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IMPACT

SUSTAINING GROWTH AND ECONOMIC DEVELOPMENT: THE CASE FOR A SOCIAL INVESTMENT AGENDA IN GULF COUNTRIES

COMPETITION FOR MONOPOLY: SCHUMPETERIAN MARKET DYNAMICS OF THE FOURTH INDUSTRIAL REVOLUTION

QUALITY SERVICE IN EDUCATION: ALIGNING PURPOSE WITH FACILITATING LEARNING

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"In the knowledge economy everyone is a volunteer, but we have trained our managers to manage conscripts."

Peter Drucker

ON RESEARCH

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FOREWORD

Business is evolving; this means that people, tools and practices that make it all happen are evolving too. In 2019, EU Business School through ON Research sought to highlight, analyze and develop some of the key dynamics surrounding the people, tools and practices that make up these crucial relationships in society. The year began with the EU Business School Roundtable session as a platform for discussions on the on-going in-house research, with topics ranging from e-commerce, to the digital economy and the gender-gap glass ceiling. In May 2019, we held our first Design Conference that highlighted the important role that design plays in communicating the values, culture and strengths of a brand, as well as how design thinking could play a transformational part in turning ideas to reality, an ideal Segway into the second half of the year, where we hosted our flagship "trust" themed Research Forum. This people-focused event shed light on the interplay between individuals, systems and organizations; against the backdrop of collaborating in a rapidly changing world. Continuing EU Business Schools tradition, the event convened high-level leaders from international business, country representatives, academia, think tanks as well as international organizations to share their experiences and best practices. These initiatives through the year were supported by a growing portfolio of partnerships cutting across the public and private sectors. Partnerships that are increasing the understanding of how businesses can take advantage of new technologies and tools; highlighting the business case for public-private engagement and creating models of engagement that could be further built on and/or replicated.

EU Business School through ON Research will continue to drive leading business research and will continue to support its stakeholders with the tools needed to deliver tangible business value, sustainable social change, and measurable long-term impact in this new age of technology.

Suddha Chakravartti

Editor-in-Chief

TABLE OF CONTENTS
ON RESEARCH Vol.3

SUSTAINING GROWTH AND ECONOMIC DEVELOPMENT: THE CASE FOR A SOCIAL INVESTMENT AGENDA IN GULF COUNTRIES

Hassan Abul-Enein

ABSTRACT: *GCC countries have attained progressive growth rates throughout their modern history, backed the adoption of expansive modernization campaigns, involving the overhaul of economic systems. Ultimately, this transformed these countries into developed oasis's, attracting billion-dollar investments. This economic and developmental progress has been highly-dependent on the vast oil-revenues generated. However, recent complex regional and global environments have had a destabilizing impact, resulting in an economic contraction. This has underlined how the mere dependency on hydrocarbon-industries is unsustainable. Although diversification and structural reforms have been initiated and implemented across these countries, on their own, they are not sufficient to secure sustainable growth or act as a prescription. In addition to such reform and efforts, the adoption of a Social Investment discourse is of paramount importance. A Social Investment discourse promotes policies that prioritize human capital development and active labour market policies. As an agenda, it emphasizes a capabilities approach. Only through this avenue can Gulf countries secure and consolidate sustainable socio-economic growth in the coming years. This article sheds light on the importance of adopting a Social Investment discourse in the region and its vitality for Gulf economies.*

KEYWORDS: social investment, human capital development, active labor market policies, resilient growth strategies and sustainable development.

Ever since the widespread exploration of oil in countries forming the Gulf Cooperation Council (UAE, Kuwait, Bahrain, Qatar, Oman and Saudi Arabia) remarkable economic growth rates have been noted in the region. With increasing revenues generated from the export of oil and other hydrocarbon extracts, mega-modernization projects were initiated. As a result, the desert terrains of the region were transformed into oasis's, with cities like Dubai, Riyadh and Doha becoming vital financial hubs. Collectively, the region also became a valuable

trading partner for countries like the United States and China, alongside the European Union. Meanwhile, state-sponsored investments into infrastructure, education and health made these countries among the most developed in the world (UNDP, 2018).

However, recent volatile and complex economic and political environments, with fluctuating oil markets and increased global competition, threatened to thwart this progress. The ensuing fiscal pressure and demographic makeups meant that the mere reliance and dependence merely on oil could bear catastrophic results. GCC economies have since committed towards structural adjustments and marshalled diversification efforts.

Growth has rebounded in 2018, with forecasts expecting an increase in growth rates, reaching 3.2% in 2020 (World Bank, 2019). Such headwind can be traced back to rebounds in the oil market, increased private sector participation and diversification thrusts. Nevertheless, structural adjustment and diversification on their own are not a panacea; Especially that issues like human capital, total factor productivity and demographic makeups constitute serious challenges inherent to growth and development in the region. Part of the solution forward, therefore, materializes in the adoption of a Social Investment discourse. This in addition to the continuation of diversification and structural adjustments can solidify foundations for sustainable development and resilient growth.

This article starts by introducing the notion of social investment, followed by a discussion on why the adoption of such an agenda in the Gulf is of value. It then concludes with some reflections and recommendations.

A SOCIAL INVESTEMENT AGENDA

Social Investment is not a new notion nor a novel agenda. It is closely associated with productivism and developmentalism. It builds on general human capital and developmental theory, maintaining that investments into human capital, education and health, raise the productive capacity of economies (Hanushek and Woessman, 2015). By doing so, Social Investment also aims to preserve social wellbeing, through mitigating social risks and exclusion.

As a policy agenda, the European Union defines it as, people-centred investments through policies that develop skills and build capacities (European Commission, 2006). Meanwhile, Midgley et al. (2017) prescribe that it is most commonly understood as the set of policies and programs which support the dynamic and active participation of individuals in economies and societies to promote growth and welfare. In recent years, Social Investment has garnered lots of attention in the developed world, particularly as an approach towards the restructuring of Welfare states. Although it has been critiqued as being a mere extension of neoliberalism, it remains to be of value. With the likes of Hemerijck (2018) stressing that Social Investment is a *sui generis* paradigm, that moves towards '' enhancing citizens capabilities to flourish over the life course, by constantly scrutinizing and correcting unequal market and non-market opportunity structures" (p.825).

WHY IS A SOCIAL INVESTMENT AGENDA OF VALUE?

Social investment regardless of its classification has significant potential that goes beyond social

security and Welfare State Reform. As an agenda, it represents a formidable catalyst towards achieving sustainable development, along with mitigating challenges caused by new social risks (Deeming & Smyth, 2018 & Mahon, 2019).

As social investment is understood differently (Busemeyer et.al, 2018), for the context of the Gulf region and this article, Midgely et al's (2017) definition are used. Emphasis is also given to human capital formation and active labour market policies. Already, investments into infrastructure, health and education have been progressive. Although not ideal (due to shortcomings in outputs (World Bank, 2019)), GCC countries have scored highly on the Human Development Index. The adoption of a Social Investment agenda thus is of paramount importance as it will help consolidate this progress, acting as a prescription for a multitude of challenges that are inherent to the realization of sustainable growth and development (World Bank, 2019). These challenges, and why a social investment agenda is of value are discussed accordingly:

Fiscal Pressure and Oil Market Fluctuations

One of the critical reasons supporting the shift towards a Social Investment discourse can be traced to the volatile oil market and the diversification efforts of GCC countries. As mentioned, Gulf economies have been highly dependent on oil extraction and its export. Saudi Arabia's economy, for instance, is 70% dependent on oil, while other more diversified countries like the UAE maintain a 35% dependency (Al-Marri, 2017). Although diversification and structural adjustment have yielded positive results, oil-price to GDP elasticity remains to be critical (Kandil, 2016), particularly with more pronounced price changes.

For example, the fluctuating oil prices (Figure 1) over the last 5 years alone are estimated to have wiped out around $350 billion from GCC economies (Ghafar 2016). This has exerted pressure on fiscal and account balances of GCC countries and GDP (Figure 2), as stable revenue streams forming the basis of mega-development projects, national budgets and social security programs dwindled as a result. In its totality, this affects the entire GCC economically, socially and politically (IMF, 2018).
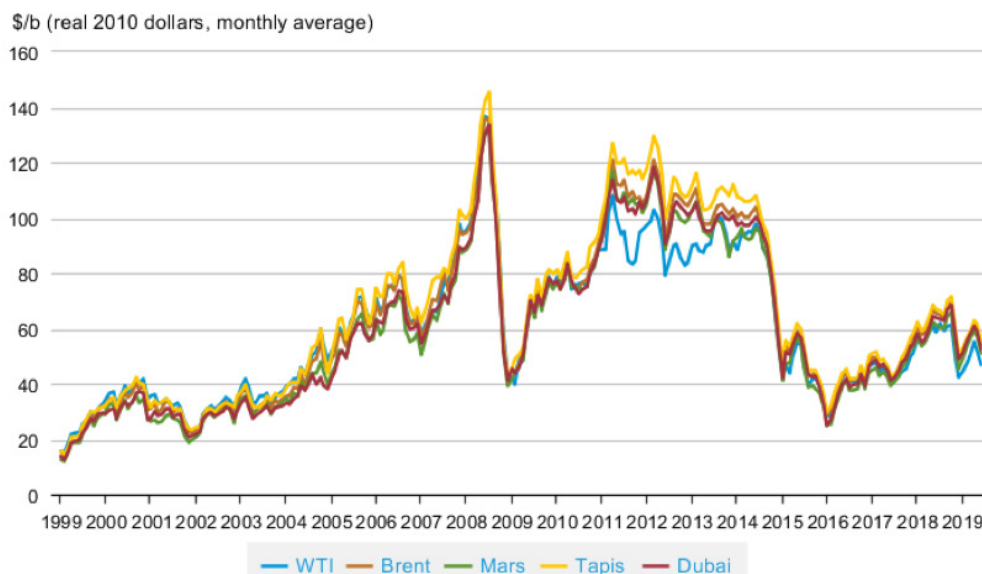
Figure 1. *World Crude Oil Prices. U.S Energy and Information Administration (2019).*
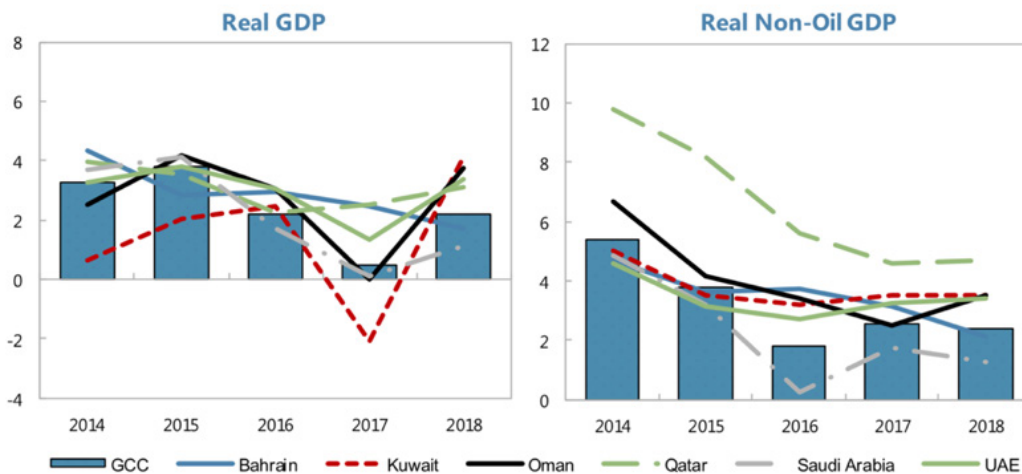
Figure 2. *Real GDP and Real Non-Oil GDP changes in GCC countries (IMF 2017).*

For decades, the oil-rich countries of the GCC have recognized this challenge and endorsed the need to diversify the economy and move beyond the hydrocarbon industry. This is reflected in the multitude of *Visions*, committing the governments to structural adjustment and diversification. However, their results and fruition have varied. Primarily, due to lacking private sector participation and a primordial labour force.

Investing in human capital has the potential to help channel expenditure more effectively into labour and skill development while preserving social security. This will empower the labour force to operate in different sectors and industries, such as technology, finance, construction, agriculture, entertainment and others. Such will complement the move beyond the hydrocarbon sector. Concurrently, more foreign investments will also be secured, growing the potential for private sector expansion, while making the region more competitive, by helping expand and enhance trade accounts. This would consolidate diversification progress, helping Gulf economies, erect solid foundations for resilient growth.

Labor Market and Demographic Dynamics

Another, and even a more pressing contention why adopting a Social Investment agenda in the Gulf region is of paramount importance is the region's labour market dynamics and its demography. This also relates to oil-market volatility and diversification thrust discussed above.

Before the exploration of oil, the Gulf region was a largely uninhabitable terrain. Characterized by vast stretches of desert lands, tribes ruled and roamed. Following the formation of today's Kingdoms and Federations and the exploration of oil and gas, vast investments into modernization projects were undertaken. However, the local-indigenous population did not provide the labour supply required to meet the demand created by these intensive capital-investments. As a result, expatriate workers from neighbouring Arab and Asian countries were imported and domesticated. With the continued influx of workers, GCC economies became among the highest where migrants and non-nationals represent the majority of the population (Kamrava and Babar 2012) and the largest percentage of the labour force (Figure 3).
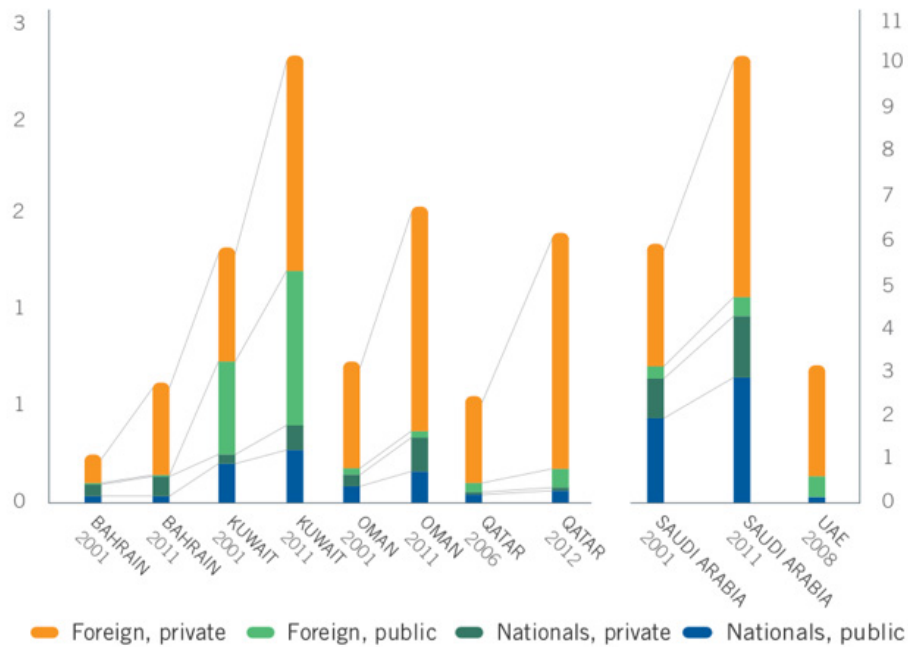
Figure 3. *Employment of Citizens and Foreign Workers by Sector (Millions) (Behar et.al, 2013) in (World Bank, 2018).*

Meanwhile, due to both the heavy reliance on migrant workers and the unique social contract administered in the region, alongside the poor educational output quality, the national population was not fully developed. The local workforce was afterwards absorbed into the public sector, which grew year after year.

Today, GCC states have few of the highest segmented labour markets around the world (Figure 4). Nationals receive generous compensation packages and benefits, which are often higher than counterparts in the private sector. They are often noted to be amongst the least productive/ efficient workers (IMF, 2014). In the UAE for example, college graduates working in the private sector were found to receive a salary that is lower than counterparts employed in the public sector by 32% (Toledo, 2013). In Kuwait and Bahrain, this is even worse, with public sector employees receiving more than half the wages of private-sector employees (World Bank, 2018) all while benefitting from fewer working hours and extended leave.
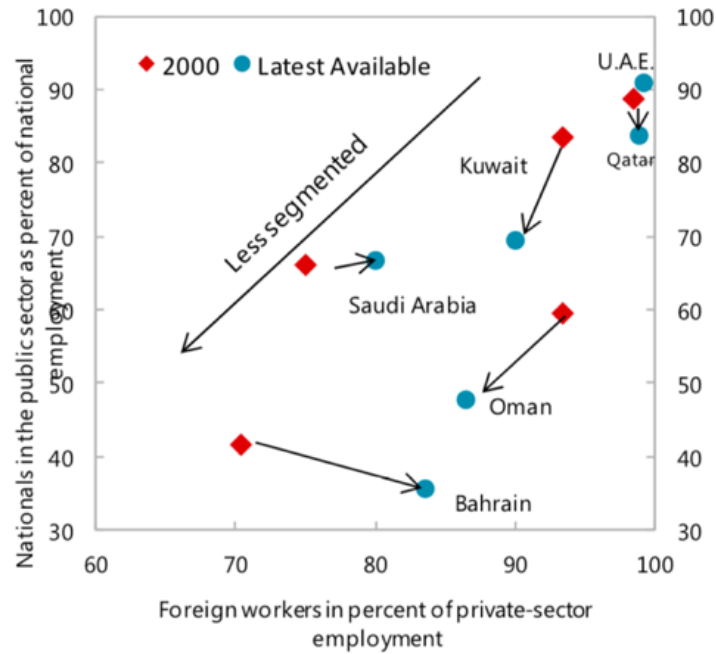
Figure 4. Labor Market Segmentation in GCC economies (IMF, 2013).

Such makeup, with a labour force that is reluctant to participate in the private sector, has threatened competitiveness, undermining and limiting the capacity towards sustainable development and efficient human capital formation (World Bank, 2018). This is compounded by a growing population (Abyad, 2015), which further negates on total factor productivity and economic competitiveness, which are already critically low (Figure 5).
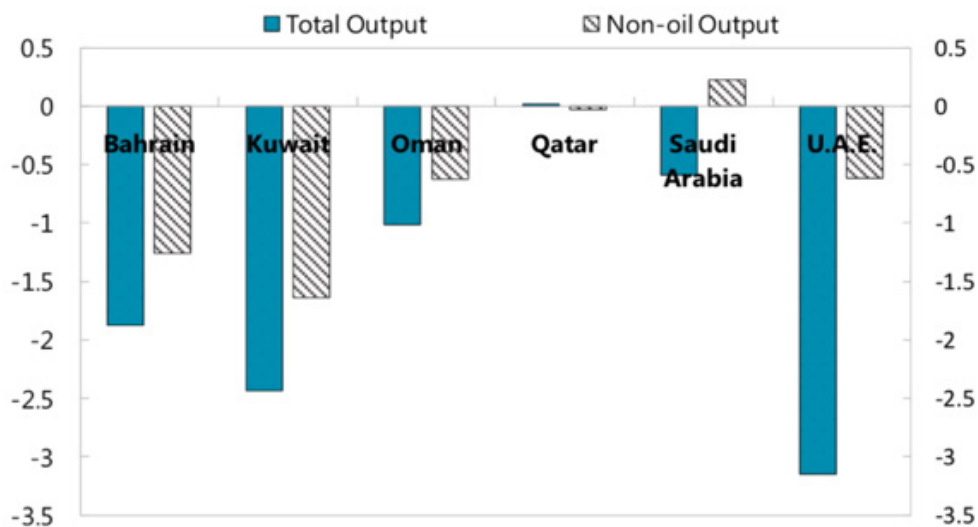
Figure 5. *Total Factor Productivity in GCC countries 1990-2012* (IMF, 2013).

Whatsmore, because a large percentage of the population is absorbed into the public sector, public wage bills have been among the highest globally (Figure 6). In a challenging economic environment, this created another layer of obstacles, due to the fiscal pressures resulting from the misappropriation of national revenues into labour subsides. Alongside further negations from the oversized public sector and a less developed private sector.
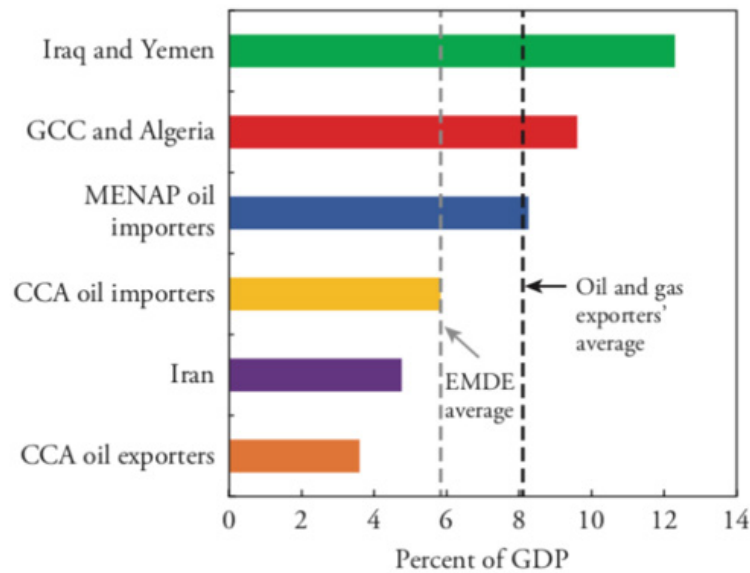
Figure 6. *General Government Wage Bills as % of GDP, period average (2005-2016)* (IMF, 2018).

Together, these labour market dynamics challenge the prospective of resilient growth and development. With a projected continuance in the growth of the GCC population, maintaining the status quo is not feasible nor sustainable. Furthermore, the lack of incentives to participate in the labour market beyond public avenues, complicates diversification and private sector growth, especially as the creation of jobs by the public sector had slowed down (IMF, 2013). Ultimately, the prospect for resilient growth and sustainable development are thus threatened.

Adopting a Social Investment discourse, and especially Active Labor Market Policies can aid in overcoming this. If GCC governments direct resources towards the expansion of vocational training schemes, employment and job alignment centres, while enhancing incentives to participate in the private sector, the picture will be less gloomy. The fiscal pressure yielded by the large public sector bill will be gradually relived and the threat of growing unemployment will be mitigated. Moreover, adopting a Social Investment discourse and continuing investments in education and health will follow the prepare and not repair modus operandi, emphasising a capabilities approach. It shall provide a more competitive labour force that is up to date, capable of participating in the private sector, raising overall productivity and efficiency, moving away from the dependency on subsidies welfare benefits. Collectively, this will further fuel diversification efforts, consolidating the development progress achieved by the GCC economies. Ultimately, helping them reach their strategic *Visions.*

Political Tension and the unique Social Contract

The Gulf region over the last decade has witnessed serious political turmoil. Each of such events has further shackled the stability GCC countries, heightening political risk and uncertainty (Figure 7). Meanwhile, it also played a role in furthering fiscal pressures and account imbalances (Figure 8). With rising political tension, compounded by the rise of geopolitical conflict, sectorial strain and wars like that of Syria and Yemen, such events threatened to topple down monarchy after another. To overcome this, rulers engaged in quick-fixes through in-kind payments to neutralize revolutionary momentum (Forstenlechner et.al, 2012).
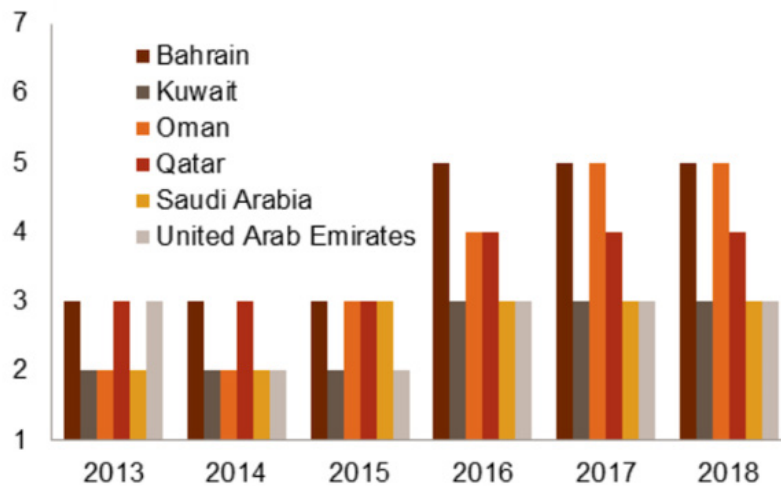
Figure 7. Political Risk and Uncertainty in the GCC countries 2013-2018. Credendo (2019).
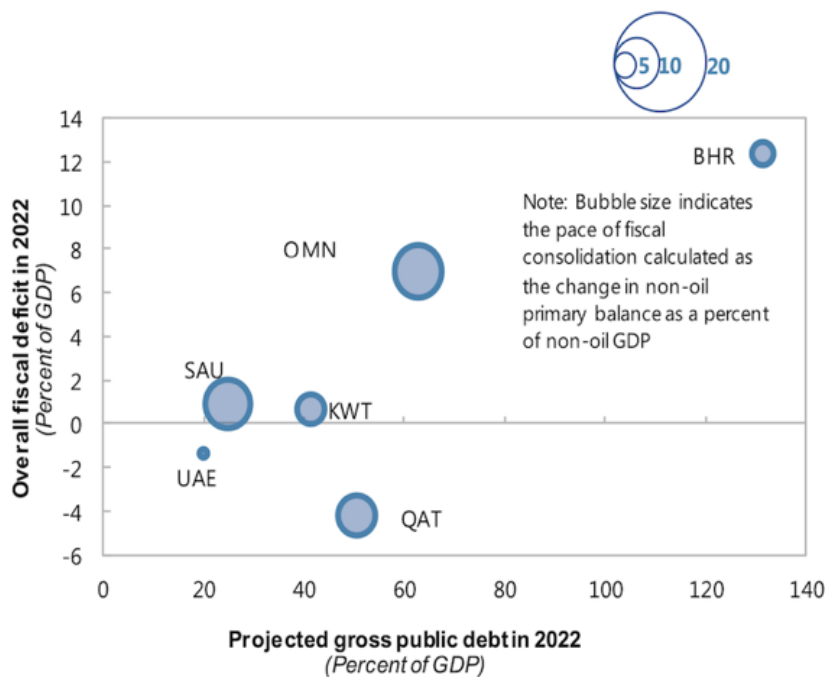
Figure 8. Overall Deficits and Debt in GCC countries (2017-2022) (IMF, 2017).

With the fiscal pressure mounting, and public debt rising, the continued provision of such payments and fixes are not fiscally sustainable. The same also applies to the vast social assistance programs currently maintained (Jawad, 2015). However, cutting off social-welfare expenditure is not a viable prescription. This relates to the fact that shrinking the massive welfare expenditure bill is made more complex by a growing youth population (Figure 9) that is becoming more demanding and somehow dependent on the unique social contract covering regular welfare benefits, free education, free health insurance coverage and other services. All maintained by rulers to neutralize any political risk or threat. The growingly complex political arena also compounds the diversification agenda and risks foreign direct investment and private sector growth due to market speculation. With the dependence on subsidies also playing a role in labour imbalances discussed earlier.
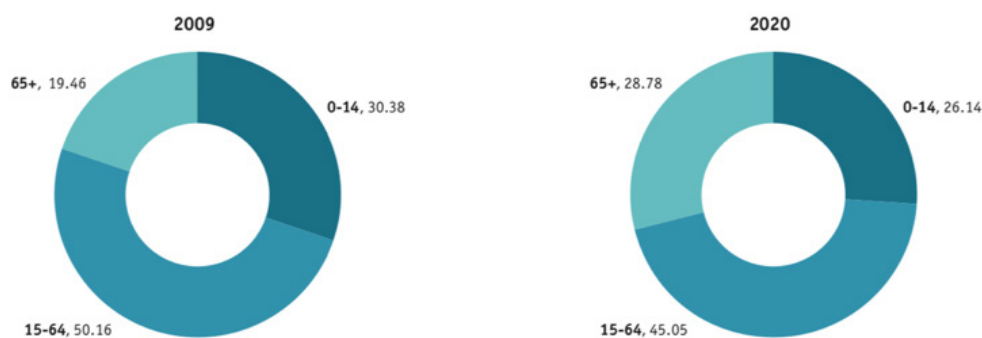
Figure 9. Age breakdown as% of the population in the GCC in 2009 and (projections) for 2020 (The Economist, 2009).

Adopting a Social Investment Agenda will allow the countries in the Gulf region to channel expenditure in a more targeted and active way. When directed towards capacity building, skill development and activation of the labour, governmental expenditure will help mitigate the aforementioned political challenges and risks. The population, and especially the youth will feel more engaged, of value and shall participate accordingly in the market. This alongside other political reform including transparency, has the potential to overcome part of the challenges and uncertainties facing the GCC. It shall also help re-balance fiscal pressures and dynamize the economies as explored previously. Eventually, this will aid the rich Gulf countries in securing sustainable development and growth.

CONCLUSION

In sum, this article aimed to outline why a Social Investment Agenda is of value to GCC countries. Social Investment promotes an activation discourse and agenda which aims to develop skills, raise capacities and enhance human capital formation. All while mitigating economic challenges and correcting market inequalities. The GCC has been capable of securing progressive developmental and growth results across its modern history. However, this has been threatened with recent complex fiscal and political environments.

The adoption of a Social Investment Agenda can help lay and secure the foundations for sustainable economic growth and development. It has this prospect as it can help catalyze the creation of a more diversified economic portfolio while developing a competitive labour force that meets the market's demand. It also promises the maintenance of standards of living, and social equity, consolidating developmental outcomes. By relieving fiscal pressures caused by oil-dependencies and market dynamics, a Social Investment Agenda will allow for the better mobilization of resources. This will help mitigate many of the socio-economic and political challenges that are inherent to the realization of sustainable growth and development while shielding the GCC countries from sudden revolutionary outbursts that may bear seriously costs.

Nonetheless, it is worth noting that a Social Investment Agenda on its own is not a panacea. It must complement ongoing structural and political reforms, alongside diversification efforts. Lastly, it must also be based on a strategic, multi-stakeholder and holistic approach that is reviewed and adjusted regularly. Only then, can a Social Investment Agenda help the 6 GCC countries consolidate their Visions, reaching sustainable development and resilient growth.

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THE POWER AND INFLUENCE OF ONLINE VIDEO ADVERTISING ON DIGITAL NATIVES' PURCHASING BEHAVIOUR: A CONSUMER PERSPECTIVE

Anne Walder

ABSTRACT: *Over the past several years, the trend has slowly shifted from online image advertising to online video advertising (OVA). With a recent acceleration, online video watching is now five times more enthralling compared to images, and binge watching has emerged as the new normal behaviour (Baisch, 2017). In this context, many users are engaging in watching videos in the raw without even thinking about what they are viewing (Ibid.). Therefore, the purpose of this study is to explore this phenomenon from the perspective of consumers. The study's main research objective is to uncover the influencing power of OVA on consumers' purchasing behaviours. The research questions focus on digital users' habits, notably binge watching, purchasing impact, trustworthiness, and attractiveness comparison between online static image advertising and OVA. However, this research identifies the originality while attempting to determine the various indications on the impact of OVA on digital natives, specifically to determine if their brain is more receptive to OVA, and how it influences their purchase decision-making behaviours. New knowledge on the OVA phenomenon has emerged from the interpretation of the findings and analysis of the data collected through an online survey and individual semi-directed interviews. The study results attempt to answer the question if digital natives are more receptive to OVA.*

KEYWORDS: online videos advertising, consumers' purchasing behaviour, binge watching

Physical borders have collapsed since the creation of the internet, pushing the limits of marketing potential far beyond our expectations. What one would not even have envisaged yesterday has today become a habitual practise. Online advertising has changed form and is not new as it first appeared in October 1994. Nonetheless, web advertising is still not popular from the perspective of viewers as it is often perceived as a nuisance, either an annoyance or even intrusive harassment (Wegert, 2002).

By contrast, web advertisements not only play an essential role in site retention but also reveal a few adverse effects. For instance, with pop-up and pop-under advertisements, viewers are interrupted from working on their tasks as they must close the online advertisement windows, which divert them from their primary focus (McCoy et al., 2007).

Yet, advertisements in the format of pop-ups, banners, and in-line ads are proliferating on the web as organisations and professional advertisers consider them as effective tools to promote products or services and reach their targeted consumers. Digital advertisement spending in the United States (US) increased from USD 59.82 billion in 2015 to USD 83 in 2017 and is likely to reach USD 105.44 billion in 2019 and culminate to over USD 129 billion by 2021 (eMarketer, 2019). Worldwide digital advertisement spending attained USD 283.85 billion in 2018 and is expected to reach UDS 333.25 billion in 2019 and surpass USD 435 for 2021 (Ibid.).

According to eMarketer (2019), Google will remain the top digital advertising vendor in the world in 2019 reaching USD 103,73 billion of net digital revenues, followed by Facebook (USD 67.37 billion), Alibaba (USD 29.20 billion), and Amazon (USD 14.03 billion).

In this growing market, various types of online advertising exist and Ganot (2017) recommends that organisations should prioritise and find the best fit from among the eight types of online advertisements: display advertising, search engine marketing and optimisation, social media, native advertising, pay-per-click, remarketing, affiliate marketing, and video advertisements. This confirms the shift from online image advertising to online video advertising (OVA) over the past several years.

Watching online videos is five times more enthralling compared to images (Baisch, 2017). In addition, OVA investments have increased from USD 13.1 billion in 2015 to USD 23.8 billion in 2017 (Statista Research Department, 2016). From an organisation point of view, recent studies have investigated OVA, as presented in the literature review section. Therefore, it seems interesting to explore this phenomenon from the perspective of consumers.

USE OF ONLINE VIDEO ADVERTISING IN MARKETING

Two dichotomic approaches exist. One approach does not consider online videos as new and believes video clips were present on the web since the beginning of the Internet domain (Scott, 2015), while the other deems online videos in total adequation with and as an analogy to the present fast and ever-changing world (Treske, 2015); therefore, it is a new and agile approach to adapt to the current realities. One would rather understand it as a continuum, that is, refining from online videos to OVA. In other words, online videos with a pure marketing purpose.

One of the main differences between online image advertising and OVA is that a video has a duration and the message is delivered while viewing it. As a result, the completion rate, also known as the video completion rate (VCR), plays a vital role in OVA success evaluation.

In 2017 the OVA completion rate was just above 71% (eMarkerter, 2019) and topped 83% in 2018 (Extreme Reach, 2019). Similarly, the viewability rate increased from 61.67% in 2017 to 67% in 2018 (Ibid.), and this confirms the broad trend in OVA use in digital advertising through progressive improvement of quality and length of videos.

Currently, OVA has proved its relevance in digital marketing. A recent study (Steward et al., 2019) demonstrates that in the case of hedonic products, OVA strengthens the positioning of the advertisement and the brand as well as purchase intentions.

By contrast, Cher and Arumugam (2019) did not find any significant relationship between the influence of advertising effectiveness and attitude and the content of the advertisement. However, engagement revealed a significant relationship in the effectiveness of OVA (Ibid.) on the YouTube, which is described by Ha (2018) as *a global online video portal and an alternative to TV*. (Ha, 2018, p. 1).

Particularly, the practise of OVA is well channelled through social network advertising. For instance, Facebook captured 39% of digital video advertising revenue in 2018 (e-Marketer, 2018). Moreover, the literature also confirms that advertisers use incrementally more social media advertising to promote goods and services (Zhang & Mao, 2016).

Similarly, entertainment has been identified as a determinant that influences attitude towards social network advertising alongside other factors such as product information, social image, and credibility (Mirmehdi, Sanayei & Dolatabadi, 2017). However, the authors confirm that the determinant of irritation does not hold any influence. Similarly, Mukherjee and Banerjee (2017) describe three positive attributes of social network advertising, namely credibility, information, and entertainment that result in generating a positive attitude towards social network advertising on purchase intention, while simultaneously promoting word-of-mouth intention (Ibid.). This is particularly important because many social networking sites are used by organisations to promote their brand page (Song et al. 2018).

Alongside social networks, mobile advertising has grown, especially in recognition of its marketing attributes (Wu and Hsiao, 2017). However, consumers do not seem to perceive it as such. The authors highlight three major concerns in mobile advertising: personal involvement, message content, and user interactivity.

Tsang, Ho and Liang investigated (2004) consumers' attitude towards mobile advertising. The results show that consumers expressed negative opinion about mobile advertising, unless they have consented or specifically granted permission; therefore, the study additionally recommends that marketers should not send text messages to potential consumers unless they have received prior permission to do so.

Mobile advertising is revealed to be a highly intrusive, targeted, and individualised practise as advertisements are sent directly to a device owned by potential customers. In other words, this practise offers the advantages of both mass and personalised marketing.

IMPACT OF ONLINE VIDEO ADVERTISING ON VIEWERS

One wonders how coerced exposure to OVA would affect viewers. A study by Donwon and Jooyoung (2018) demonstrates that the audience experiences stronger control on OVA with decreased invasiveness and annoyance when there is an advertisement skip option. Notwithstanding, this does not drive towards a beneficial attitude either in favour of the advertisement or the brand.

Analogously, the presence of time display offers the feeling of high control, without favouring the advertisement or the brand. Moreover, the authors (Ibid.) concluded that the perceived ability to control psychological reactance is not significantly mitigated by the desire for control.

From a viewer's perspective, two new behaviours have emerged: electronic word-of-mouth (eWOM) and binge watching.

Note that eWOM is not a new form of communication but has just changed channel. Today, prosumers are actively sharing their opinion, experience, and feedback on brands online, a phenomenon that is called eWOM, which has a strong impact on advertising and has been central to marketers' strategies (Shu-Chuang & Juran, 2018).

The rise of binge watching, known as an emerging new behaviour (Baisch, 2017), implies a context where people watch a large number of videos in raw, without even thinking about what they are viewing (Ibid).

What motivates consumers to view OVA? Joa, Kim & Ha (2018) studied this question and concluded that personal relevance encourages consumers to watch OVA, while anticipating that advertisement viewership is weaker than the entertainment value it offers. It has also emerged that consumers who produce and use online content, that is, 'prosumers' are the viewers of OVA, ultimately.

EXPLORING THE IMPACT OF ONLINE VIDEO ADVERTISING ON DIGITAL NATIVES' PURCHASING BEHAVIOURS

The literature review brings to light a shift in online visual advertisements with the emergence of a new behaviour, namely binge watching. Therefore, it appears appropriate to explore this phenomenon from the perspective of consumers and investigate the impact of OVA on consumers' purchasing behaviours while attempting to answer the question, 'What is the impact of OVA and binge watching on consumers purchasing behaviours?'

In addition, this research identifies the originality in finding some indications on the impact of OVA on digital natives, as Houdé (2015) demonstrates that digital native children from Generation Z have gained in brain skills in terms of speed and automatism to the detriment of reasoning and self-control; although he postulates that the brain remains the same and only circuits change.

It is, therefore, interesting to explore the impact of OVA on digital natives, in order to discover if their brain is more receptive to OVA, and how it influences their purchase decision-making behaviours. Accordingly, this qualitative study also attempts to answer the question, 'What is the impact of OVA and binge watching on digital natives' purchasing behaviours?'

A DOMINANT QUALITATIVE APPROACH TO UNCOVER THE PHENOMENON OF ONLINE VIDEO ADVERTISING

A preponderantly qualitative approach has revealed the best alternative for investigating the case of a specific phenomenon in order to identify, describe, and explain the impact of OVA on digital natives' purchasing behaviours. In other words, this approach aims to describe and analyse the culture and behaviour of human beings in order to interpret the implications and trends within a specific culture or social group (McMillan, 2004), digital natives in this case.

According to McMillan (2004), '*Qualitative research stresses multiple realities that are rooted in participants' views and perceptions*' (p. 11). As a result, this investigation, which is an empirical qualitative approach, was performed through an online questionnaire combining both quantitative and qualitative questions and semi-structured individual interviews.

The research instruments articulate the researcher's logbook, a questionnaire guide for individual interviews, and an online survey that covers the following topics: 1) three questions on general information (gender, country of residence, and year of birth); 2) one question on habits as digital users; 3) two questions on binge watching (habits and level of attention); 4) three questions on the impact of online video advertising on purchasing behaviours (reasons for practising video binge watching, feelings, purchase after viewing an OVA during binge watching, trustworthiness); and 5) one question on the attractiveness of OVA compared to online static image advertising.

In qualitative research, the aim is to consciously choose a few people according to what is explored (Lamoureux, 2006). However, for this research, both randomised and purposeful sampling was used. Empirical saturation (Glaser and Strauss 1967, p. 67) was reached on the seventieth (70) participant, without the test surveys that are excluded from the results. Five semi-structured individual interviews were employed to clarify or deepen specific issues.

Thus, the study sample consisted of participants from Asia (57%), Europe (24%), Africa (10%), and or America (9%). In terms of gender, the sample included 62.86% men and 37.14% women. The respondents were born between 1941 and 2001. The aim is not to compare the different continents but to come closer to the reality of the present world where limitations are rare while people become more connected and mobile. The main purpose is to provide a context to this investigation.

Consistent with the generation taxonomy based on the *Strauss–Howe generational theory* (Strauss & Howe, 2000), the demographic cohorts comprised the Silent generation, born between 1928 and 1945 (1%), the Baby Boomers, born between 1946 and 1964 (3%), Generation X, born between the 1960s and 1980s (30%), Millennials, born between 1980 and 2000s (63%), which indicates high motivation to contribute and share their practices, and lastly Generation Z, born between 2000 and as of today (3%). Generations from Millennials onwards are referred to as digital natives, although not all Millennials are digital natives, and their total participation reaches 66% of the sample.

The qualitative inquiry method of grounded theory, through comparison, integration, modelling, and theorising was retained because it adopts a postulate that allows the researcher to develop theory from field data. It is a process of knowledge production, which is a widely used research method in the social sciences stream (Glaser & Strauss, 1967).

REVEALING THE INFLUENCING POWER OF ONLINE VIDEO ADVERTISING ON CONSUMERS' PURCHASING BEHAVIOURS

1. What are digital users' habits?

The first question focused on investigating participants' digital habits in terms of applications used. With no surprise, one hundred percent (100%) of the respondents mentioned using YouTube, which confirms Ha's description (2018) mentioned in the literature review (Section 2).

Yet, over ninety-five percent (95.59%) of the respondents employ browsers such as Google, Yahoo, or Bing, followed closely by Facebook with nearly seventy-eight percent (77.94%) and Instagram at sixty-three percent (63.49%). Far behind are LinkedIn at fifty-eight percent (58.46%) and Twitter at thirty-eight percent (38.33%). Only one respondent mentioned not using any of the above applications.

A few respondents added unlisted applications. For instance, four participants mentioned *WhatsApp*, another three *Twitch*, two *Pinterest*, two *SnapChat* and one *Messenger*, *Netflix*, *Amazon Prime*, *Discord*, *Skype,* and *FaceTime*.

2. What are digital users' binge-watching habits?

Next, this study has explored viewers' binge watching, specifically their habits and level of attention.

2.1 Frequency of binge watching

The participants were invited to share about the frequency of their binge-watching practise. According to their answers (Figure 1), twenty-six percent (26%) of the interviewees practise binge watching every day, twenty-five percent (25%) a few times a week, twelve percent (12%) once a week, sixteen percent (16%) a few times per month, and two percent (2%) only once a month or less than once a month. Seventeen percent (17%) stated that they did not practise binge watching at all. These findings correlate the presence of binge-watching behaviour, as highlighted by Baisch (2017).
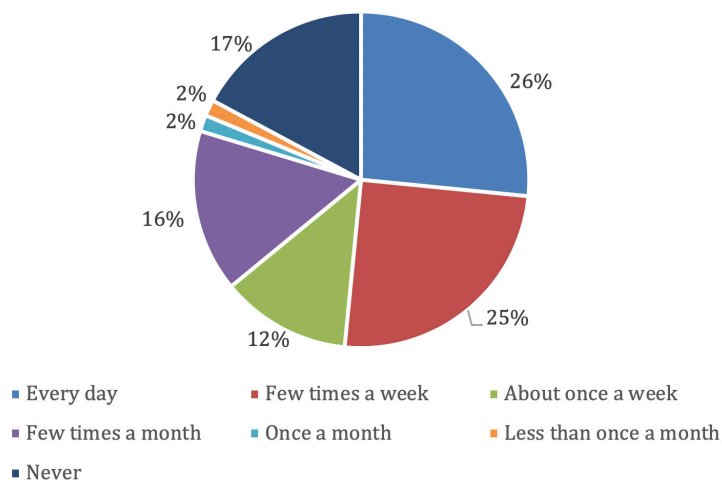
Figure 1. Frequency of digital users' binge-watching practise.

2.2 Level of attention when practising binge watching

When questioned on their level of attention while practising video binge watching on a scale from 0 (low) to 100 (high), the answers were between 0 and 100 with an average of 55. This finding is slightly opposed to the definition of Baisch (2017), whereby most viewers do not even think about what they are viewing.

The five respondents grading at zero their level of attention when practising video binge watching are from Generation X (3) and Millennials (2), while two (2) persons indicating a score of 100 are from the Millennials generation.

3. Impact of online video advertising on purchasing behaviours

Interviewees shared their views on the impact of OVA on their purchasing behaviours, notably the reasons for practising video binge watching, feelings experienced, purchasing after viewing an OVA during binge watching, and trustworthiness.

3.1 Reasons pushing viewers to practise video binge watching and feelings engendered

At this stage, the focus was on understanding why viewers practise video binge watching and how this makes them feel.

3.1.1 Reasons

Two (2) respondents could not identify the reasons that push them to practise video binge watching. Besides, forty-six (46) participants shared their views. The analysis highlights the reasons underlying the practise of video binge watching and articulates the OVA features that are divided into four (4) different characteristics, as mentioned by six (6) cases, and the 'Personal needs' of viewers spread over thirteen (13) sub-categories and presented in forty (40) cases, as illustrated in Table 1.

Table 1. Reasons motivating video binge watching.

Categories: Reasons related to	Sub-categories: Types of Reasons	Number of Cases	Total cases
OVA features	Message content within short time	3	6
	Free	1	
	Persistence	1	
	Faster than TV	1	
Personal needs	Entertainment	8	40
	Interesting content	8	
	Research	7	
	Boredom	4	
	Educational	3	
	Provides insights	2	
	Noise and stimulation	2	
	Saves time	1	
	Easier to understand	1	
	Feel free	1	
	Impatience	1	
	Multi-tasking	1	
	My profession	1	

First, the OVA features include four characteristics. As stated by three interviewees '*Message content within a short time*' indicates that the message is delivered swiftly, as per three (3) participants. Next, '*Free*', which implies that no costs will be charged to viewers, '*Persistence*', which clearly highlights the unlimited pool of videos that can be watched continually; finally, '*Faster than TV* ' is due to the short duration of the video engendering a dynamism that cannot last in a movie of 90 minutes or more, as mentioned by one (1) participant each. The reasons related to OVA features are all positive in nature.

Second, in the 'Personal needs' category, participants estimate thirteen sub-categories they try to satisfy through binge watching. For instance, '*Entertainment*' means that the practise brings relaxation and fun to eight (8) viewers. This relates to Mirmehdi, Sanayei & Dolatabadi's study (2017), which proposes that entertainment is a determinant that influences attitudes in terms of social network advertising.

However, eight (8) respondents mentioned that '*Interesting content*' is the reason for watching OVA. According to seven (7) respondents '*Research*' can be interpreted as looking for information on a specific topic or even being curious about something. '*Boredom*' represents the reason for engaging in binge watching so that time passes quickly, as declared by four (4) participants. Three (3) participants stated '*Educational*' as the reason for watching videos for instructional and/or educational purposes.

The sub-category '*Gives insights*' is about opening new perspectives to viewers (2 participants), while '*Noise and stimulation*' offer two (2) others the possibility to reduce silence and loneliness and motivate themselves. Finally, '*Saving time*', '*Easier to understand*', '*Feel free*' (do it when I want), '*Impatience*' (when I want something, I want it all and I want it now), '*Multi-tasking*', and '*Profession*' (because of) were mentioned by one (1) participant each as the reasons for binge watching.

The analysis highlights the fact that personal needs are more important to viewers, among the OVA features. Additionally, *Entertainment* (8), *Interesting content* (8), and *Research* (7) are the most stated reasons, followed by *Boredom* (4) and *Educational* (3).

3.1.2 Feelings

As illustrated in Table 2, eleven (11) feelings engendered by video binge watching revolve around 'Personal needs' divided into seven (7) sub-categories, as mentioned by twenty (20) cases and OVA features listed into four (4) types of feelings discussed by five (5) cases.

Table 2. Feelings engendered by video binge watching.

Feelings related to	Types of feelings	Types of feelings	Cases	Sub-total cases	Total cases
Personal needs	Positive	Satisfaction	10	19	20
		Relaxed	3		
		In control of content and time	2		
		Freedom	2		
		Motivated	1		
		Sense of achievement	1		
	Negative	Numb and unengaged	1	1	
OVA features	Abusive Control	Addicted	1	2	5
		Overwhelmed	1		
	OVA content control	Wish to purchase	1	3	
		Related to the video content	2		

First, ten (10) participants experience '*Satisfaction*' when they engage in video binge watching. This category includes if participants feel satisfied about how they spent their time (well), and if they are excited, feel good, happy, and time passes more quickly. Three (3) other participants feel '*Relaxed*', while two (2) participants each mentioned that they feel '*In control of the content and time*', or that their feelings are '*Related to the video content*'.

The sensation of '*Freedom*' experienced by two (2) respondents includes, as stated by one of them: '*Makes me feel like I am somewhere else*'. As a positive feeling, one (1) respondent for each type

of feeling mentioned being '*Motivated*', meaning motivation to be more productive, and feeling a '*Sense of Achievement*'.

One (1) participant declared that video binge watching of OVA creates in him the '*Wish to purchase*', while another one (1) participant felt completely '*Overwhelmed*'. On the same side, one (1) participant shared that this practise makes him '*Numb and unengaged*', while one (1) declared feeling '*Addicted*'.

As seen from Table 2, the seven feelings related to 'Personal' needs engendered by video binge watching (19 cases) are divided into 'Negative Feelings' (1 case) and 'Positive Feelings' (19 cases); while five feelings related to OVA features when practising binge watching (5 cases) are spread between 'Abusive control' (2 cases) and 'Content control (3 cases).

The analysis shows that positive personal needs were most cited by nineteen (19) participants, whereas negative feelings related to personal needs, abusive, and content control related to OVA features remain low at only six (6) cases.

Table 3 below compares the reasons for practising video binge watching and the feelings induced by this behaviour, as stated by the respondents.

Table 3. Feelings engendered by video binge watching.

Reasons	Cases	Total cases	Feelings	Cases
Interesting content	8	21	Satisfaction	10
Research	7			
Boredom	4			
Saving time	1			
Easier to understand	1			
Entertainment	8	8	Relaxed	3
Feel free	1	1	Freedom	2
Impatience	1	1	In control of content and time	2
Noise and stimulation	2	4	Motivated	1
Provides insights	2			
Educational	3	5	Sense of achievement	1
Multi-tasking	1			
My profession	1			

The reasons classified under the categories '*Interesting content*' (8 cases), '*Research*' (7 cases), '*Boredom*' (4 cases), '*Saving time*' (1 case) and '*Easier to understand*' (1 case) totalling 21 cases connect with the feeling type '*Satisfaction*' (10).

Next, the reasons expressed as '*Educational*' (3 cases), '*Multi-tasking*' (1 case), and '*My profession*' (1 case) amounting to five (5) cases intertwine with the experience of a '*Sense of achievement*' (1 case).

The reasons for practising video binge watching include '*Noise and stimulation*' (2 cases) and '*Gives insights*' (2 cases), which correspond to '*Motivated*' (1 case) type of feeling. '*Feel free*' (1 case) is the reason mentioned as '*Freedom*' (2 cases) in the 'Feeling' category.

'*Impatience*' (1 case) is the reason for fulfilled by '*In control of content and time*' (2 cases), while the reason '*Entertainment*' (8 cases) correlates with '*Relaxed*' feeling (3 cases).

This analysis demonstrates that except for '*In control of content and time*' and '*Freedom*' feelings, the respondents' personal needs are more represented than the positive feelings incurred.

3.2 Purchasing impact after viewing an online video advertisement during binge watching

From a marketing perspective, all the participants were invited to answer the following question: 'How often have you purchased a product or a service after viewing in an online video advertisement during binge watching?'

Most of the respondents explained purchasing '*Never*' (24 cases) or '*Sometimes*' (24 cases) after viewing an OVA during binge watching, both at thirty-nine percent (39%). One of the interviewees specified: '*Especially if l have something in mind, I am looking for and not sure yet*'.

Twenty percent (20%) of the participants declared '*Rarely*' (12 cases), while only two percent (2%) mentioned '*Always*' (1 case) buying in this context.
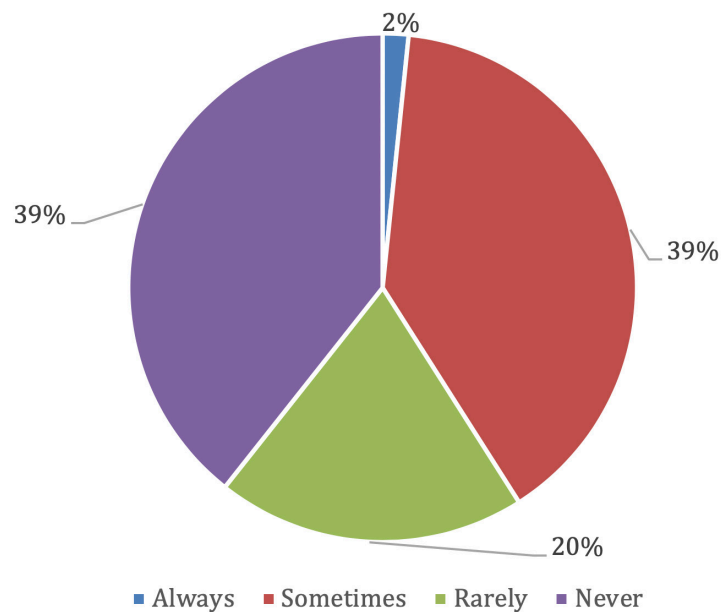
Figure 2. Impact on purchasing after viewing in an OVA during binge watching.

This analysis shows that the OVA does not affect the behaviour of thirty-nine percent (39%) of participants during binge watching. However, the same number would consider purchasing *Sometimes* while twenty percent (20%) will do it only *Rarely*. Just two percent (2%) declared that they *Always* buy after viewing a product or service in an OVA. It also seems that the OVA can trigger consumers' purchase intent when they still hesitate about a product or service.

3.3 Rating the trustworthiness of online video advertising

Most importantly, this study proposed the following question to the respondents: 'How would you rate the trustworthiness of online video advertising?'

The participants were asked to rate the trustworthiness of OVA on a scale of 0 (low) to 100 (High). In response, nearly five percent (4.92%) perceive it at a score of 100, just over twenty-one percent (21.31%) at 75, over thirty-four percent (34.43%) at 50, close to thirty-three percent (32.79%) at 25, and more than six percent (6.54%) at 0.

As illustrated in Figure 3, the most important representations are scores at 50 and 25 of trustworthiness. Also, 75 is well conveyed by over twenty-one percent (21.31%) of the participants. The least proclaimed are the extremes scores of 0, which is rated at more than six percent (6.54%), and 100 reaching nearly five percent (4.92%).
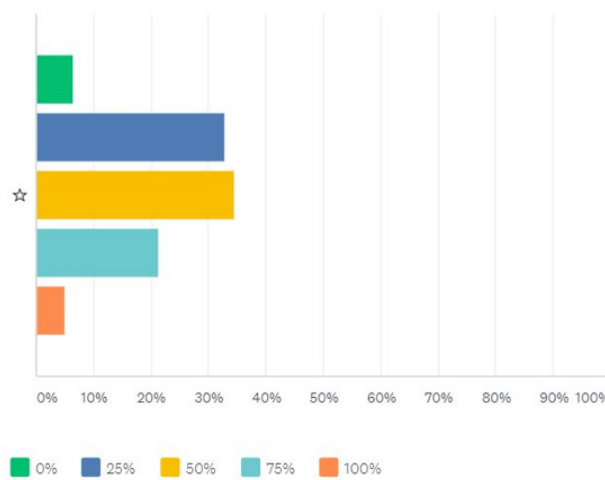
Figure 3. Rating the trustworthiness of online video advertising.

This analysis shows that more than sixty-three percent (63.66%) of the respondents perceive OVA as trustworthy at a score of 50 or more, and just over thirty-six percent (36.34%) rated it at a maximum score of 25.

4. Attractiveness of online video advertising compared to online static image advertising

The last topic investigated invited participants to explain why OVA is more/less attractive to them compared to online static image advertising (OSIA).

Three (3) respondents expressed no preference between OVA and OSIA. Besides, analysis of the

data listed *'Likes'* and *'Dislikes'* for the types of advertising for OSIA versus OVA. Online static image advertising counts four (4) *'Dislikes'* while OVA listed seven (7). Thus, OVA *'Likes'* amount to sixteen (16).

First, it is essential to highlight that only five (5) cases discussed *'Likes'* (1 case) and *'Dislikes'* (4 cases) for OSIA, while views on OVA were shared by 65 cases; 16 *'Dislikes'* and 49 *'Likes'* (Table 4).

Table 4. Likes and Dislikes of OVA viewers.

Advertising Type	Categories	Sub-categories	Cases	Subtotal cases	Total cases
Online static image advertising	Likes	Image preference	1	1	5
	Dislikes	Do not get my attention	1	4	
		Annoying	1		
		Misleading	1		
		Over pushing purchase	1		
OVA	Dislikes	Do not get my attention	1	16	65
		Annoying	3		
		Misleading	1		
		Over pushing purchase	1		
		Interfere/interrupt	4		
		Perceived as a scam	4		
		Illogical	2		
	Likes	Appealing	4	49	
		Trustworthy	3		
		Better explanation	3		
		Easier to get attention	3		
		Interaction	3		
		Engagement	4		
		Ensures privacy	1		
		Reality	3		
		Information	8		
		Covers more senses	3		
		More useful	2		
		Short time	5		
		Moving/dynamic	4		
		Procures emotions	1		
		Brings novelty	1		
		Stronger impact	1		

In the case of online static image advertising, only one (1) respondent confirmed '*Image preference*' advertising and declared: '*Video ads do not affect me! I like seeing the image and take a close look of the image, add colours more!*'

4.1 Disadvantages between online image advertising and online video advertising from viewers' perspective

Turning to *Dislikes*, the four first dislikes, '*Do not get my attention*', '*Annoying*', '*Misleading*', and '*Over pushing purchase*', were claimed for both OSIA and OVA. The first one is '*Do not get my attention*' (1 case for OSIA and 1 case for OVA), followed by '*Annoying*' (1 case for OSIA and 3 cases for OVA), which have already emerged in the study of Dongwon and Jooyoung (2018) and can be split into two views; either it is annoying when it interferes with what the viewer is trying to watch, for instance: '*I find online video advertising less attractive as it pops up unexpectedly while you are busy watching something interesting*'; or, as explained by another respondent, due to their repetitive behaviour, '*Repetitive ads are most annoying because they make me hear the same sound several times a day*'.

For '*Misleading*' (1 case for OSIA and 1 case for OVA) and '*Over pushing purchase*' (1 case for OSIA and 1 case for OVA), one interviewee explained: '*I think most digital advertisements are misleading and sometimes over push people to buy stuff by showing their ads over and over again*'. Here, the notion of repetition is also present.

Subsequently, participants cited *Dislikes*, specifically for OVA. Two persons mentioned OVA as often '*Illogical*' and far from the object of promotion. One of them described this as: '*Too many images and not often corresponding to the highlighted object*'.

However, the two most claimed Dislikes are 'Interference' (4 cases), as specified by one interviewee: '*They are annoying and interrupt my video watching. I lose focus after one of those ad interruptions*'. '*Perceived as a scam*' (4 cases) meaning that viewers either always perceive OVA like a scam or because of the fear of scammers as detailed by one of them: '*Several times people have been deceived by online videos*'. Furthermore, another participant explained: '*Neither is more attractive than the other (between OSIA and OVA) if the product advertised doesn't look trustworthy*', which highlights the importance of trustworthiness online. This positions the small details, as stated by a respondent: '*It's less attractive to me and I feel most of the graphics are not trustworthy as they are most often over hyped and the products advertised are more expensive*'.

4.2 Advantages of online video advertising from viewers' perspective

After reviewing the drawbacks of OVA, the most important advantage (*Likes*) is '*Information*' that emerged from the discourse with eight (8) participants. It revolves around more and/or better information as described by one of them: '*It is more attractive. You can get more information in the same amount of time and if the campaign is well planned you don't even need to be watching – as many of us are multi-screen nowadays so you tend to watch on a laptop while texting or playing on your phone, for example*'.

The next concept is '*Short time*' (5 cases), meaning sharing '*better explanation in a short amount of time*', as one of the interviewees witnessed.

'*Appealing*' (4 cases) is another advantage mentioned by four respondents. For instance, a participant finds videos more appealing because the demo or the product can instantly be seen, while another explained: '*Online video is very attractive and looks fantastic! Somehow, it's also more effective on the product*'.

In the same line, the next two advantages of OVA are '*Moving/dynamic*' and '*Engagement*' which each mentioned by four (4) interviewees. One of them said: '*It is different from the traditional images and it is easier to get general engagement.*'

Three (3) participants mentioned '*Trustworthy*' as one of the likes of OVA. For instance, '*I can relate more to a video because it tells me more about the product and it's quite hard to forget the story line*'.

Three (3) other respondents invoked '*Better explanation*', meaning understanding the product better with a video within a short duration of time. The three (3) participants also claimed that videos make it '*Easier to get attention*'.

Furthermore, OVA creates and promotes '*Interaction*' (3 cases). An interesting perspective emerged from the discourse:

> '*Rather than just sitting through a standard 30-second clip, the viewer can click on links from within the ad, cast votes, answer a quick survey question, and much, much more. When you give the viewer something to do while they are watching the ad, it pulls them in and makes them feel as though they are part of it. That type of interaction will certainly help them remember your business*'.

Also, OVA '*Covers more senses*' (3 cases). A participant specified:

> '*It is more attractive. A nice voice (i.e. deep voice in a man), nice music or panoramic videos (i.e. drone videos of paradisiac islands) are much more penetrating. We use more senses (hearing and sight) which makes us to be more focused as receivers*'.

However, the following quote highlights a relevant question:

> '*I think advertisers who play silent video ads are smart because they make me feel thankful for not having to hear the same tune every other video! I also think that it is wise to play good music on video ads rather than having actors say dialogues because most of the time, I am not even watching the ad and so the dialogues do not make sense*'.

Also, OVA generates a notion of '*Reality*' (3 cases), and as one interviewee said: '*It's moving and real.* Another one justified it as follows: '*It's almost like seeing it in real life*'.

Two (2) respondents claimed that OVA is '*More useful*' than OSIA, while one (1) participant for each advantage cited that OVA '*Ensures privacy*', '*Procures emotions*', '*Brings novelty,*' and has a '*Stronger impact*'.

All this evidence confirms that OVA advantages are diversified (16 listed likes) and more representative with forty-nine (49) cases than drawbacks listed under number seven for 16 cases.

In the four *Dislikes* for OSIA, *'Annoying'* increases from 1 case to 4 cases which means that OVA is slightly more perturbative. This is strengthened by the fact that OVA is perceived as a scam and its interferences are the most represented disadvantages.

It is important to note that the participants did not mention eWoM, while Shu-Chuang & Juran (2018) mention it as central to marketers' strategies. This dissimilarity may be due to the perspective adopted for this research, namely consumers' perspective.

5. Are Digital Natives More Receptive to Online Video Advertising?

To answer the question if digital natives are more receptive to OVA, the level of attention when practising binge watching showed that the two (2) participants indicating a score of 100 were from the Millennials generation. However, five (5) respondents grading at 0 level of attention when practising video binge watching belonged to Generation X (3) and Millennials (2). Thus, we can only conclude that Millennials are represented at the two extremes (0 and 100), but Generation X is absent at the 100 score. It seems that Millennials provide the highest level of attention when video binge watching.

To further investigate this question, participants' answers to the question: 'How often have you purchased a product or a service after visualisation through an OVA during binge watching?' are compared according to the last three categories of the *Strauss-Howe generational theory* (2000) taxonomy.

Figure 4. Purchase of a product or a service after viewing in an online video advertisement during binge watching (by generation).

Illustrated in Figure 4, Generation X demonstrates a more diversified portrait with four percent (4%) of the respondents stating *Always*, twelve percent (12%) *Rarely*, forty-two percent (42%) *Never*, and another forty-two (42%) *Sometimes*.

By contrast, Millennials offer a triad between *Rarely* at twenty-two percent (22%), *Never* at thirty-four percent (34%), and *Sometimes* at forty-four percent (44%). The category *Always* has disappeared.

Finally, Generation Z consists of a duo between *Never* at seventy-five percent (75%) and *Rarely* at twenty-five percent (25%). Both categories *Always* and *Sometimes* are not represented at all.

The pattern illustrated in Table 5. suggests a shift towards *Sometimes*, *Rarely*, and *Never* for Millennials, and *Rarely* and *Never* for Generation Z.
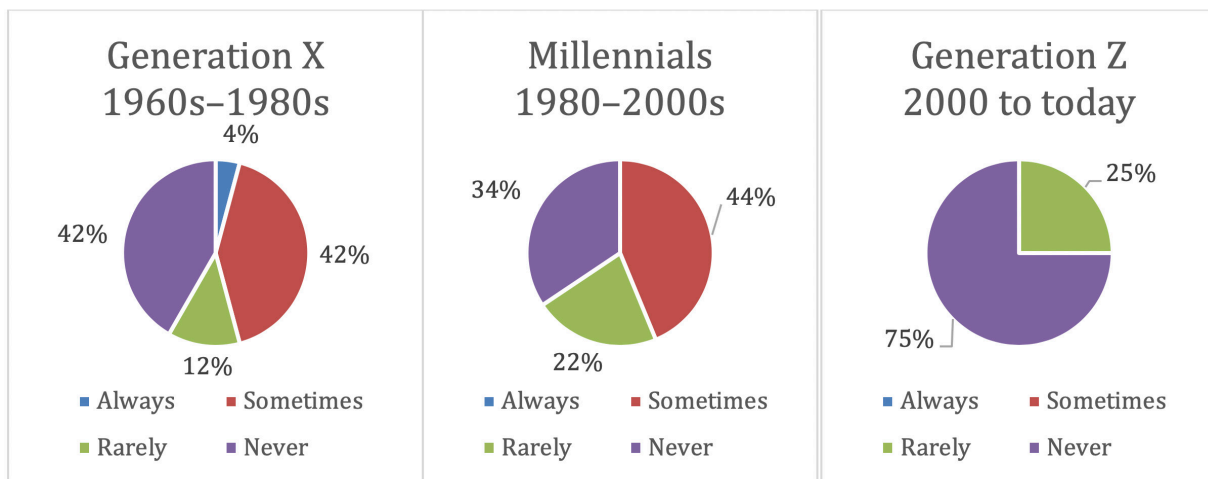
Table 5. Pattern of purchase of a product/service after viewing in an online video advertisement during binge watching (by generation)

	Always	Sometimes	Rarely	Never
Generation X	1	10	3	10
Millennials		14	7	11
Generation Z			1	3

Digital natives, from the Millennials generation, seem to behave in a more prudent manner although Millennials have a higher *Sometimes* purchase rate.

The results suggest that Generation Z appears on the defensive; however, the sample for this generation amounts to only three percent (3%) of the participants. Therefore, this phenomenon that relates only to Generation Z, and it must be investigated and confirmed in a future study.

DISCUSSION

This section aims to interpret and describe the significance of the findings. As noted in Section 4, this study investigates participants' perception of the impact of OVA on their purchasing behaviours. Additionally, this research observes trends in digital users, notably the phenomenon of video binge watching, and interprets the implications on their purchasing behaviours.

Revealing the influence of OVA on consumers' purchasing behaviours, participants' perception of the impact of OVA on their purchasing behaviours hinges on two types of reasons motivating video binge watching and engendering feelings: those related to OVA features and those concerning viewers' personal needs.

One the one hand, the results directly relate to personal needs as they are more diversified and more important than OVA features, both for reasons and feelings. On the other hand, OVA features prove to be a tool for abusive control and OVA content control, while Personal needs only hold a negative feeling: *numb and unengaged*.

Further, this study demonstrates that except for feelings of being '*In control of content & time*' and '*Freedom*', viewers personal needs are represented more than the positive feelings they experience, connoting that viewers may not fulfil their personal needs.

Analysing the purchasing impact after viewing an OVA during binge watching, the results are balanced between viewers whose behaviour remains unaffected by the OVA during binge watching and those who *Sometimes* consider purchasing, notably by triggering the purchase of undecided consumers.

To answer the question, 'Are Digital Natives More Receptive to Online Video Advertising?' the

findings suggest that digital natives from the Millennial generation are more prudent in their behaviour although they have an increased *Sometimes* purchase rate.

Moreover, the pattern demonstrates a change in generation behaviours, which can lead one to envisage that digital natives are better able to control their behaviours when confronted by coerced exposure to OVA, giving them more freedom to *Sometimes* purchase for Millennials.

However, in this context, Generation Z seems over prudent in its purchasing behaviour. Again, this should be specifically investigated and confirmed with a larger sample in a future study.

FINAL COMMENTS

This study illustrates a comprehensive examination of the effects of OVA on viewers purchasing behaviours and offers a preliminary investigation of the impact of video binge watching on digital natives. An abundance of the collected data has permitted the process of grounded theory leading to the reasons driving viewers to practise video binge watching and the feelings induced in this context, as well as the advantages and disadvantages of OVA from viewers' perspective, being divided between OVA features and consumers' personal needs.

In conclusion, data analysis carried out using the principle of grounded theory demonstrates that participants' personal needs, which motivate them to OVA binge watching, may not be fulfilled to their expectation level. Hence, as a recommendation, organisations and advertisers should carefully analyse and target viewers personal needs.

Lastly, the findings suggest an evolution between the generations in terms of their purchasing behaviours. Hence, further research can focus on a comparative study between the behaviours of Millennials and Generation Z in the context of OVA and video binge watching.

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COMPETITION FOR MONOPOLY: SCHUMPETERIAN MARKET DYNAMICS OF THE FOURTH INDUSTRIAL REVOLUTION

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ABSTRACT: *Various schools of economic thought attempted to analyze, simulate, and describe the progress of economic development from the onset of the first industrial revolution onwards. A central aspect of economic theory in trying to comprehend the dynamics of industrial revolutions are theories related to market structures and dynamics of competition. This paper is an attempt to understand the nature of competition within the context of the ensuing fourth industrial revolution which it seems will be best described within the Schumpeterian concept of 'creative destruction', or as we shall show, competition for monopoly.*

KEYWORDS: fourth industrial revolution, creative destruction, monopoly, entrepreneurship, innovation.

I n his book issued in 2016, the founder and Executive Chairman of the World Economic Forum, Klaus Schwab, introduced the concept of the Fourth Industrial Revolution which he described as being in the process of formation (Philbeck & Davis, 2018). Building on the former industrial revolutions, most importantly the third industrial revolution, which witnessed the digitization (automation) of production methods and the development of the information technology era, the fourth industrial revolution is in the process of leaping humanity further towards more intelligent systems that has the possibility of overlapping the cyber, physical and biological domains (Philbeck & Davis, 2018). This particularly relates to rapidly yet not fully realized technologies such as AI, neuro and nan technologies, robotics, distributed ledgers, as few examples.

In this paper we explore the nature of market dynamics of such revolution as it is progressing from the third to the fourth. We hypothesis that such market, and hence economy, is Schumpeterian in nature within the context of 'creative destruction' lead by innovative corporations and

entrepreneurial initiatives. We further state that it would not be appropriate to describe such dynamics within the paradigms of the Walrasian "end-state, static" general equilibrium theories. Especially that the current evolution of markets and industries is quite rapid, dynamic, and simultaneously spans markets across our seemingly borderless world.

Qualifying such hypothesis will be quite important in order to realize the importance of cultivating an entrepreneurial environment incentivizing rapid innovations but also to realize "what" is particularly expected to be 'creatively destroyed' and at what rate. Especially that such realization would have direct policy implications concerning labor market, intellectual property rights, antitrust laws, and business ethics to name few.

Section II conducts a brief literature review on the subject matter explicitly introducing the hypothesis of the paper while section III illustrates the form, context and scope of the research methodology in an attempt to qualify the stated hypothesis. Section IV analyzes the results while section V discusses such findings. Section VI concludes and section VII lists the references consulted.

LITERATURE REVIEW

When entrepreneurship, innovation, monopoly, and economic growth are explored, one cannot miss the novel contributions of the influential Austrian economist Joseph Schumpeter at his book "Capitalism, Socialism, and Democracy" (1942). He developed the concept of 'creative destruction' as being led by innovative entrepreneurs who disrupt the prevailing economic market conditions rendering prevailing technologies obsolete, hence destroyed, while creating new products and services positioning themselves in the process as monopolists, at least temporarily. Indeed, one can relate the history of industrial revolutions and economic development within the Schumpeterian paradigms.

Pichler (2010) undertakes a detailed review of Schumpeter's "creative destruction" concept centered around the entrepreneur being the major player in the process of economic development within the "non-static, non-Marxist" capitalist system (Pichler, 2010). An important aspect of the dynamics of such theory is the creation of the entrepreneur for an enterprise built on an innovative idea that will destroy, hence replace, existing market norms (or market equilibrium) at a certain industry and hence create a monopolistic activity as a result which will eventually be outcompeted by new entrants dragging down profit margins and saturate demand (Pichler, 2010: 54,55). His paper made a brief historical review of Schumpeter's work and theorizing on "creative destruction" and how his ideas generated new perspectives for understanding the dynamics of the capitalist system beyond the classical, neoclassical, and Marxist schools of economic thoughts.

Rogers (1999) stressed on the importance of monopoly in incentivizing entrepreneurial innovation, hence economic growth, by illustrating that the extent to which an entrepreneur succeeds in creating and maintaining the "monopolistic power" will determine the extent to which they can capture expected future profits against their initial investments (Rogers, 1999). The discussion also illustrates the impacts of the efficiency of patents, but also of firm secrecy, in guarding such monopolies before imitators succeed in entering and "competing down" profit margins (Rogers, 1999). However, he also illustrated that patents and other forms of intellectual property rights such as trademarks, are not sufficient to protect, nor to maintain, monopolies as competitors

will always find ways to imitate and compete while avoiding the patent, this in addition to the dynamics of knowledge spillovers, where innovators unintentionally benefit other sectors and other markets, due to the natural diffusion of knowledge or through the fact that patents require disclosure (Rogers, 1999: 98).

Nelson & Winter (1982) had another perspective in analyzing what they termed "Schumpeterian competition" in terms of the relationships between (i) market structure of a certain industry (duopoly, oligopoly) and the ability to innovate, (ii) dynamics of what "Schumpeterian competition" termed as "transient Monopoly" and progress of technology, and (iii) public policies (intellectual property rights) and innovation (Nelson & Winter, 1982: 115).

On the other hand, Blaug (2001) strongly criticized antitrust laws not on the basis of whether competition is good or bad, but by demonstrating that the economic thought has historically missed the conceptual description of what constitutes a competition let alone deciding whether it should be the ideal objective of the capitalist economic policies (Blaug, 2001). He illustrated that historically, economic thought seems to have misinterpreted the conceptual meaning of competition versus monopoly in terms of "existence of market general equilibrium" or on the "stability" of such equilibrium, in addition to the inability of proving how such equilibrium is achieved or how it should maintain such stable "end-state" or whether it was an ongoing process inherently encompassing a behavioral element rather than a theoretical mathematical deterministic element (Blaug, 2001: 39). Indeed, he considered the concept of "perfect competition" as a theoretical abstraction that is an "unattainable ideal" which should not be considered as a policy guide in favor of competition while denouncing monopoly with aggressive antitrust laws (Blaug, 2001). He further stated that the economic theorization of Schumpeter, Hayek, and Clark of dynamic efficiency in monopoly is the closer to representing the actual market dynamics at economies (Blaug, 2001).

Peter Thiel at his book titled "Zero to One" went even further illustrating that entrepreneurs should in essence explicitly attempt creating a monopoly as means of creating a meaningful "valuable" enterprise (Thiel, 2014). He proved this by suggesting that when creating an innovative original idea from scratch an entrepreneur is basically moving from "zero to one" naturally creating a monopoly, but when building an enterprise revolving around an existing idea then the entrepreneur is simply moving from "1 to n" becoming another competitor in the marketplace (Thiel, 2014). In fact, he extensively showed how competition can be negative in the sense that it erodes profit margins to the point where entering or even continuing the economic activity at such a competitive industry is unsustainable and is actually against the concept of economic growth based on the paradigms of continuous innovation because such an environment actually discourages investments in R&D (Thiel, 2014).

Digesting all these conceptual elements revolving around the idea of creative destruction laid out by Schumpeter's theory, we will try to qualify the following hypothesis:

HYPOTHESIS

The ensuing fourth industrial revolution will not follow the Walras, Cournot "end-state, static" market price equilibrium but will follow the Schumpeterian dynamic efficiencies of "creative

destruction" which does not strictly lead to a temporary monopoly but to a "temporary" duopoly and oligopoly which is intrinsically competitive in nature without falling under the "static" definitions of "perfect/imperfect competition" nor "monopolistic competition".

CASE STUDIES

We explore the dynamics of competition of the ensuing fourth industrial revolution at certain industries to show that their evolution resembles the Schumpeterian "creative destruction":

Case Study 1: Operating Systems (OS): The foundations of the fourth industrial revolution

Microsoft's Windows is a great example of Thiel's "zero to one" innovation (Thiel, 2014) which created a whole new operating system platform with functionalities that never existed before especially when it comes to "Office suite" offering useful programs such as 'Word' and 'Excel'. Windows dominated the OS market with significant monopoly power over an extended period. It was not until Apple managed to compete with iOS when it succeeded in competing with its hand-held devices such as iPhones and iPads in addition to iMacs, and other Apple popular devices. As such, we can well describe this industry as reflecting the Schumpeterian dynamics of 'creative destruction' where Microsoft technically 'destroyed' its predecessors becoming a dominant enterprise with very strong monopolistic power. Other operating System providers such as Linux are relatively small compared to Windows and iOS:
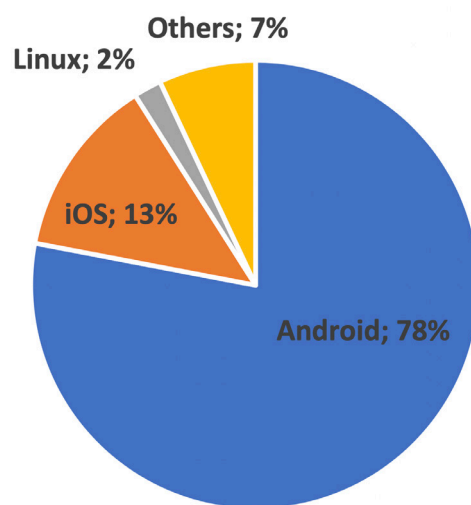
Figure III.B.1: Global Desktop OS Market share by July 2019[1]:

As for smartphones and tablets, we can fairly indicate that Apple was the pioneer innovator in this market where it indeed propelled this industry into another level. The concept of touchscreen mobile phones and tablets were introduced through iPhone and iPad respectively with iOS. Other providers such as Samsung and later Huawei entered the market with very strong competition built on Google's Android OS. Yet again, we can clearly see the dynamics of creative destruction prevailing here as the innovator, Apple in this case, introduced significant invention of the touchscreen smartphone and then tablets with wholly new concepts of functionality and utilization

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1 Available at: https://gs.statcounter.com/

experiences. This created the platform for mobile based applications which flourished across the virtual stores with various purposes: gaming, retailing, communication (Whatsapp), sharing economy (UBER, AirBnB), and many others. We can also see that such inventions "destroyed" what prevailed back then as mobile phones, a dramatic illustration of which is Nokia, Mattarella, and Ericsson. We can further see that such inventions initially created a kind of monopoly for Apple properly backed with numerous patents. Nonetheless, such patents did not allow Apple to enjoy monopoly for a sufficient period of time as Samsung and later Huawei entered the market aggressively with competitive devices and technologies. Hence the market essentially went from Monopoly to Duopoly to Oligopoly.
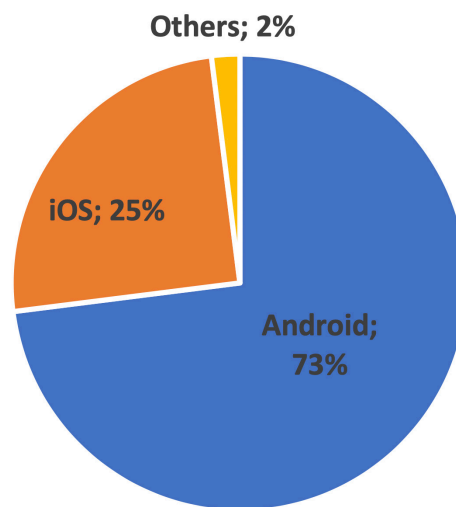
Figure III.B.2: Smartphone and Tablet OS market share by July 2019[2]:

Case Study 2: Cryptocurrencies: One of the important disruptive technologies of the fourth industrial revolution which is still at its infancy:

Bitcoin (BTC) had definitely created a whole new industry upon its launch in 2009. And although thousands of cryptocurrencies were launched since then, data for the last quarter of 2018 show that Bitcoin still remains the leading cryptocurrency in terms of its market cap at $114bn at a total market cap for all traded cryptocurrencies (altcoins) of $215bn[3]. Notable competing cryptocurrencies are Ethereum (ETH) at a market cap of $24bn followed by Ripple (XRP) at $23bn. Nonetheless, it should be noted that while Bitcoin is mainly used for transacting and storing value, Ethereum is a platform of versatile functionalities most significant of which is what is known as smart contracts. On the other hand, Ripple is mostly utilized as a payment system for settlement of international transactions with its cryptocurrency (XRP) as the medium. Adding more complexity in exploring such industry is the fact that it's built on the technology of decentralized distributed ledgers (DLTs) or what is commonly known as 'blockchains', which are public and open source without a clear owner or central manager per se (except for Ripple). Despite currently having more than 4,000 of what is termed as altcoins, we can state that we have an oligopoly of three major frontrunners, especially that other altcoins represent scattered small market shares each:

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2 Available at: https://gs.statcounter.com/
3 Available at: https://www.coindesk.com/research/state-of-blockchains-q3-2018?slide=14
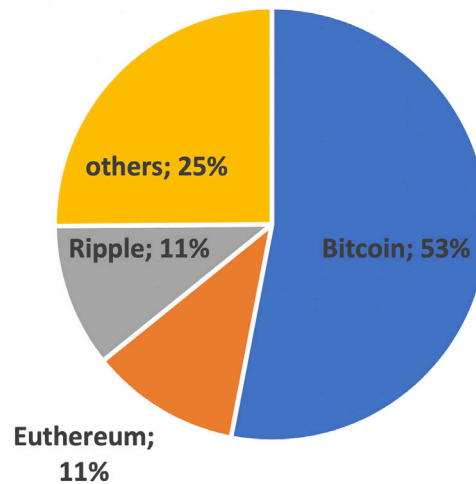
Figure III.B.3: Market capitalization of leading cryptocurrencies.

ANALYSIS AND FINDINGS

Global economic growth is mainly driven by major significant inventions and innovations creating totally new sectors which can be described as Schumpeterian given the dynamics of how entrepreneurial innovation leads to 'creative destruction' and simultaneously creating a monopoly, duopoly, and oligopoly for a significant period of time. The incentive of creating a monopoly and preserving monopolistic power in the marketplace is behind the drive of innovative entrepreneurs or corporate R&D in creating something new. It is in such competition for monopoly that entrepreneurs and corporations invest in resources to achieve and materialize their ideas into viable business models.

The two cases presented for Operating Systems and Cryptocurrencies reflected these dynamics and indeed reinforced the hypothesis we made that the market dynamics of the fourth industrial revolution will indeed be Schumpeterian in nature ultimately leading to a monopoly which is eventually competed by few qualified entrants thus ending up with a duopoly (as in the case of operating systems with Windows/Android and iOS, or with an oligopoly as in the cryptocurrencies case with Bitcoin, Ethereum, and Ripple leading the industry).

DISCUSSION

The hypothesis made could be considered as time neutral in the sense that it could be proved backwards in describing the initiation and evolution of the first, second, and third industrial revolutions and in describing forward the dynamics of the currently evolving fourth industrial revolution. Nonetheless, we still find industries of the former industrial revolutions were the Schumpeterian dynamics does not necessarily hold especially at industries with rather extremely large producers more so if we consider the global market place against the country specific industry. This applies to industries such as textile and clothing, FMCG (Fast Moving Consumer Goods), electrical appliances, durable goods, automotive, and many other industries where we can find extensive competition as a result of many producers.

As such, we can further extrapolate on the original hypothesis that at the onset of an industrial revolution the dynamics of evolution could be well described within the Schumpeterian theory of 'creative destruction', especially when the technologies are still new and difficult to replicate. A case of which is the automotive industry when at its onset there were few producers, but as the industry matured with time, it became crowded with competitors and hence could well fit into the "end-state, static" models of Walrasian general equilibrium and can hence fall within the definition of the "perfect/Imperfect, monopolistic competition" frameworks.

Furthermore, the paper only conducted a brief qualitative research which could be expanded into a more detailed quantitative research and analysis in order to have a deeper understanding of the expected dynamics of the fourth industrial revolution. This is especially important given the peculiar nature of this evolution given the fact that some of the technologies are constructed as open source, public, and decentralized hence countering the importance of intellectual property rights also challenging the concept of 'destruction' as we can witness that some technologies flourish on others without having to entirely destroy and replace but coexist. Moreover, the establishment of platforms that blurs the producer and consumer by simultaneously and interchangeably permitting the existence of both such as sharing platforms like Uber and AirBnB. Here, the issue of expected unemployment is by itself disrupted given that such new technologies are increasingly empowering people to become producers without formally being so and by enabling such users to be potentially both.

Overall, two major implications for policymakers could be derived from showing that the fourth industrial revolution evolves within the Schumpeterian 'creative destruction' theory. First, entrepreneurial activities should be encouraged and supported by an array of policy tools such as creating an attractive business environment for SMEs in terms of ease of establishing firms, variety and ease of funding, and tax incentives. Second, creating an environment that could offer an appropriate intellectual property rights enforcement for entrepreneurs and corporations that require them, especially within the domains of AI, genetics, and others.

CONCLUSION

The paper stated the hypothesis that the expected dynamics of the ensuing evolution of the fourth industrial revolution could be described within the Schumpeterian 'creative destruction' theory, stressing that such dynamics could not be described within the Walrsian general equilibrium theory. Especially that the concept of "end-state, static" competition could not describe the dynamically efficient evolution of such industrial revolution although we could consider that the competition is for creating a monopoly that eventually end up with an oligopolistic market.

We should further note that the realms of the fourth industrial revolution will be quite large, unforeseen, and will significantly alter our future across various fronts. We should consider exploring the nature of development of what we can call the new frontier technologies such as AI (robotics, deep learning), Blockchain, Neurotechnology, Nanotechnology, Internet of Things, genetic modification, urban aerial transportation, space tourism among others, which are all still at its infancy but progressing rapidly.

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QUALITY SERVICE IN EDUCATION: ALIGNING PURPOSE WITH FACILITATING LEARNING

Olivier Brenninkmeijer

ABSTRACT: *This paper proposes that when schools or universities place quality of service at the core of their vision and purpose, then their interests will also align with the needs and expectations of the students. The quality of service within a school is the results of how the institution expresses its vision and purpose, and how teachers and staff enact the institution's vision by giving personal care and attention to the students' needs. Such needs are defined more broadly to encompass both employability and life-long learning for future well-being. By providing quality service, the school will bridge the dichotomy between teaching technical skills and teaching life skills. This means that teaching practical skills for graduates to find jobs quickly and facilitating learning of long-term skills for a critical awareness of self in society will complement each other. The result is a quality of service is nourished by the shared objectives for which teachers, staff, stakeholders and the school itself give attention to the students' needs and the institution's organizational learning for long-term sustainability.*

I t is no secret that when we speak about improving education, we are often told that quality is important. Quality represents at once outstanding learning facilities and subject contents, as well as the success of students and graduate to become professionally active. However, we rarely hear the word service mentioned in the quest for quality. This paper argues that today, more than ever, both quality and service are inseparable in education. [1]

It is no secret either that the service industry, which includes such contrasting providers as hospitality, outsourcing, medical services, and consulting, is regarded as entirely different from education, even anathema to teaching, learning and vocational or professional training. However, the gap between these providers of services and learning is not as wide as many educators like

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1. This paper addresses adult learning in higher and continuing education and training specifically, and does not include education for children for reasons of brevity. However, the general meanings of both service and quality also apply to education more broadly at all ages of students.

to think. This paper bridges that gap and addresses both quality and service to explain that if we see an employee or a teacher fully committed to giving their best and "going the extra mile" to provide a special service, then a remarkable quality of service can emerge.

Indeed, if we take the approach from the student's or beneficiary's point of view who expects quality, then both the learning substance, its delivery by the instructors, as well as the recipient's expectation should be considered. The expected experience is influenced by both, how something was conceived and created (substance or contents), and how it was offered or provided (service). For example, a consultant must pay attention to both an expertly-developed report which is also well-presented and delivered on time. The consultant must provide what the beneficiary or client expects: quality in substance and quality of delivery. The same can be said for a lawyer's office, a technical project operator, a hotel or restaurant catering service, and it can also be considered in the educational environment.[2]

As with all service-sector industries, all models of schools can provide both quality education and quality service, regardless of whether they operate as state-funded institutions, as private for-profit businesses or as non-profit entities. Their performance is expected to be such that the beneficiary, here the learner, student or participant, acquires both pragmatic skills and life skills that build character and provide a learning experience that goes beyond normal expectations.[3] The latter should be enriching, purposeful, applicable and memorable.

The text that follows here does not pretend to be a research paper; rather, it should be read as a pamphlet that argues for an alternative view of higher education and training via an appreciation of what quality service is in the context of higher and continuing education. The text in the following pages first explains quality and service more broadly, and then considers education within the service industry to arrive at the core of the argument, namely that quality service in education develops once there is an alignment of the school's vision and purpose with the needs and expectations of students, as well as with the interests of its instructors, staff and stakeholders.

QUALITY IN EDUCATION

The word quality is most often used when referring to something made out of the best materials through very fine craftsmanship. This common definition of quality means that something is regarded as superior in comparison to similar goods or services due to its outstanding manufacturing, delivery and performance over time, which all go beyond common expectations. This simple definition contains four aspects of what we usually consider to make up quality, namely: first, there is a development of the quality item with expertise and craftsmanship that should be so well made or conceived that its value holds or even improves over a longer period of time. This is followed by a form of delivery (usually a human action) that outshines all comparable methods, such as a most dedicated and refined service. Finally, we should not forget the perception of the recipient or beneficiary. The latter is obviously a more subjective aspect in the definition, being both a result of a level of expectations in comparison to other similar items

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2. In this text, the expressions "educational environment" refers to an institutional learning environment for adult education and training and is used interchangeably with the words "school", "university", "educational institute" or "training center".

3. The words "student", "learner" or "participant" are used here to mean the same.

(short-term perception) and an experience that remains memorable (long-term appreciation).[4]

Another approach to defining the quality of something is by considering its purpose or functionality. But this functional approach works only for some items or expectations.[5] For example, if the quality of an automobile is defined merely its ability to take you from A to B, then the least expensive old rattling vehicle will do just as well as a luxury one. With education, the function-oriented perspective or utility is often used to justify specific contents in courses or programs which, according to their proponents, must produce desirable outcomes – making students employable, for example.

We know that a practical education with a focus on applied skills which the job market needs will help students find employment. It is commonly accepted that a degree in higher education usually assures graduates a higher income throughout their working lives (OECD, 2018). The utility or purpose-oriented approach to education and training commonly offers a simple and pragmatic answer to the question "why promote education".[6] However, it may be wrong to assume that if students find employment quickly after their studies, that then the education must have been of quality. As with the automobile example above, getting students from A (admission) to B (into a first job quickly after graduation) may not be enough to consider this education to have been of quality. Rather, next to enhancing the employability of students, we could ask that a quality education focusses on important learned aptitudes and personality characteristics important for the graduates' future. Such aptitudes would be a heightened awareness by graduates of their influence on their environment, the importance of clear and critical thinking, of broad creativity, useful survival skills, cross-cultural communication skills, as well as team-building or social inter-face skills.

We might thus conclude, if we aim for quality, that "education aims to fulfil multiple purposes; including preparing students for active citizenship, for their future careers (e.g. contributing to their employability), supporting their personal development, creating a broad advanced knowledge base and stimulating research and innovation" (ESG, 2015a: 53). Getting students into jobs quickly may thus merely be a measure of how well a school achieved a stated short-term objective. This is not unlike a shopping trip to the grocery store in order to have dinner on the table. If dinner is a direct result, then the shopping was purposeful. However, to have a quality meal, care could be given to the original sourcing of the food, its composition, its preparation, as well as the beneficiary's experience of relishing a delicious and healthy meal in a pleasing setting in order to then consider it for its quality.

Therefore, an education that renders students employable may be useful and practical; however, we know that students also decide to pursue further education and training in order to advance in their personal and professional development, to earn a diploma or certificate they can be proud of, and thereby gain confidence in work-related and personal skills. When schools state that

4. In this paper, we use the word quality only to refer to something that is considered better than other similar items. Not included here are expressions such as "poor quality" or "average quality" because these merely mean the item is poor or average in its development or delivery, and the word "quality" in the phrase is redundant. Similarly, it is unnecessary to call something "superior quality" as the adjective already states the obvious.

5. The word "functional" is used here simply to mean that the development of something is guided by its stated purpose or goal rather than by other desirable characteristics.

6. An example is of this common assumption was recently communicated by UNICEF with regard to young people asking for better education to have access to more jobs. https://www.unicef.org/press-releases/young-people-davos-leaders-more-jobs-better-education

their purpose is to prepare students for success in their professional lives, then more than merely the expectation for quick employability enters into the picture. A school's ambition must then become broader and encompass some type of learning facilitation that will help students discover their own personal potential.

Merely offering learning contents within an educational setting that is outstanding does not mean that the education is of good quality. "Quality, whilst not easy to define, is mainly a result of the interaction between teachers, students and the institutional learning environment" (ESG, 2015b: 53). We can, however, identify the elements of this interaction. First, expertly crafted learning contents provide learners with relevant, timely and applicable knowledge and skills. Second, learning also to challenge learners to go beyond their comfort zone and discover their aptitudes or potential so they can then find their individual strengths. Third, quality implies that learning is facilitated in an innovative, interactive and functional (purpose-specific) manner, not to better entertain the students, but to promote reflective approaches to learning that incite critical thinking and self-awareness.

Finally, we might also agree that "[a] good quality education is one that provides all learners with capabilities they require to become economically productive, develop sustainable livelihoods, contribute to peaceful and democratic societies and enhance individual well-being" (VVOB, 2012).

SERVICE AND QUALITY OF SERVICE

In our common understanding, when we speak of service, we mean something given that is of use to someone else. When helping someone to achieve something with knowledge or skill, then this service becomes a form of enabling or empowerment for the recipient, such as facilitating learning or enabling a new level of awareness. Service becomes a marketable good when it is standardized and provided for a fee. In economic parlance, service implies two things: a transaction that is given a financial value on the supply side, and a willingness to pay for it on the demand side.

Many industries like to label themselves by the word service. For example, tourism, hospitality, retail, and sometimes even consulting. All these, and many other industries, like to express the service they deliver as their principal product for their clients, customers, users or beneficiaries. Some of these have developed detailed definitions and guidelines on how they supply the service and the level of quality they deliver. They train their staff to adopt a service-oriented approach towards their clients or beneficiaries and to continuously improve performance and keep standards up.

Service can be approached from two sides, the "soft" service side provided by human beings, and the "hard" tangible aspect, such as objects, information, or specific activities provided by the service provider.[7] The tangible side of a service is mostly to be considered as the material side

of the delivery such as the infrastructure, the tools and the platforms without which the actual service cannot be given (the amenities in a hotel room, the teaching tools in a classroom). In

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7. It will be interesting, in the near future, to find out whether the service industry will want to define activities rendered by robots as "service", as in, for example, the on-time pizza delivery at your home's doorstep by a robot: is this a service or just a technically-programmed execution? It is this author's opinion that a service is recognized only through inter-personal appreciation that comes about when people give or receive attention.

contrast, a service-oriented attitude is the "soft" aspect which is mostly the result of how the service providers act towards the beneficiaries. For example, we have all experienced eating in a restaurant where the "hard" aspects of service were good, but where we were disappointment about poor service.

Developing a service-oriented attitude and approach is the ambition of many service-oriented organizations, companies and businesses. But training staff to adopt such an approach is not as straightforward as training for technical skills. In a formal way, training according to standardized processes and service skills is important in order to ensure that services are provided according to explicit criteria which can be taught, measured and followed-up with. Specialized schools, service-industry associations or service licensing agencies offer support in defining the processes and workflow for the provision of services. Such agencies exist in many countries where the service industry forms an important part of the economy, and they generally measure tangible outcomes, as well as and processes and elements thereof in a service delivery which can be reported on and improved through training and business development. [8]

While services may follow specific standard processes to achieve reliability and consistency, the lessons taught by quality-oriented service licensing agencies tell us that quality in a service comes about when the provider keeps promises made, that what is offered is given from the heart (consideration and attention to detail), that ordinary services are given in extraordinary ways (providers go the "extra mile" when giving service), and that the client's expectations are surpassed. (Frankholz, 2011) Most telling, therefore, whether a service is of quality is the subjective aspect of the beneficiary's evaluation, in particular that which touches the emotive aspect of a service recipient's perception.

In order to develop quality along with standardized services, quality service agencies insist on the development of feed-back loops in a systematic and dynamic process that lead companies and organizations to learn and improve on a continuous basis. Such a process would have the following four general steps: planning, realizing, measuring, and improving. As part of this learning process, service companies must assess all the steps in the service chain from the first contact to the final departure or end of a service cycle. In between, there are inter-dependent processes that need to be identified and evaluated for their influence on the client's experience. This leads to an evaluation of gaps in the service chain, such as in communications or in practical or personal support, in order to see how these can be closed. The staff involved, the personnel who meet the client at any moment in their journey, can give of their best when they benefit from appropriate training and continuous support to improve their performance (Frankholz, 2011).

It is thus interesting to realize that when service becomes a quality service, it fulfills not only expectations but surpasses these and provides for a long-lasting memorable experience. One might say, therefore, that quality service is both fine craftsmanship and ingeniously-skilled ways of delivery that are continuously tuned and adapted to the expectations and needs of the beneficiaries. Therefore, when we speak of quality service, we usually mean something that is practical and tangible (quality craftmanship), as well as something that is more subjective such

8. Most industrialized countries today have service-industry associations that both teach and certify service providers for the quality of their service. An example of a quality-service association that offers training, evaluation, controlling and certification of quality service at the national level is ServiceQualität Deutschland in Germany. See further: https://www.q-deutschland.de/

as, first, how the provider shows passion, enthusiasm or commitment, and second, the way the beneficiary experiences this service and compares it to what was expected.

EDUCATION IN THE SERVICE INDUSTRY

Any formalized process that can be broken down into measurable parts can be traded, including a series of services along a value chain. A school's internal operational processes also form a value chain from conception to delivery, or from recruitment to diploma, which, as in most industry processes, can be standardized for commercial purposes. This was proposed more than 25 years ago when developing the service sector was at the apex of the global faith in the liberalization of free trade.

The World-Trade Organization (WTO) provided for education to be part of the services sector in the WTO's General Agreement on Trade in Services in 1995 (Verger, 2012: 104; Knight, 2008: 149). Remarkable was that education was included in that part of the services industry which would no longer be a prerogative of national education ministries. Rather, education became an internationally tradable service, similar to a hotel service or a consulting service. This agreement liberalized all types of education and training and favored international investments in such institutions that could sell shares or buy into previously national educational private, public-private, or multi-stakeholder schools.

We may recognize that some elements of the education "industry" form a part of a service that can be measured as tangible and intangible assets such as the brand name, the ability of the school to recruit students, the sale and delivery of on-campus or on-line learning, as well as traditional student services (advising, career orientation). These can be scaled and standardized, and then be bought and sold in a service market. This worked to the advantage of international business consulting services, brand-name hotels, or other industries in the services sector. The education industry was not spared from this development and many schools have been developed or merged under the umbrellas of large investment funds.

There is, however, a difference between trade and standardization of services in common service industries, and the provision of service in education. This is particularly so when service in the educational context needs to be of quality as defined here. Service will then not merely remain a process of a timely provision given from start to end of a project that ensures profitability. Rather, quality service in education must focuss on facilitating learning at the pace of individual student needs. This means that project efficiency cannot be accounted for or scaled in the same manner as standardized services by other types of public or private service providers. A major reason for this difference is the following: schools that align service quality with the needs of each individual student, and that place learning facilitation at the heart of their daily operations, are no longer following the logic of normal educational institutions - whether these are traditional state-financed institutions, or whether they are non-profit of for-profit schools. Rather, the logic they will follow is one based on the vision which their institution follows and the reputation they thereby create among their community of students, stakeholders, instructors and staff.

And one may go still further in this reflection on quality service in education. For example, when the quality of service means to attend to the needs of individual learners, it may be necessary to consider the extent to which this service not only address the needs of learners as students, but

also the impact they will have through their acquired learning on the future of society? [9] This consideration of quality service in education as not merely as a service provided during a limited time when the learner is studying, but for the future of the school's graduates is not as unusual as it may appear. A number of schools do consider the influence that education has on their students' lives and they do so according to their vision or stated purpose.[10]

REACHING FOR QUALITY VIA ACCREDITATIONS

Most institutes of higher and continuing education participate in a national and often a global effort to stand out through the accreditations and certifications they acquire. The rationale for this seeming competition is a logical one, namely to provide assurance to future learners and stakeholders that the school or university is officially recognized as legitimate. Acquiring valid recognitions from accreditation and licensing agencies provides schools with accepted norms by which standard operational processes are set up, enforced and controlled by external observers.

Accreditations and certifications generally give an assurance that specific prescriptions in educational and academic operations are observed, and that these are regularly audited. In this process of evaluation, measurements of a school's performance emphasize the explicit aspects of operations for the simple reason that the intangible or implicit elements, such as human interest and commitment or the culture of teaching and learning, are more difficult to formulate, measure and report on. Most accreditations do attempt to incorporate some of the "soft" or intangible aspects of a school's internal performance in their audits and reporting requirements. For example, they may ask for data on student evaluations of their studies and teachers, student attrition, the time it takes for students to find meaningful employment once they graduated, as well as in-house student services, and at times even student engagement in extra-curricular activities and services that aim to improve the student experience on campus.

However, the enrichment of learning, the values and motivations that underpin the commitment

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9. While it is beyond the scope of this paper, it is worth noting here that if industries of any type are increasingly being given the responsibility for the impact they have on the environment, as well as on the lives and communities of their employees and the employees of their sub-contractors anywhere in the world (ex. the tourism, sports and garment industries), then one might also come to argue that schools of any type share a responsibility to educate students to become sustainability-conscious stewards of our future society.

10. Since more than a century, various types of schools and universities have developed quality and service standards that are based on values, visions and purposes which go beyond expected norms. Among them are specific faith-based schools around the world, as well as educational and executive training institutes that have developed impressive philosophical and pedagogical foundations on which they operate. Characteristic among them is that they consider the whole person instead of focusing only on teaching specific technical or intellectual skills. They incorporate innovative and sometimes alternative or reform-oriented pedagogical approaches where both technical and life-skills are aligned. For example, one might regard the Finnish public school system as such an alternative learning provider where no student is left behind and where the future of the country's social and economic cohesion is a central value. Other alternative education models are the Montessori and the Waldorf schools (also known as Rudolf Steiner schools), the Jenaplan schools, the Aurobindo schools, and a number of others. At the higher-education level, innovative pedagogical approaches are offered at the Quest University in Canada, the Rudolf Steiner university in Sweden, the Alanus University of Arts and Social Sciences in Germany, or the OASIS School of Human Relations with novel approaches to executive training in the UK. This is but an incomplete list of schools that opt for new service approaches in teaching and learning; many others with reform-oriented pedagogical approaches exist around the world.

and dedication with which teachers and staff facilitate learning - these intangible assets of a school - are rarely considered by accreditation agencies. To compensate, accreditations can consider faculty development in terms of numbers of hours of teacher-training per year, for example, and they can also look at the engagement by members of the alumni with the school. These are all quantifiable data from which some information about performance, consistency and appreciation by students and graduates can be interpreted.

The standardized accreditation and certification performance checks do not tell us whether the students' journey and their learning is enriched through such intangible assets as teacher motivation, passion for facilitating learning and personal dedication to the success of individual students. Neither do accreditations ask whether instructors are personally engaged, on their own initiative, to support the school to prosper because they may believe in its vision and purpose. This implies that if we want to look for quality in education and not merely whether a program produces employable graduates or is officially recognized by a licensing or accreditation agency, then we might need to examine how students are provided with enriching learning that remains of value over a longer period of time than that of the journey in the school.

As mentioned earlier, quality implies that something is conceived with expertise, provided in an outstanding way, and remains of appreciative value over time at the expected level of craftsmanship. In the field of education, this would imply that a school and its staff and faculty make a continuous effort to provide their very best over the long-term. Together they contribute with students and stakeholders to realizing continuous feed-back loops so that their school grows and prospers as a learning organization (Senge, 2012). We conclude here, then, that while the operational and programmatic aspects of running a school can be replicated, monitored and labelled, and thus traded, the actual added values that define quality in education and quality service may not be amenable to such a standardized approach. And this brings us to one of the major challenges schools face, in particular when they compete in an international market to recruit students, namely that their graduates also must be prepared to compete for jobs and personal career opportunities in this global marketplace.

SKILLS FOR A CHANGING MARKET

The rapidly-changing job market for graduates today is the result of a globalization of industries, trade and services, as well as due to innovations through the application of digital technology and automation. Graduated students will most likely change jobs or career directions many times in their lives. This raises the question to what extent education must focus on practical and technical skills, or focus on analytical skills and professional competencies, so that graduates will have better chances to do well in the rapidly-changing industrialized and complex social environment they live in. "Lecturers now need to assist students in developing new analytical skills, causal linkages and capacity to put information in a context" (Craen, 2018: 16). In part, this capacity comes through learning the four "Cs", as Harari states, namely: Critical thinking, Creativity, Communication and Collaboration (Harari 2018, 262). These personal and social development skills (soft skills) allow an individual to communicate in the appropriate manner, know how to build trust to collaborate effectively with others, come up with creative options when faced with challenges, and think in lateral ways that help to avoid pitfalls, manipulations (fake news, faulty data) or rash behavior.

With the rapidly-changing employment market, it becomes perhaps necessary for all types of schools and training institutions to do more than just focus on employability through teaching practical and technical skills. Such a focus may lead to a misunderstanding of the purpose of higher and continuing education. This occurs when the commercial approach to education, like in other brand-oriented consumer markets, emphasizes the label, the name, the certification or the title rather than the purpose of learning. A consequence is that students often come to believe that all they need is a famous label to enter into a career.

Recent research indicates that vast numbers of students in north-American higher education (and probably around the world) treat their studies merely as a means to earn a title or diploma rather than a chance to build lifelong skills (Caplan, 2018). One of the reasons for this is that employers select job seekers on the basis of the label or diploma they have, not on the basis of skills and societal awareness they acquired during their education. Conformity, signals and labels appear more important, especially for the short term. Students therefore come to believe that all they need is an easy short-cut to a diploma. What Bryan Caplan does not say is that students short-circuit their own career success and the sustainability of their own future economy by avoiding the more arduous acquisition of life skills, critical thinking skills and awareness of societal and environmental transformations.

We can but agree with Bryce Taylor that continuing and higher education should propose a quality service that encourages "learners to explore how to manage the uncertainties of planning their own learning process, how to collaborate with others in a similar endeavor and how to take shared responsibility for the outcomes. These are things that must inform classroom activity if we want citizens who are self-critically aware and responsive to those around them" (Taylor, 2007: 47). Students can acquire analytical skills, self-awareness and responsiveness, as well as understand causal linkages, when a school sees its purpose as one of bridge the short-term needs of students and the long-term vision for life-long learning. This creates the space where the teaching of both practical skills and long-term life skills can be supported by pedagogical methods and techniques which emphasize critical self-awareness and creative adaptive skills. How can this be done? One way is to offer student-centered reflective learning through which students become capable of independent thought, responsible in their decision-making and continuously open-minded and creative in how they go through life (Senge, 2012: 65, 244).

"The new approach to education should become more bespoke, individual or personalized. The idea is to transform our education system so that it conforms to the learner, and not the system (Green et al., quoted in Craen 2018, 17). When considering the students' employability and their life-long learning and impact on society together, we can resolve the age-old dualistic approach to education and training (Böhm, 2012: 117). This bi-polar perspective is often expressed in the debate between those who believe education and training must lead to immediate and tangible (explicit) results through social and industrial training (employment, contributing to economic growth), while the other side insists that education is intended for learners to discover their individual potential, create their own sustainable future, and acquire greater awareness of self in society (Hougham, 2012: 21).

The main argument here is that this age-old dichotomy is not useful any longer because of the rapidly changing social and economic environment for which students must prepare broader life

skills and where they must find employment as graduates. [11] Animated by the vision of quality service, schools can bridge this dichotomy. This can visually be represented in the following typology. Three simultaneous stages of learning, teaching, values, guidance and awareness can be identified that span both ends of this dichotomy. For example:

The learner's expectations, skills and long-term growth:	The school's purpose, interest and learning:
Acquiring technical and pragmatic skills for finding employment or creating jobs, and individual competencies for long-term professional fulfillment	Providing learning contents that respond to the demands of the economy and the job market, and that ensure the learners' acquired professional competencies are relevant
Acquiring individual insights for personal development towards greater awareness of self in society and opportunities to shape the future and take responsibility for decisions made	Guiding learning and teaching with purpose, vision and values to lead by example in responsible leadership, conscious decision-making, and a desire for life-long learning
Acquiring individual critical thinking skills, self-reflection and creativity skills to navigate the ever-changing global economy and societal transformations	Enabling its own organizational learning by engaging in feed-back loops for the school and for its instructors to continuously improve and adapt their performance

The upper and lower horizontal rows provide a parallel between the learner's expectations and the school's interests - both need to prepare for how they will subsist in the current environment (upper row) and both need to continuously learn and adapt to change for the long-term (lower row). Thus, the upper and lower rows represent the two different approaches to education and training. The middle row is the bridge over this dichotomy. It represents the personal development for the learner on the left and the organization's learning for the educational institution on the right. The bridge is made by the intentions and values with which the school operates, and which should be visible in its explicitly-stated objectives and vision in favor of the short- and the long-term benefits for its students and participants. By taking responsibility for its decisions and objectives, the school sets an example of leadership for all learners, instructors and stakeholders, and this may motivate students to do the same, to take responsibility for their own learning and their impact on society in the short- and the long-term.

Because of the school's leadership in framing its values and stating its purpose openly, it bridges the dichotomy between technical skills (upper row) and the adaptation skills (lower row). How is this done? This bridging between teaching and learning technical skills at the top and the personal and institutional adaptation skills at the bottom is possible when the learners' interests and the organization's purpose are aligned. Such alignment occurs when the educational institution bases

11. This dichotomy has existed throughout the history of education since classical civilizations where schools either offered life-learning skills in medicine, law and philosophy, or they offered practical vocational and engineering skills.

its operations on a foundation of values that are in alignment with those of the learners' short-term expectations and long-term personal growth. Thus, in the left column, that of the individual learner, the bridge passes through the responsibility each student has for their self-awareness and personal growth.

In the column on the right, the bridge links the educational institution's adaptation of learning contents to teach technical skills (upper box) with the organization's own learning and self-awareness without which it cannot adapt and grow (lower box to the right). As regards critical self-awareness, Senge, et al., go so far as to say that schools and universities need to become living learning organization for their own long-term survival and evolution (Senge, 2012: 65, 244). This long-term evolution is supported by a school's ability attract instructors, staff and external supporters and stakeholders who believe in the school's objectives and the values it stands for.

SERVICE OF QUALITY IN EDUCATION

When the values and purpose of a school are in synch with the sources of motivation of instructors, and when the same school interprets the word service to mean a provision of something useful to others, then it is precisely this element of service that invites teachers, trainers and staff to give of their best. We might agree that a quality service can be understood as a skill which can be learned, as quality auditing agencies teach. However, such a service may remain something similar to a service delivered in any other industry. For schools, it may be necessary to consider that services are accompanying learners in their learning journey which are individual and unique for each student. The inter-personal relationship between students and instructors is unlike that of a hotel staff member and a guest, or that of a consultant and the client.

As mentioned earlier, the standardization of parts of service processes is undoubtedly necessary to ensure consistency and reliability in education. However, norms and standards do not go beyond the expectations of beneficiaries. In the educational context, going beyond expected norms happens when, for example, motivated teachers motivate their students. This is part of the more subjective aspect of quality and service as mentioned earlier, and it is difficult to prescribe, measure or standardize these. But the outcome is clearly visible in the feedback from students, graduates, and the dedication to a school's development shown by members of the alumni. Learners in a classroom or participants in a workshop notice immediately when teachers or facilitators are not only knowledgeable in the fields they teach, but are also passionate in delivering stimulating, motivational and enriching learning experiences. Personal motivation to deliver the best possible service is most often the result of a conviction on the part of instructors and staff that they want to participate in the vision and purpose of the school and thus contribute to the value of the students' learning journey.

What helps us understand the quality of a service in education is by considering individual dedication, commitment and value that is provided by all staff members and instructors that meet with students. When student advisors, trainers, staff and instructors share their motivation, their passion, or their support for the school's vision and purpose through their work, they will also transmit this enthusiasm to the students (Bailey et al., 2017). Educational institutions that manage to continuously motivate their staff and faculty to deliver their very best for the benefit of their students inevitably develop a reputation for what the school stands for.

To conclude this final section, it is important to note that this approach to quality service in education is not complete. There is room for further research that explores the impact of a service-oriented vision in education and training, and one entry point for this is to elaborate the human-resources management approach which promotes values for which employees and instructors may give of their best (Folkman, 2014). Another approach is to focus on innovation in pedagogy that is underpinned by either visionary or value-driven motives of facilitating learning and awareness for a better future.

What remains at the heart of the quality of service in education, however, is the nature of the interaction between the school's staff and instructors and its students. We know that when teachers are passionate not only about the subject they teach, but also about the school they teach at, or how together as a community they shape and enrich their students' experience, then they create an added value through their engagement which goes beyond expectations and beyond the required standards for quality assurance set by accreditations, by rating or by licensing agencies. What we come to uncover here is that the quality of service is to some extent the result of a school's vision and stated purpose, as well as the result of the dedication with which teachers and staff go the extra mile to give personal care and attention for the students' needs and in support of the school's organizational learning and evolution.

CONCLUSION

When we speak of quality in higher and continuing education, we rarely see the word service in the same phrase. Even though education has become part of the global service industry through international trade agreements where its standardized workflow processes can be linked together as in a value chain for investors, the word service taken in its other meaning, namely as a service of something useful to others, is rarely mentioned in the context of education.

This article took the position that because universities and continuing education institutions face a highly competitive environment where they feel pressured to vie for position and ranking, and because their graduates face an uncertain job market, these very real pressures have an enormous impact on the nature of the education industry. However, schools can bridge the traditional dichotomy between teaching marketable skills and life skills when they engage their stakeholders in realizing their vision and stated purpose. This approach to education is both pragmatic for the student's employability and wholistic for the students' future well-being.

We have seen that quality in education and quality of service emerge when, first, expertly crafted contents are provided by the school and its instructors; second, when skillfully facilitated learning gives graduates greater chances to find employment as well as help them acquire adaptable life skills for their future; and finally, when the beneficiaries and stakeholders continue to support the school. Most of these elements are also prescribed by licensing and accreditation agencies. They require a maintenance over the long-term of a process of feed-back and continuous improvement that facilitates organizational learning. However, the element which is not easily measurable by such agencies is the very nature of the motivation and purpose for which a school's staff and instructors provide their service and which sets them apart from other types of service industries.

We know that when professors and trainers are passionate about what they teach, and when the

school's staff and stakeholders believe in the school's purpose and values, they inevitably enthuse their students and create an organizational culture that is unique. When a school professes openly that its vision, purpose and daily operations aim to provide the best possible service in full alignment with the students' needs for short-term employment prospects as well as for their long-term personal development, then such a school invariably creates a culture that enlists its staff and teachers to give the best of themselves. The characteristic quality of their service is the result of a school's stated purpose as well as of the shared objectives for which teachers, staff, students and stakeholders come and hold together as a community dedicated to the students' and the school's learning.

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ORGANIZATIONAL METAPHORS – THE CASE OF ORGANIZATION DEVELOPMENT INTERVENTION AT ABC BUSINESS SCHOOL

Anju Kamal

"Strange words simply puzzle us; ordinary words convey only what we know already; it is from metaphors that we can best get hold of something fresh."

Aristotle, Rhetoric, III

ABSTRACT: *The objective of this case study is to explore the application of organizational metaphors in realistic contexts. Metaphors define the realities that we exist in. Metaphors give teams and institutions an orientation of direction, definition of their past and principles for existence. They help answer queries about the organization like, "What is my Organization like - is it a family, a prison? or a jungle?, To what kind of Organization am I contributing to? According to Gareth Morgan (1986), Aristotle was among the earliest to recognize the role that metaphors play in the creation of knowledge. To extend our understanding about Organizations, in the book Images of Organizations, Morgan (1986, 1997) presents eight metaphorical images: machines, organisms, brains, cultures, political systems, psychic prisons, flux and transformation and instruments of domination. The unit of investigation in this study is the Organization called as ABC Business School. Data for developing the case was gathered through observation, formal documents and from interactions with the stakeholders in the case. Through the analysis of the case of Organizational Development Intervention at ABC Business School, this study concludes that ABC Business School can be depicted through the brain metaphor. The study asserts the fact that ABC school adopts the double loop learning characteristic of brain metaphor where the learning focus is on the adjustment of models, approaches, and continuous learning in order to respond to changing circumstances. This study which looks at the application of organizational metaphors in realistic contexts also offer further insights in to the suggestions and evidences as to who are the stake holders involved in running and leading organizations towards prosperity and growth.*

KEYWORDS: organizational metaphors, business schools, organization development intervention.

METAPHORS

According to Gareth Morgan (1986), Aristotle was among the earliest to recognize the role that metaphors play in the creation of knowledge. Aristotle contends that halfway between the incomprehensible and the ordinary, it is the metaphor which helps to produce most knowledge (Morgan, 1986). Metaphors contain representational language which is fundamental to the rational processes that human beings use to establish facts, meanings and truth (Ortony, 1979). These symbolic languages can be considered as apparatus which gives glimpses of the meaning and make sense of the world that we live in (Ortony, 1975; Oswick, Keenoy,& Grant,2002). Human beings can also use metaphors as a resource to make up the meaning of their activities (Lakoff & Johnson, 1980). Through metaphors we can experience and define one phenomenon through another. (Lakoff &Johnson, 1980). Metaphors help to shape our perceptions about our cultural and corporeal experiences which are shaped and developed through discourses (Hogler et al., 2008).

Interest in the study and research of metaphors has exponentially increased over the last two decades with researchers becoming appreciative of the fact that metaphors are a part of organizational theory (Oswick et al., 2002; Tsoukas, 1991) and can be used as a medium to figure out the activities and performance of organizations. As metaphors reflects a view of how we comprehend our existence, these prospective tools can help us in the formation of insights about a complex entity such as an organization. (Cornelissen and Kafouros, 2008). Gareth Morgan in his book, Images of Organization proposes a constructivist view on the understanding and advancement of theory with respect to organizations. Jermier and Forbes (2011), contends that Morgan's work is a worthwhile resource for organizational studies to extend the knowledge in the metaphorical foundations of the field and the associated literature. Morgan (1997) contends, that metaphors are the foundations of our thought process and most organizational theories are by nature metaphorical. Morgan further argues that to gain in-depth understanding about the complex nature of Organizations metaphors serve as apparatus through which we can understand, interpret and recognize the associated complexities.

Morgan in his book Images of Organizations, (1986, 1997) presents eight metaphorical images: machines, organisms, brains, cultures, political systems, psychic prisons, flux and transformation and instruments of domination. These eight metaphors characterize organizations from different dimensions extracting the unseen aspects and giving deep insights about the functioning of the Organizations. Each of these metaphors is explained in the following section:

Organization as machine

This metaphor depicts the organizations which function as a machine. When Organizations are depicted as machines the emphasis is on increasing the productivity and optimal utilization of the labor resource (Itkin & Nagy, 2014). Such organizations have unyielding configurations, hindering fast variations and modifications to any change (Itkin & Nagy, 2014). These models suggest that managers focus on productivity, accuracy, certainty, and dependability. A mechanistic system with such specifications (Dessler, 1980; Goldhaber, 2000; Morgan, 2006) reinforces the bureaucracy of organization as each segment plays a part which is pre determined and which contributes to the functioning of the entire system. Such organizations assume specific division of jobs, top-down hierarchy, thorough guidelines, and instructions. (Elkind, 1998).

Organization as organisms

Organizations depicting this metaphor can be considered as open-systems which is similar to the biological organisms, with a need to persist and develop through "variation, responsiveness and the taking in to consideration the situation in which the organization survives" (Itkin & Nagy, 2014). Organizations considered as living organism represents the indication that they retain a fixed configuration which comprises of interconnected subsystems that are in association with each other. This outlook derived from the contingency theory accepts organizations as open systems which need to actively search for any discrepancy and impairment in the operations and try to rectify them. Such organizations are required to fulfil and attain a balance between their internal needs and external environment in which they are operating (Itkin & Nagy, 2014).

Organization as culture

In anthropology culture is defined as an association of collective meanings and symbols (Geertz, 1973).In an Organizational context culture can be viewed as a process that is continuous and that requires deliberate efforts through which meanings are constructed shared and transmitted and metaphors based on culture can help in the formation and alteration of realities (Morgan, 1996). Culture within the organizations are constituted when individuals allocate the necessary task solutions between themselves in the group (Quinn,2005). Task solutions are an outcome of the group's innovative ways to find solutions to persisting problems and adversities (Hutchins, 1995). Shared meanings and capabilities constitute to what is retained based on different contexts and enables the construction of social realities which can drive change with in Organization.

Organization as psychic prisons

 This metaphor depicts an organization where managers strive to reach an understanding about the factors which have an impact on people and groups so as to regulate and consider the undesirable effects and encounters within an Organization (Morgan, 2006). Managers put efforts in recognizing the strategies, unions and alarming episodes which results in undesirable outcomes in organizations. In such Organizations the awareness regarding the factors which results in undesirable outcomes can assist the leaders to drive the Organization in the right direction. (Morgan, 2006).

Organization as a system of politics

The political metaphor depicts an Organization as a fluid linkage of people who have different interests who come together for a purpose. (Morgan, 1986). The key concept in such an organization is that the power is the only means through clashes of various interest are fixed (Walsham, 1993). The jobs executed within organizations are entangled to the official maneuvers of power. (Foucault, 1976). The thinking mode of Organizations as system of politics does not take into consideration the group's concerns and often favors the authoritative power.

Organization as flux/transformation

This metaphor characterizes Organizations as having a chaotic, paradoxical, contradictory nature (Itkin & Nagy, 2014). These Organizations change and grow to follow to change and progress and hence depend on on internal and external environments (Coboetal, 2012). Change can be in the

form of a system of shared causativeness produced by both affirmative and undesirable feedback. (Walsham,1993). The transformation can also be through autopoiesis. According to the concept of Autopoiesis, the nature of biological systems such as humans are self-referential (Maturana and Varela, 1980). Morgan (1997) also warns that when Organizations adopt an outlook which is self-referential the focus of a broader environment in which they act should also be taken in to account.

Organization as a tool of domination

 This metaphor depicts organizations where the employers and employees dedicate themselves completely to their work and business suffering nervousness and anxiety on the job. (Cobo et al., 2014). The notion that certain personalities have a controlling influence over others is conveyed forth with this metaphor (Walsham, 1993). Morgan (1997) argues that in such organizations domination is implemented in various ways such as the mistreatment and mismanagement of employees within each organization, established favoritisms and similar discriminations which exists in society.

Organization as brain

In the current times when Organizations are characterized with rapid technological changes there is a need for adaptation through continuous learning. The significance of this rational method of functioning is depicted through the brain metaphor. Organizations depicting this metaphor are regarded as multi-dimensional holographic units which integrate centralized and decentralized features, multifaceted schemes of knowledge gathering, and information dissemination models (Itkin & Nagy, 2014). This metaphor has taken cues from the reformulating requisite variety theory by Ashyby (1960) which states that - the intrinsic diversity inherent within each system which controls itself is necessary, to adapt and grow in the situation in which it exists. This characteristic can be considered as the holographic design or the manner in which the DNA of the total body is implanted into each cell. An organization which depicts this metaphor is competent of amending itself by modifying its operations optimally through various standards. Morgan (1997) refers to this process as double-loop learning which arises as a result of complexities associated with development.

ORGANIZATION DEVELOPMENT - OD

Organization Development (OD) is an approach dealing with the management of change. It helps the organization to improve through modifying policies, authority, management, and categorizing job. Kurt Lewin (1898–1947) is perceived as the father of OD. The need for an OD arises when the leader identifies an adverse situation and seeks to modify it. The basic underlying principle of OD is behavioral science. OD happens through a sequence of planned activities, aimed at long term orientation that brings about a behavioral change. Hence, OD can be considered as an organization improvement strategy.

There are multiple definitions for the term Organization Development/OD. Richard Beckhard defines organization development as an attempt that is deliberate, and happens across the organization, which is managed by the top management, in order to increase organization effectiveness, by using deliberate interventions in the organizations processes using the

knowledge of behavioral science (Beckhard, 1969). OD is also defined as a planned process to test the behavioral science values and practices in organizations to increase employee and organizational effectiveness (French, 2008).

METHODOLOGY

A case study research is best suited in studies *where a how or why* question is being asked about an existing set of events over which the researcher has less or no control (Yin, 1994). This study on the application of organizational metaphors in realistic contexts targets organizational metaphors in used in practice which were not accessed by researchers. The study aims to pave way to expose thoughts and outlooks within the Organization with respect to diverse challenges that the Organization faces. Since the researcher has little or no control over the existing phenomenon, case study method is well suited for this study. Through examining the case of OD intervention at ABC Business School, this study aims to bring out the metaphor that can be best suited to depict ABC Business School in the practical context. The unit of analysis is the Organization called as ABC Business School. Information for developing the case was gathered through observation, formal documents and from interactions with the stakeholders in the case.

The case of OD intervention at ABC Business School

ABC Business School, functions with the aim of providing specialized business education preparing students to face the challenges in business environment with confidence. In order to improve the student's capability to manage the transition from the campus to corporate world, the management of the school decided to upskill the communication levels of the first year MBA students through an OD Intervention. The external OD consultant was hired by the school to bring about behavioural changes among the first year MBA students of the institution which would improve their communication skills and confidence levels. The training programme was organized by the school's management and the Industry Interface Department, which takes care of the placement trainings and final placements of students in to Organizations.

The main objective of the program was to bring about improvement in the communication skills of students as well as to increase their confidence level in order to prepare them for a competitive corporate life. Improving intergroup relations among group members was the next objective. Since a behavioral change is involved, the program classifies to be an OD Intervention. The program was planned to be conducted in three phases at different time periods. Following a sequential model each phase dealt with discrete modules which were prescribed by the consultant.

In the general frame work for guiding the OD consultation process (Cummings and Worley, 2009) describes the four important activities that are jointly carried out by the practitioner and the organization for planned change. The process initiates with entering and contracting followed by diagnosis, preparing and executing change, and evaluating and institutionalizing change. The intervention was customized predominantly based on T-group and Appreciative Inquiry methodologies. The programmes comprised of face-to-face interactive sessions as well as offline programmes like preparing an autobiographical sketch, learning journal, book reading and review, inventories, learning triad and behavioral experiments. Face-to-face sessions included personal growth lab and workshop on mentoring for summer internship. The programmes were conducted at three phases. The first module was on the concept of Personal Growth Lab, the

second module concentrated on team building activities while the third module was aimed to mentor the students for summer internship.

The consultant during the first phase of the programme divided the students into two groups where one of the groups attended the personal growth lab (PGL) and the other group was made to form a self-managed group (SMG). The Personal Growth Lab used T-group methodology. The SMG was asked to form groups of three members each in order to bring the concept of "Learning Triad". The self-managed group was asked to write their autobiographical sketch and then share the experience of writing the autobiography with their learning triad and their reflections on it. The ideology behind writing the autobiography was to go back on one's past and reflect on it. Analyzing the autobiography using transactional analysis (Eric Berne, 1950) would provide deep understanding of the behavior of the student. They were also asked to conduct an appreciative interview with their learning triad by taking turns of interviewer, interviewee and observer. Their experiences and reflections were then shared with the triad. Inventories for prioritizing and completing the personal development goals were provided to the SMG and they were asked to complete it, discuss in their triads and get feedback. As the next step they were asked to write a journal about the day's experience and share reflections in the learning triad.

The second module of the training program was conducted during the second phase which happened two months later. The objective of the second module was to learn to work as an effective team member, learn the essential competencies to become an effective professional and to explore the leader-follower dimensions. The methodology used was activity based learning. Participants were given opportunities to understand about their learning style and use the adult learning cycle of experiencing, observing, conceptualizing and experimenting to improve their proficiency in competencies to become an effective professional. The second phase involved team building activities like creating a township, puzzle solving, outdoor games and creation of products using the image given to them. Each member of the team was then asked to take-up roles as production manager, operations manager, chief operating officer and chief executive officer and discuss about the product and its marketing strategies. The philosophy behind the activities was to test the leadership skills and team dynamics of the students since students were put in different groups during different activities. This gave the students an opportunity to interact, discuss ideas and manage conflict and emerge as an effective team member.

The third and final phase of the program which happened one month later aimed at giving guidance to students regarding their summer internship. Though the consultant held meetings with students in order to identify their areas of interest and give them advice on the area where they have to concentrate for engaging in an effective internship.

It was observed that the overall receptive levels of the students for the program reduced drastically by the third phase.

Despite the well meant intentions of the OD practioner and the finely crafted approaches the program yielded only mixed results. The thorough feedback from the students which the management took after the completion of the program helped uncover the many reasons for the partial success and not meeting all the objectives of the program.

Students were looking forward for an activity based interactive sessions which would also serve

as a stress buster in their otherwise rigorous academic schedule. They expected the first phase to cover activity oriented sessions like public speaking and extempore where they could build their communication skills as well as confidence levels. Since the students were aware of their MBTI Personality profiles which they learned as part of an academic course, they expected a customized counseling program by the OD practitioner based on their individual strength and weakness based on their personality profiles. But contrary to their expectations, the first phase of the program was full of unpleasant surprises. Without proper knowledge of transactional analysis, functioning of T-Groups or Appreciative inquiry or a basic understanding of an OD Intervention, the first year MBA students never understood why they were doing what they were doing. There was no follow up on the self -evaluation sheets provided by the students to the consultant.

Heavy silence prevailed during personal growth lab sessions, as students were not aware of what was happening. During personal growth lab sessions, students were asked to imagine as if the consultant was invisible and start interacting with each other. Since no instructions were given during personal growth lab, students who always seek for instructions for conducting themselves - found it all the more confusing. When the consultant initiated the programme without giving any instructions, students found it difficult to come up and involve in the activities of Personal Growth lab. A sense of ambiguity and lack of clarify prevailed during the program commencement itself due to which the reception levels of the students for the subsequent modules came down. While interacting in personal growth lab, students were asked to evaluate other students and give feedback which did give them an opportunity to know each other personally.

The OD practioner, who was well experienced and successful in his OD Interventions with big corporate firms during his earlier assignments did not seek student's inputs during the program and was committed in executing a rigid and fixed program. The OD practioner did not connect well with the students. All his earlier OD intervention experiences were with various corporate organizations and the fact that a different approach might be required to engage students mind was not paid much attention to. During the second phase, the team building activities were effective to some extent because through the various group activities students got to know their team members and themselves better which helped in effective team functioning. The autobiographical sketch activity failed because most of the students were not comfortable sharing their personal feelings with others. The OD consultant was a person who had several years of work experience in the Information Technology industry. During the course of his PhD work, he developed an interest towards the concepts of organizational development and later chose to become a certified OD practitioner. His consultancy deals with OD interventions at the work place and the assignment at ABC Business School was his first OD intervention at an educational institution.

Mismatch of expectation between the OD practioner and the students and the lack of feedback mechanism to incorporate feedbacks after each activity, a rigid program module and not adopting a different approach from corporate world to engage student minds – all contributed to the programme not meeting all of its objectives. The programme was effective to some extent that through functioning in teams the students got an opportunity to know their team members in-depth. This gave the students an opportunity to interact, discuss ideas and manage conflict and emerge as effective team members. Based on the OD concept of enabling the participants through their own actions, there were a few students who got transformed through this programme and gained the confidence to communicate well. Moreover, the effects of an OD Intervention is

expected to manifest itself in the long run and short term impact assessment might not give the expected results.

Management of the ABC Business School collected feedback from students and incorporated it in the next batch who attended similar training programs. For the next batch academic trainers with corporate experience were brought in and expectations of students were clearly stated to them before the program began. Feedbacks were taken after each activity and the subsequent programs were modified accordingly. Based on the gaps identified and recommendations given by the management the subsequent training program was well received by the next batch of students.

The Brain Metaphor

In the book, Images of Organization, Morgan (1997) emphasize that metaphor is more than a fictitious statement; it influences the way people learn, act and communicate. Metaphors help us to understand something in comparison with something else to reflect multiple realities which encourage appreciating Organizational complexities. Morgen (1986, 1997) organized eight metaphorical images of Organizations: machines, organisms, brains, cultures, political systems, psychic prisons, flux and transformation and instruments of domination. We argue that among the eight metaphors, ABC school can be best depicted by brain metaphor.

The organization characterized by Brain metaphor functions with similar rationale as the brain of an individual, where the top management represents the brain since they are in to the process of making decisions. Since the case of ABC school discussed above had considerable participation of upper management we analyze the case of ABC school using brain metaphor. The three concepts of brain metaphor include information processing systems, cybernetics and holograph. In the theory of brain metaphor as Information processing systems, organizations are considered as information systems, communication systems, and decisions making systems. This is known as "decision making approach" (March & Simon, 1958). Cybernetics is linked to the study of systems which stresses that systems must have the capability to detect, supervise and scrutinize important aspects of their environment. They must be able to transmit this information to the working framework that guides system behavior. They must be able to identify noteworthy deviations from these frameworks. In case of any deviations, corrective course of action must be initiated (Wiener, 1967). The concept of homeostasis refers to self monitoring and a capability to sustain a stable state. The steady state is accomplished through homeostatic processes that regulate and control the operations of the system by initiating actions to correct deviations from norms. Another theory linked to organizations as brains is that of being holographic. The notion of connectivity is the essence of holographic view. Collaboration is the main feature in holographic achievement because it suggests that the whole will be greater than its parts. Organizations when scanned from a brain perspective put forth the interconnectedness of structure, space and information processing which are coherent.

Analysis of the case using brain metaphor

From the feedback about the OD intervention in which ABC school invested considerable time and money it was clear that the program did not meet the intended objectives. There were discontent among the students due to mismatch of expectations between the OD consultant

and the students. Without proper knowledge of transactional analysis, functioning of T-Groups or Appreciative inquiry or a basic understanding of an OD Intervention, the students never understood why they were doing what they were doing. Ambiguity and confusion prevailed in the minds of the students. When the management of ABC school realized that the there was lack of integration between the delivery and reception of the training they undertook a "decision making approach". To avoid repeating the same mistake with the next batch that would undergo similar training program the management of ABC school chalked out various strategies like making the students and the consultant aware of mutual expectations before the program commenced. This theory is built on the idea of brain metaphor that organizations can never be completely rational, because its members have limited information processing abilities. Clarity regarding the objectives and agenda of the training program and the expected outcome of each activity in the program was clearly explained to the students. For the subsequent batch of students the management thus successfully introduced a new of thinking about the training program. The OD practioner was committed on completing the pre-designed modules and was not flexible to change the program based on student feedback. For next batch that underwent similar training program the management of ABC school made sure that feedbacks were taken after each activity and the program was modified accordingly as per the requirements. The homeostatic processes of the brain metaphor that regulate and control the operations of the system by initiating actions to correct deviations from norms was adopted by the ABC school. The cybernetics concept of self-organizing, developing itself and adapting to outer changes was emphasized by the ABC school. After evaluating the feedback about the OD Intervention program the ABC business school came up with some radical changes for the next program. The school in the next program brought in academic oriented trainers who understood students better and sought student inputs prior to the training program so as to set clarity in the mutual expectations of the consultant and the students. This increased the acceptance level of the next program as the stakeholders felt they were involved in the whole process. This notion of connectivity is the essence of holographic theory in the brain metaphor. The second principle of holographic organization is the redundancy of both information processing and skills. Student inputs were sought so as to find out their expectations from the training and their takeaways were clearly stated before the commencement of the program. The redundancy of function philosophy was also built on participant profiles, since every student was convinced that they are being trained to have a certain set of skills that would be beneficial in the future for their functioning. The management was successful in empowering the students by transferring the ownership of up skilling to the students and distributing accountability horizontally.

CONCLUSION

This study contends that the set of ideology and approaches associated with the brain metaphor, have been adopted by ABC school. The ABC School could discover its requirements to grow and learn in an inclusive way. This study thus asserts the fact that ABC school adopts the double loop learning characteristic of brain metaphor where the learning focus is on the adaptation of norms, strategies, and learning processes to changing circumstances. The upper management and the placement cell of the School took the inputs of the student feedback and incorporated in the subsequent program. The advantage of effective feedback was utilized to correct its deviations which in turn facilitated smooth flow and accelerated the learning process of the students. This study which looks at the application of organizational metaphors in realistic contexts also offer

further insights as to who are the stake holders concerned with driving the Organization towards growth and development.

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CENTRALIZATION OF CORPORATE TREASURY: FACTORS TO CONSIDER

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ABSTRACT: *Corporate treasury management began to develop about 50 years ago. It started with cash management and has evolved into a critical core function covering a corporation's financial risk management as a whole. More functional tasks than ever are now combined in the treasury department, from cash management and funding over different areas of risk management to asset management - yet the area of corporate treasury management is not clearly defined. As the number of tasks grew, the treasury organizations matured. It is understood among practitioners that a highly centralized treasury function – for most of the treasury tasks – is most efficient and favorable. However, though a centralized treasury is the target operating model, few corporations have just that. The financial crisis of 2008 dramatically increased the importance of the treasury function and its efficiency. This article discusses aspects of centralization in corporate treasury management. It focuses on the influencing factors and their impact on the centralization effort and degree. It provides insights and recommendations on what and whether to centralize and what factors to consider.*

The corporate treasury is responsible for the oversight and management of financial risks and liquidity. Treasury management is a serious undertaking in a business because it consists of adjusting and monitoring the financial movements inside and outside of the company (Dorsman & Dimitrios, 2008). Treasury management is therefore a critical function because it involves controlling and monitoring the financial flows into and out of the company (Stanwick & Stanwick, 2000). The greater the physical extension of a company, the more difficult it will be for it to have access to and to track cash flow data accurately and in a timely manner (Watanabe, 2003). While it is generally understood to be a central service function, current traditional structures of corporate treasury (with regional and local treasury responsibilities) prevent management from being as efficient as possible. Centralization of treasury actions gives corporations the capability to attain higher competence, and greater clarity and access to real-time information across a broad topographical area and numerous units (Polak & Roslan, 2009b). Companies which have centralized their treasury activities have done so in various ways, depending on the culture and geographic extent of their business. In some situations, corporations prefer a central treasury function in a

single location from which all treasury actions are performed. In others, treasury may still function as a solitary process, but with locations around the world. In an effort to increase and improve the efficiency of corporate treasury management there is a trend towards centralization, which is supported by the literature and surveys (Gallanis & Skerritt, 2003; Kroll, 2006). At the same time, the aim to centralize differs from actual centralization. Centralizing treasury functions, especially across countries and continents, can be hindered by many things. The key to success is the ability to identify these hindrances and remove them on a company-by-company basis. This article therefore analyzes the factors and motivation that affect the centralization of treasury management to enable a company to realize improved performance and growth (Arcuri & Dari-Mattiacci, 2010).

TO CENTRALIZE OR NOT, THAT IS THE QUESTION

The need for effective financial management has never been greater according to Heiden (2007): "Today, perhaps more than ever, organizations of all sizes and across all industries face significant pressures as they grow their businesses in a competitive and increasingly global economy. These organizations are constantly reorganizing and restructuring in response to economic conditions, global expansion, an onslaught of new technologies and other factors beyond their control". Yet, given the enormous diversity of business operations for many larger companies, the decision on whether to centralize or decentralize is complicated by the advantages and disadvantages of these actions.

Centralization can lead to benefits from the effective management of cash flows and liquidity in an organization and thereby enable firms to maximize returns on invested capital. In addition, risks that could affect the firm are well managed. In spite of the benefits, Polak (2010) notes that the centralization of treasury management is occurring in the cash management function. In the modern business environment, the practice has spread. Not only have organizations centralized cash management as a function of treasury management, but other functions of treasury management such as risk management and assets and liabilities management have also been centralized, according to Polak and Roslan (2009a). To achieve the significant efficiencies and maximum benefits of treasury management, Levieux (2007) argues that centralization is a key factor. McMenamin (1999) summarizes best the key benefits of centralization as: strategic benefits, economies of scale, concentration of specialized knowledge and skills, foreign exchange (FOREX) management, financial control and smaller 'idle' cash balances. A real-life case study analyzed by Gamble (2008) also shows the advantages of a centralized versus decentralized corporate treasury as used by Win-Wholesale, Inc.

In spite of the benefits derived from centralizing treasury management, Heeks (1999) does not believe that a centralized treasury can execute its obligations. He identifies centralized treasury management as being inflexible due to the bureaucratic and distant decision-making processes. His concerns are confirmed by Polak (2010) who indicates that in subsidiaries of multinational organizations it takes too long for treasurers to make decisions. The advantages of a decentralized approach can also be identified by the disadvantages of centralization, as summarized by McMenamin (1999), as less flexibility and responsiveness to local needs, increased bureaucracy, and performance evaluation requirements of local units.

FACTORS INFLUENCING THE DECISION AND ABILITY TO CENTRALIZE

Several factors influencing the decision and process of centralization have already been identified. Aucoin and Bakvis mention some of these factors in The Centralization-Decentralization Conundrum (1988), which focuses more on the connections with government. Environment and power are thereby regarded as determinants of centralization, where ministers try to act responsibly in order to facilitate decision-making.

Based on the reviewed literature (Casey, 2008; Clarke & McAleese, 2000; Mulligan, 2001; Polak, 2010; Polak & Roslan, 2009a, 2009b; van Alphen & Huiskes, 2008; Weiner, 2008), the following factors affect the centralization of the corporate treasury function: tax implications, legal implications, central banking requirements/reporting, accounting implications, business requirements, access to financial markets, compliance implications, technological infrastructure, banking (infra)structure and relationships, company culture, staffing (costs and qualifications), staff training, staff motivation and cost savings.

When planning to centralize corporate treasury functions, the legal and tax implications must be taken into consideration. The legal structures and tax incentives presented to foreign companies, and the tax implications of the different types of legal entities that can be incorporated in a country, are main determinants of where and how to incorporate offshore entities, and hence whether to centralize. Financial markets require a suitable regulatory, legal and judicial framework that establishes, with the greatest possible certainty, the rights and obligations of parties to financial transactions, and provides disclosure and other requirements (Polak, 2011). When assessing, for example, the optimal cash management structure, a company must consider legal and regulatory issues, the impact of the revised structure on its tax situation, and the administration required to maintain the structure. Accounting and disclosure policies vary by region, and the results indicate that this may have a significant impact on corporations' risk management. UK and Asian Pacific multinational corporations have similar rules governing the accounting and disclosure of risk management. Executing transactions in financial markets with unfamiliar business practices and trading protocols, can be a problem for companies that conduct business abroad – so local knowledge is key and can be an influencing factor. More than most other industries, financial institutions rely on gathering, processing, analyzing, and providing information in order to meet the needs of customers. Given the importance of information in finance, it is not surprising that finance departments were among the earliest adopters of information processing technology. Technology proved to be a driver and enabler of centralization. Consolidating organizations often creates redundant groups or functions. While having the right number of staff is vital, extra attention should be paid to making sure the positions are filled with people who have the right combination of talent, knowledge, experience and training. Additionally, an excessive focus on rationalization of functions can fail to attract and motivate the highly-qualified specialists required for vital knowledge centers, such as treasury departments. Cost reduction is one of the most important factors in firms' competitiveness and ability to reach new customers, however, these practices have a variety of drawbacks and benefits.

CONCLUSION

A variety of challenges and factors influence a corporate treasury's decision to become centralized to achieve the best access to liquidity and transparency and management of risk, while considering

the practicality of various organizational models. So far, research has generally shown the benefits and downsides of centralization. There are different influencing factors and very many individual company situations surrounding the possibilities and decisions relating to centralizing functions. Centralizing improves corporate treasury management, however, the limiting factors need to be understood to support and help corporations to improve their corporate treasury function. Despite the advantages of central management, one must keenly observe local requirements and regulations before making the decision to centralize.

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UTILIZATION OF BIG DATA IN TOURISM INDUSTRIES

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ABSTRACT: *Because of the speedy expansion, many organizations are shifting their attention to researching and using big data. Big data is considered as assets of the organization and some organizations consider Big data as raw material because it needs to refine in order to consume. Additionally, big data brings a great chance to the tourism industry, providing an understanding of customer preferences and empowering them to improve the overall travel experience. Consequently, these prosperities are closely linked to greater risks and organizations encounter the challenge of finding the finest approach to manage big data analysis, extensive exploration, ongoing information and precise strategic planning can be the key to this strategic goal.*

For this reason, how will the big data transform and create a window to the modern tourism industry for a quick change? This article is dedicated to examining the role of the big data phenomenon in the modern tourism industry. The study is also supported by extensive reference and study case studies. Hence, the breakdown of the utilization of the Big data practices approach of the tourism industries with the ultimate goal is to create a more effective and efficient experience.

KEYWORDS: big data, big data analysis, tourism industry, travel

As LaValle et al. (2011) view that instead of understanding what and why it happened, the current organizations need to know what is happening and what might happen in the near future. Because of the speed of data generation and the collection has expanded greatly from organizations wanting to embrace this understanding and support from the World Wide Web (Chen et al., 2012), the rapid development of technology and the need for information has helped organizations to understand the store and analyze the huge volume of data. As evidence, Michel (2019) reveals Flickr had the number of public images uploaded in 2017 was 1.63 million per day on average. It is assumed that the size of each image is between 1.5 and 3 megabytes, resulting in the capacity is about 3.6 terabytes a day.

With the help of the speedy expansion, many organizations are shifting their attention to researching and using these data. This happening is known as *big data* and is acknowledged by a growing number of emerging technologies, one of the largest trends in IT recently (Gartner, 2014). Similarly, big data have been used at a catchphrase to explain the vast volume of information that traditional database and application technology cannot access as it is still in trending. In general, big data is considered as assets of the organization and some organizations considered as raw material because it needs to refine in order to consume. According to Gartner Inc on "Top 10 Strategic Technology Trends for 2019", foresees by 2020 more than 40% of data science work will be done automatically, the result is increasing the productivity and wider use of data scientists (Panetta, 2019). So, the objective of numerous organizations today is to develop more constructive approaches to deal with big data and attempt to move beyond falsehoods and catchphrase. Due to the massive big data, the hospitality industries cannot be affected. In the same way, big data brings a great chance to the travel industry, providing an understanding of customer preferences and empowering them to improve the overall travel experience. However, since each coin has two dimensions, the advantages of big data are often closely tied to the key issues that require correct action (Akerkar, 2012). In this case, how will the big data transform and create opportunities in the modern tourism industry for a quick change? So, the object of this article is to rediscover the role of big data in the current tourism industry. Furthermore, it will help to understand what exactly the big data is, how it can be used to promote innovation and business evolution, and what risks might be involved in its utilization.

BIG DATA

Big data is a large database of various formats: unstructured and semi-structured, with complex properties requiring powerful technologies and advanced algorithms. Therefore, for big data applications, conventional business savvy tools can no longer be effective. Obviously, big data has the following three main features (called 3Vs) which are determined by most scientists and experts (Furht & Villanustre, 2016).

Volume: Huge volume of gadgets and applications are continuously creating large-scale digital data (ITCs, Social networks, smartphones, etc.). For instance, there are approximately 2.5 Exabytes (EB) of data were daily created in 2012 (McAfee et al., 2012). According to International Data Corporation (IDC), total data generated, reproduce and used was projected at 4.4 Zettabytes (ZB) in 2013. In fact, digital data has increased to 8 ZB by 2015, it is replicating every 2 years (Rajaraman, 2016). Similarly, data are expected to reach 40 ZB by 2020, and now up to 400 times, according to IDC reported (Kune et al., 2016).

Velocity: Data should be created and processed quickly to retrieve handy figures and suited intuitiveness. For example, Walmart (international discount retailer) makes hourly over 2.5 PB transactions of customer data. In the same way, YouTube is an alternative good sample of Big Data.

Variety: Numerous circulated and multi-format sources (documents, videos, logs, etc.) are making a huge volume of data. These data sets contain systematic and unsystematic data, public or private, share or confidential, etc. In addition, various features and additional Vs have

been included to define big data such as *Vision* (determination), *Verification* (data processed by an explicit specification), *Validation* (achieved objective), *Value* (relevant information can be withdrawn in several areas), *Complexity* (Changes in data communication make it hard to regulate and examine big data) and *Immutability* (accumulating and storing big data can be stable if properly supervised) (Emani et al., 2015; Gandomi & Haider, 2015).

According to Boyd and Crawford (2012), there is the real prospect for organizations and employees of big data to utilize for target promotion, optimizing or even linking the rest of the market. As a result, many successful organizations are able to quickly analyze big data as an integral part timely (Herodotou et al., 2011). Furthermore, Labrinidis and Jagadish (2012) see the benefits of recognizing big data as evidence-based decision making because it drives the enthusiasm for decision making. Certainly, an organization define oneself as data-driven resulting in the better operates on reasonable financial and business figures (McAfee et al., 2012). Likewise, LaValle et al. (2011) see the organization that identifies and analyzes major strategic differences of big data is the twofold likelihood that they are doing the best in the marketplace. Therefore, big data is expected to be business revolutions because of key function is the choices to be made and those who make those choices (McAfee et al., 2012). For this reason, big data implementations and data-driven decisions can improve the performance of certain entities. However, more data is not in every case better. As there are many theories and disciplines, numbers claim not to speak for themselves, it tells organizations and employees why users behave correctly or inscribe specific concerns (Boyd & Crawford, 2012). Hence, it is limited if you make a decision in your organization but cannot understand big data analysis (Labrinidis & Jagadish, 2012). Similarly, access to data and accurate data interpretation is not the key challenge and logical analysis, but there are restrictions on the adoption of administrative and cultural communication regulations (LaValle et al., 2011). In addition, big data could cause specious reciprocity. Clearly, business entities have to acquire or revolutionize big data technology for serving analysts in discovering good interactions and rapports (Madden, 2012). According to Cohen et al. (2009), the company primarily collects software packages that utilize business intelligence tools that can turn raw data into valuable computations, database management systems, queries, and allows anyone to save and download data in the database. One clear example is the solutions used by most traditional institutions can handle hundreds of megabytes, which are large enough for tons of transactions and logs (Madden, 2012). However, if a business analyst or scientist wants to capture all these records and analyze in minutes, these standard solutions are a problem (Jacobs, 2009). Furthermore, open sources such as MySQL and Postgres software, which has the public source code, may be behind with reference to scalability compared to commercial in the market (Madden, 2012). As explained by Cohen et al., (2009) that the business interpretations, data experts, and developers demand a big data analysis system to become *Magnetic*, *Agile* and *Deep* (MAD). The *Magnetic* captures all data, regardless of data structures and quality, the *Agile* can be adjustable and adaptable whereas the *Deep* aids conventional business intelligence, machine learning, and multifaceted analysis (Cohen et al., 2009).

BIG DATA PREMISE FOR TOURISM INDUSTRY

Because tourism is growing with information. Big data offers new and up-to-date information about human behaviours and activities that promote the tourism industry. Similarly, visitors leave many digital touches when using mobile technology on the Web. Through all the tourists,

before, during, and after travel, there is a tremendous volume of data about everything related to different stages of travel. In this case, the connection of distribution information is possible via big data.

PERSONALIZATION OF SERVICES

The ability to personalize the company's services is the key features of big data. Similarly, Habegger et al. (2014, p.1) stated that *"personalization is the process of adapting the output of a system to a user's context and profile".* This aims of personalized are to provide passengers with the best solutions based on their needs, while minimal data acquisition considered as a primary source of customer feedback features such as interests, preferences, background attraction, and job history, geographic location and so on (Habegger et al., 2014). Currently, personalized tourism services are always important. In any event, new era travellers are interested in modern flexible services that are assessed by their ability to evaluate and understand their needs, a prerequisite for customer loyalty (Sigala, 2016). To this end, scholars and specialists aim to make travellers a valuable creator and get personalized from their conventional CRMs, which focus on solving transactions with customers to CRM 2.0 which underline the need for changes to all services offered (Kunz et al., 2017; Sigala, 2016). Therefore, big data leads to strategic shift, providing a thorough knowledge and insight into the needs and preferences of travellers, and form the basis for a more comprehensive approach to the design of the consumer-centric strategy. In addition, big data access customer information using various sources, such as social networks, blogs, and e-commerce, determines invalid and unreliable information which these data are currently being processed and finalized in a single user format (Habegger et al., 2014). As Habegger et al. (2014) concluded that the majority of entities are already utilizing Big Data for reaching personalization service such as LinkedIn, Google, Facebook, etc. Subsequently, it expanded the utilization of big data in personal ads, for example, Facebook tools allow visitors to use lists, customers and target directly lead them by advertisements posted on Facebook (Davenport, 2013). In this case, travellers will only receive the most interesting ads that they want to visit without being covered by information that does not mean to them. Particular attention is found by the Criteo Business Marketing Company that when personal ads are shown, there are more than eight times the selection and purchase of specific products or services provided (Davenport, 2013). So, it is obvious with customer information analysis, tourism industries provider can predict personal needs, for example, offering affordable hotel rooms for specific customers can increase sales and increase satisfaction and loyalty. Such as the case of MGM resorts international is effectively implemented big data analysis to achieve its customer-centric strategy. Obviously, the company has successfully implemented the above-mentioned Facebook big data tools and as a result, its revenue has increased by 300% over the past three years (Hertzfeld, 2014). Furthermore, the springboard for MGM's personal service is to register with the customer's "M life". To illustrate, when customer data is registered in the MGM Resort database, it can monitor customer activity across 19 locations and put the right adds in Facebook permissions. According to Nick Mattera, social media manager for MGM pointed out that "if travellers start looking at room rates on MGM.com and then leave to compare prices on a competitor's site MGM can drive them back to its site with a relevant Facebook offer and MGM can segment its database in hundreds of different ways — such as by loyalty status and geographic location — to deliver more personalized offers" (Hertzfeld, 2014).

OFFER COMPETITIVE PRODUCTS AND SERVICES

Davenport (2013) sees the significant use of big data in boosting new and competitive products and services. Equally important, predictive and definite design of big data allows companies to understand the current market and find new and innovative ways to respond to new opportunities (Sivarajah et al., 2017). Again, contemporary online travel agents have incorporated big data into their business strategies to improve and diversify their products and services from competitors. For instance, *Amadeus.com*, the largest distributor of leisure packages and technology suppliers, and *hipmunk.com* is an online travel site. As evidence, because Amadeus has integrated big data into its business approach since its inception, the Data Center has reached over 49 Petabytes, over 3.9 million net bookings per day, over 55,000 transactions per second, and lots of data on customer needs, preferences, etc. (Amadeus, n.d.). The company utilizes big data to design and implement innovative structures such as "Featured Results" and "Amadeus Extreme Search", and especially the "Amadeus Outcomes". This is technically innovative databases that include the most relevant flight frequencies - the shortest, the cheapest, the popular and the sponsors which consumers might be keen (Amadeus, n.d.). Specifically, Hipmunk is also known for its unique features in the tourism industry. This site uses big data analysis to create a customer-centric tool rather than providing services based on rating, the Hipmunk introduces the *"Agony Index"* which is used in a combination of criteria such as flight time and the number of stops (Davenport, 2013; ColbertGeorge Blog, n.d.). Correspondingly, Hipmunk announced two more database tools in April 2017 called *"Basic Coach"* provides passengers with a ticket describing closing for low-cost flights and *"No Frills Fight"* to tell tourists about flight flaws (Hipmunk, 2017). Clearly, both travel agencies are taking big data analysis to improve their products and services, exchanging travellers' experiences and compete with competitors.

BETTER DECISION MAKING

Not only business supervisors bring more value to their customers but big data can also improve the company's processes and decisions because they are using it as a powerful tool to accelerate decisions that lead to customer-oriented improvements. Such as British Airways is one of the major examples of an airline that makes use of extensive data collected from its passengers. Since the company introduced big data analysis to allocate customers better and to achieve significant time-consuming decision-making, British airlines are focusing on establishing a one-to-one bond with customers, increasing their satisfaction and loyalty to the business (Moroz, 2017). It can be seen that big data presents diverse solutions. Another important example of big data's role in improving businesses and decisions is the use of energy and environmental forms. Two InterContinental hotels in San Francisco succeeded to scale down their energy expenses by 10 to 15 per cent due to integrating data from 50 various sources such as electricity rate, weather, climate, energy usage, etc. (Dragosavac, 2015).

REVENUE MANAGEMENT

Due to cost is one of the most important determinants for travellers when booking airline tickets and hotel rooms. So, profit management is the process by which the company sets the best price for its products and services and energizes them lure to potential customers. As an

example, *Marriott International* and *Kayak.com* understand the importance of increasing their profit management and have employed big data management for analysis functions and direction. Marriott International's strategy concentrates on developing complementary algorithms for more swift data analysis and interpretation. In addition, administrators can access the internet to manage all levels of work within the hotel chain, including restaurants, catering and conferences (Davenport, 2013). Similarly, big data at Marriott is not limited to the market but is used throughout the hotel chain operations. Further, the accumulation of unstructured and semi-structured data including weather forecasts and local celebrations timetables, which are used to predict the needs and set annual prices for each room. This allows the chain to be priced with the best efficiency. Identically, it was so important in an era where customers were used to saving pennies by scanning services, comparing prices and getting the best deal (Marr, 2016). Finally, this leads Marriott to enhance products and services as well as accommodate the fare respectively (Dragosavac, 2015). Similarly, Kayak.com currently uses big data tools carefully to provide rational price optimization. Because of algorithms, analytical design, and machine learning are controlling and investigating the rivalry which providing the company to establish a competitive pricing action. Consequently, in 2013 Kayak.com has also launched a new estimating pattern called *Flight Price Forecasting*. The tool helps to forecast the historical and trend price over 1.5 million data searches on KAYAK which offer travellers with the information they need (Kayak, 2013). To this end, the scope and applicability of big data phenomenon offer a dynamic perspective to travel companies, bring along *Big Opportunities* and empower organizations at all possible levels such as strategic, organizational and operational (Sivarajah et al., 2017).

BIG DATA CHALLENGES

So far, the big data has been proven to be a well-managed tool in the tourism market, creating new knowledge and creating a basis for its creativity and differentiation for tourism industries (Jukić et al., 2015; Sivarajah et al., 2017). Not only does big data bring big opportunities, but it also brings big challenges (Sivarajah et al., 2017). Numerous researchers examine the number of ambiguities and challenges that tourism industries face when using big data in their organization blueprints. In brief, the 3 key objections of big data founded on data life cycle are *data challenges*, *process challenges* and *management challenges* (Akerkar, 2014; Zicari, 2014). Data challenges describe attributes of the data itself (variety, velocity, veracity, volatility, volume, discovery, dogmatism and quality), process challenges describe about technical methods: data collection, data transformation, model selection for analysis, and result provision method whereas management challenges involve ethical, governance, privacy and security aspects (Akerkar, 2014; Zicari, 2014).

CONCLUSION

Big data has become the most effective tool to shift the core business approach and drive growth and creativity. This is underlined as the most beneficial of big data, personalization of services, which offers new and challenging products and services, supporting operational processes, decision-making process, and accumulating yield management and pricing approaches. It became evident that big data will greatly boost the proficiencies of the tourism industries by presenting new tools, magnifying strategic benefits and generating opportunities (WTTC, n.d). In order to obtain a greater benefit of big data to reach this level, new skills are required. What

is the future need? How long does it take? In the same way, big data is a real transformation and can help in making strategic decisions, but even with global efficiency, organizations need to find innovative ways to challenge and it cannot substitute strategic thinking, organizations still need to talk to regular customers (interpersonal relationships) (WTTC, n.d). However, these prosperities are closely linked to big risks and organizations encounter the challenge of finding the finest approach to manage big data analysis, extensive exploration, ongoing information and precise strategic planning can be the key to this strategic goal. In conclusion, there is an inevitable challenge due to big data usage such as key issues of governance include privacy and security, data ownership, costs and operational costs, and lack of *data* scientists.

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INTERNATIONAL MARKET EXPANSION IN FRANCHISING — FALLING OUT OF LOVE WITH THE MASTER FRANCHISE MODEL?

Peter Schwarzer

ABSTRACT: *Franchise brands have successfully grown across the globe. One of the most popular forms of international franchise expansion is the so-called master partner. The following research shows that it is still an efficient way to establish a franchise concept in foreign markets. At the same time, based on the sample reviewed for this article, other growth strategies offer a similar level of success. However, the data also point to another variable that may even be more important: when it comes to achieving international development goals, franchise brands which conducted market research prior to their expansion had the best chance of meeting these goals.*

The franchise business model tremendously impacts national economies. In the United States, economic output generated by franchising is at $675 billion. That number is close to $290 billion in France and around $215 billion in Japan. (WFC, IFA, FRANdata, 2017). In some countries, franchising can account for over 10% of GDP (WFC, IFA, FRANdata, 2017).

The United States has been a pioneer in this area. Franchising has significantly matured since at least the late 1990s and every year hundreds of U.S. brands continue to start offering franchises (FRANdata, 2019). Most consumers are aware of some of the "big beasts", such as McDonald's, Subway or RE/MAX. Each of these concepts operate thousands of franchised businesses in the United States. However, franchises of that size remain the exception. The fact is that only about 3% of brands franchising in the United States operate 1,000 or more franchised businesses in that market (FRANdata, 2019).

For decades, franchises have successfully expanded in their domestic markets and many have grown internationally, especially since the 1980s. In the case of McDonald's, 50% of restaurants with the Golden Arches now serve customers outside its domestic market. Interestingly, the foreign

penetration of the United States through franchised concepts is relatively low at an estimated 6%. By comparison, non-domestic franchise outfits can account for well over 70% of franchised brands in other countries as for example in Croatia or Slovenia (WFC, IFA, FRANdata, 2017).

However, the road to international franchise success is hard and littered with failure. Many companies often ignore the first thing about international expansion research because they are convinced about the global validity of their product/service. The tendency is to follow the majority of franchise systems that usually look for a master franchise partner to develop their brand abroad. Recent estimates suggest that up to 80% of U.S. franchisors (ZORs) choose this growth strategy (Seid, 2019).

Unfortunately, there has been little academic research on the success of this strategy. One exception is Arturs Kalnins's study from 2005. He comes to the conclusion that "the development commitments in most master franchise agreements are excessively large relative to the number of units actually built by the master franchisee. […] Development commitments are usually not fulfilled or enforced […]" (Kalnins, 2005). More recently, there have been voices questioning whether the apparent default option for international franchise expansion via a master partner is always the right choice (Seid, 2019).

This article will provide a timely overview of factors which determine success or failure of international expansion for franchise brands. The findings are mostly based on primary data collected via a survey as well as data from Franchise Disclosure Documents (FDD)[1], provided by U.S. franchise consulting company FRANdata. In addition, there is anecdotal evidence from my own work as a franchise consultant and partner of Franchisepool International.

METHODOLOGY

The survey was designed to identify opportunities and challenges of different market entry strategies, including corporate businesses, direct franchise businesses, master franchise partners or joint venture partners. It was further designed to cover three areas:

1. Basic details about the franchise brands

2. Strategies for the first international market entry

3. Learnings post market entry

The survey was available via SurveyGizmo between 1st July and 15thAugust, 2019. Over the period, 27 respondents provided complete answers while an additional 55 submitted partial responses. The survey was set up to allow for such partial responses to encourage participants to provide information they were comfortable sharing for the project.

To gain traction, the survey was repeatedly promoted on various social media outlets, including *LinkedIn, Xing, Facebook, Twitter* as well as franchise specific websites such as *Franchiseportal* (Germany), *Punkt Franchise* (Germany), *Point Franchise* (UK) and *Toute La Franchise* (France)

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1 For an overview of the purpose and content of FDDs visit: http://leosconsulting.com/resources/Franchise_Info/LeOS_FDDs_Overview.pdf.

and *Franchise Update* (USA). In addition, potential respondents across the globe were directly contacted via a targeted email campaign as well as via existing networks of franchise brokers, consultants and academics who specialize in franchising.

Excluding the social media campaign, an estimated 1,500 potential respondents were reached through the email campaign. Based on the number of total responses from this email campaign, both full and partial, the outreach resulted in a response rate of 5%.

Sample

The sample operates franchise businesses across 41 countries on every continent. By far the largest group by geography is based in North America, including Canada and the United States. The sample includes concepts operating in the food and non-food industries such as education, entertainment, health/fitness, lodging, retail and services.

Figure 1. Sample Brands by Industry.
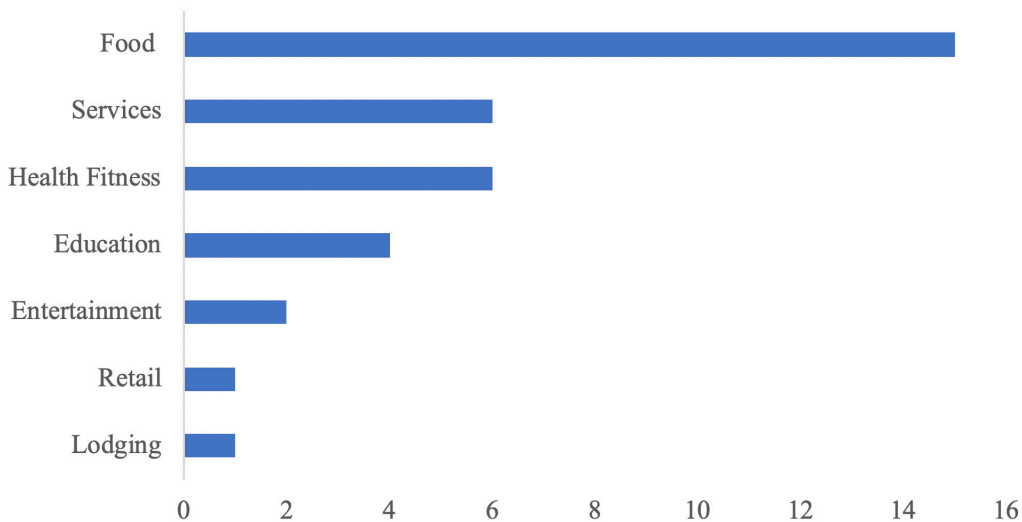
On average, the concepts in the sample have been in operation for 25 years and have been offering franchises for an average 19 years. The oldest brand was founded in the 1930s. The brand with the longest franchise experience found its first franchise partner in the early 1950s.

The responding companies operate in an average 13 countries. However, the international reach varies drastically from operations in just one international market to globally in close to 140 countries.

Figure 2. Sample by # Countries with Active Franchises.
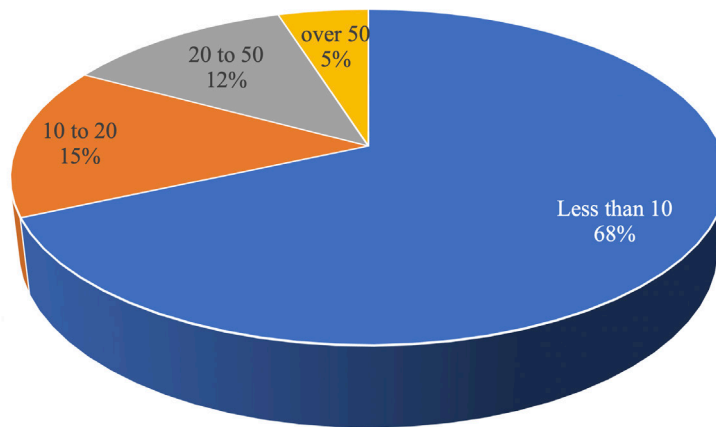
The same applies for the number of franchised businesses in operation as of the time the survey was public. The sample operates an adjusted average of 204 franchised locations for a combined total of close to 10,400 franchised businesses around the globe. The smallest brands operate less than 10 franchised locations with the largest players having well over 1,000.

Figure 3. Sample by Global # Franchises.
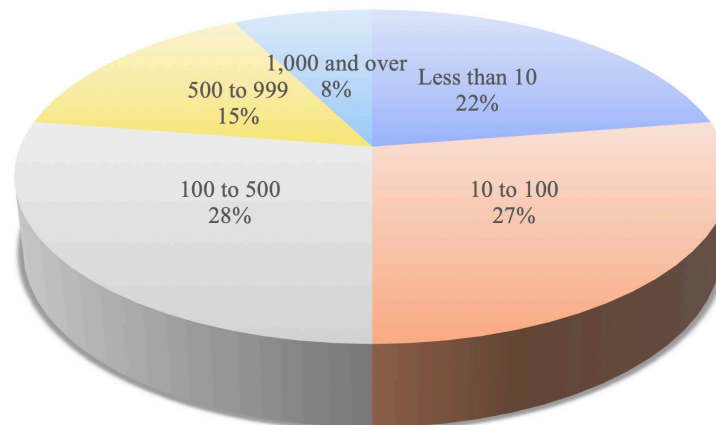
GOING ABROAD

While crossing borders and entering new international markets is nothing new for franchise brands, it comes with various challenges. Most of them are part of the regular laundry list familiar to any company with international growth ambitions. They include questions around a product's or service's cultural fit for the market, possible regulatory and/or legal implications, size of the market, etc. Then there is the question of the market entry strategy. Some companies choose to franchise internationally although they grew differently in their home market. Germany-based Adidas is one example. Companies which utilize the franchise growth model in their domestic market have two choices to make: franchise or not and if they decide on franchising then what franchise growth strategy suits them best.

The Right Partner

Finding the right franchise partner and franchise growth strategy is crucial for any system. The importance of making the right choices is significantly greater for international market entry. A well-functioning franchise relationship is based on a partnership between the ZOR and the franchisee (ZEE), meaning they "are in it together". As one ZOR in the sample told a franchise candidate during an initial meeting: "I need you to be profitable". When they are not, the entire system will sooner or later suffer.

One infamous example is the U.S.-based sandwich chain Quiznos which grew so fast that it was considered a threat to Subway in the early 2000s. At its peak in 2007, there were over 4,500 franchised locations in the United States. Fast forward to 2018, and that number is down to around 400.[2] In addition to weak unit economics and questionable supplier deals, one factor contributing to this massacre was the ZEE recruiting process. To keep up with its fast growth, Quiznos allowed a watered-down selection process.

As a result, unqualified candidates were invited to sign franchise agreements for a system whose underlying profitability on the unit level was challenging for many. Weak operators were not able to manage their stores and many went bankrupt, undermining the brand's early successes. As an aside, this is why struggling franchise brands will not be able to use international expansion to compensate for domestic weaknesses.

Franchise Growth Strategies

If a franchise chooses to enter a foreign market, they have the following options:

- ZOR funded and operated company units

  The ZOR invests his own money to launch a pilot in the new market and subsequently offers franchises directly.

- Joint Venture (JV)

  The ZOR enters a foreign market with a JV partner and invests his own money in the new venture; one famous example is KFC which entered China in 1987 with a 60% stake in a JV with the Beijing Tourist Bureau and Beijing Food Production.

- Single unit franchisee (SU ZEE)

  SU ZEEs directly sign a franchise agreement with the ZOR that grants them the right to operate one franchised business over the term of the agreement; they generate revenues only through their franchised business.

- Multi-unit franchisee (MU ZEE)

  MUS ZEEs directly sign franchise agreements with the ZOR for individual units over time; sometimes they agree to open up two to five units but the territory is not necessarily specified; they generate revenues only through their franchised businesses.

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2 Quiznos Franchise Disclosure Documents (FDDs), available via FRANdata https://www.frandata.com/products-solutions/fdds-franchise-disclosure-documents/.

- Area developer (AD)

  ADs directly sign a franchise agreement with the ZOR that grants them the right to open and operate a specified number of franchised businesses in a specified territory over the term of the agreement; the agreement usually specifies a development schedule; they generate revenues only through their franchised businesses.

- Regional Director (Reg.Dir.)

  Reg.Dir.s directly sign an agreement with the ZORfor a specific region/territory in a country and develop their territory by identifying SU or MU ZEEs who sign agreements with the ZOR; they do not necessarily operate a business themselves; the ZOR compensates their efforts through a share from the initial franchise fee (IFF) and the ongoing fee, mostly the royalty; if the Reg.Dir. operates a pilot, he also generates revenues through the franchised business.

- Master Partner

  Masters directly sign an agreement with the ZOR and are granted the right to develop a country or a region within a country; they usually open the pilot business and may add more of their own businesses over time; in addition, they recruit ZEEs who sign agreements with them; masters have multiple revenue streams, including from their own businesses and fee sharing agreements with the ZOR similar to a Reg.Dir.

The Master — The Holy Grail?

Traditionally, the go-to model for U.S. franchises in particular was the master franchisee growth strategy (Seid, 2019). This strategy has been very successful for many brands. The master partner has local market knowledge, an existing network to help find local franchise partners and often industry expertise with a local touch. Depending on the target market, master partners can be relatively large corporations with their own franchise division. For example, KFC's parent company YUM! Brands partners with Malaysia-based QSR Brands (M) Holdings Bhd which operates over 1,500 KFC and Pizza Hut locations in SE Asia. The Olayan Group is another such "institutional" master partner which manages several U.S. fast food concepts in the Middle East. On the contrary, in Germany, for instance, many master partners are high net worth individuals with far less financial fire power than these conglomerates. One exception is JAB Holdings with investments in several U.S. and British franchise brands.

Therein lies the crux of the master partner strategy. They can be extremely hard to find. While offering many advantages, franchising through a master partner comes with many inherent risks for both parties. Choosing the wrong partner can have a huge negative impact on the brand, result in protracted legal battles and directly impact the franchisor's bottom line through delayed growth. Even large and experienced brands may be faced with such struggles. For instance, in 2019 McDonald's bought back its share from its Indian JV partner Connaught Plaza Restaurants Pvt. after a long legal battle that lasted for years. One immediate result was the temporary closure of all McDonald's restaurants in north and east India.

For the master, the risks are not inconsiderable either. The investment in the license can be high with no real collateral to show for. Banks usually do not finance a "piece of paper". The master is also expected to launch a pilot business which requires an additional capital. If the target market's

master partner is as elusive as it is in Germany, ZORs who insist on a master partner entry strategy run the risks of losing precious time for their market entry while local competitors increase their market share.

Direct Franchising

Direct franchising through SU or MU ZEEs can be an alternative. The investment for the ZEE is lower as are other barriers to entry. The qualifications for a SU and even a MU ZEE are also lower than for a master partner. On the other hand, direct franchising may not work for simple logistical regions. Entering the Netherlands from France with a SU ZEE may be doable, provided the local partner speaks French, the ZOR is able to support the new franchise locations and can plug them into the existing supply lines. The situation will be far more challenging for a Brazilian franchise with ambitions to enter the United Kingdom. Under such circumstances, a ZOR needs to rely on a partnership to create the necessary local infrastructure.

SURVEY RESULTS

How do franchises decide to go abroad? Having saturated your home turf can be one reason. However, based on the sample, this is not the driving factor. Out of 29 respondents, 11 operate 50 or fewer franchise businesses worldwide, meaning less than 50 in their domestic markets which include the USA and several European countries with a population of more than 20 million. Having nowhere to grow in your domestic market cannot have been the reason for these brands' international expansion.

Based on the sample, it often has little to do with a well-thought out strategy. Rather, the surveyed brands chose an opportunistic approach over pro-active strategy development. As one respondent explained: "It is actually a mix […]. Part is given by strategy and part by opportunity".

*Figure 4. Impetus for International Market Entry.*
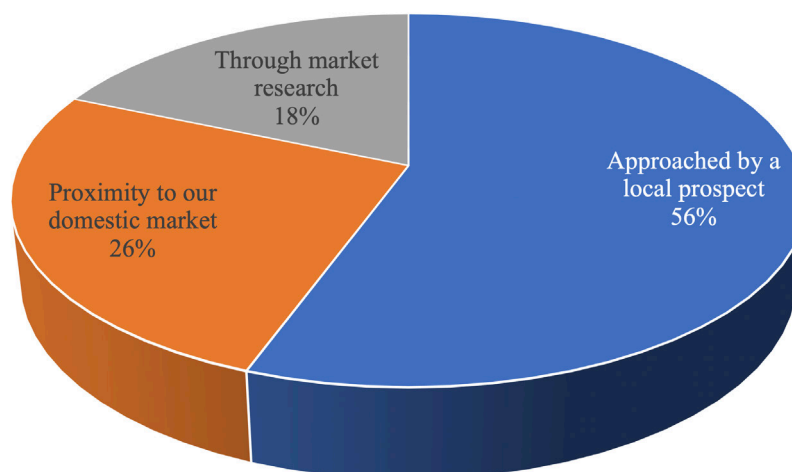
ZORs certainly seem to have an opportunistic streak when it comes to international expansion. In fact, about 50% of the respondents were approached by a local investor. Another 25% used

proximity to the domestic market, presumably expanding into a neighboring country. Less than 20% took an active approach by conducting market research to identify opportunities or visited franchise expos. This could point towards a majority of franchise concepts with a rather passive approach to internationalization or at least needing an outside push to seriously consider such a move.

The Market Entry Model

Based on information provided by 30 brands in the sample, the most popular international market entry strategy is the area developer model, followed by the master franchise partner model.

Figure 5. International Market Entry Strategy.
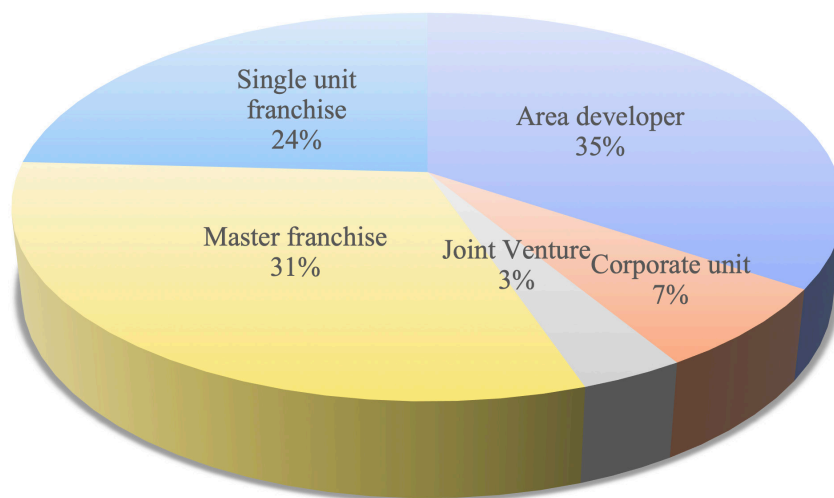
This distribution more or less holds when checked against how the ZORs decided on their first international market. For example, the area developer model was the most popular entry strategy for systems that had conducted active market research just as it was for systems with close proximity to their first international market.

The concepts that entered their first international market with a JV partner or a company unit did so not by choice. They could not find a master partner and in the case of the JV partnership were approached by the local candidate.

However, 40% of systems who were approached by local candidates opted for the master partner model. This was also the only group with one respondent who chose a JV partnership. This seems to suggest that local investors who actively approach an international system already plan for a larger investment.

The sample includes 10 North American and 15 European brands. European franchises show a preference for area developers. North American brands equally chose a master partner strategy and a single unit strategy. It is likely that these SU ZEEs opened up in a neighboring country. In all three cases of a market entry via a SU ZEE, they approached the ZOR.

In addition, these were services brands that do not require the same level of supply line management or on-site support as a food concept. For example, the average U.S.-based training for full-service restaurants spreads over 60 days and can range from just under 400 to close to 600 training hours depending on the operational model (FRANdata 2011). Restaurant concepts also tend to provide on-site opening support that requires significant resources, in some cases 15 to 20 trainers. ZORs and the local investor are not likely to commit such resources unless they can be provided at costs similar to a domestic SU ZEE.

Food concepts need to be more flexible than non-food concepts. While non-food franchises chose not more than two different strategies, the 13 food brand respondents partnered with ADs (54%), master partners (30%) or opened a company location (15%).

Risk Aversion

Despite some opportunistic tendencies, the concepts in the sample do consider certain risks associated with international expansion. Underlying the decision to enter an international market is avoiding financial and operational risks. Seven out of ten ZORs who decided to collaborate with an AD did not want to invest their own capital in opening up an international location thus avoiding a financial commitment they deemed too high. Another two presumably wanted to avoid operational and reputational issues when they decided that a master partnership strategy was too risky for them.

Similarly, out of the nine ZORs who signed agreements with international SU ZEEs, four did so because they did not feel ready for a master or a JV. The other four wanted to mitigate their own financial commitments.

Partner Selection Criteria

Franchise systems have a set of selection criteria candidates need to meet. While they differ slightly across sectors and brands, some are generic. The survey examined the importance of several aspects, including financial strength, industry experience, cultural fit, personal fit, and existing networks to find franchisees and real estate. For the ranking, 1 was the least important and 10 the most important. Respondents could assign the same values to different categories. For example, if personal and cultural fit were equally important, they could give them the same number.

Interestingly, overall ZORs allocated a higher value to soft skills such as personal and cultural fit into the system as compared to experience and financial strength.

Figure 6. Franchise Partner Selection Criteria.
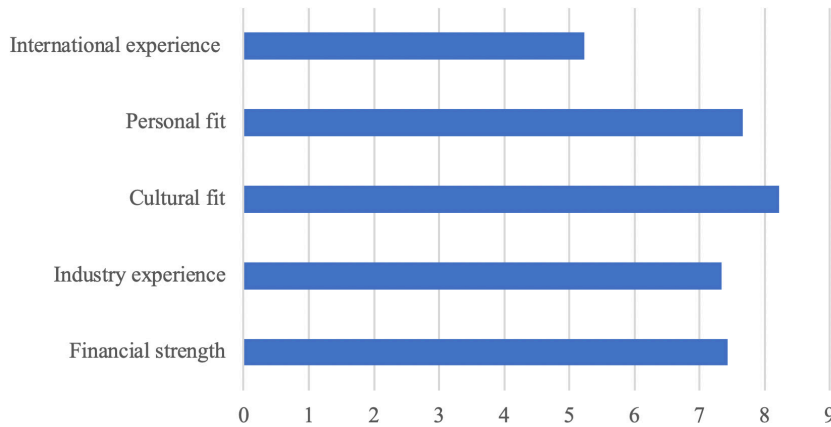
International experience is the least valued skill. Broken down by type of partnership, ZORs allocate higher values to AD skills as compared to a master or a SU ZEE. The expectations for a master partner's ability to find candidates and real estate through his own network ranked relatively low at an average 6 or 7.

Figure 7. Franchise Partner Criteria ranking.
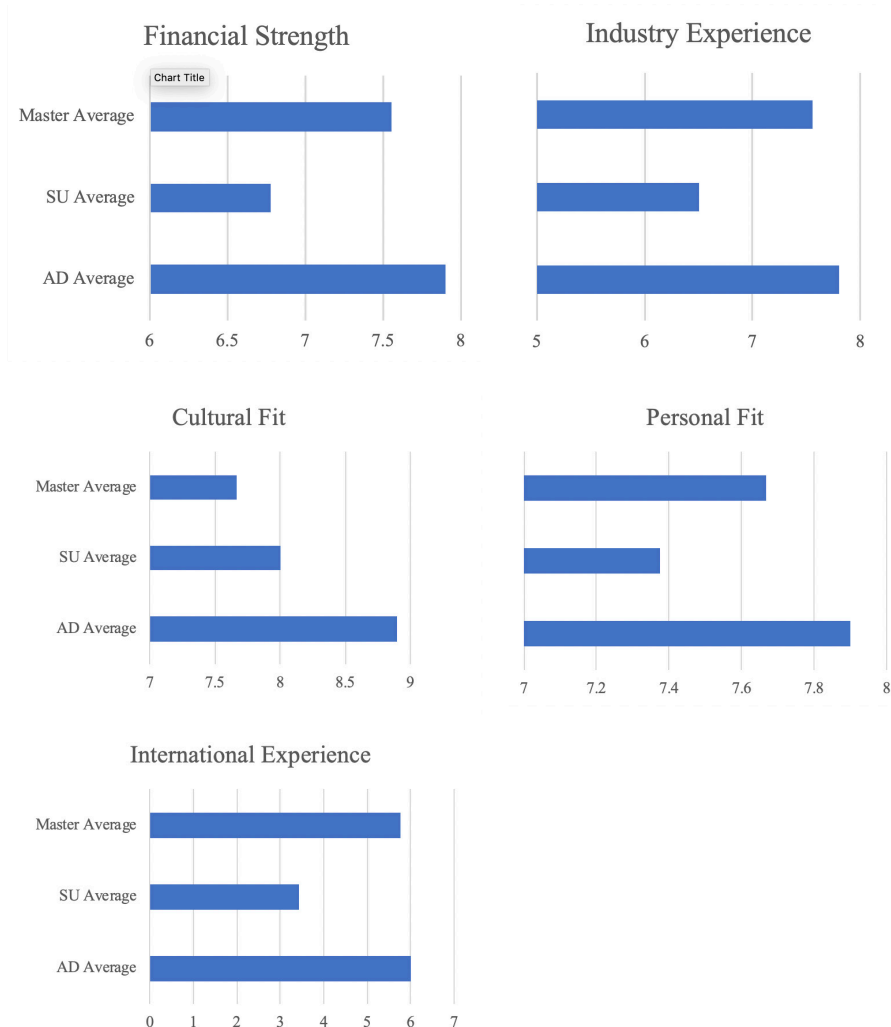
Timing

Based on the sample, there is no difference between a master partner or a SU ZEE when it comes to speed of market entry. Both types of partners required an average of eight months to open the pilot business after signing the franchise agreement. Interestingly, ADs needed an average of 14 months.

Perhaps the financial strength of the different kinds of candidates plays a role. SU ZEEs require the lowest investment while master partner usually have more financial strength. They do invest more in the master license but have essentially the same requirements to open a pilot store. ADs, on the other hand, commit to open several stores, which is reflected in an IFF that is higher than for a SU ZEE but often lower than for a master. Their financial strength seems to hover between the two as well.

The business operations will also impact opening times. For example, food concepts required an average of 12 months to open the first international pilot location as opposed to less than nine months for the non-food concepts.

Post Entry Challenges

Once the pilot business operates, franchise systems can be hit with the hard realities of the difference local market. They may face challenges that could require them to make changes to their products/services, their supply line and even their core operations. As with the selection criteria, the survey examined the importance of several aspects, including adapting a brand's products/services to the market, identifying the right market entry strategy, finding the right partner, creating the necessary support structure for the new franchise partner and creating the necessary supply line. For the ranking, 1 was the least challenging and 10 the most challenging. Respondents could assign the same values to different categories. For example, if finding the right partner was as challenging as adapting the brand, they could allocate the same number.

Overall, ZORs struggled the most with finding the right partner, followed by support structure issues.

Figure 8. Post Entry Challenges.
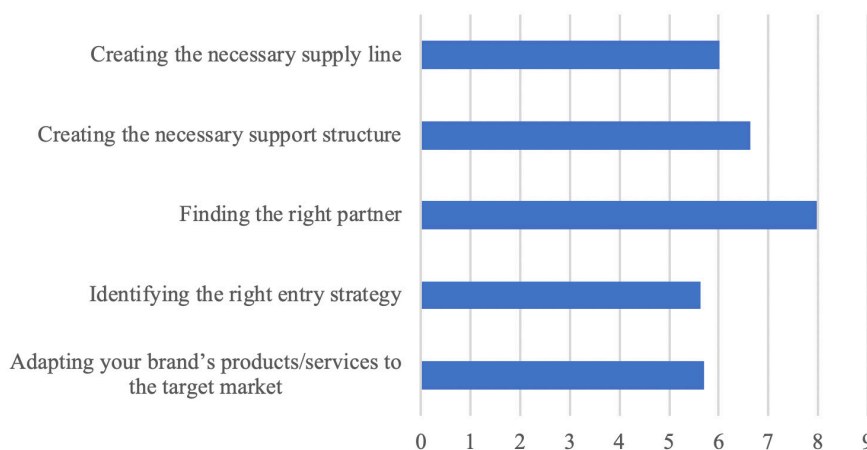
The food concepts in the sample generally allocated higher values to the struggles they faced, possibly indicating that establishing a food concept in an international market is more challenging. On average, food brands assigned 0.23 more points to the evaluated factors. At 2 points, the biggest discrepancy was for "Creating the Necessary Supply Line".

Again, this seems little surprising, as food concepts need to guarantee timely availability of perishable ingredients to ensure consistent quality of food products. Especially when new local partners start operations, the concept will have to juggle identifying and approving local supplies and/or establishing more complex delivery routes in case key ingredients are supplied by the ZOR or an affiliate.

Figure 9. Post Entry Challanges by Industry.
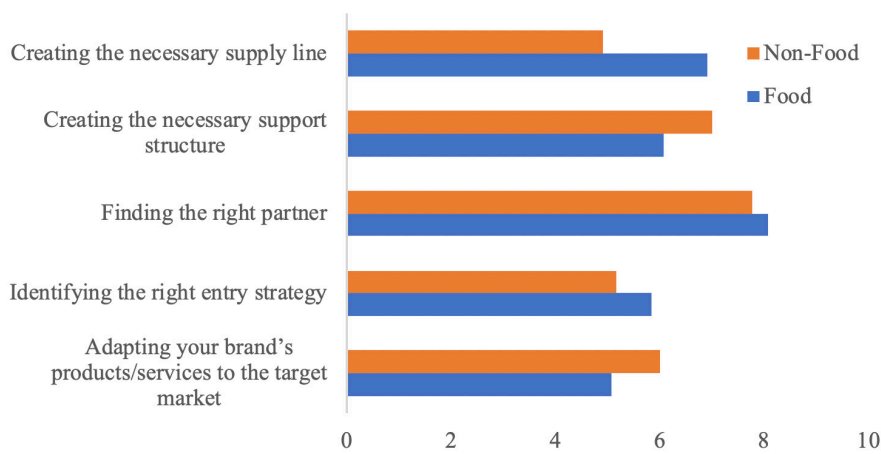

Growing the Brand

Master partners face a double challenge. They need to ensure the smooth opening and operations of their pilot location(s). In addition, they need to launch and manage a second line of business, namely franchise operations.

Naturally, much attention is initially paid to guarantee a successful start of the pilot business given the implications for the brand image and the confidence of the new local partner. Often the ZOR and the local partner underestimate the second challenge: creating the corporate structure for the master necessary to run the franchise development and operations departments. Experienced ZORs do not permit a master partner to offer franchises unless the pilot business has been properly established. In some cases, the master partner may need a little push to feel confident about starting the second part of his business.

Based on the sample, it can take up to 15 months for a master to sign a franchise agreement with his first sub-ZEE. On average, the seven brands in the sample for which such information was available required just over six months to sign the first sub-franchise agreement once the ZOR gave permission to offer franchises. The three food concepts took an average seven months while

the non-food brands were able to sign up sub-ZEEs a little earlier, after 5.5. months on average.

*Figure 10. Average # Months for Master to find their own ZEEs.*
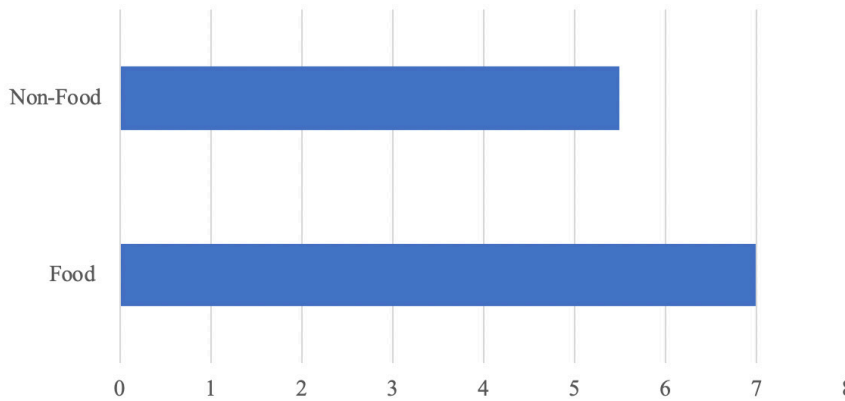
Taking the Plunge – Again

For brands whose international expansion works out, there is little reason not to try it again under the right market conditions. On average, the franchise systems in the sample took just over 16 months to expand into a second international market after their first foray abroad. There are some differences by industry and region.

For example, non-food brands took an average 1.3 months longer to expand into their second international market than the sample. The food brands were 1.5 months faster.

Figure 11. Average # Months between 1st and 2nd International Market Entry.
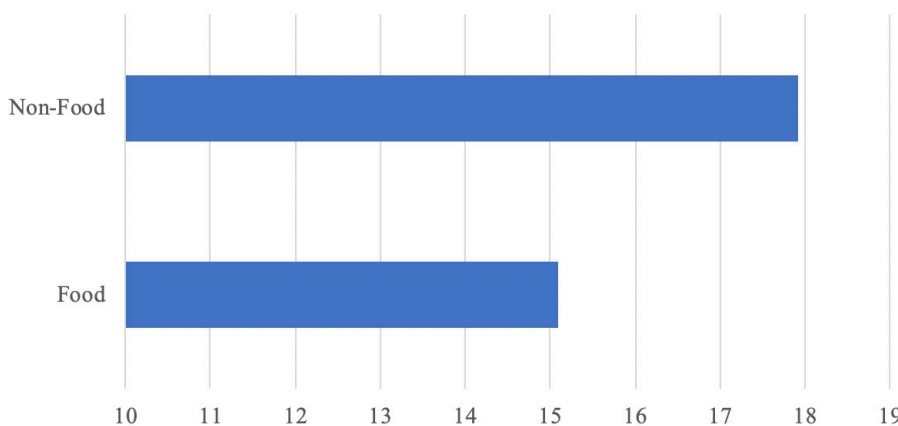
North American brands expanded significantly faster than their European counterparts. Once a concept from North America went abroad, it took an average 10 months for them to start conquering a second international market. By comparison, European brands took an average 22 months, with a similar distribution of food and non-food brands and despite the fact that the average European country has more international neighbors than concepts based in Canada or the United States.

Perhaps this says a little bit about a more gung-ho business approach in North America as opposed to their European cousins. There were too few data from other regions to pass any judgment on additional markets.

Figure 12. Average # Months between 1st and 2nd International Market Entry.
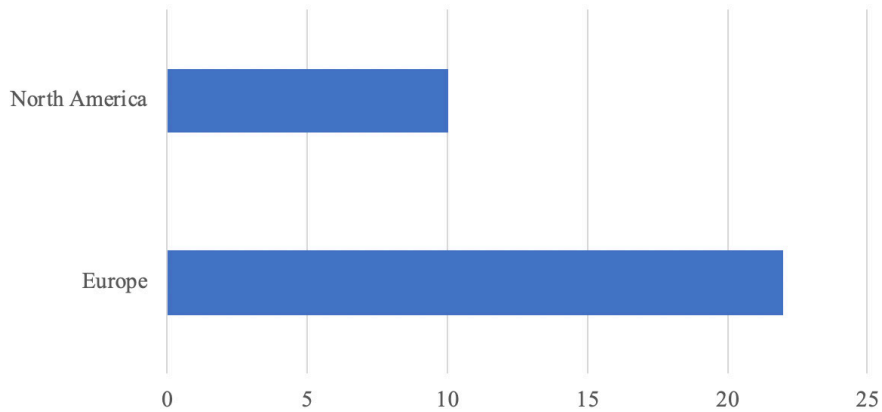

There is an even greater variance of the speed between two market entries when the sample is reviewed based on the expansion model the ZORs used for their first international expansion.

Franchise systems that entered their first international market with a company unit expanded into their second market much faster than everyone else. At nine months, these systems were ready for their next move 7.5 months faster than the sample. Entering a market with a company unit requires less time as the ZOR does not have to look for its first local partner which can take anything from 3 to 15 months. Neither does the ZOR need to spend time to train the new ZEE.

It is little surprising that brands which chose to enter an international market with a SU ZEE took more than half year longer than the sample.

Figure 13. Average # Months between 1st and 2nd International Market Entry.
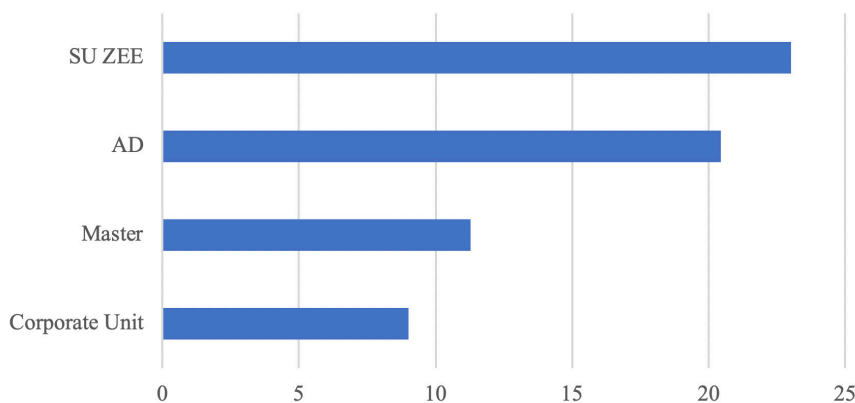
Goals vs. Reality

Hitting development goals appears to be a gamble as 52% of respondents reported they did not. Food brands reported a six percent point higher failure rate when it comes to achieving their development goals. Over 60% of European brands reported missing their international expansion goals as opposed to 40% of North America-based concepts.
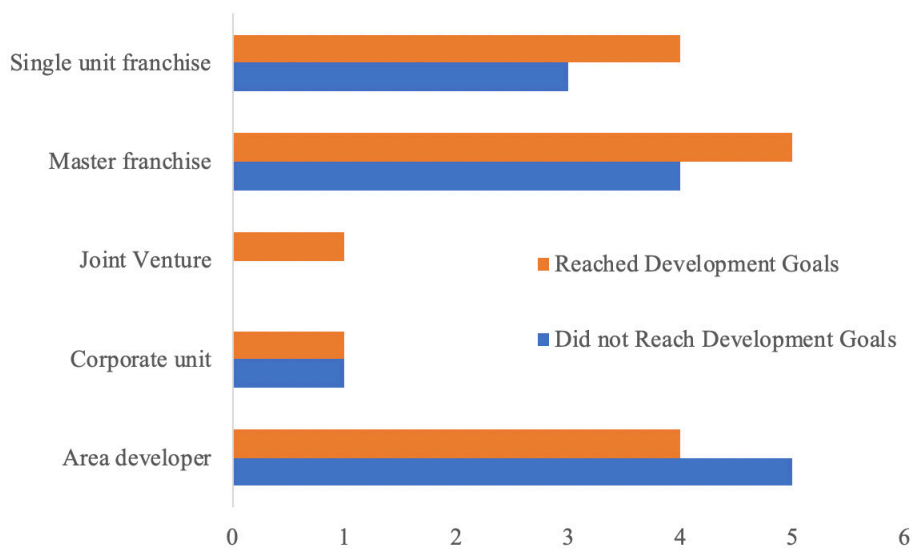

Interestingly, franchises which entered their first foreign market with a SU ZEE had the best chance to reach their development goals (at 57%), followed by concepts which opted for a master partner (at 56%). Another intriguing finding is that 57% of brands which expanded into a foreign market after they had been approached by a local investor also reached their development goals.

The most common reason for the failure to achieve the development goals was a breakdown of the relationship between the ZOR and the local partner, irrespective of whether it was a master partner, AD or SU ZEE. This was followed by the struggles to adapt the product/service to the local market which often took longer than expected.

Strategic Learnings

The experiences from their first international expansion resulted in a change of strategy for 35% of the franchises in the sample, particularly ZORs which expanded with SU ZEEs. The vast majority (eight out of nine) with a master partner repeated the exercise when they decided on their second international market which points towards general satisfaction with this market entry strategy when it works out.
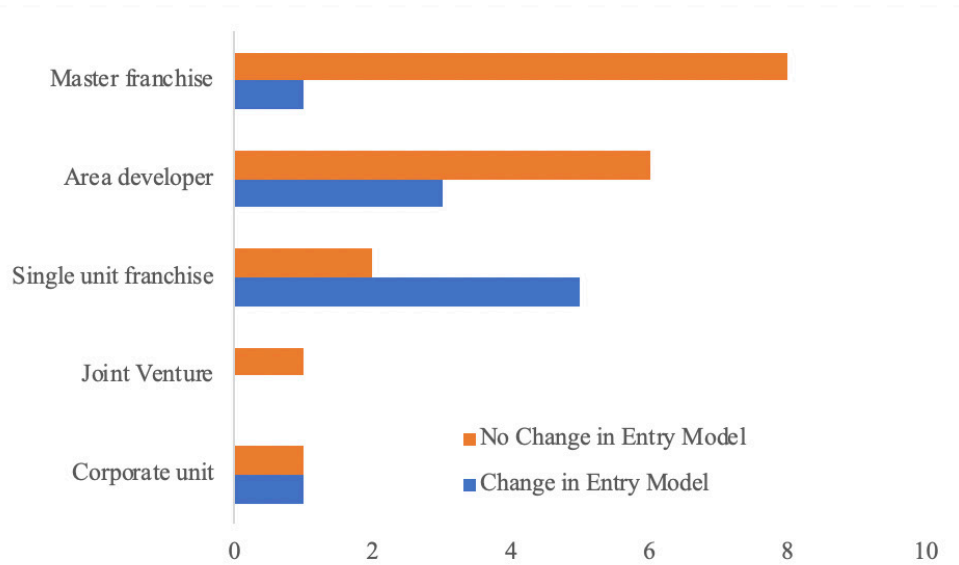
The decision to stick to the original mode of expansion is not impacted by a system's industry or country of origin as the percentages do not change significantly when measured against these variables.

CONCLUSION

Combining an opportunity in form of investors who approach a ZOR with the power of market research will increase a brand's chances for a successful and more profitable international expansion. There are three main components for a successful international franchise expansion:

1. The right partner

2. Prior market research

3. Evaluating an opportunity with the first two in mind

The survey shows how hard it is to find the right partner. It also indicates that it is better to wait than to act out of impatience or desperation. If the right partner comes up it is worthwhile being flexible about the entry strategy. Where logistically possible, an AD partner can be just as good as a master partner.

Of the 13 systems that reported not to have reached their development goals only one had entered its first international market based on prior market research. Market research did not result in a faster market entry or a lower value allocated to the efforts it took to adapt the product/service to the local market. However, the vast majority of franchise systems that pro-actively conducted market research instead of simply going the opportunistic route hit their development goals. This may point to potential efficiency gains, better time management and fewer losses since reaching development goals has an immediate impact to the bottom line.

Even in the case of investors knocking at a franchise concept's doors, a ZOR should act with prudence: evaluate the partner and conduct market research. This in itself presents an opportunity: collaborating with the local investor on market research will provide insights in how a future franchise partnership might look like. It will further show the potential partner that the ZOR has skin in the game.

International expansion poses a risk. The survey results indicate ways to mitigate against any unnecessary risks.

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SMART CONTRACTS FROM A (GERMAN) LEGAL PERSPECTIVE

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ABSTRACT: *The advancing age of digitization is no longer enough to stop even the world of lawyers, who are often considered to be very conservative, because the ever-increasing development of computer system performance enables programs to search through, record and assign complex data. This type of artificial intelligence could be much more useful to lawyers and their daily work than often thought. Legal Tech refers to the use of modern, computer-based, digital technologies to automate, simplify and, hopefully, improve the application of law through innovation. One of the most important interfaces between IT and private law are the so-called Smart Contracts. However, their meaning and their usefulness have yet to show, because a proper contractual classification is still missing. There is a lack of legal expertise in Germany, but also in other countries, which is reflected in the low number of instructive articles in legal publication media, but also in the necessary experience of specialized business lawyers. This essay investigates the handling of German (and Swiss) civil law with smart contracts. The first step is to briefly explain this technology, to explain different necessary terms and to simplify the description of how Smart Contracts work. Furthermore, their legal special features are discussed in comparison to conventional private law contracts, as the term Smart Contract has hitherto mostly been used in the IT sector and here rather as a catchphrase ("buzzword") without a general definition. Finally, it focuses on the overall private law consideration of smart contracts from the point of view of either German and Swiss civil law.*

KEYWORDS: business law, legal tech, smart contracts, blockchain.

Surely you have heard about the term *Digitization* or *Digitalisation*. This term does not stop at the world of lawyers either: the growing development of computer system performance today enables programs that independently search, classify and assign an almost infinite data set, thereby answering complex questions. These new technical possibilities for the legal world of work have in the meantime been given a modern term: Legal Tech is the automation of the application of law: Legal Tech describes the use of advanced computerized digital technologies to automate, simplify, and, hopefully, improve legal discovery, application, access, and management through innovation. A key concept of this elaboration is *Blockchain*, which aims to describe and summarize the platform of all the new technologies of this algorithm-based artificial intelligence,

also known as *smart computer programs*. Blockchain technology has been talked about lately in connection with so-called *crypto currencies*, virtual currencies like the popular *Bitcoin*. But one of the most important interfaces between IT and private law are the so-called *smart contracts*. They are a product of digitization and are increasingly attracting attention in the legal discourse. However, a proper private law classification is missing so far. This is due to the fact that there is not only a lack of legal expertise in Germany, which is reflected in the low number of informative articles, but also in the necessary experience of specialized lawyers. This work will contribute to explaining Smart Contracts from a contractual perspective and identifying their compatibility with current legislation of German law. There is no big difference to other countries with the continental European civil law tradition, especially as our sale of goods law today is shaped by EU law.

DESCRIPTION OF THE BLOCKCHAIN-TECHNOLOGY

Blockchain

The *Blockchain*, a common buzzword in banking and finance in particular, is sometimes credited with revolutionary and disruptive qualities for both the financial and legal world. Blockchain is a computer-based technology that verifies data transactions. Data is distributed and secured, allowing many functions of originally centrally organized information systems to be decentralized. The Blockchain can therefore be used wherever it usually requires a technological mediator, a *Trusted Third Party*. This allows information to be securely managed and verified. Blockchain provides traceability and (at least statistical) forgery security without having to use the services of an independent central authority.

„*Blockchain technology ensures the elimination of the double-spend problem, with the help of public-key cryptography, whereby each agent is assigned a private key (kept secret like a password) and a public key shared with all other agents. A transaction is initiated when the future owner of the coins (or digital tokens) sends his/her public key to the original owner.*" (Pilkington, 2016: 226)

In the Blockchain, a record is maintained and backed up on many computers within the blockchain network at the same time. Once a transaction made within the file has been saved, it cannot be changed. The transactions are encrypted in blocks, resulting in the name Blockchain. The blocks are concatenated by cryptographic techniques. As a result, digitized values are no longer copied from A to B, but transferred comprehensibly via a decentralized network in such a way that each participant in this Blockchain Network can verify unambiguously and anonymously who is currently in possession of the value embodied by the file (Davidson et al, 2016).

The technological notion of Blockchain thus describes a decentralized accounting system, through which, despite a large number of participants, a consensus is always reached on the correct condition of the accounting. This concept is called *Distributed Ledger Technology* (DLT). The transaction databases manage certain data sets via the Internet - without a special central platform - solely through the interconnected computers, on which the entire data pool of the blocks is mirrored at the same time, thus ensuring authenticity and complete information about the data records for all participants (Davidson et al, 2016).

Also important for describing Blockchain is the notion of *hashing*, the validation process of the

particular block that is a result of the *mining*, of processing the records within the block. A *hash* is a combination of letters and numbers and can be called a *digital fingerprint* of each block, it is always unique. Each block contains a *block header*, an information catalog which, among other things, stores the own hash as well as the hash from the previous block and makes it visible, so that each block contains its own fingerprint and that of the preceding block, which is for the highest possible transparency and high security. Hashing and mining have the consequence that the computers involved in the network provide a *proof of work*, which is also stored in the block and subsequently can not be changed (Dixon & Krämer, 2016).

Smart Contracts

Away from those media-savvy cryptocurrencies, Smart Contracts are arguably the most important interface between technology and private law. The term Smart Contract does not mean a formal contract pattern, but programs that can be operated and executed by computer systems themselves. The concept of smart contract goes back to the lawyer and computer scientist *Nick Szabo*, who described the concept of such technical possibilities in 1997 in more detail. In his opinion, Smart Contracts are an automated transaction record of legally relevant transactions:

„A smart contract is a computerized transaction protocol that executes the terms of a contract. The general objectives are to satisfy common contractual conditions (such as payment terms, liens, confidentiality, and even enforcement), minimize exceptions both malicious and accidental, and minimize the need for trusted intermediaries. Related economic goals include lowering fraud loss, arbitrations and enforcement costs, and other transaction costs." (Szabo, 2016, 72)

The idea of Smart Contracts is thus a computer-based data protocol that depict contracts and should support their processing technically. The algorithms of the data sets determine whether, at and after which specific conditions which particular decisions are made automatically. The concept behind the Smart Contracts is to model a legal contract by means of certain codes and algorithms, by means of which specified actions from the contract are put into effect on the occurrence of certain conditions - or even their absence. Due to the use of blockchain technology and its logging technology, such contracts and the associated events of the past are stored as shown tamper-proof. A pictorial, analogous example is the vending machine, which e.g. only releases a chewing gum when a matching coin has been inserted. Even the futuristic idea of the refrigerator, which independently orders new foodstuffs in the face of declining inventories, basically embodies the idea of a smart contract. Similarly, a leased vehicle could be automatically closed by means of a coded chip as soon as a due installment payment is not on time. Here are the many opportunities that arise through the use of smart contracts, as well as the increasing effectiveness of any contract management. The automation and speed of these processes make the Blockchain Technology cheap, transparent and secure for its users.

Intelligent system-based interfaces, *Smart Oracles*, allow the connection to external systems and thus represent the interface to the real world, whereby the smart contract, which basically represents nothing more than the sequence of a programming *"If A, then B"*, outside its Blockchain can access external data. For example, in the context of a contract of carriage with an (European) airline in the event of a compensation claim of the passenger in accordance with the European Passenger Rights Regulation (EC 261/2004), e.g. if the flight is delayed, it can be handled via a Smart Contract. In this case, the airline will automatically make a compensation payment to the

passenger after reaching a certain time of delay. In this case, a Smart Oracle could deliver the external flight data to the Smart Contract's Blockchain. Such examples can be constructed with all conceivable possibilities of the process flow "*If A, then B*".

Legal Contemplation of Smart Contracts in German Civil Law

Answering the question of the legitimacy of Smart Contracts under German private law requires, in addition to the search for something like a general definition, the initial clarification as to whether a Smart Contract is even a contract within the meaning of the German Civil Code (BGB). To clarify this legal classification of Smart Contracts, it is also necessary to distinguish between the operating systems, (partially) automated and autonomously acting systems. Decisive for this is the degree of autonomy of these systems, whether independent computer systems can make legally effective explanations.

General Definition of Smart Contracts

If we go back to the example of any vehicle leasing, in which the vehicle is closed by means of a Smart Contract in case of a non-paid leasing instalment at the time of maturity, the following features can be recorded after the "*if, then*" procedure: First, there is a digitally verifiable event in the form of (on time) payment of the leasing instalment. The software of the on-board computer then answers this event with right or wrong. This leads to a legally relevant action, which is carried out on the basis of the testable event - namely the making or switching off the operational readiness of the vehicle. The smart contract is therefore a machine code that controls, controls and documents legally relevant actions in relation to events that can be checked by digital means, which means that legally important contracts can be concluded.

A contract within the scope of German Civil Law Code?

According to the German Civil Code (BGB), a contract is concluded if at least two unanimous declarations of intent exist, both of which are aimed at the conclusion of the contract. The contract-party consensus can also exist for intersecting, simultaneous applications, if both parties recognize by contract-executing behavior that the agreement is intentionally agreed upon. For the recognition of an intention to bind a legal right and thus the required *essentialia negotii*, it is only necessary that the contracting parties and the subject matter of the contract are sufficiently defined or determinable. According to its wording, sec. 145 BGB contains the principle of attachment to a contract application as long as the binding effect exists.

Outcome

As explained, the term Smart Contract – which implies an actually existing, "intelligent" contract - is the purely technical possibility, after the occurrence of a certain condition, of achieving a certain success in the form of a previously defined measure. It goes without saying that this technical process alone cannot constitute a contractual contract. However, within such a Smart Contract it is (of course) possible to express legally relevant declarations of intent on the conclusion of the contract. For if legal declarations of intent can be expressed on beer felts or tattoos, this technology seems to be made for the explanation of a legally relevant will, since its combination of rules, requested conditions and then executed measures is precisely the basis of the Smart Contract. If anyone consequentially affirms the possibility of being able to formulate

legally meaningful declarations of intent via the Blockchain in the form of Smart Contracts, by means of which a contract is concluded, finally the question arises as to the submission and receipt of declarations of intent on such a contract conclusion. The basis of contracting based on a Smart Contract is the fact that the contracting parties do not oppose each other at the time of the conclusion of the contract, so that the declarations of intent become effective vis-à-vis absentees pursuant to sec. 130 (1) sentence 1 BGB. The delivery takes place according to its wording by intentional placing on the market of the declaration of intent by the declarant. Access then occurs when the declaration has come within the scope of the recipient's power to "*under normal circumstances have the opportunity to take note of the content of the declaration*" (Federal Court of Justice, NJW 2004, 1320).

The submission of a declaration of intention in the Blockchain takes place by the signing of the own explanation by means of a private key, an equivalent to the password. With the insertion of the declaration of intent in the Blockchain immediately comes the Smart Contract as a legally significant contract. The declaration of intent is stored in electronic form within the respective specific block. The declarant submits his declaration of intent by integrating it - coded in a block and signed with his key - into the public block chain and deliberately placing it on the market. The technical features of the Blockchain platform thus ensure the consistency, immutability and logging of the explanations. The access of the declaration of intent may already result from the integration of the block into the Blockchain, since by this publicization the receiver has the opportunity to gain knowledge of the explanation. In order to meet the requirements of sec. 130 (1) sentence 1 BGB, the access is made at the latest by decrypting the block. The authorship of the declaratory party, recognizing the identity of a party as *essentialia negotii*, can then be verified by decoding the statement with a public key.

Inclusion of the Contracting Parties

An interesting legal problem lies in the attribution of the necessary file for the conclusion of the contract. It is unclear to whom the conclusion of such a Smart Contract is attributable, as it is an electronic, but at the same time a kind of independently acting contract. For this purpose, not only the declaratory contracting party as a human being comes into consideration. Rather, especially in the design of electronic, computer-based systems with legally relevant content, including non-human actors: on the one hand, the programmer of the Smart Contracts, which does not necessarily have to be personally identical with the actual contracting parties, on the other hand, an automated or autonomously acting system, on which the Smart Contract is running. A demarcation therefore first requires the concepts of the automated and the autonomous system. Automated systems follow the rules set by humans in advance. Pursuant to Art. 5 (2) of Regulation (EG) 2015/758, in the case of an accident, new vehicles must be able to detect a sensor in accordance with the manufacturer's default settings and to automatically make an emergency call. Another example is the aforementioned refrigerator, which - pre-programmed accordingly - automatically orders new food as soon as it is necessary. Such systems operate completely automated, as they independently execute instructions from people who have been previously committed. By contrast, an only partially automated system, for example, the *Dash button* from Amazon, a wirelessly connected to an web device, by means of which one can re-order certain products by pressing a button, each device is bound to a specific product. In autonomous systems, the computer only makes its decisions using a self-learning algorithm ("*machine learning*" / "*deep*

learning"). However, such an algorithm is today neither known nor fully comprehensible. For example, the aforementioned refrigerator would order a birthday cake online, based on a well-known, networked calendar (eg. *Apple iCal*), or make a food order on time for the return of its owner's holiday. The distinction made facilitates the attribution of a declaration of intent made by computer systems of varying degrees of autonomy.

Electronic declarations, which are generated and delivered by (partly) automated systems according to previously defined regulations and requirements by the manufacturer or their user, are to be treated as original declarations of intent of the device owner, since the will to act and the explanatory consciousness of the user is sufficient for a legally valid explanation. It is the user himself who presses the *dash button* and thereby triggers the order of the particular product. In automated systems, attribution becomes more difficult, since at the time of issuing an explanation by the system - for example, the order of goods by the refrigerator - while perhaps a willingness to act of the owner can be derived, since his will to act as an intrinsic feature of a declaration of intent set out to use the automatic order system of the refrigerator. His explanatory consciousness of having made a declaration of intent with legal relevance in the respective situation needs to be doubted. Regardless of the evaluation of a declaration of intent with a lack of explanatory consciousness, the principles of the so-called *computer explanation* can be applied here. The computer declaration constitutes a valid declaration of intent which is automatically generated by a computer program based on a prior corresponding programming and transmitted electronically without any human being involved in this process. The computer explanation fictitiously implies a declaration of intent attributable to the person, in this case the owner of the device. The situation seems to be much more difficult with autonomously acting systems, because in this case, humans have no possibilities of acting, but the system acts solely on the basis of its autonomous learning mechanism. Therefore, humans do not even have an abstract knowledge of when, for what, and for what reason the system makes which explanations. Therefore, the principles of computer explanation fail here. However, the implementation of the autonomous system is only of a theoretical nature, so far.

Contractual Language

A Smart Contract initially consists of a coding, which is why it could be objected that such a code is not easily readable. However, according to the correct point of view, objective readability is not important at all, because a contract can be written in any language, including a programming and coding language.

Contractual Form

A point of criticism against the admissibility of Smart Contracts are possible lack of forms. Contrary to sec. 125, 126 BGB, contracts are fundamentally free of form and therefore require a specific form only in specified exceptions. The formal requirement of the text form according to sec. 126b BGB does not initially cause any problem, since this includes the digital text form and the storage of such on a data medium. It is different with contracts, which require the written form (sec. 125 BGB). Although it is easy to compose on a computer, for form preservation, however, it requires the handwritten signature or the notarized authentication on the certificate. The physical form requirements are met by an electronic document, especially a smart contract exclusive to the Blockchain. The Smart Contract would be void as a contract pursuant to sec. 125

BGB. However, the conclusion does not suggest that smart contracts could not be used in such formalized legal transactions. Realty contracts (for compulsory disclosure sec. 311b (1) BGB) or guarantee statements in accordance with sec. 766 sentence 1 BGB (sentence 2 normalizes just the prohibition of declaration in electronic form) can still be agreed or concluded by a Smart Contract, if the parties agree on this, deliver the formal declarations of intent beyond the Smart Contract and informally integrate them into the Blockchain with regard to the triggering of a Smart Contract mechanism. In practice, for example, in a real estate contract, the required form would be maintained and the blockchain technology in the form of smart contracts would be used, especially with regard to its conception, after the occurrence of certain conditions - the construction progress on a real estate project - a certain success in the form of a previously the payment of the contract amount in accordance with the German Building Contractor Law Code. Whether this still brings a useful added value is an open question. The term Smart Contract does not necessarily mean a contract in the legal sense, but contracting on the basis of a programmed system flow is quite possible. The system-based conception of the Smart Contract, to allow the occurrence of a certain and previously defined condition to follow an equally determined and predetermined consequence, can be easily reconciled with the requirements of the Civil Code for the conclusion of a contract.

By means of Blockchain Technology, legal relevant declarations of intent can be stored, communicated and mutually addressed, which are also generated or accepted by computer systems and their own declarations, can lead to a legally relevant result and thus constitute a contract within the meaning of sec. 145 ff. BGB. Contracting within the framework of a smart contract therefore does not present a legal problem even with fully automated computer systems. The institute of the computer explanation, which is already several years old, even older than Blockchain etc. ensures the legal traceability and attribution of a declaration of intent independently issued by a computer system to its owner. Thus, the realization and execution of a Smart Contract as a (legal relevant) contract requires no human interaction; the computer programs can independently interact and contract within the framework of their previously defined options.

Legal Issues with the use of *Smart Contracts*

Ineffectiveness: Due to legally inadequate declarations of intent, contracts may initially be ineffective or even initially void, without the parties being aware of this at the time the contract was concluded. There are many reasons for this, for example with regard to the civil protection of minors. This is especially problematic if one considers the explanation of blockchain technology and the associated circumstance that this chain of data records is just immutable and does not allow any subsequent corrections. The Smart Contract is merely a transaction verification. It is impossible to consider any grounds for annulment from the very beginning that were not even known to the contracting parties at the time of the conclusion of the contract. The assessment of an existing or just retrospectively to be evaluated for the past nullity (keyword retroactivity of contesting, sec. 142 para. 1 BGB) of such a transaction can not be done on the basis of data and a technically programmed *if-then* order, but requires a sometimes legal analysis and subsequent evaluation. Of course, this can vary, depending on the standardized facts and the subjective evaluation result. The same problem occurs when the smart contract itself has already been programmed incorrectly but the parties were unaware of it; because they did not program the contract themselves. Nevertheless, the agreement is executed automatically. A correction

ex nunc (from now) is no longer possible. However, an analysis and evaluation of the resulting situation can not be expected from either a programmed code, algorithm or blockchain. The Smart Contract can neither interpret the real will of the parties (sec. 133, 157 BGB) nor make any corrections according to good faith and trust, sec. 242 BGB.

Withdrawal: The legal application of Blockchain technology is also faced with such problems in the event of the right to default or even the contractual withdrawal. The resignation results in the formation of a withdrawal obligation, which means that both parties have to revoke their contractual performances. This means, legal consequences of an effective withdrawal are, according to sec. 346 Abs. para. 1 BGB, first of all the reimbursement of the benefits received or - if reimbursement was excluded, according to the nature of what has been obtained, compensation. As an very easy example, if you bought an apple and already ate it, you cannot reimburse the apple, which means you need to pay compensation. Finally, there is no more difference to the actual situation before the withdrawal as you already payed the price fort hat apple, but this is the way, civil law tradition follows the way of its institution of withdrawal. In addition, the emoluments must be issued. The obligations of the parties resulting from the resignation must be fulfilled conditional upon counter-performance, in accordance with sec. 348 BGB. In addition to the reimbursement of benefits, the contracts stored in the Blockchain must also be reversed under civil law in the course of a contract by means of a Smart Contract, which results in the same problem as in the case of an appeal. So called *Reverse Transactions* have the effect of reversing the business only in economic, but not in legal terms. The legal goal of the resignation, however, is precisely the cancellation of the contractual relationship *ex aequo* (equally) in relation to the legal positions of the parties. According to sec. 346 para. 1 BGB, the return of the received services is not only economic. Rather, the parties should be able to resume their previous legal positions in terms of benefits. However, in the case of mere reimbursement of economic benefits, the legal positions of the parties remain at the *ex tunc* stand for the conclusion of the contract. The data and transactions remain stored despite reversal of economic performance due to the properties of the Blockchain therein! But the purpose of the obligation of repayment is not only the economic reversal of the contract's subject matter, but also causing the condition before conclusion of the legal transaction in all respects, legally as well as actually. The reverse transaction therefore does not meet the legal requirements of the repayment process in the course of the repayment relationship. Calls for the installation of a "*judicial interface*" or the creation of a legally valid framework for Smart Contracts in the Civil Code are now being voiced, but the immutability of the Blockchain presents the legislature with a barrier that can hardly be overcome if the effect of the resignation de lege lata is not to be undermined.

Recall of Consumer Contracts: For special types of legal transactions, namely those between an entrepreneur and a consumer, sec. 355 ff. BGB contain special rules, because for the protection of the consumer in the course of a concluded consumer contract a right of revocation is granted in some final constellations. It is true that the right of withdrawal as a right to terminate the contract is for certain reasons similar to the right of appeal to be certified for certain reasons which are finally settled in the Civil Code. It gives the consumer the freedom of choice to free himself from his declaration of intent and thus the resulting legal action (sec. 355 para. 1 BGB). However, the legislator has clearly decided against an extension of the contestation rights and designed the consumer revocation "*resignation-like*", which is why such an *ex nunc* unfolds its legal effect. The revocation by the consumer justified a obligation of restitution, the sec. 355 para. 3, 357

para. 1 BGB demand as a consequence of the revocation of a return of the benefits received. The dogmatic classification, however, remains controversial. In particular, in cases where the revocation is declared before the consumer has received a service, the revocation could deviate *ex tunc* (from the beginning) effect. It indicates that according to sec. 355 para. 1 BGB the consumer is no longer bound by his declarations of will after a declared revocation, the contract was thus previously pending effective and has become ineffective by the revocation of the consumer *ex nunc*. For the assessment of the cancellation of a Smart Contract, however, this dispute has *de facto* no effect, since neither the nullity of the contract due to revocation prior to receipt of service within the blockchain can be observed, nor the legal reverse of the consumer contract beyond the reverse transaction is possible. The consumer right of cancellation is not dispositive as it were with the right of withdrawal.

General Terms & Conditions: The resulting problems nourish doubts about the practical suitability of Smart Contracts as a form of effective private law contracts, at least in demanding legal transactions. Attempting to obtain all such rights e.g. to exclude by means of participation contract on the appropriate Blockchain network, fails when it comes to a legal review of the general terms & conditions used in a special contract, according to sec. 305 ff. BGB. Regulations of a participation contract in a network, in which always a lot of computers and users are involved, already have to be treated as a contract with general terms and conditions according to sec. 305 para. 1 BGB, as they are rules used pre-formulated for more than two contracts which one party to the contract presents to the other party upon the entering into of the contract. Rules within a Smart Contract are then to be assessed as general terms and conditions if they are pre-formulated in accordance with sec. 305 BGB and intended for a large number of contracts. This is also the case with Smart Contracts, as it is inherently immanent to be pre-programmed and thus preformulated and used for a variety of businesses. However, this entails a narrow legal margin, e.g. the prohibition of the exclusion of a right of withdrawal because of deficiencies towards consumers according to sec. 308 No. 8a BGB, which applies also to § 307 BGB also in business dealings between two businessmen.

Data Protection: The Blockchain Technology continues to offer privacy benefits, as the transactions made in or with it are transparent, cryptographically secure, forever stored, not manipulatable, time-traceable and de-centrally validated. This permanent traceability, the storage and immutability of the transaction data to the complete abandonment of the system by all users constitutes a major obstacle to the long-term and convincing practical suitability of Blockchain Technology in contract law, because this is in direct contradiction to the data subjects of the new GDPR (General Data Protection Regulation). However, the Right to Erasure („*Right to be forgotten*"), Art. 17 para. 2 of the GDPR is not enforceable in the Blockchain. The rights of victims are also not dispositive in nature, they will provide advocates of the use of smart contracts in legal relationships before difficult to overcome hurdles.

A *Smart Contract* as a Legal Service?

According to this elaboration, the potential applications for Smart Contracts are. Any legal processes can be controlled with the help of "*intelligent contracts*". Although Smart Contracts does not have an autonomous freedom of action, such contract constellations are quite easy to use and are also used by start-ups or technology companies. This inevitably leads to a conflict with the Legal Services Act (RDG), according to which sec. 3 requires a legal permit for the independent

provision of out-of-court legal services. The offer of treaty texts which are available online in non-dependent employment, so on their own responsibility, represents such a matter of service. There is a debate about whether an individualized legal text based on a code, which is made available later in a Blockchain, seems to be such a legal service. However, due to the topicality of this phenomenon, precedence does not exist yet. The debate is based on the deviation of the wording of sec. 2 para. 1 RDG with the original version of the government draft, in which the objective perception of traffic and subjective expectations of the person seeking justice was still required. A legal service exists when "*a substantive or in-depth review is required and not just a simple or schematic application of law*", as is the case with contract drafting. Ultimately, on the basis of the legal framework and its postponement by the judiciary, a case-by-case assessment will have to be carried out on the basis of the legal complexity of the respective program or its arbitrary "*legal evaluation*", which should not be overstated for the protection of the persons seeking justice. Now, as the nature of a smart contract has been clarified, and one that is focused on bringing about a legally relevant event after the occurrence of a specific and pre-determined condition, the adoption of a "*legal rating*" by a smart contract would only be consistent. Those who do not have a legal license to provide legal services should cautiously deal with allegedly simple means of resolving conflicts. Even a free legal service outside of one's own privacy requires supervision by lawyers.

CONCLUSION

Smart Contracts are designed to automate processes and make enforcement more effective and faster in some situations. For example, if you think of the (fictitious) case of the leasing car and its unpaid installments, the lessor has a much more effective way of acting against the lessee than completing the cumbersome path of each civil process order. The transparent design of a Smart Contract in the Blockchain protects the lessee against unjustified action by the lessee, since every legal success triggered by the Smart Contract requires a specific and predetermined condition. However, despite the admissibility of the idea of Smart Contracts in the sense of a legally relevant *intelligent* contract, some problem areas have opened up whose barely manageable overcoming of the practical assertiveness of Smart Contracts - at least beyond the simplest of operations - can raise serious doubts. After all, Smart Contracts are nothing more than a sequence of conditional successes. However, they are not responsible for the possibility of carrying out legal analyzes and evaluations. Due to the structure of the blockchain, no corrections or legal interpretations can be made. The strict German law of terms & conditions also has a significant impact on the use of Smart Contracts, as the automated enforcement of claims leads to a reduction of objections. Finally, the new General Data Protection Regulation with its strict framework stands in the way of the large-scale practical use of Smart Contracts in all member states oft he European Union. Whether it will adapt to the needs of Legal Tech and thus Smart Contracts will be a matter of legal education. While a Smart Contract may offer an interesting alternative to simple-knit legal transactions, it is more of a hindrance than an aid to challenging contracts and supporting day-to-day legal advice. Blockchain technology will also reach its limits, and so does the practicality of smart contracts. It is not always meaningful to leave any work to a machine or algorithm. It is more important to appreciate the work of people and thus also the man-made legal framework, which has proven itself over centuries. Otherwise, there is a risk that all private law principles will be undermined by trends such as Legal Tech. Yet, a question about the usefulness of Smart

Contracts must therefore be negated. A benefit can always be given only where the required and the effort to be operated is in a reasonable relationship to it.

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" I prefer true but imperfect knowledge,
even if it leaves much undetermined and unpredictable, to a pretense
of exact knowledge that is likely to be false."

Friedrich A. von Hayek

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