalisation of trade in HE (Knight 2006) has led to the need for strong QA measures worldwide and is driven by stakeholder demand (Reddy 2008). QA and accreditation have therefore become important for international standard setting and academic recognition (Stella and Gnanam 2003). With education now commonly crossing borders, the need has grown for better transparency amongst HE institutions internationally. Stakeholders are demanding information on which institutions have the best local reputation for quality and, of these, which best meet international quality standards. ‘Being well regarded by the quality assurance agency in its home country helps a university gain credibility in other countries’ (Daniel in Uvalić-Trumbić 2002, p. 15).

QA addresses multiple stakeholder needs, and these stakeholders have different criteria for what constitutes quality (Brennan and Shah 2000). From a student's point of view, with the plethora of differing offers on the market, there is an obvious need for interpretation and benchmarks. Institutions all want improved visibility and will go to great lengths to achieve this. Students need guidance to ensure they are not misled, that they choose the 'right' institution to fulfil their own needs and get value for money. It would seem that despite efforts to make the system more user-friendly for students, there is still an imbalance of information available which leaves students at a disadvantage. Batteau refers to George Akerlof's Nobel prize winning work, proving that 'competitive free markets cannot operate efficiently when there is information asymmetry as regards to the quality of goods traded' (2006, p. 147). When discussing why accreditation has come about, he states that 'the sellers generally own better information than the buyers' (2006, p. 147) and that accreditations are supposed to serve students as a way to balance their lesser knowledge.

Watty (2003) identifies two schools of thought from a review of the literature regarding QA in HE. The first relates to context and the second to stakeholders. For the purpose of this chapter, the stakeholders' perspective is the focus. The focus is on the students in one particular French Grande Ecole (GE) Business School to find out what knowledge these students have on the subject of accreditation as this institution progresses through the AACSB accreditation process.

### 5.1.2 *Accreditation*

Stensaker and Harvey (2006) say that accreditation is one of the dominant forms of QA in Europe. It can be on both national and international levels, private or public, focusing on institutional or programme accreditation. The same authors also add that schools seek accreditation to reassure the general public (including of course the schools' target audience) of being a quality institution, to show uniformity of their study programmes and to help increase student mobility.

The focus of this chapter is particularly on student perception of international private accreditation systems. On their website, AACSB describes its type of accreditation as 'a voluntary, non-governmental process that includes an external review of a school's ability to provide quality programs'. EQUIS claims on its website, 'Accreditation is not only about providing market information to help future students, employers and

corporate clients to choose a school. Arguably more important, the accreditation systems are concerned with fostering quality improvement through a process of international benchmarking and offering peer advice on areas for improvement.'

According to Damme (1999), the ideology behind QA in HE has come from industrial and commercial practice. However, they also say that one distinguishing feature of accreditation as a model of QA is the involvement of the stakeholders. Reddy (2008) says that because external stakeholders have a specific interest in HE, there is, in theory, room for them to help develop accreditation procedures alongside the organisations involved in accreditation.

In the French context on which this chapter is based, another major way that accreditation differs from the national QA mechanisms is the fact that AACSB and EQUIS both require site visits by peer review teams, whereas in the French national system, this is not the case. Also, the national evaluation systems provide schools with the basic 'driver's licence', giving the degrees recognition by the state, while the international accreditation systems such as AACSB and EQUIS give the schools visibility on the international market.

The reason why different QA measures have emerged has been mentioned above. More specifically, voluntary accreditation of institutions and programmes has a long tradition in the USA. It originated there at the beginning of the twentieth century and then spread to other countries (Van Damme in Uvalic-Trumbic 2002, p. 30), arriving in Europe 50 years later. Carried out by external and private evaluators, that is, not the state, it was conceived as a way to certify the quality of an institution or programme by providing an immediately readable signal about the quality of the product (Dameron and Monceau 2011). Its success is much debated. Some see it as a 'necessary instrument to guarantee quality'; others see it as an 'intolerable attack' on autonomy (Van Damme in Uvalic-Trumbic 2002, p. 30).

Some research has been done on different stakeholder views of what quality is and what it means in HE. As previously mentioned, one area which stood out in the literature review is the apparent lack of any commentary from the student's point of view.

There seems to be little research done on this aspect. This is reflected in a letter from the president of the Council for Higher Education Accreditation (CHEA) (Eaton 1999) which states: A great deal of research has been conducted in recent years on public attitudes toward...quality.

Little of the research, however, examined the public's knowledge of and opinions about accreditation, despite its essential role in serving the public interest.' A survey was therefore commissioned in 1999 to learn about what the general public knows and believes about accreditation as a form of QA.

Not only does there seem to be little research done in the area, there is also lack of general consensus or understanding of what accreditation means to different stakeholders. Some research has been done concerning deans (e.g. see Henderson and Jordon 1990), faculty (e.g. see Romero 2008 or Roberts et al. 2004), administrators (e.g. see Poe and Viator 1990), and the general public as mentioned above. However, very little seem to have been done on what accreditation means to students as stakeholders (see Menassa et al. 2009). Interestingly, '*It is of note that students have not been specifically referred to as a separate stakeholder group by (some) authors*' (Watty 2003, p. 216). This claim caught the author's attention and acted as one of the motivations for this chapter.

Harvey and Green (1993) say that quality is '*a slippery concept (which is) hard to articulate*' (p. 10). They say that the varieties of stakeholders in HE have different perspectives and that there is no point in trying to define quality as it is stakeholder relative. Van Damme (2004), however, believes that lack of agreement of a definition has led to 'a multitude of meanings and conceptual confusion'. Although this would be an interesting debate to look into, the objective of this chapter is not to argue for one side or the other.

Despite the lack of consensus in the area of accreditation, there is agreement around the fact that no one definition of accreditation can be agreed on! (e.g. see Haakstad 2001; Batteau 2006; Kells 1994; Nauta et al.)

The complexity of the notion of defining accreditation is demonstrated in the work of Vlăsceanu et al. (2007) in the framework of a UNESCO–CEPES project. They first attempted in 2004 to compile a glossary of basic terms and definitions around QA and accreditation. They describe the main purpose of the glossary as a pragmatic one, to create a tool 'to facilitate the understanding of various terms applied in the fields of quality assurance and accreditation' (p. 9). They describe this tool as being 'very complex, very pertinent but increasingly complex' (p. 10). Only three years passed between the original publication and its revision. Definitions and introduction to how the tool was compiled aside, the complexity of what accreditation means is demonstrated in the sheer size of the glossary. It is over 90 pages long, excluding the introduction and appendix. The definition of accreditation itself is over a page long.

As mentioned before, for this chapter, the objective is not to enter the overall debate on what is meant by QA in general and by accreditation as a form of QA. The debate is merely used to point out that if accreditation also means different things to different people, all stakeholders' point of view should be taken into consideration. It therefore seems surprising that the student's voice seems to be largely absent from discussion in the literature as they are major stakeholders in HE. This chapter suggests that the student's view should be explored in an attempt to throw new light onto the subject and will try to bring out some students' perceptions of accreditation. The study addresses the following questions:

- How do students perceive accreditation?
- Who and where are they getting their information from?
- What do they make of this information?
- Can they use this information to make informed and important decisions about their education?

In the next sections, we turn to the national and institutional context of a GE Business School in Paris, France, and a small exploratory study of students' perceptions of accreditation.

## 5.2 NATIONAL AND INSTITUTIONAL CONTEXT

### 5.2.1 *The National Context*

According to Dameron and Manceau (2011), business education in France, compared to other countries, is one of the most observed, ranked and standardised education by outside parties. The UK has the most accredited institutions (AACSB, EQUIS or AMBA). France follows just behind. Fifteen to eighteen percent students in France are carrying out business studies.

The French HE system in business studies is divided into two sectors: the public university system and private GE system. The GE system is made up of specialised schools of HE. Traditionally, these schools recruited students through competitive examination after two years of preparatory school at the HE level. This system has traditionally been considered more prestigious than the university public system. Most are governed by the local Chamber of Commerce, which is managed by representatives of the business world, as well as being regulated by the state (Batteau 2006).

One difficulty when discussing accreditation in French HE is of language. Before the adoption of international accreditation practices in France, the closest term to describe this in French was '*habilitation*'. As there is debate on the definition of accreditation in the English-language literature, there is a similar debate on the translation of '*habilitation*' and '*accréditation*' in the French literature. Dameron and Manceau (2011, p. 14) attempt to clarify this by defining *accréditation* as the awarding of a label by an independent authorisation agency and by defining *habilitation* as an authorisation by ministerial agencies. However, not all would agree (see Batteau 2006). In this chapter, the term 'accreditation' is used in the same way as Dameron and Monceau (2011) did when discussing the different systems of evaluation. However, it would be interesting to look further into this debate in the future.

The major French accrediting bodies in the GE business schools are as follows:

1. 'Le Conférence des Grandes Ecoles' (CGE). This was set up in 1973 and is a network of a select group of schools. Initially, CGE comprised 11 engineering schools and 1 business school; today, nearly 40 business schools belong to this network. Its role is to develop and promote its members nationally and internationally. It also accredits three types of programmes with the following labels: the 'Mastere spécialisé' (MS), the 'Mastère en sciences' (MSc) and the 'Bilan d'aptitude délivré par les grandes écoles' (BADGE).
2. 'La Commission d'évaluation des diplômes et des formations de 'gestion' (CEFDG). This body was created in 2001 alongside the Bologna bachelor, master and doctorate reform. It was established in the belief that it would better serve schools in the increasingly competitive domestic French and wider European market. Its role is to evaluate the private business schools. It accredits programmes with the two labels: 'le visa' and 'le grade de master', which are forms of accreditation to record that schools are recognised by the French Ministry of Education and their level of degree.

As previously mentioned, reputation for quality begins domestically in France. This reputation then leads to international recognition. Accreditation counts heavily in the various national league tables' criteria. Historically, France has had low visibility internationally. Batteau (2006) claims this is because of its lack of internationalisation and weak communication policies. Whatever the reason, this shows through in the

international rankings. Unlike today, there was little competition historically amongst the GEs themselves. Battteau (2006, p. 153) explains this as follows: ‘The grandes ecoles are ranked according to a prestige hierarchy, which is old and highly determined by the attitudes of the students themselves.’ He adds that this hierarchy will impact students’ entire career, influencing their salary, promotions and pension schemes. While GEs traditionally dominated the French business HE market and did not need to compete amongst themselves as students did this for them, there was no need for external benchmarking. Today, however, with increased competition from the university system offering similar programmes with greatly lower fees, international accreditations are used as a much-needed benchmarking mechanism.

Today, 18 French business schools are accredited AACSB (2013), 18 EQUIS (EFMD) and 19 AMBA (AMBA). Despite the increasing competition from French universities, it is noteworthy that the majority of the internationally accredited French institutions are still GEs. Because of their traditional lack of visibility on the international market, French GEs are now resorting to international accreditations to gain visibility and maintain their competitive edge.

### 5.2.2 *The Institutional Context*

The apparent gap in the research (or alternatively what may possibly be a lack of interest in the student perception on accreditation) is what first sparked curiosity on this topic. This raised the question, how do students in an institution going through an international accreditation process perceive accreditation? This question is particularly topical as the French Business School in question had embarked on an accreditation process and was expecting a visit towards the end of 2014 by the American accrediting body the Association to Advance Collegiate Schools of Business (AACSB). During this visit, they questioned students about the accreditation process that was then under way at the school. It was in the school’s best interests that the students be well informed and able to answer the accreditors’ questions. During this visit, they will question students about the accreditation process currently under way at the school. It is in the school’s best interests that the students be well informed and able to answer the accreditors’ questions. AACSB considers students as one of the major stakeholders, and their involvement is considered essential in the accreditation process. This is indicated by their guideline (AACSB (2012)) below. It is obviously significant that students are mentioned first in their list of stakeholders:

‘A collegiate institution is one that supports an environment that fosters significant engagement of students, faculty, support staff, and the business community in the learning and scholarship process’.

The place of accreditation in the French HE system today will now be discussed as well as how accreditation got to France. It is important to provide context and help frame an understanding of the French students’ perceptions of accreditation.

The business school in Paris embarked on the AACSB accreditation process 18 months ago. The apparent gap in the literature concerning students’ perception of accreditation has already been discussed. This gap is also reflected in the author’s own experience with the accreditation process. During the process, some communication has been specifically targeted at students, but the school is not aware of how effective it has been. If the school takes heed of the assertion in the literature that accreditation means different things to different people, how can it be sure that it is helping their students come to terms with what accreditation is and does and what is its impact if it does not approach the subject from their viewpoint?

For communication to be effective, a good place to start would be to find out what the students already know about this process and its impacts to make sure the information given to them is relevant, non-redundant and may help to clear up any false ideas, myths or misunderstandings they may have about the accreditation process.

There is a strong focus on the involvement of all stakeholders throughout the AACSB accreditation process. Students are considered as major stakeholders who should be included at all stages of the process. If the school is to prove to the accrediting agency that it has taken accreditation seriously, it is the school’s responsibility to make sure that students are properly informed such that they can talk intelligently to the accrediting agencies during their onsite visit and give sensible answers to questions they may be asked on the subject.

The objective, then, was to find out how these French business students perceive accreditation.

## 5.4 RESEARCH APPROACH AND METHODOLOGY

The research method used was qualitative with some basic descriptive analyses aimed at determining how a small group of French students perceive accreditation. A qualitative method was preferred because of the

descriptive nature of the chapter and because it was seen as too difficult to illustrate perception quantitatively. Since there is little previous research in this area, it was decided that an exploratory case study interviewing 10 students would be carried out.

Interviews were chosen as the sole approach to this study, because, as Robson (2011) suggests, they are a powerful tool in small-scale research projects where the researcher is also the interviewer. Because there is so little previous research focusing on the student viewpoint, it was decided that the main source of information would come from the students themselves, and interviews were seen as the ideal means of obtaining direct answers to the research question. The use of interviews alone has some shortcomings that will be covered later but was seen as the best approach for this paper.

In creating the interview guide, there were two main considerations. First, the objective was to encourage spontaneous answers from the students. Second, based on the author's experience of the school, it was anticipated that students would have minimal knowledge of accreditation. Thus, a semi-structured style of interview was chosen to provide some guidance, while still leaving room for spontaneity.

Following guidelines from Robson (2011), a checklist of topics with a default order of open-ended questions which depended on the response obtained, was created. One concern was that one or more interviewees would not have heard of accreditation. This possibility was anticipated by creating a simplistic definition of accreditation to give to the student in this case, prior to resuming the set questions.

The process was intended to remain flexible and adaptable so that the wording and order of the questions could be modified to maintain the flow of each individual interview. This was important to allow the students an increased degree of spontaneity.

Rather than a formal interview, interviews were preferred to be more akin to a conversation between the interviewer and the students in an informal environment where they felt relaxed and free to give their true opinions openly. It was important that the students did most of the talking and that the interviewer did not influence their answers by confirming whether or not she agreed with their opinions. The interviewer also had to control her own body language and responses to encourage them to continue their train of thought in cases where they may have thought their answer did not conform to the "party line".

Since the objective of the study was to explore students' perception of accreditation, they were told at the outset that for the purposes of

the study, there were no right or wrong answers, but that all responses were important. Because they had very little knowledge in the area, many looked to the interviewer for confirmation that they were on the right track. In these cases it was decided to only give reassuring feedback only as far as it encouraged them to continue their train of thought, as to get to the bottom of why they held a particular opinion, even if it involved a misconception on accreditation. The objective was to determine the students' own 'truths' about the accreditation purpose and process, not to try and find a 'higher truth'.

Interviews were carried out in French to ensure language was no barrier in the collection of data. Their quotes were translated into English when included in the results of this paper.

Due to the difficulty of finding previous studies on which to base a questionnaire framework, the questions were based on the four categories focused on by the CHEA survey (1999). They are the following:

- Purposes of accreditation
- Standards for accreditation
- Who performs accreditation?
- Accreditations as a basis for educational decisions

The interview guide was based on these four categories, repeated in different forms throughout the interview. However, it was hoped that other information would come out of this too (see Appendix 1 for the interview guide).

The interview questions consisted of five main sections taken from Robson (2011):

1. An introduction where the interviewer introduced herself, explained the purpose of the interview, assured the students of confidentiality and asked their permission to tape and take notes. At this stage the students were also assured that there were no right or wrong answers and that the only interest was gauging student opinion, whatever it might consist of.
2. A warm-up, asking easy, non-threatening questions to break the ice for both the student and interviewer on the student's current situation, background and why they chose to study at the specific business school in Paris, France.

3. The main body of the interview comprised questions along the following lines:
  - Checking students' general knowledge and familiarity with the accreditation process
  - Seeing whether they were aware of how accreditations function rather than simply having heard about them
  - Finding out their opinion of the importance of accreditations for the school in general and for the individual student in particular
  - Learning about their sources of information on accreditations
  - Understanding how they see the place of accreditation at ISC Paris
  - Asking them to write their own definition of accreditation
4. Cool-off questions—here, the tables were turned and students asked any questions they would like to have answered about accreditations.
5. Finally, closure—thanking the student for their time.

For several reasons, finding students to participate in the interview was a challenge. Firstly, it was just before exam time and students understandably had other priorities. Secondly, some of them felt uncomfortable about being interviewed on a topic they knew little about and, therefore, felt they could bring little to the interviews. Finally, as the author works with only a few students in her day-to-day work, there were limited relationships of trust built up across the student body and, thus, a limited number of contacts to ask to participate in such an exercise.

As a result, convenience sampling had to be relied on in choosing interview candidates. Robson (2011, p. 275) states that '*convenience sampling is sometimes used as a cheap and dirty way of doing a sample survey. You do not know whether or not findings are representative*'. However the same commentator goes on to say that the appropriate application of convenience sampling is '*getting a feel for the issues involved or initial piloting for a proper sample survey*'. This statement covers precisely the purpose of this chapter and justifies the use of convenience sampling, as it is the perception of accreditation, which is being explored. It would be interesting to investigate the subject further in a more in-depth future investigation, so this chapter is a way to get a better understanding of what direction that investigation should take.

For the purposes of the convenience sampling, the ‘Bureau des Elèves’ (BDE), the governing body of the student junior enterprises and the group which is believed to be the best informed on accreditation, was contacted as they are at the forefront of major events occurring at the school. They work closely with the school administration and the assigned faculty member, to keep the student body properly informed of what’s going on.

However, it was important not to rely on them alone, suspecting a possible tendency to nominate only ‘model students’. In addition to approaching the BDE, students on the campus at random were also approached, explaining the purpose of the interview and asking their permission to be interviewed. This was a time consuming process with more rejection than acceptance, but it was considered important to get some variety into the sample.

Once completed, the interviews were transcribed and grouped into emerging themes in an excel document with quotes to illustrate examples given and points made.

In introducing this section, some shortcomings on the methodology chosen for this chapter were referred to and are recorded below:

- Only one-on-one interviews were used to collect data. In hindsight, interviews could have been combined with a larger-scale survey, for example, or interviews in focus groups as well. This would have allowed the combination of qualitative and quantitative data.
- Only a small number of interviews were carried out. This enables individual answers to be analysed in detail but limits the ability to generalise as these results are too few to be considered representative. Nevertheless, despite the small number, it is believed that a point close to saturation was reached as no new information emerged from the last few interviews.
- There was a lack of triangulation of evidence.
- Convenience sampling has limitations as already mentioned above.

The next section explains the main findings.

### 5.3 FINDINGS AND DISCUSSION

The results are set out below clustered into the main themes which emerged from the interviews of the ten students.

### 5.3.1 *What Are the Students' Backgrounds?*

The student profiles are displayed in the table below. Their names have been changed for reasons of confidentiality as promised to the students.

By way of explanation, students enter this business school after having completed at least two years of HE. Therefore, year 1 corresponds to a third-year bachelor level, year 2 to first-year master's level and year 3 to a final master's year. Students normally graduate with a master's degree after a total of five years of HE.

Traditionally, students entered the school after having spent two years at a preparatory school to prepare them for the competitive entrance examination. Now, admission has opened up to students who have had preceding two to three years of HE in other establishments. This is known as "parallel admission".

The gap year can be taken after year 2. This enables students to acquire practical professional experience while completing their programme of studies (Table 5.1).

Overall, the students who seemed best informed on the subject of accreditation were those who had entered the school after having completed preparatory school and were actively involved in the junior enterprises at the school.

This pattern can be explained as follows:

1. Preparatory schools offer a highly competitive environment and prepare students to maximise their chances of making the 'top' schools.

**Table 5.1** Students' profiles

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Junior enterprise</i>	<i>Gap year</i>	<i>Prep. school</i>	<i>Parallel admission</i>
Pierre	X					X	
Mathieu				X	X		X
Anna	X			X			X
Jean		X		X			X
Catherine			X			X	
Paul		X					X
Jacques			X	X		X	
Christelle		X		X			X
Nathalie		X		X			X
Marc				X	X		X
Totals	2	4	2	7	2	3	7

Teachers in these types of schools, as part of this very competitive system, are acutely aware of the importance of accreditations and school reputation. They pass this knowledge on to their students as part of their preparation. Students coming from the university system are influenced by their background in that system. The open university system is less competitive and accreditation and reputation matter less; therefore, students may be less aware of them. This is summed up by Jacques, who said, ‘Students from prep school are the type of clientele who are very keen on these sort of details.’ All students from preparatory schools said they had first learned about accreditation from their teachers during this period.

2. The BDE is the head of all the junior enterprises. Students working for the BDE are often the first to communicate official information about the school to the student population. The other junior enterprises follow. Nathalie explained, ‘With Mr. Smith (the head teacher for the junior enterprises) we speak a lot about the standards to put into place within our junior enterprises.’ All students interviewed from the junior enterprises stated that they felt better informed than the rest of the student population for this reason. Students from the BDE were the most confident in their responses.

### 5.3.2 *What Quality Assurance Systems did the Students Recognise?*

All ten students recognised that the school belongs to the CGE with the grade de master and is recognised by the French Ministry of Education. They all expressed the high importance of these national QA systems which give national recognition and visibility to the schools. For example, Christelle said, ‘If we didn’t have the “grade de master” I don’t see why we would continue to attend this school. I would feel that it’s a school with no value.’ Mathieu added that he was told by his parents, ‘We’re paying for your studies so the school you choose must be recognised by the State as this is a huge investment.’ These national QA systems were considered an essential base. Marc compared the national and international accreditations by the following statement: ‘The State is less elitist, therefore less demanding because it tries to give everyone a chance in life.’

Students considered International accreditations as an ‘extra’ and were a lot less clear in their minds on this subject, compared with the national QA systems. ‘It’s the cherry on the cake in relation to the grande de

master' (Jean). 'It's better than the grade de master' (Nathalie). Their views on the three major international accreditations (AACSB, EQUIS and AMBA) are outlined as follows.

It was reassuring to hear that all of them had at least heard of AACSB. Seven said they thought it was an international accreditation. Four specified that it was based in the USA. One thought it was a European accreditation system. Five stated that it was a private association.

When asked to describe this accreditation, three compared it to a label.

'It's a label of excellence.'—Mathieu

'It's like a label for meat—"le label rouge". It's better than the others in terms of quality.'—Jacques (Label rouge is a quality logo found in French supermarkets)

'It's like the ISO standards or the AOC for food.'—Catherine (ISO = International Organisation for Standardisation, AOC = appellation d'origine contrôlée)

Others described it as a select club that schools aspire to belong to.

'It's like a sort of conference of several grandes écoles.'—Pierre

'It's a consortium of companies who want to ensure other companies that they are recruiting good students.'—Anna

'Not all schools can claim to be part of this group?'—Jean

'It's to become part of the best business schools in the world.'—Jacques

The notion of quality and prestige was also mentioned by two.

'It's a sign of quality.'—Mathieu

'It's quite prestigious.'—Anna

Only four students knew of the EQUIS accreditation system. Only two were able to cite its correct name. When asked where it came from, they all had different answers: European, American, International, French. One student thought that many schools had this accreditation and that it was easy to get. Another thought that it was very difficult to obtain and took a lot of financial investment to do so.

Two students knew of the AMBA accreditation system, and both knew it was an international system. The students' 'knowledge' on EQUIS and AMBA was a lot more limited than that of AACSB. Overall, international accreditations were considered as labels of quality which had higher

demands than the national QA systems and with restricted entry. The idea of a ranking of the accreditations came through strongly in interviews. Three students thought an accreditation was the same as a business school ranking. These are however two very different indicators using very different measures. Rankings come from the media comparing business schools with a particular focus on MBA programmes. Accreditation is a quality assessment process carried out by peers in the area of HE, both on a programme and on an institutional level.

Eight of the ten students interviewed thought that a school must achieve high standards to gain accreditation. One thought a school must only meet minimal standards to be accredited. Anna thought it depends on the school and the accreditation, 'It depends on the accreditation. There are prestigious accreditations which are of the highest quality, the best of the best like HEC (France's top business school). There must be a basic accreditation and after that the quality of the accreditation rises. The higher it raises, the better the level.'

### 5.3.3 *Where did Students Get Their Information?*

As noted from their answers to the previous question, students' knowledge of the different QA systems was quite variable. It seemed therefore logical to investigate where their knowledge had originated.

The three students who had entered ISC Paris after preparatory school had been informed by teachers at those respective preparatory schools. The preparatory schools operate in a very competitive environment aimed at maximising their students' chances of acceptance into what are considered the 'best' French business schools. As mentioned previously, the 'best' schools traditionally depended on perceptions of the old prestige hierarchy. Traditional French reputations are insufficient in the modern international environment. Now students and faculty alike talk in terms of international accreditation.

Pierre said that he also learnt about accreditations during the open days at ISC Paris. At the open days, he was told that the school had embarked on AACSB accreditation and why this was important. Marc, who had also participated in the open days but as a current student to help attract new students, said, 'I helped out with the school promotion so we were informed quite a bit ...by the promotion's department and by welcoming potential students.' Five students got their information from the Internet through the different social networks and online newspapers which publish school league tables.

Within the school, those involved in the junior enterprises all mentioned the role that the head teacher of these enterprises plays in communicating about AACSB accreditation and how this leads to students' discussion. 'With Mr Maitre, we talk a lot about standards to put in place in the junior enterprises. After, there's an exchange of ideas between the students who are the most involved in the associations.'

All students said that the Dean plays a major role in communication of the accreditation process. They said that he gave a presentation to all students on their arrival in the school and that he visits classes from time to time to update them on the process.

All said they received information from the administration by email in the form of newsletters and articles written from within the school. Information is also made available on the school's social networks.

Two students said their parents had received a letter from the ISC Paris administration, and one mentioned a parent-teacher meeting where the school informed parents about the process the school is going through.

From the interviews, students said they were 'best' informed about AACSB accreditation because the school is currently going through this process and they have, therefore, received information in various forms on this accreditation. However, there was doubt as to the effectiveness of this communication as their knowledge on the different French QA systems and international accreditation systems seemed quite superficial. Thus, the subject was explored further in the subsequent question.

### *5.3.4 Why do Students Think Accreditation Exists?*

Seven of the ten students attempted to explain why they thought the need for accreditation had come about. The others all said they did not know and did not want to attempt to answer the question. The following table summarises their responses (Table 5.2).

### *5.3.5 What do Students Understand about the AACSB Accreditation Process?*

This question focused on the AACSB accreditation process, the particular process currently under way at ISC Paris. Below is a simplified version of this process and the steps spontaneously recognised by each of the students interviewed.

**Table 5.2** Reasons for the existence of accreditations

<i>Reason for the existence of accreditations</i>	<i># of students who cited this</i>
To bring about a reassurance of quality to both students and employers	7
To give added value to a degree	5
To help schools stay competitive on an international level	3
To make a distinction amongst the mass of students graduating from HE nowadays	1
To protect students and employers	1
To facilitate partnerships amongst schools as well as academic exchanges	1
To attract students	1
To give schools better visibility internationally	1

1. Eligibility application is submitted and accepted.
2. Mentor is assigned to help school develop a standards alignment plan (SAP).
3. AACSB committee reviews and accepts the SAP.
4. SAP is implemented.
5. Self-evaluation report is written and submitted.
6. There is on-site visit.
7. Accreditation is for five years.

From the table we can see that collectively students are able to identify most of the overall process, but this is definitely not the case individually. Students were very hesitant when talking about this process. For example, they all began talking about the process with ‘I think that maybe...’ or ‘there might be...’ or ‘I’m not sure but...’ and did not use the AACSB vocabulary. Rather than ‘standards’, they used the word ‘criteria’; rather than ‘visit’, they said, ‘audit’; rather than ‘peer review team’ (PRT), they said, ‘auditors’ or ‘inspectors’. While interviewing them it was not certain that the steps of the process had been outlined to them. If it had, it had not made much impact. Their descriptions of the process seemed to be driven more from ‘educated guesses’. Their guesses could be explained by the fact that all have classes in finance and audit throughout their studies, which may have given them the terminology with which to describe the process. The fact that they did use ‘educated guesses’ was encouraging, as it showed they did have some interest. Otherwise, they may not have bothered to find parallel comparisons.

Despite their varying knowledge on the AACSB accreditation process, they gave additional information as follows:

- Half of the students said that there were different steps to work through. Two students acknowledged that the school has already passed the first step.
- Half the students talked of there being different ‘criteria’ to meet. Catherine demonstrated how this process is being implemented within the school to make changes, ‘Mr Millet imposes certain rules to follow and we know this is because of the accreditation. For example, in the student union building things are a lot stricter than before. Last year we could print as much as we want. We covered the offices’ walls. Now there are television screens and we no longer have the right to print. Certain rules have been set. We can’t put lots of things on the walls. We have to stay professional and less festive.’ Paul talked of ‘criteria’ in a larger context. ‘We’ve changed the library. We needed a library for research which is becoming more and more important. There are perhaps new MBAs too.’ Jacques described the ‘criteria’ as a scale containing common criteria to meet with a scoring system ‘like the business school league tables about their teachers, the campus, the quality of the teaching, the international students, the academic and business partners, the graduates employed after receiving their degree. Since it’s an international accreditation, the international dimension must play a major role.’ Nathalie added, ‘One criterion might be the number of students on an Erasmus exchange.’
- Anna said that ‘the “auditors” are experts in their field coming from accredited schools themselves.’
- During the ‘audits’, Mathieu said, ‘Auditors might interview students, visit the campus, go into further detail into the different programmes.’ Anna said that ‘the inspecteurs come to see what’s happening to make sure that we meet the objectives.’ Chris added, ‘We have to present our programmes to them and show what our teacher-researchers have done, show them the campus and the facilities at students’ disposal.’
- Two students said they thought it was a long process.
- One student thought that a lot of time and money must be invested into such a project.

**Table 5.3** Students knowledge regarding AACSB accreditation process

<i>Name/Step</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
Pierre					X		?
Mathieu		X				X	?
Anna					X		?
Jean	X			X			?
Catherine				X			?
Paul		X				X	?
Jacques					X		?
Christelle					X	X	?
Nathalie							?
Marc	X	X		X		X	?

The question marks in column 7 in Table 5.3 indicate that no students knew the school would be accredited for 5 years, if successful in obtaining accreditation. AACSB calls this process ‘continuous improvement’. Only one student made an indirect reference to this idea of continuous improvement: ‘It has to be renewed to make sure there is no drop, always new innovations’ (Anna). They all recognised that once a school is accredited, it is not open ended but that there needs to be continuous ‘auditing’ to make sure that it maintains the required standards:

- ‘It has to be renewed. You don’t get it for life.’ (Pierre)
- ‘I think you can lose an accreditation.’ (Nathalie)
- ‘You have to continuously work.’ (Paul)
- ‘Over time, you have to prove that you still deserve it.’ (Mathieu)
- ‘It’s not for life because a school can very well deteriorate.’ (Jean)
- ‘It’s to see that the quality remains constant and that means were not just put into place at one given time.’ (Marc)
- ‘We are always competing with other schools.’ (Jacques)

### 5.3.6 *What Is Student Opinion of Accreditation?*

The following tables shows what students perceive to be the pros and cons of accreditation.

Table 5.4 demonstrates that all students see the main benefit of accreditation is that it gives recognition to their degree on a national and international scale.

**Table 5.4** Pros of accreditation as seen by students

<i>Spontaneous student responses</i>	<i># of students in agreement</i>
It gives a degree international/national recognition (schools, companies)	10
It gives added value to a degree	5
It indicates the level of the school (teachers, students, research, campus)	5
It helps to make a distinction between schools	2
It is part of selection criteria in the league tables	2
It pushes a school to reach good objectives	1
It improves the students' study conditions	1
It keeps school competitive so they always try to improve and offer good services	1
It helps us evaluate the competition	1
It improves our chances of finding an internship	1
It helps in student recruitment	1
It reassures me in my choice of school	1

Half of the students felt that it also added value to their degree, indicating the 'level' of the school. It is interesting to note that, although the notion was implicit, the word 'quality' was not used explicitly in their justifications.

The main benefit seems to be recognition of their degree, and the quality of their education seems to be implicit and secondary.

It is difficult to make generalisations on the other benefits as only one or two students even mentioned them (Table 5.5).

It is worth noting that when first asked about the pros and cons of accreditation, all students responded only positively. It was not until the question was repeated in several different forms that some (six to ten) suggested some cons. This is a valuable lesson for communication on accreditation at the school. It is the school's responsibility to dispel any myths students may have about accreditation so that they are fully aware of the advantages and disadvantages, rather than educating them about accreditation in a way that suits only the school's own purposes.

### 5.3.7 *Did Accreditation Influence Their Choice of School?*

All students said that one of the major reasons for selecting ISC Paris was because it is part of the CGE having the 'grade de master' and is

**Table 5.5** Cons of accreditation as seen by students

<i>Spontaneous student responses</i>	<i># of students in agreement</i>
Investment in terms of time and money—it could penalise other school projects	2
Once accredited, we can't see a difference between these schools	1
It's a discriminating element in job interviews	1
It would be a failure to lose it—bad for the school's image	1
It's like everywhere, a label, a norm, it depends on who runs it. If it isn't transparent enough or lacks framework, then that can be a danger	1
The school probably has less freedom to write its own rules. You have to stick to certain criteria to be part of this label so there is a restriction of freedom	1

recognised by the French ministry of education. They all also confirmed that without this recognition on both levels they would not have applied. 'Without the "grade de master", I wouldn't have come to this school,' clearly stated Nathalie. National evaluation and recognition is evidently an important criteria of their choice of school.

A combination of other factors influenced the students' choice of school. Five said it was because of the majors offered. Five were attracted by the well-developed and reputable junior enterprise system. Six mentioned the 'word of mouth' factor, relying on past students' experiences. Two were interested in the school ranking. Three were impressed by the warm welcome and positive feedback they received at the time of application and when passing the competitive examinations. One felt that the school's Paris location would make job hunting easier internationally in the future. One said that the school is well recognised by the corporate world. Two felt that the school had an 'international feel' to it and liked the variety of options for a semester abroad during their studies.

International accreditation was barely mentioned as a factor for choosing a school. Only two students mentioned this. Jean said, 'There was a lack of information around accreditations so it wasn't crucial. It's an added bonus. I could have gone to an accredited school but I didn't like it (the school), I didn't feel at ease in this school. I thought I didn't have my place there.' Paul said, 'If (the business school in question) was accredited, it would have weighed in the balance of my choice of school but wouldn't have had a lot of importance.'

### 5.3.8 *Is Accreditation Important to Them?*

Because the students responded very positively to the benefits of accreditation while at the same time clearly acknowledging that it did not play a major role in their choice of school, it seemed of interest to explore whether or not accreditation was important to them on a personal level.

Although accreditation did not influence their choice of school, students unanimously agreed that if ISC Paris was accredited by the time they graduate it would be a bonus: 'We are already recognized on the national level...AACSB will be an added bonus' (Mathieu). Only one student mentioned accreditation as having any real personal importance, 'Being part of the BDE we contribute in some way to the accreditation process. I would feel some sort of personal satisfaction concerning the work done over the years if the school becomes accredited...to show that I come from a school which is up with its times' (Marc).

Having now read about the students' perceptions of accreditation, we will now conclude with what these findings may mean from a research and practice point of view, and this will be followed by some modest recommendations for both the institution and future research.

### 5.3.9 *Are the Students Equipped for a Future Accreditation Visit?*

Because the literature emphasises that accreditation means different things to different people, it seems appropriate to conclude the findings by directly quoting from several students on whether or not they feel adequately informed on accreditation:

'Today, this still remains a blurry issue for students. Accreditation is talked about but we don't understand the difference between the different accreditations. We don't really know.' (Anna)

'Mr Manson (the Dean) has talked a lot about accreditations but we don't really know much in detail. He has clearly shown that the school gives attention to this accreditation and that it's not easy to get so we have deduced that it's something important for the school. It's a bit of a shame. Students should know more about what it's for.' (Jean)

'It's a little subjective accreditation. We don't really know what it is, what it represents for companies, do they really pay attention to this? If, with this accreditation, we will become part of the best thousand business schools in the world like Mr Manson tells us, what does this mean exactly?' (Jacques)

‘I have mixed thoughts about accreditations.’ (Nathalie)

‘I don’t really recognise the impact that it can really have because this accreditation is not young but we haven’t been talking about it for a long time in France.’ (Marc)

These sum-up comments came from students who are in the BDE. These students are supposed to be the best informed about the accreditation process happening at the school. As it can be seen from their comments, there is a lot of work to be done to help them better grasp what this accreditation is and means for them. If students from the BDE know this little, it is likely that the rest of the school population knows very little.

#### 5.4 CONCLUSIONS AND RECOMMENDATIONS

The research addresses an important issue of accounting for students’ perceptions and involvement in the accreditation process since students are major stakeholders in HE. As observed earlier, the literature discusses different stakeholder points of view on accreditation but lacks the student viewpoint. Not only was it difficult to find literature on the subject but, at the practical level, it was also doubtful as to whether the Paris business school students properly understood what accreditation comprised, having talked with them on a casual basis about accreditation. This chapter was intended, therefore, to fulfill two objectives, one theoretical and one practical:

- Theoretical—to contribute towards filling the existing knowledge gap on students’ perception of accreditation. Stakeholder point of view in accreditation literature is not that well developed yet. The student point of view even less so.
- Practical—to determine how the French business students’ perceptions about accreditation may be a factor in developing a future communication plan. If it is a factor, it will ensure students will be adequately equipped for the forthcoming accreditation visit.

This study makes a modest contribution to the literature, as the student’s viewpoint on the subject has so far been almost completely ignored, and students are the focus of this particular study. Although it must be acknowledged that, given the small size of this study, it is difficult to

contribute major general insights, this study did identify some important findings in relation to French business school students as stakeholders in accreditation. They can be summarised as follows:

- These students generally perceive accreditation as something positive even though they know very little about it. Their knowledge is quite superficial on the subject, but they trust that schools and accreditation agencies are doing their job in looking after student interests as they should.
- Students coming from preparatory schools are ‘better informed’ about accreditation than their counterparts coming from a university background.
- Students working in the BDE are likely to be better informed about the accreditation process and what stage the school has currently reached in this process compared with the rest of the student population. However, this finding is not clear and should be looked into further.
- These students have not discussed accreditation with their parents. They received most of their information about accreditation through the school’s open days and subsequent to arriving at the school.
- Students compare accreditation to the common quality labels used in the food and wine industry. They tended to make ‘educated guesses’ about what a particular label of quality in HE means based on their knowledge as consumers in the outside world in general, and as students studying business in particular.
- Collectively, the students broadly understand the overall accreditation process, but individually they are unable to discuss the different steps the school must traverse before becoming accredited.
- Students believe that their degree would be better recognised coming from an accredited school, which will help not only with school exchanges while studying but will also play an important part in them getting a good job after graduation.
- Students did not feel part of the accreditation process in the school.
- All students have many unanswered questions about accreditation—what it is and what it will mean for themselves and the school once accredited.

Future areas of research can focus on the following:

- Carrying out further study on students' perception of accreditation over a range of countries to compare and contrast different cultural contexts. It would be interesting to see in which countries students are more or less concerned about accreditation and why. This might be valuable as a research focus to see if there is correlation between the countries having the highest number of accredited business schools and the level of student interest and vice versa as an indicator to whether the student's point of view is a driver for schools to enter the accreditation process or not.
- Finding out where students are getting their information about accreditation and how this influences their decision on what schools to attend as this is one of their major 'life choices'. It would be interesting to discuss what information best serves the students' interests as contrasted with the school or accreditation organisations' interests. How much information do students need to have access to? How can this be communicated best and whose responsibility is it?
- Researching whether or not a student's attendance at an accredited school is an advantage in their future employment.
- Finally, it would be interesting to study the differences (if any) between quality labels and processes in commerce and industry and accreditation labels in HE as the latter stems from the former. It would be helpful to see how this originally industry-based practice translates into the HE sector.

Following are some insights rising from the study which could be applied at an institutional level to the French context and the business school in Paris:

- The principal conclusion is that although the students recognise accreditation and believe that it has some importance, they do not understand accreditation in any detail or depth. Results show that the students need to be much better informed about the accreditation process that the Parisian business school is currently going through. They also need to feel much more engaged. There is clearly more work needed, not only on the content of the message but also on the different channels of communication used and how students

make sense of information in connection to what it means for their educational experience.

- Apart from looking at what message the school wants to get across and how to achieve this, it also needs to find ways to get students more directly involved. The underlying philosophy of accreditation is that all stakeholders need to be implicated, but there was a general feeling from all students during the interviews that they were not well informed about the accreditation process and were not closely involved. One way could be that the accreditation task force team start by better informing the BDE about this accreditation, its standards, process, and impact, and introduce the students to some of the essential jargon. In addition, the dissemination of information to the rest of the school student population could be student-led and driven by the BDE with the support of the task force team, which is made up of academic and administrative staff.
- Although there have obviously been some attempts at communication by the school, the students only seem to have absorbed a very simplistic understanding of accreditation, and some myths still exist. There is some evidence that students who came from preparatory schools and those who work in the student associations (especially the BDE) have better access to information, so information needs to be disseminated more evenly and effectively throughout the student population. Though collectively students seem to have put the major pieces of the puzzle together, individually their knowledge seems very ‘superficial’ and based more on ‘educated guesses’.
- In the author’s opinion, the school should not use the fact that it is going through the accreditation process as a way to attract potential students, as some students understood from the open days that the school was already accredited. This is misleading.

The results of this study could be used as a basis for a future communication plan about accreditation for students as the school needs to make sure that they are fully equipped for forthcoming accreditation visits. The importance of stakeholder input and participation is one of the distinguishing features of accreditation as a form of QA in HE, but the student voice seems to be quite silent so far in the literature; therefore, a good place for the school to start maybe the students’ definitions and questions about accreditation in Appendices 2 and 3.

## 5.5 APPENDIX 1: INTERVIEW GUIDE – FRENCH STUDENTS' PERCEPTIONS OF ACCREDITATIONS

*Hello, My name is XXXXX. I work in the international department while at the same time on my doctorate. I'm interested in the impact of accreditations in French business schools. Thank you for having given up an hour of your time to answer my questions. This interview will be recorded to help with note taking and analysing the data later. The interviews will remain completely anonymous. There are no right or wrong answers. It is your opinion that counts.*

To begin, can you tell me about your background before coming to this school, your current major and which year you're in?

1. Year?

Reminders

2. Major? [First years may not have decided yet...]

3. Why did you choose this school?

Note if they spontaneously make reference to accreditations (grade de master, AACSB...)

Now that I know a little about your background, I'd like us to spend some time to talk specifically about accreditations...

4. Have you already heard about accreditations? Is this a term you're familiar with?

If not, give basic description: 'They're like labels which are delivered after having evaluated the quality of a school which help students in their choice of school.'

4b If yes, which ones? (national/international)

4c What do you think are the differences between these accreditations?

We've just talked about the accreditations you know of; why do you think they exist?

Reminders

6. What do you think about accreditations? (opinion)

7. What do you know about accreditations? (facts)

- Purposes?
- Processes?
- Level of exigence?

- How long are they awarded?
- Who conducts accreditation?
- Pros and cons?

We've just discussed accreditations in general; now I'd like to try to understand their importance for you personally.

7. Are accreditations important to you?

7b Why? Not ?

7c Do you make out any difference between an accredited school and a school not accredited? (importance for the school?)

8. Where have you learnt about accreditations? (what source?)

8b Do you talk about accreditations with your parents? Colleagues? Teachers? Others?

8c What do you talk about with them?

To finish, I'd like us to discuss accreditations at this school.

9. Is the school accredited?

9b If yes, which accreditations do we have? (national/international)

9c Are we currently undergoing an accreditation process?

9d If yes, which one(s) and where are we in the process?

9e As a student, have you received any formal information from the school about the process?

9f Who was this from?

9g What form was this in? Meeting ? Newsletter ?...

9h What do you remember from this communication? (process? importance? why?)

9i Did you choose this school for its accreditations or not?

I have two final questions

10. Imagine you are to inform other students about accreditation, could you write down your own definition of accreditation?

11. If you could ask our project manager for accreditation any questions about accreditation, what would they be?

## 5.6 APPENDIX 2: STUDENT DEFINITIONS OF ACCREDITATION

'An accreditation is a school's signal of quality on an international and national level. It allows the school to be better recognised and to ensure its international reputation. The level of the school is also impacted, allowing exchanges between the top universities.'

‘An accreditation is an international norm recognising the value of a school in relation to its degree(s) and training. It’s a set of criteria allowing the school to situate itself on an international level making it recognisable to students and companies around the world.’

‘It’s a certificate which allows the school to be recognized.’

‘For me, it’s significant recognition of a field (education) from a national and international point of view. For example, a degree which is accredited by the French State. This accreditation requires that the school meets a number of standards (objectives) required by the accrediting authority.’

‘An accreditation is a certain process which is imposed on a school to ensure a sort of guarantee of the value of the degree awarded.’

‘A school accreditation is an independent certification issued by an organisation which promotes certain criteria deemed critical in teaching. It’s a distinction of “prestige”.’

‘An accreditation is a label issued by a college of experts once the institution making the application conforms to the required norms.’

‘It’s a signal of quality issued by an authority to evaluate the school level, to be marketable alongside other Grande Ecole business schools.’

‘Being an accredited school means having proved being able to reach a required level, but also being member of a network and group of schools having the same objectives.’

‘An academic label respecting a certain number of quality norms/standards.’

## 5.7 APPENDIX 3: STUDENT QUESTIONS ON ACCREDITATION

- What are the different standards we need to meet?
- How long will this take?
- What will this mean for us in terms of recognition of our degree and future employment?
- How many schools are accredited in France and which ones are they?
- What are our objectives and when do we expect to reach them?
- What are the different steps in the process?
- What impact will this have on the school’s academic level?
- What is the long-term impact for schools already accredited?
- When will we be accredited?
- How is this accreditation seen in other countries? Is it really valued overseas?

- Why is it so important to have this 'label'?
- Is this the first step toward other accreditations?
- What will this accreditation bring to our school?
- Is it not a bit ambitious to try and become accredited over three years rather than five?
- How does one get accredited?
- How long is a school accredited for?
- What are the real advantages of having an accreditation? What impact does it have on the students and on the school?
- Once accredited, does this mean we'll be at the same level as all other accredited schools?
- Does an accreditation bring any real added value to a school?
- Are we in the process currently?
- How many French schools will be accredited like us? Is there a quota?
- Which schools are already accredited? Which are eligible? Who is trying to become eligible?
- Why is it useful to become part of this network?
- What is AACSB?
- How can we as students contribute to the process?
- Once accredited, how will we be able to situate ourselves in terms of other schools?
- What impact does an accreditation have on daily school life?

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PART V

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# Growth

## Amazon Pays to Quit!

*David Moriez*

**Abstract** Amazon.com, Inc, is an online retail company that was established in 1994 by Jeff Bezos. Amazon is one of the most successful companies in e-commerce. In recent times, the company has been facing heavy criticisms for its poor working conditions at its large warehouses. To overcome criticism, Amazon founder and CEO Jeff Bezos came out with a “pay to quit” program where the employees at the fulfillment centers are offered USD 2000 to USD 5000 to quit. The case discusses the pros and cons of this program and whether Amazon will benefit from such a policy in the long term. This implicates a reflection on the nature of work values and why they are of critical importance in organizations. A distinction between involvement and engagement and their implications for understanding motivation should be made.

This case focuses on the following questions:

1. What are the main HR advantages of the “pay to quit” program, and how are these likely to influence Amazon’s recruiting practices?
2. Is the “pay to quit” program intended to “keep employees satisfied and happy”?
3. Will Amazon benefit from such a policy in the long term?

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4. Which are Gen-Xers and Gen-Yers work values based on Herzberg's motivation theory? Are they predominantly extrinsic or intrinsic values? Are there generational differences?

**Keywords** Motivation • Generational values

## 6.1 AMAZON “PAY TO QUIT” PROGRAM

In 2013, Amazon founder and CEO Jeff Bezos released his annual letter to shareholders and announced the creation of a “pay to quit” program. The rationale of the program is very simple. Once a year, Amazon offers employees who work in the fulfillment centers (where orders are boxed and shipped) to quit. The first year the offer is made, it is for USD 2000. It goes up USD 1000 a year until it reaches USD 5000.

The “pay to quit” program has got so much attention in part because the practice is indeed pretty rare. It originates from Zappos.com, the shoe and clothing retailer Amazon acquired in 2009 for USD 850 million at a time Amazon had already experienced a number of trials from employees working in the fulfillment centers.

In 2009, an employee sued Amazon for ripping off its warehouse workers on overtime pay. Amazon rounded start and end times to the nearest quarter hour, which meant some minutes ended up unpaid.

In 2010, workers sued Amazon to receive pay for time spent waiting to go through security screening before breaks and after shifts. Workers claimed that going through security screenings added up to 30 minutes a day and that those minutes were left unpaid.

In 2011, workers complained about the uncomfortable high temperatures in the warehouses and the stressful working conditions. The warehouses were so hot that some employees were hospitalized for heat-related injuries. A Pennsylvania emergency room doctor even called a federal hotline to complain about the injuries coming in.

So what is the final objective of the “pay to quit” program at Amazon?

As Jeff Bezos states, “The goal is to encourage folks to take a moment and think about what they really want. In the long-run, an employee staying somewhere they don’t want to be isn’t healthy for the employee or the company” (Amazon 2014). In other words, what Jeff Bezos says is that unhappy people make for unsuccessful companies. Thus, the final

objective may be the impact of the “pay to quit” program on the employees who choose to stay. Amazon hopes that employees who decide to stay would re-commit to the company and their colleagues and therefore show a deeper sense of motivation than job involvement: work engagement.

## 6.2 INVOLVEMENT VERSUS ENGAGEMENT

One way to understand the difference between involvement and engagement is to compare extrinsic with intrinsic motivation.

This was theorized by psychologist Frederick Herzberg in 1959 (see Fig. 6.1):

The two-factor theory, also known as Herzberg’s motivation–hygiene theory and dual-factor theory (see Fig. 6.1), distinguishes between *Hygiene factors* arising from extrinsic conditions of the work and *Motivator factors* arising from the intrinsic values of the job.

*Extrinsic motivation* refers to doing something because it leads to a consequence (i.e. pay). In other words, extrinsic motivation is one that is related to the external conditions of one’s professional activity: the working conditions.

*Intrinsic motivation* refers to doing something because it is interesting and enjoyable in itself (i.e. work). In other words, intrinsic motivation is one that is related to the internal nature of one’s professional activity: the job itself, the profession.

When employees are extrinsically motivated, they grant significant importance to hygiene (satisfying) factors. In other words, they value the consequences of their jobs such as a good salary, job security (keeping one’s job), and so on. Employees valuing extrinsic work factors are involved in the job they have to do. They do what they are asked to do—no more. The focus of this form of commitment is the “work” or the “organization” as external referents.

When employees are intrinsically motivated they grant significant importance to motivator (self-fulfilling) factors. Employees valuing intrinsic work factors are engaged at work. William Kahn provided the first formal definition of employee engagement as “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances” (Kahn 1990). In other words, when employees are intrinsically motivated they value the physical, intellectual and emotional aspects of their work. They are willing to dedicate the energy that is necessary to

Factors	Hygiene factors	Motivators
Source of influence	The working conditions	The individual values
Examples	<ul style="list-style-type: none"> <li>• Company policy and administration</li> <li>• Inter-personal relationships with administration, supervisor or co-workers</li> <li>• Working conditions (spacious offices, good canteen, appropriate lightning and equipment etc...)</li> <li>• Salaries, wages and other benefits</li> <li>• Job security</li> <li>• Work/life balance</li> </ul>	<ul style="list-style-type: none"> <li>• Sense of personal achievement</li> <li>• Opportunity for advancement</li> <li>• Status and recognition</li> <li>• Responsibility and autonomy</li> <li>• Professional development (growth)</li> </ul>
Result	Satisfaction, happiness: to participate	Motivation, well-being: to perform

Fig. 6.1 Two-factor theory of motivation (Adapted from Herzberg 1959)

go above and beyond what the job description requires. They value a challenging and stimulating work to develop and grow as individuals. To put it in a nutshell, when employees are intrinsically motivated, they are committed to themselves, their inner values. In other words, they identify with their jobs and their organizations to express themselves through work. The focus of this form of commitment is the internal Self at work and how a professional activity becomes the occasion to express oneself.

Unfortunately, management usually ensures that their employees are not free to vary their behaviors and must perform assigned duties regardless of their feelings about the work. Rules and procedures are developed to form situational pressures that guarantee that employees perform at acceptable levels. Noncompliance is the basis for punishment and dismissal.

Because situational pressures maintain performance levels, job satisfaction is not a factor relevant to job performance but to happiness. In fact, comparisons between people whose motivation is merely externally controlled and those who are self-endorsed reveal that the latter, relative to the former, have more interest, excitement, and confidence, which in turn leads to enhanced performance and well-being.

In 2013, the Gallup's *State of the American Workplace report* showed that companies with "engaged" employees were more profitable than their competitors. Gallup (2013) estimates that "active disengagement" costs the USA USD 450 billion to USD 550 billion each year. All in all, engaged employees lead to higher profitability and higher shareholder returns (i.e. stock price) because of higher service quality and productivity, higher customer satisfaction, and increased sales (repeat business and referrals). Thus, it is important to have engaged employees at work.

### 6.3 THE IMPORTANCE OF GENERATIONAL VALUES

Though there is also little agreement on the years encompassing each generation, researchers and social scientists use the term "generation" to refer to people born in the same general time span (approximately 20 years) and who share key social and historical experiences.

There are three generations in today's workforce: the baby boomers (boomers), the Generation X (X-ers), and the Generation Y (Millennials). Baby boomers were born during or after World War II. Generation X were born after the baby boomers at the beginning of the 1960s. Millennials were born of boomer parents and early X-ers at the beginning of the 1980s. Some baby boomers have known the postwar prosperity. They were raised in an era of extreme optimism, opportunity, and progress. Boomers, for the most part, grew up in two-parent households, safe schools, and job security. Other baby boomers were born after 1973 during oil shortages and rising inflation. X-ers were born after the baby boomers into a rapidly changing social climate and economic recession. They grew up in two-career families with rising divorce rates and downsizing. The AIDS

epidemic was the fallout from free love of the 1960s and the sexual revolution of the 1970s.

Y-ers were born of boomer parents and early X-ers into the current high-tech, neo-optimistic times (forced development). They thrive on challenging work and creative expression, love freedom and flexibility, and hate micromanagement.

Therefore, for each generation there are particular experiences that mold specific values which in turn would exert an influence on they preferred work style (see Fig. 6.2):

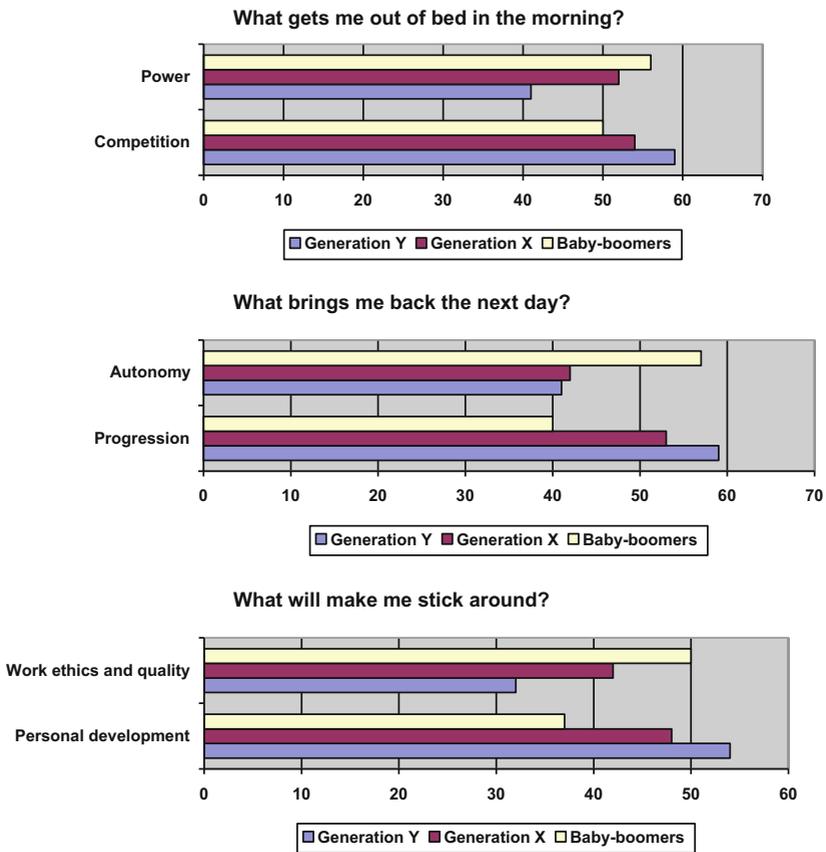


Fig. 6.2 Motivation by generation (Adapted from Burke and Glennon 2012)

Different generations have different priorities (see Fig. 6.2). Values represent what is important to us “at any given moment in time” (Barrett 2014, p. 3). For example, among the strongest motivational factors for the Millennials are competition and progression. Some research have pointed out that values related to family and children rank higher with Millennials and Gen-Xers, the generations who are at the time of life when most people marry and start raising a family. Thus, if value priorities change with age, values themselves are not age related but era related. Clearly, the value order is age related, but the value content or system is generational (Moriez 2015).

In practice, if work behaviors change, according to situations values are part of the identity of an individual; they are “universal” and “transcend contexts” (Barrett 2014, p. 3). They are stable and long lasting. Thus, knowing generational values is a fundamental management issue. When making changes in the workplace, managers need to be more sensitive to the inner factors which influence their subordinates’ behaviors: individual values. For example, managers may try to increase employees’ motivation by making their work more interesting, giving them more autonomy (the ability to make decisions), or expanding the number of activities they perform (job enrichment). The success of a motivation program, however, depends on the understanding of the nature of the employees’ values. Employees who are extrinsically motivated are much more responsive to the materialistic consequences of what they do. In other words, making a job more interesting would do little to increase the motivation of an employee who is primarily motivated by the money he earns.

## 6.4 CASE DISCUSSION

This case serves to trigger a basic discussion on the pros and cons of Amazon’s “pay to quit” program and whether the company will benefit from such a policy in the long term. This implicates a reflection on the nature of work values and their importance in organizations. We distinguish involvement and engagement and their implications for understanding motivation.

### 6.4.1 *Discussion Questions and Proposed Solutions*

1. What are the main HR advantages of the “pay to quit” program and how are these likely to influence Amazon’s recruiting practices?

*Better hiring:* The “pay to quit” program has the potential to improve hiring practices. Because AMAZON would pay up to USD 2000 or USD 5000, managers might be more careful when hiring new employees. They might show better concern about truly hiring for fit. During a job interview, they could ask the job candidates to describe their work values and to prioritize them. Then recruiters would be able to compare the job candidates’ job values with what Amazon has to offer.

*Better employee morale:* Layoffs are spirit-crushing events. If disengaged workers leave on their own accord, rather than having to be dismissed, there is less risk to employee morale.

*Strengthened corporate culture:* Having a “pay to quit” program shows employees that AMAZON is serious about protecting its culture. It sends a very strong message that it does not want people around who do not value the place and their jobs.

## 2. Is the “pay to quit” program intended to “to keep employees satisfied and happy”?

Employee involvement and employee engagement are very different things (see Fig. 6.1). Job involvement is a “need satisfying process”. Employee engagement is the full expression of one’s preferred self in task behaviors. Thus, employee engagement does not mean employee satisfaction or *happiness*. Employee engagement means employee self-actualization (accomplishment) and *well-being*. Someone might be happy at work, but that doesn’t necessarily mean they are willing to work beyond expectations. Engagement is the emotional commitment an employee experiences when his values are congruent (aligned) with the job and organizational values. In organizations, some jobs would require more engagement than others. In other words, there are jobs in which being involved is satisfactory. Some people are willing to engage others are not. People with *strong extrinsic values* may not be motivated in positions that people with *strong intrinsic values* find motivating. Some people might value hygiene factors (high pay, job security, time with family, etc.), whereas some others might value motivator factors (interesting work, learning new things, reaching full potential at work, responsibility and autonomy, being creative, etc.) so that in similar positions they develop

very different behaviors. Thus, before matching people with jobs openings, it is fundamental to understand their value system.

**3. Will Amazon benefit from such a policy in the long term?**

Work behaviors are context dependent. How people experience work and organizations may change over time, which says that behaviors depend on the specific work situation. Changes in work situation affect behaviors. On the opposite, work values remain unchanged because they concern the inner nature of the individual. They originate in the formative years (20 years) of existence. They are stable and long lasting. Though value priorities change with age because they reflect the needs an individual experiences right now under his current life conditions, they remain the same. In other words, different generations have different priorities but every generation has common values. The “pay to quit” program would benefit Amazon in two ways: it is likely to strengthen long-term cohesion and performance as values constitute long-lasting and more stable policymaking facilitators.

**4. Which Gen-Xers’ and Gen-Yers’ work values are based on Herzberg’s motivation theory? Are they predominantly extrinsic or intrinsic values? Are there generational differences?**

Discussion of Herzberg’s (1959) motivator–hygiene theory presents an opportunity for students to re-examine their assumptions about motivation. One way to approach this is to think about and compose a list of what one wants from their own work, their developing career. Then, pulling on their comments, compose a two-column list on the board, using hygiene and motivator as the sorting principle, but not heading the columns. When you have entered several items in each column, ask students where you should place the next contribution. This gives them the opportunity to deduce Herzberg’s two categories. Then discuss the elements in each column, asking them to rank their contributions. As you have certainly come up with more motivator factors than hygiene factors, it becomes easier to demonstrate that hygiene factors are necessary but not sufficient!

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## Power Tools for Gold: Doing or Not Doing Business with North Korea?

*Sven Horak*

**Abstract** This case serves to trigger a basic discussion on the ethics and risk involved in doing business with totalitarian regimes, exemplified by the case of North Korea. Discussion participants are exposed to a possible real-world business case scenario in which they are urged to carefully weigh ethical and risk-related concerns while coming to a decision on whether or not to do business with North Korea.

Students should be capable of analysing the case by weighing up the business risks and opportunity factors against ethical considerations and make decisions about specific potential ethical or commercial dilemmas that may arise.

This case focuses on the following questions:

1. What arguments speak for North Korea being an attractive market?
2. What ethical concerns are involved when doing business with North Korea?
3. What commercial risks are involved when doing business with North Korea?

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4. Why should DIY Korea care about the Western press?
5. What would you recommend CEO Cass to do?

**Keywords** International business • Business ethics • Risk • North Korea

## 7.1    DIY CORP. AND THE BUSINESS ENVIRONMENT FOR POWER TOOLS

DIY Holding, headquartered in Switzerland, has a strong foothold in the European markets but a substantially lower market share in Asia and the USA due to presence of long-established local manufacturers. The firm has a production based partly locally in South Korea, and partly in China and sells a variety of handheld power tools in South Korea for the local market. The global handheld power tools industry is characterized largely by commodity products featuring small innovations rather than paradigmatic technology shifts. At the global top-tier level, quality requirements in relation to endurance, safety or ease of use are fulfilled by all of the leading firms. Price levels of comparable products do not differ significantly. Rather, excellence in sales, marketing and service make the distinction between the competing firms in respective markets.

DIY Korea, a sister company of Europe-based DIY, is a premium producer and seller of high-quality power tools for the construction and woodworking industries as well as for private users. Whereas the firm is one of the market leaders in Europe, in South Korea competition with Asian producers is severe. If attractive business opportunities emerge, DIY Korea is certainly interested in expanding its market share and securing its market position in East Asia.

## 7.2    THE CASE

One sunny day in late September, DIY Korea CEO Mr Peter Cass enters his Seoul office as he does every morning at 8 am where his director of sales, Mr Kim Chi, is already waiting for him eagerly and asks him for an immediate urgent meeting. Surprised to see the usually calm Kim Chi so nervous, Peter Cass wonders what is making Kim Chi so excited today.

On the way from DIY's main entrance to his office, Peter Cass listens to what Kim Chi has to tell him and learns that DIY Korea has been offered

a high-volume business deal, enabling the firm a pioneering entry and substantial market share in a potentially future emerging market: North Korea. The drawback is that North Korea, chronically lacking foreign currency, is unable to pay in an internationally accepted currency, but is offering a barter deal: gold in exchange for power tools.

Two minutes later on arriving at his office, Peter Cass greets his secretary Soh Ju and asks her to first prepare a cup of Korean green tea over which he hopes to calm Kim Chi down in order to discuss the deal in detail with him. While taking off his jacket and starting up his notebook his thoughts circle around North Korea. He has learned from the media that recently even foreign firms are doing business with North Korea. But wasn't that the country that violates human rights and threatens its neighbours with its nuclear ambitions?

### 7.3 BOOMING NORTH KOREA? SOME FACTS

Can North Korea be considered an emerging market yet? Though several sources ascribe to North Korea the potential to rise up to the status of an emerging market, the major financial indices, such as the Financial Times Stock Exchange Index (FTSE), Morgan Stanley Capital International (MSCI) or international organizations like the International Monetary Fund (IMF) do not classify North Korea as an emerging market yet. That may change in the future. The country has quite a large domestic market, with a population of 24 million. It is rich in natural resources (gold, silver, copper, magnesite, uranium, iron ore, etc.). Economic growth will depend on far-reaching reforms. If economic reforms take place and if they can be implemented effectively, the global investment bank Goldman Sachs predicts the North Korean economy to have vast growth potential (Goldman Sachs 2009). The value of the country's mineral resources is estimated to be 140 times of the 2008 gross domestic product (GDP). Moreover, North Korea's labour force is comparably young and technically educated. Labour costs are low, at approximately 160 US\$ per month (Roberts 2012).

There is an increasing number of foreign investors already doing business in North Korea. In 2008, for instance, the Egyptian firm Orascom established the first GSM cell phone network and contributed to funding the completion of the Ryugyong Hotel, a large luxury hotel located in Pyongyang, the capital of North Korea. It is planned to be operated by Kempinski Hotels, a Swiss luxury hotel group (Yoon 2012).

Currently, through aid funds provided by China and Russia, North Korea is experiencing a construction boom (Frank 2013; Kim and Pearson 2013). New construction projects include ski resorts, a suspension bridge connecting China with North Korea, amusement parks and apartment blocks. Private foreign investors have reported mixed experiences in doing business in and with North Korea. The assets of the Chinese investor Xiyang Group were reported to have been confiscated by the North Korean government in 2012, and the group was reported to have described doing business with its North Korean counterparts as ‘a nightmare’ (Kim and Pearson 2013).

However, in the case of reforms and a further opening of the economy to foreign businesses, opportunities would be plentiful.

Meanwhile, as Secretary Soh Ju brought the tea, Director Kim Chi describes DIY Korea’s business situation to CEO Peter Cass.

#### 7.4 THE DEAL: GOLD FOR TOOLS

*Kim Chi* CEO Cass, we are in a difficult competitive situation. How can we increase our market share and fight our premium competitors from Japan and low-cost competitors from China? Even maintaining our market share is tough, given the fierce competition at all levels. There are not many options. Our customer base can hardly be enlarged as all relevant customers already own tools. Whereas there is currently a construction boom in North Korea, so the demand for power tools is huge. If we sell to North Korea at this early stage, we can benefit from first-mover advantages. That will put us in pole position before our other competitors even start.

*Peter Cass* I see, but have we done any other business with North Korea before?

*Kim Chi* Not that I know of. I assume not.

*Peter Cass* You can read in the newspapers how they have a chronic lack of foreign currency due to their isolated position in world trade. Can they pay for the tools in any currency other than North Korean Won?

*Kim Chi* You’re right, and that’s the reason they have offered to pay us in gold instead. North Korea is a gold-rich country.

*Peter Cass* In gold? Are you serious? I wonder whether our organization is prepared to handle this mercantilist-style business model.

*Kim Chi* Well, it is definitely unusual, but I imagine that if we negotiate a favourable exchange rate, we may benefit from even higher profitability.

*Peter Cass* But we have no information about the quality of North Korean gold, neither have we internal expertise to prove, measure and process this trade. We would need a whole new set of contractual agreements in terms of pricing and lead times for payments. Moreover, who knows whether they will fulfill their contractual commitments? We don't know them, and I have never heard of any other firm doing business with them. I know from the country risk assessment of the Belgium Export Credit Agency<sup>1</sup> that the commercial risk in business with North Korea is high. It looks like we are talking about a high-risk business here!

*Kim Chi* That may be the case, but if we ask them to pay us in advance before we ship the products we shall be on the safe side.

*Peter Cass* Director Kim Chi, honestly speaking I have strong doubts that this will ever work.

*Kim Chi* I believe it is a unique chance for us to expand our market and benefit from first-mover advantages. These chances don't come up often these days.

*Peter Cass* Well, maybe we could expand our market, but what if we lose our other customers? It is well known that North Korea operates secret camps in which people are punished for the slightest cases of misconduct. There is no freedom of speech; no free media in North Korea, people are not allowed to travel wherever they want to. It is a totalitarian communist dictatorship. Their political ideas stand in sharp contrast to the ones our business is built upon. After all, we are an international company with European roots, and our global headquarters are over there. If the media find out that we are selling to North Korea, they might argue that we are helping the North Korean regime to maintain their inhumane system.

*Kim Chi* But CEO Cass, this is politics. We are talking about business. These are two different things that should not be mixed!

*Peter Cass* Can we really keep them separated from each other, and will the Western press accept this argument? More importantly, wouldn't they be right if they don't accept it? Should we as a firm really think business and politics are two different pairs of shoes?

*Kim Chi* There are so many Chinese firms doing business in North Korea, and no one in China finds that strange. We are in East Asia, why should we care about the Western press? Doing business with North Korea is helping many Chinese companies and so is helping the Chinese economy too. We have to hurry in order not to lose the market to our competitors!

As CEO Peter Cass listens to the arguments of Sales Director Kim Chi, he sees the large sales potential this deal may have. On the contrary, he still has concerns. He feels he is stuck between a rock and a hard place. How should he finally decide?

#### *Annotation*

This case is based on an authentic experience. The details have been adapted to simplify the action. The identity of the firm, main characters and dialogue are fictitious.

## 7.5 CASE DISCUSSION

This case serves to trigger a basic discussion on the ethics and risk involved in doing business with totalitarian regimes, exemplified by the case of North Korea. Discussion participants are exposed to a possible real-world business case scenario in which they are urged to carefully weigh ethical and risk-related concerns while coming to a decision on whether or not to do business with North Korea.

#### *Knowledge to Be Acquired*

- Understand that business opportunities in foreign markets are often connected to risks and ethical concerns
- Identify factors that speak for and against an engagement

#### *Skills to Be Developed*

- Reflection on entering into risky business opportunities
- Evaluation of business risks and ethics
- Developing the capacity to make sound decisions and find creative ways to resolve apparently unsolvable dilemma situations

The short introductory case serves to kick off a discussion on the subject of business ethics in connection with business risks in high-risk markets.

## Exhibit: Risk assessment by ONDD, selected countries

Country	Export transactions			Direct investments			
	Political risk: short term	Political risk: medium-/long term	Political risk: special transactions	Commercial risk	War risk	Risk of expropriation and government action	Transfer risk
Brazil	2	3	2	C	2	3	3
Russia	1	3	2	C	3	4	3
China	1	2	1	C	3	4	2
Japan	1	1	1	A	2	1	1
North Korea	7	7	7	C	6	6	7
South Korea	1	1	1	A	3	1	1
USA	1	1	1	A	1	1	1
Egypt	5	5	5	C	4	5	5
France	1	1	1	B	1	1	1
Germany	1	1	1	A	1	1	1

Source: Belgium Export Credit Agency (ONDD), December 13, 2012, [www.ondd.be](http://www.ondd.be)

Note: *Political risk*: short-term/special transactions: foreign payment defaults on short-term credit derived from foreign currency shortages, wars, revolutions, natural disasters, government actions.

*Long-term political risk/transfer risk*: probability of defaults on medium- and long-term credits.

*Commercial risk*: foreign payment default based on micro-/ macroeconomic determinants.

*War*: Risk of external war and internal political violence.

*Expropriation risk*: expropriation and breach of contract by the government, plus risk related to the legal system.

Scale: 1-7, 1 = Lowest risk, 7 = Highest risk; A-C, A = Lowest risk, C = Highest risk.

Time of assessment: As of January 2007.

## 7.6 DISCUSSION QUESTIONS AND PROPOSED SOLUTIONS

### 1. What arguments speak for North Korea being an attractive market?

- General prospects for economic growth
- Several new construction projects, funded by foreign investments
- First-mover advantages: being among the first producers of power tools in the North Korean market
- Relatively large prospective consumer market: 24 million inhabitants
- Rich in natural resources that potentially speed up economic development
- Other foreign firms already do business in North Korea (Egypt Orascom, Swiss Kempinski, several Chinese, European and South Korean firms)
- Low labour costs, relatively young and technically educated workforce

### 2. What ethical concerns are involved when doing business with North Korea?

- Problems with human rights, democracy, freedom of speech and several other severe issues
- North Korea is a totalitarian dictatorship
- Concentration camps exist in which people are held hostage even for minor misconduct

### 3. What commercial risks are involved when doing business with North Korea?

- Severe commercial and political risks (see ONDD, Exhibit)
- Risk of confiscations, as experienced by the Chinese investor
- Difficulty in forecasting future political and economical developments
- Difficulties working with North Korean business partners. Chinese managers call it ‘a nightmare’.

### 4. Why should DIY Korea care about the Western press?

- Action undertaken by DIY Korea may be subject to reports published in the Western press and may cause Western consumers to boycott DIY products.

- In general: bad press would affect DIY as a whole.

##### 5. What would you recommend CEO Cass to do?

- Answers to this question may be numerous. There is no right or wrong answer. Some students may argue DIY should agree to the offer and try to draw on first-mover advantages in the North Korean power tool industry. Some students may recommend rejecting the deal as it is too risky in terms of commercial, political and reputational risks. The instructor should explicitly ask students to be creative and try to think about alternatives. One ‘middle-way approach’ could be to team up with a Chinese firm who already has existing business with North Korea and who is accustomed to the way of doing business there.

#### NOTE

1. See Exhibit.

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# To Sell or Not to Sell? The Financial and Socio-emotional Dilemma of the Ownership Decision in the Family Business

*Fabian Bernhard and Rania Labaki*

**Abstract** The case illustrates the process and challenges of ownership decision-making in a multigenerational family business where family and business logics collide. It is designed to help recognize the role of identity, emotions, and conflicting interests in shaping family business decisions. By exploring the family business from these perspectives, the students and practitioners are first asked to analyze the roles and expectations of a heterogeneous group of family shareholders. Then, they are invited to make recommendations that allow for sustaining both the family health and the business wealth in terms of financial and socio-emotional value to the family business.

The case develops along the following questions:

1. The Dilemma: Why is it difficult for the shareholders to agree on whether to sell the encyclopedia business or not?

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2. The Family Business Specificities: In what way does the fact that Blockmouse Publishing is a family business impact the decision of the potential sale?
3. From Research Findings to Action: What would be your recommendations regarding the sales decision of the encyclopedia branch and why?

**Keywords** Family business • Cohesion • Decision-making • Emotions • Financial value versus socio-emotional wealth • Identity • Governance

## 8.1 THE BLOCKMOUSE PUBLISHING CASE

“No, I can’t do it – I just cannot!”—Jan Blockmouse<sup>1</sup> clearly remembers his words during the shareholder meeting this morning. He, one of the current-generation members of Blockmouse Publishing, was strictly against the sale of the encyclopedia division. The family business runs now in the 10th generation and has a long-standing history of publishing books. In fact, it was one of his ancestors who brought the invention by Gutenberg<sup>2</sup> to perfection and introduced it to Great Britain. It was also around that time when the family business started its first edition of the world-renowned encyclopedia carrying the family name. Entries to this compendium were carefully investigated, a rarity during that period, and were based on the latest knowledge of the time. Ever since then the family has kept a watchful eye on upholding the rigid quality, not jeopardizing the trustworthiness of the information conveyed in their compendium. It was also this credibility that quickly made the encyclopedia to a benchmark of reference. In the nineteenth and early twentieth century, the latest edition of the *Blockmouse* not only became the definitive book to scientists and researchers of all disciplines, but was equally present in every household of the intellectual bourgeoisie.

The beginning of the new century, however, has started a new era. With the success and spread of the Internet, most encyclopedic content became suddenly free and more conveniently accessible to customers. As a consequence, the sales of the *Blockmouse* encyclopedia dropped steadily, driving the profits into the red. While the family business had missed to develop new distribution concepts for their product in the information age, it was yet diversified. The losses of the encyclopedia section were equalized by other publishing branches related to the initial product, such

as printing books, brochures, and leaflets. Nevertheless, several members of the owning family started to question whether it makes sense keeping the encyclopedia and sustaining an expensive editorial team while covering its losses.

Driven by this alarming decrease in demand for printed encyclopedia, the family decided to hire a professional strategy consulting company. After a few months of investigating the market and the company figures, the verdict came as no surprise. In order to sustain the family business, the family had to divest by ideally selling or shutting down the encyclopedia branch. The consulting company also suggested a valuation of the encyclopedia business along with two potential buyers. While the sale option was the focus of attention, it stirred tensions among family members and led to controversial discussions. Members of the currently leading generation generally supported the sale of the business but expressed preferences as for the type of buyer. Other members of the family, however, wanted resolutely to hold on to the encyclopedia and sustain the traditional division, independently from the prospective selling price. In order to come up with a sustainable decision, both for the family and for the business, the management invited all family shareholders for an extraordinary meeting.

## 8.2 THE SHAREHOLDERS MEETING

The meeting was opened and moderated by the current CEO, an external non-family manager, laying out the pure facts to the 26 family shareholders and 5 non-family shareholders. Share ownerships ranged from 1% to 10%, summing it up to 75% in the hands of the family, with no single controlling shareholder. The remaining 25% shares were detained by the non-family shareholders. The income and cash flow forecasts for the coming years were rather pessimistic. The current losses caused by the encyclopedia division were relatively small but were constantly growing. While being compensated by the other divisions of the Blockmouse Publishing portfolio, they reduced the overall return on investment (ROI) from around 8% to just below 5%. If the dividends' distribution practice of the past 10 years was maintained, the shareholders would have to experience a significant decrease in their earnings. Building on the financial valuation of the consulting company, the CEO presented two buyout proposals: one from an institutional investor and another one from a competing family business operating overseas and having a long-standing history in the printing industry.

Right after the opening presentation, family members of different clans and generations started shouting at each other, expressing conflicting views while trying to convince each other of the next steps. Three family shareholder groups of about equal voting rights naturally formed with differing points of views:

*Group 1* A next-generation group formed by six family members, among whom was Jan, argued that giving up the encyclopedia division would not only disappoint loyal customers and employees but also undermine their reputation and prestigious past, therefore destroying the identity holding the family together. This division not only represented the traditional core business, but it also bared the family name. Group 1 displayed strong feelings of emotional attachment to the family business. Although none of them held key positions in the business, they had all gone through internships in the encyclopedia division. One of them questioned the proposal in the following way, “Sure, we could cash in with the encyclopedia branch, but isn’t that we stand for?” Another added, “In what respect does the sale price represent the real value of the encyclopedia business? In my eyes, the value is far beyond financials”. The youngest of the group raised his voice aggressively, “I personally do not want to be like any rich person on my local golf course. I prefer being known as a ‘Blockmouse’!” Regarding the proposals at hand, he also said: “Having my family and business name at the mercy of an external investor is the last thing I would ever want to hear of”.

*Group 2* Opposing to this view, the second group of shareholders longed for a robust business outlook for the future and feelings of financial stability. This group was formed by 10 senior family members who had been used to rely heavily on the annual business revenues. Its members were in need for a stable—if not increasing—ROI to sustain their lifestyle. As this did not seem to be easily achieved, given the current situation, the eldest of the group did not hesitate to point out: “We would rather get the return that is lacking now by selling the encyclopedia branch!” Addressing the group of next-generation members, he added: “Keeping an unsuccessful branch might jeopardize the future of the business more severely than losing some identity!” Therefore, they strongly suggested stopping “throwing good money after bad” and pushed toward a voting decision based on ownership rights while selling on a first-come-first-serve basis.

*Group 3* The remaining 10 family members, senior and next-generation members, had not decided yet toward which decision they tend. They were all currently holding managerial or board positions in the business. Being closely involved in the business, they recognized the critical financial figures and expressed their concern for the long-term survival of Blockmouse Publishing. However, they made clear that they favored a solution that would keep the family business united and reject solutions which would make some family members sell their shares to outsiders, especially to institutional investors. One senior member pointed out, “If we reach a consensus among us on the sale of the business, I would rather opt for the overseas family business offer. With no doubt, the owning family shares similar values with us such as hard work, respect, tradition, and long-term outlook. Leaving the encyclopedia in their hands could be a real relief”. “After all,” the youngest of the group argued, “it would be in the sense of our ancestors that this business remains in the hand of one family. Breaking the family apart would be awful”.

*Group 4* Formed by five non-family shareholders, this group held managerial roles in the family business. All members of the group had previously received some voting stock as part of an incentive program which bound them to the performance of the business. During the meeting, they promptly agreed to sell the encyclopedia division as soon as possible to secure their financial compensation.

### 8.3 CASE DISCUSSION

This case illustrates the process and challenges of ownership decision-making in a multigenerational family business where family and business logics collide. It is designed to help recognize the role of identity, emotions, and conflicting interests in shaping family business decisions.

#### *Skills to Be Acquired*

- Reflecting issues and challenges associated with making an ownership decision in a family business
- Understanding the different logics underlying family and business systems
- Recognizing the influence of emotional dynamics in decision-making processes
- Including the role of family governance in analyzing family businesses

## 8.4 DISCUSSION QUESTIONS AND PROPOSED SOLUTIONS

Given the conflicting views expressed at the meeting, the shareholders reached a consensus in postponing the decision. The case should be analyzed from the perspective of a family business advisor assigned to help them solve the conflict.

Analysis is recommended to consider three stages by answering the following questions and, subsequently, to draft an action plan.<sup>3</sup>

### 1. **The Dilemma: Why is it difficult for the shareholders to agree on whether to sell the encyclopedia business or not?**

Businesses with a portfolio of activities may be confronted throughout their lifecycle to declining performances of certain divisions. Restructuring the business portfolio is meant to be in line with the traditional shareholders' expectations, which means maximizing financial returns. To be able to achieve similar or increasing levels of returns, shareholders often agree on divesting the failing entities and maintaining or developing the promising ones.

The problem faced by the Blockmouse Publishing owners is finding a common ground for the decision to sell or to maintain a declining division of the business, which is the original core business. The reasons underlying this issue are mainly linked to the fact that the shareholders do not form a homogeneous group. Several differences exist in their roles and expectations, which seem to go beyond the financial aspects of returns and hence beyond the "business system" logics.

### 2. **The Family Business Specificities: How does the fact that Blockmouse Publishing is a family business impact the decision of the potential sale?**

The analysis of a business controlled by a family requires taking into consideration not only the business and ownership perspectives but also the family perspective (Sharma et al. 2013).

In fact, family businesses are distinctive organizations characterized by the presence of the family system in addition to the traditional ownership and management systems. This adds to the complexity of these businesses while often providing competitive advantages when the family system is healthy and reducing the business performance when the family system is dysfunctional.

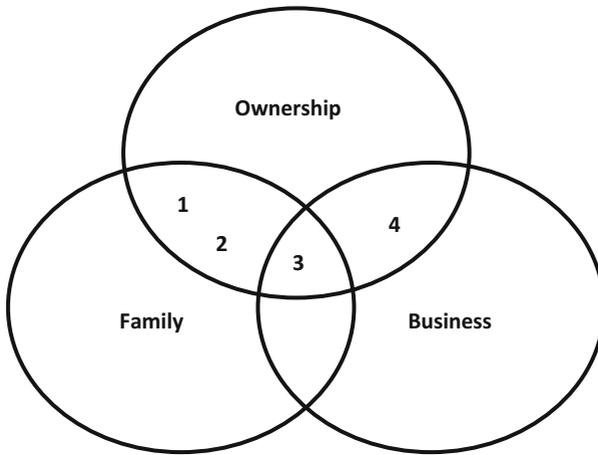
Family cohesion tends to weaken and conflicts of interests tend to rise over time, especially in family businesses reaching the third generation of owners and beyond. Such old businesses are often characterized by cousins and distantly related members, as it is in the case of the Blockmouse House, which is at its 10th generation of owners.

Identifying the roles played by the four groups of shareholders helps understanding the differing perspectives. This can be done by representing the three family business systems in circles along with areas of intersections between the family, business, and ownership systems. The Three-Circle Model (Tagiuri and Davis 1996) allows showing where each group of shareholders stands and how their position influences their expectations. Groups 1 and 2 are positioned at the intersection of the ownership and the family circles as none of the group members are currently involved in the management or governance of the business. Group 3 is at the intersection of the three circles since its members hold managerial or board positions while being family members and shareholders. Group 4 is at the intersection of the business and ownership circles as its members not only own shares but also play roles in the business management (Fig. 8.1).

Recent studies show that family businesses seek not only financial wealth but also socio-emotional wealth (SEW), even when in some cases the financial wealth is compromised (Gomez-Mejia et al. 2007). The SEW includes feelings of emotional attachment to the business and elements of identification (i.e. creating a family business identity) to the family and the business. In addition, the SEW dimension of family identification is more likely higher in a core business than in a peripheral business (Michael-Tsabari et al. 2014), which is the case of the encyclopedia branch.

The identification levels in the family business can be placed on a continuum ranging from segmented identities where there is a separation of the family and the business identity, to integrated identities where the family and business identities overlap (Sundaramurthy and Kreiner 2008). Overlapping identities prevail in those family businesses where there is a strong association between the names of the family and the business, which is the case of Blockmouse Publishing.

However, the SEW dimensions may be perceived differently among generations (Michael-Tsabari et al. 2014), as shown by the three different groups of Blockmouse shareholders. Therefore, they allocate different degrees of importance to financial versus SEW components in their expectations.



**Fig. 8.1** Shareholder groups' roles in the family business

Group 1 displays high levels of SEW, making it difficult for the members to make a decision of separating the encyclopedia division from the family business. Their emotional attachment to this division seems to be very strong, given the knowledge and experience the next-generation members have gained through their internships and the exposure to the operations of the family business. Moreover, their level of identification with the family business appears relatively high, rooted in the fact that the encyclopedia division holds their family name. They show a stakeholder orientation as they care about the reputation of the business from a customer and employee perspective. Therefore, they view the value of the family business far beyond the traditional financial value, putting emphasis on an additional component representing socio-emotional aspects (Astrachan and Jaskiewicz 2008; Zellweger and Dehlen 2011; Zellweger and Astrachan 2008).

In addition, emotions such as the anticipated regret in the case of sale are part of the decision-making equation in the family business (Hirigoyen and Labaki 2012). This goes in line with a statement made by one of the members, not wanting to have the business run by an outsider with no knowledge of the family-specific traditional values and history.

Group 2 is rather a disengaged group of shareholders, in the sense that the only connection that they have toward the business is financial returns. The emotional attachment is relatively weak, if even existing. For this group, the anticipated regret of selling the business is rather weak. Their perspective stands only on financial valuation basis with no preference for

a potential buyer. This group's behavior is similar to the Group 4 of non-family shareholders–managers whose expectations seem short-term oriented and purely financial.

Group 3 is looking for a solution that favors the family cohesion while expressing interest in maintaining the encyclopedia division whenever possible. The group members are conscious of the critical financial situation and are open to discuss its sale. However, they seem to be reluctant to selling to institutional investors. They did not totally exclude the idea of selling to another family business operating in the same industry and where the family traditional values may be similar to the Blockmouse values. Therefore, for Group 3, the choice of the buyer should be dependent on the congruence of its values with the family business values.

### **3. From Research Findings to Action: What would be your recommendations regarding the sales decision of the encyclopedia branch and why?**

As shown in the case, family shareholders' expectations differ, which reflects low levels of family cohesion. Research suggests that family communication is key to increase family cohesion in family businesses, which in turn can be reflected in decreasing levels of conflicts of interest. As communication can be improved via family governance structures (Mustakallio et al. 2002), one option would be to initiate and strengthen the family governance structures of Blockmouse Publishing. Currently, the Shareholders Assembly seems to represent the main place where family shareholders meet and share their opinions and perspectives. Looking at Hoy and Sharma's (2010) adapted model of family business governance (Sharma et al. 2013, p. 6) allows to identify the missing governance areas in this family business that relate to the existing roles of family shareholders. We can therefore suggest the establishment of other family structures such as a family council and family office where both financial and emotional issues relative to the family business can be clearly expressed and dealt with.

Building on the support of the advisor, these structures provide a space to map the family values of the different groups, then to look for common values, and build on them to find a decision that goes with them. It is also recommended to focus on the governance to help refine or redefine the family business identity based on the shared values. A family charter can be also written based on these values to clarify the roles and expectations of the shareholder group as a homogeneous unit. A shareholders' agreement may legally bind the family members in terms of the sale of their shares to

maintain the family control of the business or the business in control of another family with similar values.

Offering executive educational programs on family business particularities or inviting them to take part in the Blockmouse's family governance meetings may increase Group 4's awareness about "the familiness" characteristics (Habbershon and Williams 1999). Familiness can be understood as a distinguishing factor from other businesses and be as valuable as financial components. By understanding the role of family relationships in sustaining the family business performance, the non-family shareholders-managers might be more likely to align their interests with the family shareholders' interests.

As both the family and business performance are crucial for the family business continuity, the final decision of selling or maintaining *Blockmouse* encyclopedia should be based on a patient process leading to an agreement by the shareholders on common values in terms of family business objectives, that is, the maximization of financial wealth and SEW.

## 8.5 NOTES

1. Names and figures of the case are fictional.
2. Johannes Gutenberg was a German inventor who introduced printing to Europe. His invention of mechanical movable-type printing started the printing revolution in the fifteenth century and is widely regarded as a key event to enable the broad spread of information.
3. The suggested answers to the questions are not exhaustive but are designed as basis for further discussions on the case topic. Depending on the initial knowledge of the readers or participants to the case study, it is possible to enlarge the discussions scope to include other theories such as the resource-based view theory, agency and stewardship theories, as well as insights from entrepreneurship (i.e. innovation) to offer an alternative solution to the divestment decision.

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