In an era when knowledge is becoming the most important source of competitive advantage, executives need to be able to draw on the knowledge of business schools. This new section of EBF aims to close the gap between business leaders and academics. In this issue we feature an interview with **Vytas Gruodis** of the Baltic Management Institute, while **Antonio Marturano** gives an insight into the complexities of teaching ethics to business leaders at the University of Exeter. The featured case study, by **Ashok Som** of ESSEC in France, offers a rare glimpse into the rarefied world of luxury goods group LVMH. Finally, research papers bring the latest research news from Europe's leading business schools and universities.

Training tigers

Vytas Gruodis, Director-General of the Baltic Management Institute, talks to EBF about management training, Lithuania's booming economy, and prospects for the future

Vytas Gruodis is no ordinary business school dean. The Director-General of the Baltic Management Institute in Vilnius is a businessman who had lived and worked in many parts of the world, before returning to Lithuania in 1993 to assist in the country's reconstruction. As a result, the BMI, which Gruodis helped to found in 1998, is a dynamic organisation which in many ways looks and feels more like a business than an academic institution.

Gruodis is justly proud of the BMI, which has already made an important contribution to the rebuilding and growth of Lithuania. "At the moment, we are completing the recruitment of our sixth Executive MBA class," he says. "When we have finished, the combination of current students and alumni will include about 300 top-level managers and professionals. The combined annual turnover of the companies they manage represents about 25 per cent of Lithuania's GDP. Our contribution to the modernisation of the Lithuanian economy has been quite significant."

This is important because Lithuania's economy is booming. Dubbed the 'Baltic Tiger' by some observers, the country has the fastest growing economy in the European Union, with growth forecast at around 7.5 per cent in 2005. Inflation, interest rates and public debt all remain low, and a report by ABN Amro in November 2004 suggested that Lithuania was comfortably on course to meet the criteria for inclusion in the euro-zone, and might well adopt the euro as early as 2006/7. This is a considerable achievement.

That achievement in part is due to people like Gruodis, who, for the last decade, has been at the heart of the rebuilding process. Like thousands of others, he left Lithuania during the Second World War, living first in Argentina but eventually settling in Canada, where he lived for many years and still has strong ties. His business career began, he recalls, "at the tender age of 30, when I became president of the Canadian subsidiary of an Italian company, part of the Fiat group". There followed a period in management with 3M, where he learned many management skills; looking back, he describes his time at 3M as "worth as much as an MBA from Harvard" and also learned management skills which were to stand him in good stead later both as a manager and as a consultant. He has worked in many parts of Latin America, North America and Europe, including a period in Geneva working for the Italian multinational Montedison. He also owned his own office furniture manufacturing business in Canada, and invested in other companies.

Entrepreneur, manager and consultant, Gruodis had acquired by the early 1990s a range of skills which countries like Lithuania, emerging from the shadows after the break-up of the USSR, badly needed. "I was looking forward to blissful retirement in Canada," he says, "but instead, I became attracted by the idea of being actively involved in the rebuilding of my native country, of making some contribution to its transition to a democratic, free market society." In 1993 he returned to his homeland as executive director of the Open Society Fund Lithuania (part of the Soros Foundation), and quickly found himself at the centre of the rebuilding process. He was a founder and chairman of the Lithuanian Investment Agency. In 1997 this organisation became the Lithuanian Development Agency, and Gruodis served as its Director-General 1997-2002.

It was in this capacity that Gruodis helped to plan and found the BMI. Humorously, he describes himself as the organisation's midwife, but that may not do full justice to his role and influence. He was the institute's first chairman of the board, from 1998-2002, and was

'The Baltic Tiger is turning increasingly towards the outside world. BMI must continue to breed and feed it.'

appointed Director-General in 2002. "Thus, BMI has become my third 'career' in Lithuania," says Gruodis. Despite more than 40 years in business, his enthusiasm for this new project remains undimmed.

The critical challenge for the BMI has been, and continues to be, supplying the management skills to support and sustain Lithuania's continued growth. "Our private sector managers at every level have a real thirst for modern, western business management methods and best practice," he says. "Lithuanian companies recognise this, and are investing heavily in management qualifications. Prominent firms and even medium-sized companies are sending managers to study for the Executive MBA with us, and paying their tuition. Our two-day management seminars are also well-supported. It is not uncommon for major local companies to have management and staff training budgets of €100,000 or more."

Although it is by no means the only training institute in Lithuania, the BMI is popular because it manages to bring the best of western management thinking and practice to Lithuanian companies at a price they can afford. Tuition fees for the Executive MBA are about 11,000 euros. "We run a very cost-effective operation," he says. The BMI has no full-time faculty of its own; instead, it flies in faculty from its partner institutions in the West, which include Copenhagen Business School, the Norwegian School of Economics and Business Administration, the HEC School of Management and the Louvain School of Management. This flexible arrangement keeps costs down and ensures that students on the 18-month Executive MBA, which is taught entirely in English, are exposed to a variety of ideas and practices from the West. And, although the initial start-up had some financial support from the European Union, the BMI is now entirely self-supporting through income from seminars and tuition fees and corporate sponsorship.

The BMI has its premises in the Europa Tower, a 33-storey office building in Vilnius which boasts of being the highest commercial building in the Baltics. Designed by Lithuanian architects and built by local contractors, the building is widely seen as symbolic of the new, modern Lithuania. But while national pride is strong, the Baltic Tiger is also turning increasingly towards the outside world. Much of Lithuania's recent growth is based on exports, and to compete in world markets, Gruodis says, its business leaders need more and different skills.

"Institutions like the BMI play an important role in helping our businessmen to become internationally oriented, to acquire the skills they need to compete on the global scene," he says. That may be why 60 per cent of the BMI's students are from the top level of management, CEOs, managing directors or business owners, as Lithuanian companies rush to enter the global marketplace. Alumni include local business leaders such as Arunas Bartusevisius, CEO of computer and IT company Sonex, Vytautas Lygnugaris, CEO of the shipping company Limarko, Tomas Kucinskas, president of the local subsidiary of the Carlsberg Group, and Olga Milevic, managing director of Saint Goben Isover. Increasingly, foreign subsidiaries are replacing expatriate senior managers with Lithuanians, many of them graduates of the BMI.

What does the future hold? "I expect to see the BMI continue its work in breeding and feeding Baltic Tigers," says Gruodis. "We are expanding our training programmes, and new programmes are being added to the schedule. We also aim to attract more students from neighbouring countries. Our Executive MBA tuition fee is a fraction of that of equivalent programmes in Western Europe. An executive from Helsinki, Stockholm or Copenhagen could attend our classes in Vilnius, pay for air fare and accommodation every two weeks, and still save money, while at the same time acquiring valuable social, cultural and business experience in a dynamic new EU country." It is a difficult argument to resist.

On being a moral agent: teaching business leaders to think ethically

by Antonio Marturano

The core tasks of ethics are to provide reasons for an action and to identify fallacies

Teaching leadership and ethics is not easy. Some people think of 'ethical leadership' as an oxymoron: of (Machiavellian) necessity, leaders should not behave ethically. Others hold contrary views, believing that because of their position, leaders have an intrinsic ethical responsibility. But even if this is accepted, another question then arises: why leaders should behave ethically in a world in which ethical relativism is dominant, where nobody seems to have the ultimate truth?

Rather than teaching aspiring leaders the reasons why they should behave ethically, a more productive approach is to help them to develop their ability to think ethically. In this way, it is possible to teach people why they should behave in an ethical manner, and at the same time how to take responsible decisions. This brings ethical theory together with practice. it also leaves room for a personal understanding of ethics. As Joanne Ciulla put it: "If you want to teach [leaders] to be ethical and socially responsible, you have to develop their moral imaginations, critical thinking skills and evoke their emotions or passion to act on what is morally right. Moral learning must reach the body, the head, and the heart." Rather than teaching what, for example, Immanuel Kant or John Rawls said about ethics, we need to teach subjects such as why we need fairness, or why we should not use another human as a means to something else.

Information and critical tools

We live in an information-based world. For leaders, the role played by information is particularly important. They work with information from many sources, often from areas where they have little expertise or knowledge. Their ability to analyse, and use this information productively, is critical to their success. Information is money in a leader's hands; if ethical information is included along with other information, then money becomes 'good' money. You cannot make good ethical decisions if you do not have the right information.

Information on the one hand, and good critical ethical tools (such as ethical theories, critical thinking and linguistic distinctions) on the other, are the keys to teaching ethics in leadership. Case studies can be particularly valuable, and I often use scenes from films. These can make the student feel immersed in a real ethical dilemma and can create empathy with the protagonist's problem. After viewing the scene, students have a group discussion about applying ethical tools: should we be Kantians, or should we think in a more utilitarian way? This approach involves imagination and requires students to place themselves in other people's shoes. Information processing and a critical understanding of the problem are required, but that still leaves room for the aspiring leader's ethical feelings.

Analyze That is a very funny film with some intense scenes. For example, when the boss, Robert De Niro (the godfather), bursts into the office of Billy Crystal (the psychiatrist), students often start laughing. But at the same time, they understand the difficulty of the psychiatrist's position and his moral dilemma (over professional integrity) when facing the godfather. Different ethical strategies such as deontology or consequentialism lead to different solutions and different outcomes. This helps leaders to think critically in order to develop a creative vision of the problem and how to solve it.

Reasons for actions

Solving a problem is not simply a matter of stating what the right action should be. It is also necessary to provide reasons for a particular action. Leaders therefore need to be able not only to perform the best action possible, but also to give reasons why that action is better than another. In these discussions, students are asked why an action they recommend is good and morally better than another. Providing reasons for an action is a core task of ethics.

Another element is the identification of fallacies. Presidential debates and political speeches help students identify such fallacies, says Julia Ciulla: "Public discourse, particularly among politicians, often fails to respect the ethical and logical requirements of discourse...politicians frequently win elections based on name-calling and misrepresentation of facts, which legitimises sloppy thinking. Our society bombards us with lazy thinking and questionable information in editorials, news reports and advertising."

To face this kind of dialectical problem, I use student group discussions about a moral case study. One method is to split them into groups: each group thinks about a solution to a case study from a particular point of view. One can have two groups – deontological versus consequentialist approaches – for example, or four groups, such as Kantian, Rawlsian, utilitarian and virtue theory. After a discussion within their own group, they are asked to face each other and show that their argument is better than others. This lets them appreciate how ethical tools work in a debate, and enables them to unmask the fallacies and argumentative weaknesses of others.

Teaching ethics to leaders is a far cry from forcing them to be ethical. That may create fanatics who pursue their beliefs with extreme consequences. Genuine ethical behaviour is not extreme. As Aristotle put it, *in medio stat virtus*: virtue lies in the middle way. Reasonable and reasoning leaders lead better than fanatical leaders. Being a moral agent is up to the individual. Explaining how to become one is a powerful task for educators, which, if successful, produces more informed and more responsible leaders.

Antonio Marturano is research fellow at the Centre for Leadership Studies, University of Exeter.

CASE STUDY

Bernard Arnault has applied his unique management style and ruthless focus on the bottom line to LVMH, the French luxury goods group. Now he must keep up the momentum and plan his own succession

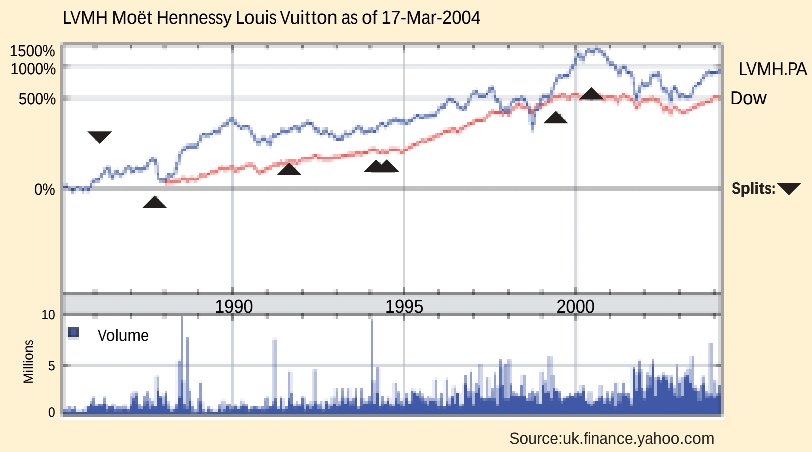
Personal touch that built an empire of style and luxury

by Ashok Som

Bernard Arnault has spent the past 15 years building the LVMH group from a small clothing manufacturer and champagne producer to a conglomerate comprising 50 of the world's most powerful luxury brands (see Figure 1 for recent stock performance). Through a complex web of partnerships, he owns some 33 per cent of the company's stock.

Known in the industry as the 'Pope of Fashion', he reigns as the chief shareholder in LVMH Moët Hennessy Louis Vuitton, and his ownership stakes in high-profile labels of Christian Dior, Givenchy, Louis Vuitton, Christian Lacroix, Kenzo, Céline, Emilio Pucci, Fendi, Loewe, Donna Karan, and a substantial investment in Marc Jacobs. His properties also include Tag Heuer watches, Moët and Chandon champagne, and a chain of airport duty-free shops that dot the world. In short, much of the future of world fashion is in Arnault's hands (see Table 1).

LVMH Stock Performance, 1985 to March 2004



LVMH's leadership has been sustained by a drumbeat of new-product launches, store openings and an increased investment in communications. In 2004 alone, the group has launched new leather goods: Damier Geant line, Théda bags, an entire new jewellery line at Louis Vuitton, a new perfume for women at Dior, a new fragrance for men at Guerlain, an array of watch and jewellery creations, and the new Ellipse Cognac from Hennessy.

How does Arnault do it? A key to his success is his personal view of what makes an appropriate management style in this industry. His secret is to remain deeply involved in the creative process – far more than his peers – convinced that the ability to match effective executives with temperamental designers can make the difference between a star and a failure in the luxury goods business.

"To have the right DNA in a team is very rare. It's almost like a miracle," he says. In the past 15 years he has formed close creative bonds with designer John Galliano, whose collections for Christian Dior have been hailed by fashion critics. His selection of Hedi Slimane has done wonders for Dior Homme, and his pairing of Marc Jacobs with Louis Vuitton has been a critical and financial success. "This link to creativity – it's not far from art, and I like it very much. You must like to be with designers and creators. You have to like an image. That's also a key to success. And at the same time, you must be able to organise a business worldwide. If you think and act like a typical manager around creative people – with rules, policies, data on customer preferences, and so forth – you will quickly kill their talent."

Based in France, LVMH is one of the world's leading luxury goods companies, with major interests in wines, spirits, fashion goods, leather goods, perfumes, cosmetics, watches, jewellery and retailing. The company employs approximately 56,000 staff and operates more than 1,500 stores worldwide. The majority of sales are derived from the Fashion and Leather Goods Division, with Europe being the most important region.

A key component of the group's strategy is its 'star brands' with one of the strongest portfolios in the sector, counting 60 top brands. At the core of the fashion and leather business is the Louis Vuitton brand itself, the 'star of star brands', estimated to generate over 80 per cent of earnings in the segment.

However, industry insiders cite that all is not well with a financial man like Arnault at the helm. Some elements of his management style result in 'constrained freedom'. For example a manager for Céline could recruit a person himself, independent of the central LVMH Human Resources department, but he has to send a copy of the CV of the person he hired so that the head office is kept aware of the new development. Though his managers are given autonomy, they know they are being watched and they know who has the final word in case of any conflict.

Another concern is the ruthless pursuit of the bottom line. Managers are supported as long as they make their numbers. "You have the freedom as long as you exceed your targets. Once you do not, there is no freedom anymore," says one. The emphasis is on profit and any division or company that does not deliver is in danger of being be sold off. This approach contrasts with the traditional and creative view of *haute couture*, which tolerates losses while the market place accepts its designs over a period of time.

Table I: LVMH Moët Hennessy Louis Vuitton business activity

Acquisitions

1987	Fashion house Céline
1988	Fashion house Givenchy
1991	Champagne brand Pommery
1993	Fashion house Kenzo
1994	Perfume company Kenzo, cosmetics company Guerlain
1995	Jeweller Fred
1996	Leather goods specialist Loewe
1997	DFS, the luxury goods distribution network
1998	Sephora, the fragrance and cosmetics retail chain
1999	Champagne producer Krug and the watch manufacturer TAG Heuer, a 34 per cent minority stake in the Italian luxury goods maker, Gucci
2000	LVMH purchased the US start-up, Urban Decay, and Donna Karan apparel line
2001	La Samaritaine department store, Acqua di Parma perfumes, a stake in Fendi
2002	Millennium & Company, prestige wines and alcohol

New business creations

1987	Christian Lacroix in 1987
2001	Newton and MountAdam vineyards
	Marketing De Beers diamond jewellery in a 50-50 joint venture

Divestitures

2001	Sale of stake in Gucci to Pinault Printemps Redoute
2002	Pommery champagne brand, Hard Candy and Urban Decay
2003	Canard-Duchene to the Alain Thienot Group
	Final stake of 27.5 per cent in Phillips, de Pury & Luxembourg, an auction house
	Minority stake in Michael Kors, including cosmetics and fragrance licences
	Marc Jacobs and Kenneth Cole fragrance divisions
	Bliss spa line & Ebel watches

Source: Merrill Lynch Research

Managing star brands

The central pillar of the LVMH strategy is 'star brands' coupled with innovation and quality. Arnault defines a star brand as one that is timeless, modern, fast-growing, and highly profitable. "There are fewer than ten star brands in the luxury world," he maintains, " because it is very hard to balance all four characteristics at once – after all, fast growth is often at odds with high profitability – but that is what makes them stars. If you have a star brand, then basically you can be sure you have mastered a paradox."

Arnault believes that innovation is the ultimate driver of growth and profitability. "Our whole business is based on giving our artists and designers complete freedom to invent without limits," he says. LVHM allows each brand to run itself, headed by a creative director. Only 250 of the over 56,000 employees are based at the Paris headquarters. The essence of the strategy is to identify the right creative people and trust their instincts.

Accent on quality

Quality production as well as product development are also essential elements in LVMH's success. For example, to exercise control of its Louis Vuitton brand, the company owns manufacturing facilities employing over 4,000 people in France, Spain and in the US, among other countries. Yet the firm outsources part of the production of some of its other labels, including Céline and Fendi.

"For all of our brands, we manufacture part of the overall production within our facilities to be sure that there is a consistency between what is done by external sub-contractors and what we do," explains Jean-Paul Vivier, executive vice-president of the LVMH Fashion Group.

Managing people

Human resources and management talent are critical for the luxury conglomerate. When Arnault first began his consolidation, the group faced several problems, and only a few of the companies were profitable. HR Director Concetta Lanciaux confides that his challenge was a scarcity of executive talent in luxury goods at the time. Most firms were small, family-owned companies, without graduates or succession planning. LVMH had to recruit and develop a cadre of executive talent from outside the industry.

LVMH has encouraged and passed on the know-how, skills, the spirit of excellence, and the ethic that conveys through its products an exceptional art of living. The awakening and education of young people to these values has always constituted an essential part of the company's goal. LVMH has carried out various original initiatives for young people in France and abroad. It is through these initiatives that primary school children, high-school students, art students, young artists and designers, as well as those closer to the group's new work opportunities such as college and higher education students, can benefit. In 1991, for example, LVMH partnered with Paris-based business school ESSEC to launch the luxury brand-marketing LVMH ESSEC chair, funded with 10 million francs. Further partnerships have since been launched in Asia.

The company hired staff with experience in other industries, such as consumer goods, and select people with 'good taste". Lanciaux cited engineering and business schools as specific sources of talent. LVMH also instituted strong company-wide induction and training programmes as well as on-the-job training to introduce the world of luxury to its capable, bright novices to the industry.

The perfect cocktail

Jean-Paul Vivier, executive vice president of the LVMH agrees that the group seeks to foster creativity not just among its design teams but also with professionals throughout the business. He compares the process to mixing the perfect cocktail – LVMH tries to build a work environment that promotes creativity and at the same time adheres to strict business disciplines.

Integration, training and top management seminars designed to support business strategies played an essential role in the professional development of the LVMH Group. Since 2001, it steadily increased the number of training days for all personnel categories within the Group and in centres located in Paris, New York, Hong Kong and Tokyo. The total number of training days in 2001 was 103,585 worldwide. Each of the companies is developing a specific training programme that reflects its own vision of excellence and its strategic objectives.

At Louis Vuitton, which operates in 44 countries, vendors from all over the world participate in 'brand immersion' seminars organised in Asnières, the company's birthplace and communications centre. They tour the workshops built in 1859 and the Louis Vuitton travel museum. These sites are filled with the spirit of the company, which has remained constant even as it adapts to changing fashions and trends – a spirit embodied in the skills of the craftsmen, the details, and a unique talent for anticipating, analysing and meeting the requirements of the contemporary world.

In 1999, Hennessy developed a teaching game called 'Strateco' that takes place over two days. It is designed to make all non-managerial employees more aware of economic influences affecting the companies and their operating realities. Another programme, 'Decompartmentalising people and their jobs', presents the mission, organisation and business of each department to the company's managers and brings together participants from the various departments. Finally, the inter-company seminars offered to all of the group's managers, focus on topics of mutual interest and are primarily designed to develop or perfect management, communication and leadership skills.

Rough patches

To be sure, creative tensions arise in some of the operations. American designer Michael Kors joined LVMH and successfully revived the Céline brand. However, he recalls, it didn't seem that anyone at LVMH noticed. Arnault attended only two Céline fashion shows. In total, Kors estimates that he spent a total of three hours in Arnault's company, including the two shows and two 'hellos' when he ran into Arnault at the Dior store in Paris. "Was I mistreated? No," he says. "Was I neglected? Yes – I never felt anyone was watching the smaller companies at all, but everybody was spending their time on the two first-borns: Louis Vuitton and Christian Dior."

Also interesting is the case of Marc Jacobs. In 1997, Marc Jacobs was struggling to keep his namesake brand afloat. Bernard Arnault approached him with an irresistible offer to lend his creative flair to the venerable but stodgy Louis Vuitton label, in return for LVMH underwriting his beleagured design firm.

Jacobs' designs have helped boost sales and buzz around the $3.8 billion Louis Vuitton brand, which accounts for 60 per cent of LVMH's operating profit. His multicoloured Murakami handbag alone drove over $300 million in sales. The 41-year-old designer was also able to develop his own Marc Jacobs label, which soared to about $75 million in sales in 2003, helped by a $50 million investment from LVMH.

However, tensions have arisen between the designer and the company. Jacobs believes his ambitions to develop his own brand are being hindered by LVMH. He complains that the French conglomerate has not invested enough in the Marc Jacobs business and has locked him out of critical decisions about the operations at his own line. For example, in May 2003, LVMH, while closing its US fragrance division, sold the Marc Jacobs perfume to Coty Inc. without informing or consulting the designer. None of the proceeds went to Jacobs, instead heading directly to LVMH.

Due to its heavy dependence on creative and modern designs, the departure of key creative personnel would be devastating to Vuitton. Early this year, there was speculation that Jacobs might leave unless LVMH gave more backing to his clothing line. As seen in the example of Tom Ford and Domenico De Sole's departures from luxury rival Gucci, losing its young star designer may spell trouble for the Louis Vuitton brand.

In May, 2004 a spokesman in Paris confirmed that Moët Hennessy Louis Vuitton SA has resolved a year-long dispute with Marc Jacobs and his business partner Robert Duffy, the 49-year-old president of Marc Jacobs, by signing them to new 10-year employment contracts and committing to invest in the partners' Marc Jacobs International fashion house. Under the new agreement Marc Jacobs and Robert Duffy received salary raises – and, for the first time, stock options.

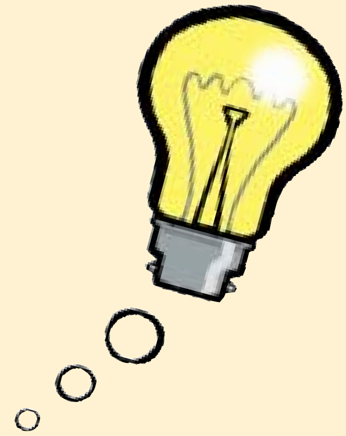
"Now, Marc and I can achieve our dream of turning Marc Jacobs into a global powerhouse," says Duffy.

Conclusion

While the Louis Vuitton brand remains strongly profitable, none of the other labels has rivalled its level of commercial success. With the group's current dependence on star designers such as John Galliano and Marc Jacobs, the group's success is highly correlated to the whim of the creative talent. Given the current internal politics and recent departure of Michael Kors, will consumers remain loyal to the brand or the designer?

The bigger question is, can LVMH effectively oversee so many luxury brands, make them all profitable and maintain the highest standards of creativity? How will this 'loose' conglomerate that Bernard Arnault has created in the last decade be integrated and managed effectively?

This article was excerpted from a case written by Ashok Som, Assistant Professor of Strategy and Management at ESSEC Business School. It was intended as a basis for class discussion rather than to illustrate the handling of a business situation. The author gratefully acknowledges Lilly Liu, Deepak Yachamaneni, ESSEC MBA Exchange students and Boris Gbahoué, ESSEC MBA student, for their research help.



EBF offers readers summaries of research projects undertaken across Europe and around the world. The editors welcome contributions to this section, whether the results are at a preliminary, advanced or final stage. Write to Morgen Witzel at Morgen.Witzel@ebfonline.com

Cultural intelligence

The measurement and assessment of intelligence, particularly as it relates to personal abilities in key areas such as problem solving and analysis, is a complex subject, and our knowledge of the issues involved remains far from complete. How might people best be assessed? Is intelligence a singular idea reflecting a general factor, or is it multi-faceted? Do intelligent people adjust better than others to new cultural challenges? These questions continue to pre-occupy researchers and human resource managers alike.

Recent work on subjects such as social intelligence and emotional intelligence have gone some way to broadening the topic and redefining the issues. One weakness of these approaches is that they lack cultural context, often focusing on the western psyche only and failing to take account of national differences in personal beliefs and values. A new book, *Cultural Intelligence at Work*, to be published by Stanford University Press in 2005, helps to rectify this. Written by Chris Earley of London Business School and Soon Ang and Joo-Seng Tang of Nanyang Business School, Singapore, the book explores the concept of 'cultural intelligence' and its implications.

Cultural intelligence, say the authors, is a separate category of intelligence reflecting a person's ability to gather, interpret and act upon radically different behavioural cues that can be received in different cultural environments. This in turn enables the person to function effectively in these unfamiliar cultural settings. This is not to deny the importance of other forms of intelligence such as emotional intelligence, but cultural intelligence has its own role to play and its own dimension to fill. A person having high emotional intelligence may be entirely incapable of generalising across cultural settings in the face of confusing or conflicting signals. For example, a 'friendly' smile for a Canadian may seem straightforward until she encounters a Thai employee, for whom over 20 separate smiles provide subtle cues for radically different frames of mind. Cultural intelligence allows managers to interpret these cues, turning them into cultural chameleons, while others, lacking cultural intelligence, will flounder.

After explaining the concept, the book goes on to explore the importance of cultural intelligence for leading and managing employees in a global workplace. The result is an integrated framework that combines cultural understanding with analysis of managerial strengths and weaknesses. This framework can be used to analyse personal and organisational capabilities, and can help companies and people improve their ability to manage across cultures. The book opens up a fascinating new dimension to our understanding of intelligence, and is sure to be of interest not only to HR departments but to many other managers as well.

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The clean consumer

The modern consumer marketplace is becoming more fragmented, diverse and confusing. Consumers are bombarded with information, not all of which they can assimilate. In response they attempt to establish 'safe havens', places such as the home or the body that consumers can directly order and control. One of the most important methods in this context is cleanliness and the need for control has resulted in massive global industries dedicated to serving this need.

In an article entitled 'Clean and Dirty: Playing with the Boundaries of Consumers' Safe Havens', published in the journal *Advances in Consumer Research* in 2004, Güliz Ger and Baskin Yeniciolu of Bilkent University explore this need for cleanliness and how it manifests itself in consumer behaviour. They point out that the need for cleanliness is much more deep-seated than just the desire for personal hygiene. Historically, cleanliness has been associated with civilisation. Having clean bodies and clean homes is not just about self-gratification; it also sends important signals to others, and at a deeper level still, is a defence against our own fears of poverty and barbarism.

The market responds with a continuously changing range of 'new and improved' products, ranging from toothpaste, shampoo and bath products to advanced detergents and technological devices such as new types of vacuum cleaner. Other products also advertise their 'cleanliness'; for example, food producers provide labels stressing the absence of impurities and additives. Indeed, say the authors, cleanliness is an essential element in everyday consumption across a broad spectrum of activities.

This is a complex article, which explores the social and cultural dimensions of cleanliness before turning to its main conclusion, that being clean is in effect a form of ritual that we use to create barriers around our own personal safe havens. Sub-consciously, this ritual affects very many of the consumer choices we make. One of the more interesting conclusions is that these choices often result in paradox. For example, many of the cleaning and personal grooming products we use also help contribute to global warming, ozone depletion and general pollution. Thus while eliminating dirt we create safe havens at a micro level, at the macro level we are actually helping to increase risk and threat. Not for the first time, behaviours that look simple actually turn out to be complex and deep-rooted. Marketers should take note.

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Strategies for knowledge

Knowledge management professionals and academics generally agree that firms can acquire knowledge in two ways. They can acquire existing knowledge from other firms and organisations, usually through a process known as knowledge exchange, or they can develop their own internal knowledge through processes of knowledge creation. In an INSEAD working paper entitled "Knowledge Exchange and Knowledge Creation: Should the Emphasis Shift in a Competitive Environment", Miklos Sarvary of INSEAD examines the relative strengths and merits of these two approaches.

Based on research among professional service firms, Professor Sarvary concludes that different implementations of knowledge management will result in different types of scale economies. A strategy which emphasises knowledge exchange will help firms to become more efficient and lead to lower costs as, for example, they learn best practice from competitors. This will lead to supply-side scale economies. On the other hand, a strategy that emphasises knowledge creation can result in a deeper understanding of the business environment, better service quality and so on, leading in turn to demand-side scale economies.

Faced with these two equally attractive options, which should the firm choose? Sarvary's answer is that the choice must depend on two factors: the competitiveness of the business environment, and the ability of firms to leverage their customer base. In a non-competitive environment, firms are well advised to focus on knowledge exchange. But when there are significant levels of competition, firms should focus on knowledge creation. This is borne out by the author's study of professional service and consulting firms, which, as competition grows, are increasingly focusing on internal knowledge generation as a means of creating competitive advantage.

The paper contains many valuable observations on knowledge management, including an analysis of the performance of competing firms whose knowledge management systems are geared to knowledge creation. Investing in knowledge management technology will at first increase profits, but these will decline over time as competition takes hold.

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Complexity in China

China's transition from a socialist command economy to a market economy is being accompanied by a slow disaggregation of the regulatory and economic powers of the state. A similar disaggregation is underway in the West as well, with regulatory power increasingly becoming the province of supra-national agencies. But in China, the reverse seems to be happening; regulatory power is being handed down to sub-national state agencies at the county or even village level.

The effects of this decentralisation will be very complex, and will vary from place to place. Important factors will be the ability of the local government agency to form partnerships with firms, to select partners with whom it wants (or needs) to share authority, and to define and stipulate regulation and taxation within its jurisdiction. As a consequence, a multitude of different regulatory regimes will emerge across China, depending on local political conditions. This can only increase confusion for foreign companies, who instead of operating in one business environment, will increasingly face the prospect of operating simultaneously in many different environments within the same national boundaries.

This process of disaggregation and its consequences are the subject of a five-year research programme, 'Local State and Private Networks in China: Harnessing Political Entrepreneurship Through New Forms of Governance'. Now underway, the project is directed by Professor Barbara Krug at the Rotterdam School of Management, and brings together academics from Rotterdam, the University of New South Wales, the University of Technology (based in Sydney, Australia), Zhejiang University and Suzhou University. The aim is to explore further the role that local institutions will play in determining the nature of the business environment in China, an environment in which political as well as economic entrepreneurship will play a key role. The results of this research will be awaited with equal interest by those doing business in China and those looking at alternative forms of governance and local alternatives to globalisation.

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Hitting the glass floor

It may seem almost incredible in the modern age, but it is nonetheless true: investors react negatively to the appointment of a woman as CEO of a listed company. Over the period 1990-2000, the share prices of US companies which appointed women CEOs fell by an average of almost 2.5 per cent over the three days following the announcement of the appointment. The decline for companies that appointed male CEOs was just 0.5 per cent.

According to Peggy M. Lee of the Goizueta Business School, Emory University, and Erika Hayes James of the Darden Business School, University of Virginia, who have studied this problem in their new research paper 'Gender Effects and Stock Price Reactions to the Announcements of Top Company Executives', the negative reaction is directly tied to the appointment of a woman as CEO. In the examples they studied, the women executives appointed were entirely equivalent to their male counterparts in terms of track record and experience: gender is the sole difference, and the primary causal factor in the negative reaction. Why does this happen? Lee and James believe that the continued prevalence of the glass ceiling is the first important factor. Female CEOs in high-profile companies remain rare, and those that do exist are often subject to greater than usual scrutiny, as happened to Hewlett-Packard CEO Carly Fiorino during the takeover of Compaq.

The appointment of a new CEO always creates uncertainty for investors, and Lee and James point out that because female CEOs are an unfamiliar phenomenon, the appointment of a woman heightens that uncertainty. Investors may believe that the woman is being appointed out of political correctness rather than on merit. Chauvinism plays a role, too: investors may simply refuse to believe that a woman can fill the top job.

The solution, Lee and James believe, is for more female CEOs to be appointed. This may sound like a paradox, but they argue that as female CEOs become more more visible, investors will become more used to them and the perception of risk will decline.

One open question is: if this is the situation in the US, what are conditions for female CEOs in Europe? EBF would be interested in hearing from anyone who is conducting similar research, among European companies.

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