

# **«Высшая лига»**

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

## **Методические рекомендации и демонстрационная версия заключительного этапа по направлению «Менеджмент»**

**Треки:**

**«Маркетинг»**

**«Операционная эффективность»**

**«Управление в сфере науки, технологий и инноваций»**

**«Международный менеджмент»**

### **Общая информация о направлении**

Олимпиада по направлению «Менеджмент» ориентирована на поиск талантливых и проактивных студентов, способных продемонстрировать общее понимание основных проблем в различных предметных областях менеджмента, подходов к их разрешению, возможностях и ограничениях различных инструментов менеджмента.

### **Тематика заданий**

Задания первого этапа и инвариантной части второго этапа формируются в соответствии с основными разделами менеджмента, а задания вариативной части второго этапа – с предметными областями специализации треков.

### **Информация о первом (отборочном) этапе**

Продолжительность состязания – 60 минут.

Задание первого (отборочного) этапа включает 25 тестовых вопросов с автоматической проверкой ответов по разным аспектам менеджмента. Правильный ответ на каждый вопрос оценивается в 4 баллов. В сумме участник может набрать 100 баллов.

По трекам «Маркетинг» и «Операционная эффективность» задание представлено на русском языке, по трекам «Международный менеджмент» и «Управление в сфере науки, технологий и инноваций» – на английском.

### **Информация о втором (заключительном) этапе**

Задания второго (заключительного) этапа состоят из инвариантной и вариативной частей. Продолжительность состязания – **240 минут**, из которых инвариантной части рекомендуется уделить не более 60 минут времени, вариативной – не менее 180 минут времени.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Олимпиадное задание предлагается участникам на выбор: на русском языке и на английском языке.

В задании на русском языке участник получает доступ к инвариантной части, треку «Маркетинг» и треку «Операционная эффективность».

В задании на английском языке участник получает доступ к инвариантной части, треку «Международный менеджмент» и «Управление в сфере науки, технологий и инноваций».

Участник должен выбрать только один тест со своим перечнем треков на выбор.

В **инвариантной части** участнику предлагается написать развернутые ответы на два вопроса. Один из вопросов сформулирован на английском (ответ даётся участником на английском языке), второй – на русском языке. В англоязычной версии теста оба вопроса представлены на английском языке, ответы участник готовит также на английском языке.

В сумме участник может набрать 50 баллов.

В вариативной части **по треку «Маркетинг»** участникам Олимпиады предлагается проанализировать академический текст на английском языке, относящийся к области маркетинга и маркетинговых коммуникаций, а также на русском языке ответить на 5 вопросов по содержанию текста.

Оценивается предметное знание обозначенной области, основных методов сбора и анализа маркетинговой информации, корректность применения терминологии, умение анализировать материал с опорой на приведенные данные и другие источники информации (по памяти), способность аргументированно и структурировано излагать свои мысли по каждому вопросу, демонстрировать широкий кругозор, делать выводы, излагать собственную исследовательскую и менеджериальную позицию. В сумме за вариативную часть участник может набрать до 50 баллов.

В вариативной части **по треку «Операционная эффективность»** участнику предлагается провести критический анализ статьи на английском языке по проблематике, связанной с развитием производственных систем и повышением операционной эффективности организаций, и предоставить развернутый ответ на русском языке на вопросы (не менее 3).

Ответы оцениваются по способности участника определять общий контекст и постановку задачи в исследовании, выделять альтернативные сценарии решения поставленной задачи, логично и аргументировано излагать свои выводы, демонстрировать широкий кругозор в предметной области и знание ключевых экспертов. За вариативную часть участник может набрать до 50 баллов.

# **«Высшая лига»**

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

В вариативной части **по треку «Управление в сфере науки, технологий и инноваций»** участнику предлагается ответить на английском языке на два открытых вопроса по проблематике, связанной с управлением в сфере науки, технологий и инноваций.

Ответы оцениваются по способности участника логично и аргументировано излагать свои мысли, демонстрировать широкий кругозор в предметной области и знание ключевых научных и аналитических работ. В сумме за вариативную часть участник может набрать до 50 баллов

В вариативной части **по треку «Международный менеджмент»** участникам Олимпиады предлагается проанализировать статью на английском языке, относящуюся к области международного менеджмента, а также на английском языке ответить на 5 вопросов по содержанию текста.

Оценивается предметное знание обозначенной области, основных теорий и концепций, корректность применения терминологии; умение анализировать материал с опорой на приведенные данные и другие источники информации (по памяти); способность применять теории, концепции менеджмента, аргументировано и структурировано излагать свои мысли по каждому вопросу, делать выводы, излагать собственную исследовательскую и менеджериальную позицию. В сумме за вариативную часть участник может набрать до 50 баллов.

## **Демонстрационный вариант инвариантной части второго (заключительного) этапа**

По трекам «Маркетинг», «Операционная эффективность» первый вопрос представлен на русском языке, второй – на английском, соответственно ответ на первый вопрос дается участником на русском языке, на второй – на английском. По трекам «Международный менеджмент» и «Управление в сфере науки, технологий и инноваций» вопросы и ответы формулируются строго на английском языке.

### **Демонстрационный вариант инвариантного задания:**

**Вопрос 1:** Компания «Магнит» является крупнейшим оператором сетевой розничной торговли в России, и занимает 1е место по количеству магазинов, уступая своему ближайшему конкуренту X5 Retail Group по объему выручки и маржинальности продаж на торговую площадь. Компания взаимодействует с более чем 6 тыс. поставщиков в России (52% SKU). При этом «Магнит» - это единственная в России розничная сеть с собственными мощностями (не принимая во внимание проекты других игроков рынка по организации фабрик-кухонь или кулинарных

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

цехов). На принадлежащих компании 11 промышленных и 4 агропромышленных предприятиях, расположенных в Краснодарском крае, Московской, Саратовской, Тверской, Самарской, Липецкой областях и Республике Башкортостан, работают более 4,5 тысячи человек, на которых организовано производство мучных кондитерских, бараночно-сухарных и макаронных изделий, кондитерских изделий, выращивание грибов, овощей (помидоры, огурцы, с не давнего времени баклажаны, лук, морковь, свекла и картофель) и зерновых культур.

*С какими факторами может быть связано решение открытия собственного производства компанией «Магнит»? Как Вы считаете, другие игроки рынка продуктовой розницы последуют данному примеру? Аргументируйте свои ответы.*

**Вопрос 2:** Give the detailed answer to the following question (the reply should be in English):

How can AR/VR-based tools be used to improve customer experience? Please, provide the examples from various fields of economy.

#### **Критерии оценивания ответа на первый вопрос:**

- Аргументированность ответа
- Структурированность ответа
- Описание факторов открытия собственного производства Магнита
- Авторская позиция по поведению других игроков

#### **Критерии оценивания ответа на второй вопрос:**

- Указаны конкретные AR/ VR технологии
- Возможности применения AR / VR для улучшения клиентского опыта
- Наличие примеров из разных индустрий
- Структурированность ответа
- Отсутствие ошибок в словах
- Уровень владения языком (лексика и стиль)

#### **Демонстрационный вариант вариативной части второго (заключительного) этапа**

Ниже вы найдете демонстрационные варианты вариативного задания по трекам. Также рекомендуем ознакомиться с олимпиадными [заданиями прошлых лет](#) на сайте Олимпиады «Высшая лига».

#### **Демонстрационный вариант для трека «Маркетинг»**

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

*Вниманию участников: в качестве вариативного задания по треку «Маркетинг» может использоваться анализ как академической, так и бизнес статьи.*

**Прочтите статью<sup>1</sup> и сделайте её критический анализ на русском языке.**

## **Introduction**

As social media networking has emerged and expanded rapidly in the past decade, interest in social media marketing among marketing scholars and organizations has also grown sharply worldwide. As managers become more comfortable with and active in including social networks as part of their integrated marketing communications, they have naturally turned their attention to questions regarding the return on investment of social media: Can social media marketing activities improve firm performance? (Hoffman and Fodor 2010).

## **Literature Review and Research Framework**

### *Theory: The RBV and Dynamic Capabilities Extensions*

The RBV and the dynamic capabilities perspective serve as the theoretical foundations of the current research. Both perspectives suggest that performance is determined by a firm's resource endowment and its effectiveness at converting these resources into capabilities (Barney 1991; Day 1994). The RBV proposes that competitive advantages arise from developing and deploying unique, valuable, inimitable, and non-substitutable resources (Barney 1991; Lahiri, Kedia, and Mukherjee 2012). Dynamic capabilities theory proposes that marketplaces are dynamic and that firms, rather than being heterogeneous in their resource endowments, exhibit differences in the capabilities by which they acquire and deploy resources. These differences explain inter-firm performance variance over time. Capabilities are also dynamic, such that they can help firms implement new strategies to reflect changing market conditions by combining and transforming available resources in new and different ways.

### *Traditional CRM*

In a traditional CRM framework, the organization possesses substantial customer information and uses this information to manage its customer relationships define CRM as a procedure that "entails the systematic and proactive management of relationships as they move from beginning (initiation) to end (termination), with execution across the various customer-facing contact channels." Boulding et al. (2005) identify several key elements:

CRM relates to strategy, the management of the dual creation of value, the intelligent use of data and technology, the acquisition of customer knowledge and the diffusion of this knowledge to the appropriate stakeholders, the development of appropriate (long-term) relationships with specific customers and/or customer groups, and the integration of processes across the many areas of the firm and across the network of firms that collaborate to generate customer value.

### *CRM and Social Media*

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<sup>1</sup> Подготовлена на основе: Wang Z., Kim H. G. (2017). Can social media marketing improve customer relationship capabilities and firm performance? Dynamic capability perspective //Journal of Interactive Marketing. – Т. 39. – Р. 15-26

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

The traditional definition of CRM is still generally valid, but the rapid and widespread popularity of social media networking in both consumer and business markets indicates a need to reconsider the traditional view of CRM (Trainor 2012). Customers have begun using social media networking to connect with other individuals and firms and through user-generated information and interactivity within the network. Consumers have become actively involved in the co-creation of their experiences with.

## *Social CRM*

Recognizing the important role of social media in CRM systems, this study adopts the following definition of social CRM: "the integration of traditional customer-facing activities, including processes, systems, and technologies with emergent social media applications to engage customers in collaborative conversations and enhance customer relationships" (Trainor 2012, p. 321). Social CRM is not a replacement for traditional CRM but instead is an extension that incorporates the social functions, processes, and capabilities that address firm-customer interaction as well as customer-customer interaction (Greenberg 2010).

## *Social CRM Capabilities*

Taking these findings into account, Trainor et al. (2014) propose "social CRM capabilities" as a unique combination of emerging technological resources and customer-centric management systems that can lead to customer satisfaction, loyalty, and retention. In addition, they demonstrate that social CRM capabilities are positively associated with customer relationship performance (Trainor et al. 2014).

## **Conceptual Model and Hypotheses**

To explain how using social media technology can benefit both customer relationships and financial performance, we develop a conceptual model that integrates market adaptation strategies and market capability development. The model first establishes the relationship between social CRM capabilities and customer engagement and then considers how social CRM capabilities influence firm performance directly. Next, the model delineates relationships between customer engagement and firm performance. Finally, it identifies the moderating effects of social media usage on the relationships between social CRM capabilities and firm performance. Fig. 1 depicts this conceptual model.

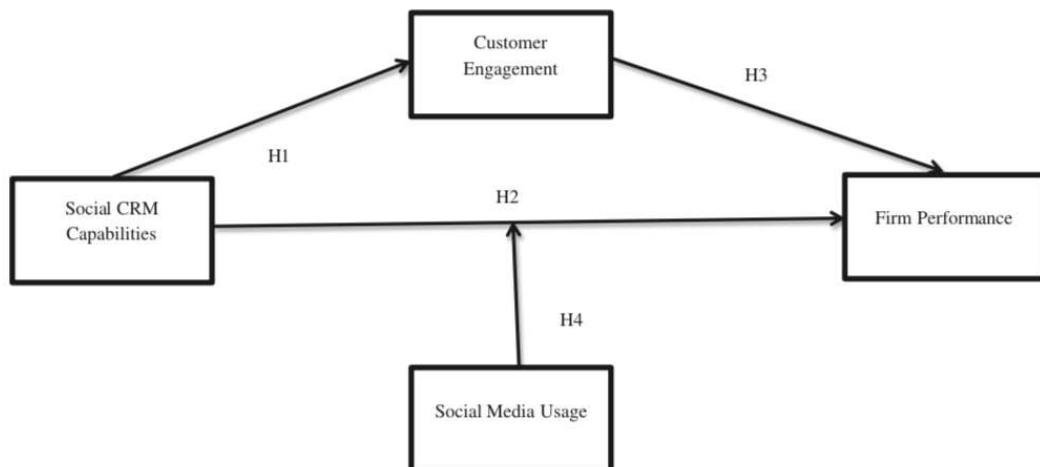


Fig. 1. Conceptual model.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

## *Effects of Social CRM Capabilities*

Social CRM capabilities emphasize a firm's ability to engage customers in collaborative conversations and enhance customer relationships (Trainor et al. 2014). Interactive marketing technologies can not only enable more intense and higher-quality interactions with stakeholders but also increase the quantity and quality of information provided to customers (Wu, Mahajan, and Balasubramanian 2003). Recent literature shows that marketing capabilities, including social CRM capabilities, lead to the development of strong customer relationships that positively influence customer satisfaction and loyalty (Hooley et al. 2005; Rapp, Trainor, and Agnihotri 2010; Trainor et al. 2014). From a technology-based perspective, the literature suggests that marketing technologies have enabled firms to interact more effectively and efficiently with customers (Coviello, Milley, and Marcolin 2001), to capture and use customer information developing for more effective customer responses (Jayachandran et al. 2005). The purpose of a social media brand page is to encourage consumers to react or interact (e.g., liking, commenting, sharing); therefore, when companies or brands show intention to interact and co-create value with customers, customers' engagement level should increase because they can receive better information and feel they are valued. In line with our position that social CRM capabilities emphasize the integration and accessibility of customer information to engage customers in collaborative conversations and enhance customer relationships, we argue that firms possessing such capabilities will be more effective in engaging customers and leveraging this information to better serve their customers. Thus, we propose the following:

**H1.** A firm's social CRM capabilities are positively associated with its level of customer engagement.

In line with the RBV and dynamic capabilities theory, previous studies suggest that developing distinctive capabilities can be a source of superior organizational performance (Day 1994; Menguc and Auh 2006). Firms adept at converting existing resources and capabilities into new value-adding processes and capabilities are more likely to improve performance. Many studies have proved that marketing capabilities are positively associated with firm performance for both large firms in industrialized countries and small firms (Fahy et al. 2000; Morgan, Vorhies, and Mason 2009; Shin

2013). Social CRM capabilities increase efficiency related to customer communications and internal administration. Therefore, firms that have more social CRM capabilities should realize better organization performance overall. Thus, we propose the following:

**H2.** A firm's social CRM capabilities are positively associated with its business performance.

## *Effects of Customer Engagement*

Companies report customer engagement as the most important among several specific benefits they expect from their presence on social media (Sashi 2012). Increasing interest in customer engagement has paralleled both the continued evolution of the Internet and the emergence of new digital technologies and tools dubbed Web 2.0, especially social media networks such as wikis and blogs; microblogging sites such as Twitter; video sites such as YouTube; and social networking sites such as Facebook, MySpace, and LinkedIn (Sashi 2012;

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Wirtz, Schilke, and Ullrich 2010). The emergence of the customer engagement concept recognizes the opportunities offered by the interactive aspects of Web 2.0 technologies and tools to transform the relationship between customers and sellers (Tsimonis and Dimitriadis 2014). Practitioners and researchers view the interactivity of social media, along with its ability to establish conversations among individuals and firms in communities of sellers and customers and involve customers in content generation and value creation, as providing the means to better serve customers and satisfy their needs. Practitioners thus have attempted to use social media marketing to build enduring relational exchanges with strong emotional bonds to improve business performance (Mitic and Kapoulas 2012; Sashi 2012; Tsimonis and Dimitriadis 2014).

Focusing on customer involvement on social media brand/ company pages, we adopt the following definition of customer engagement from the online brand perspective as "behaviors [that] go beyond transactions, and may be specifically defined as a customer's behavioral manifestations that have a brand or firm focus, beyond purchase, resulting from motivational drivers" (Van Doorn et al. 2010, p. 254). Customer engagement occurs on social media when delighted or loyal customers share their positive feelings in interactions with others in their social networks and become advocates for a product, brand, or company (Gummrus et al. 2012; Sashi 2012). As these engaged customers develop new connections, they become advocates for the seller in interactions with other customers and even non-customers on their social media networks. Customer engagement turns customers into fans who remain wedded through ups and downs in intimate, enduring relationships and even proselytize for the product, brand, or company (Tsimonis and Dimitriadis 2014). Consumers who become fans of these brand pages tend to be more loyal and committed to the company and are more open to receiving information about the brand (Bagozzi and Dholakia 2006). Increasing numbers of people are spending increasing amounts of time on social media; thus, it is meaningful to analyze consumers' engagement in this context (de Chernatony et al. 2008; Kaplan and Haenlein 2010). Research shows that customer engagement is directly and positively related to customer relationship outcomes such as satisfaction, affective commitment, and customer loyalty (Brodie et al. 2011). Social media operate like a large word-of-mouth platform that catalyzes and accelerates the distribution and exchange of information among individuals and organizations (Chan and Ngai 2011; Dellarocas 2003; Godes and Mayzlin 2004; Jalilvand and Samiei 2012).

Social media brand pages can help companies achieve three strategic goals: building brand awareness, increasing loyalty, and boosting sales (Castronovo and Huang 2012). Research shows that customer engagement is directly and positively related to relationship outcomes such as satisfaction, trust, affective commitment, and loyalty (Brodie et al. 2013). Customer engagement expands the role of customers by including them in the value-adding process as co-creators of value. Companies may also want to encourage and reward consumers for becoming more active on the site to receive maximal relationship benefits (Gummrus et al. 2012). Previous customer engagement studies also show that engaged and satisfied customers may create and disseminate brand/firm information that other constituents can use to create reputation (Fombrun and Shanley 1990) and positive brand image (Coulter et al. 2012). With high levels of customer engagement on social media, companies can better employ the interactive features of social media to create a better company image, better

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

customer experiences, and more future purchase behaviors. Thus, customer engagement is also a key factor that influences customer loyalty and, ultimately, firm performance. We hypothesize the following:

**H3.** A firm's customer engagement level on social media is positively associated with its business performance.

### *Moderating Effects of Social Media Technology*

Social media technologies influence an organization's social CRM capability by providing the environment to engage customers in collaborative conversations and enhance customer relationships. Social media usage can be viewed as an index of how much an organization uses social media technologies. Firms that actively use social media can increase consumers' awareness of their brand and themselves and also highlight their intentions to engage in interactive dialogue, thus augmenting the impact of social CRM capabilities. Advertising can also amplify the impact of social CRM capabilities on performance by attracting consumers' attention. The existence of an active, official social media account implies that firms are eager to build relationships with consumers, and consumers become more willing to participate in acquiring or processing information about these firms. Firms can thus leverage the positive impact of social media activities to highlight and differentiate themselves from other competitors, enhancing consumers' future purchase likelihood.

In addition, organizations adapt to rapidly changing market environments through the introduction of technical innovations, which lead to greater performance (Han, Kim, and Srivastava 1998). In this sense, social CRM capability can be viewed as a form of innovation based on the definition we adopted (Trainor et al. 2014). Organizations with a high level of social media usage are more likely to adapt to the social media environment and achieve an advantage by acquiring customer information and trust earlier than competitors. In line with the premise that market-related capabilities allow firms to accurately anticipate changes in markets and develop appropriate responses, we expect this relationship to be even stronger for firms that use social media technology extensively, thus having a higher impact on firm performance. We hypothesize the following:

**H4.** A firm's social media usage positively moderates the relationship between its social CRM capability and firm performance; that is, the positive relationship will be stronger when the level of social media usage is higher.

## **Methodology**

### *Data and Sample*

#### *Social Media Data*

Because we aim to examine and compare social media usage, we collected our primary social media data from one of the earliest social media websites: Facebook. Because some of the companies from which we collected data had multiple Facebook accounts acting on their behalf, we chose for analysis the accounts that appear on each company's official website, including both the company's and its main brands' Facebook accounts, to best reflect any organizational policy or practice on the use of social media. We downloaded all postings from these Facebook accounts from the day these companies began using Facebook until December 31, 2014.

*COMPUSTAT*

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

To test firm performance and control our data sets, we collected financial statement data from COMPUSTAT North America and Global Fundamentals annual databases. We initially drew the data for a 34-year period (1980–2014), but then we used the time span of the firms' social media activities. We calculated return on assets as a measure of firm performance from the data, and we collected other control variables, such as number of employees.

Because only 379 brands/companies have available an American Customer Satisfaction Index (ACSI), we used this list to identify our sample companies by combining those brands under the same company. After we matched ACSI list and COMPUSTAT data, we were left with 340 firms. We continued to match ACSI and COMPUSTAT to social media data and to exclude companies that did not have Facebook accounts. The final sample consisted of 232 companies.

## *Measures*

### *Social Media Usage*

As a platform for consumers to interact with and influence one other, social media has a more direct impact on brand communities, and it produces higher response rates and customer engagement levels than traditional marketing methodologies that focus only on the firm–consumer relationship (Trusov, Bucklin, and Pauwels 2009). Thus, we measured social media usage with data collected from companies' Facebook account each year: the number of posts of the sample company each year. More posts mean that the sample company used Facebook more often.

### *Customer Engagement*

Social media has also enabled customers to interact with business organizations and has empowered them to take an active role in co-creating their experiences (Prahalad and Ramaswamy 2004). When companies establish social media pages, they are expecting consumers to visit the page, become fans, and share the content with their own friends. However, research suggests that "likes" of brand social media pages may be too weak a signal of future engagement behavior for the brand because it takes mere seconds of attention (John et al. 2016). In contrast, when consumers decide to share the company's post, they have the intention of sharing this post with their own social network. Thus, we measured customer engagement by the number of posts customers shared to help companies deliver the information in their own social network.

### *Social CRM Capabilities*

An important goal of social CRM capabilities at the firm level is to enhance both the perceived value of the firm's products and customer relationship with the firm's current and potential customers. This goal is partly reflected in growing sales, through a better understanding of customer needs and distinctive targeting of appropriate customers. Thus, we developed the social CRM capability measure using information from corporate disclosures with an input–output stochastic frontier model (Battese and Coelli 1992; Dutta, Narasimhan, and Rajiv 1999; Xiong and Bharadwaj 2013), an effective model for predicting efficiencies of individual firms in an industry (Battese and Coelli 1992; Dutta, Narasimhan, and Rajiv 1999). The RBV defines a firm's capability as its ability to deploy the resources (inputs) to achieve the desired objectives (the output). The input–output conceptualization of the firm's capabilities makes the stochastic frontier estimation (SFE) methodology well suited because SFE provides the appropriate econometric technique to empirically estimate firms' level of efficiency (Dutta,

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Narasimhan, and Rajiv 2005, 1999). The input–output SFE approach models a firm's functional activities as an efficient frontier relating the productive resources/inputs a firm uses to the optimal attainment of its functional objectives/outputs, if the firm deploys these resources most efficiently (Dutta, Narasimhan, and Rajiv 2005, 1999). The SFE involves two random components, one associated with the presence of inefficiency and a traditional random error (Battese and Coelli 1992). The lower the functional inefficiency, the higher is the functional capability of the firm. Therefore, previous studies have used the inverse of a firm's functional inefficiency as the measure of its functional capability (Dutta, Narasimhan, and Rajiv 2005, 1999; Narasimhan, Rajiv, and Dutta 2006; Xiong and Bharadwaj 2013).

Following Xiong and Bharadwaj (2013), we used this equation:

$$\text{Sales}_{it} = f(X_{it} : \text{Resource}_{it}, \alpha) \times \exp(\varepsilon_{it}) \times \exp(-\eta_{it}), \quad (1)$$

where  $\text{Sales}_{it}$  represents the sales (the output) for the  $i$ -th firm at the  $t$ -th period of observation;  $f(X_{it} : \text{Resource}_{it}, \alpha)$  is a suitable function of a vector,  $x_{it}$ , of factor inputs (and firm-specific variables), associated with the sales of the  $i$ -th firm in the  $t$ -th period of observation, and a vector,  $\alpha$ , of unknown parameters;  $\varepsilon_{it}$  captures random errors beyond the firm's control; and  $\eta_{it}$  captures the firm's inefficiency of converting resources (inputs) into sales (the output). Resources include the firm's technology base; sales, general, and administrative expenses; and receivables (Xiong and Bharadwaj 2013). In addition to the traditional resource inputs, we add social media resource inputs (SMR) (i.e., HasTag, HasLink, HasVideo, IsReply, and HasImage) to emphasize the social CRM capabilities using social media. Social CRM assumes that customers are actively engaging with the firm; therefore, these inputs show how they do so (Malthouse et al. 2013). Table 1 summarizes all the items we employed in the SFE of social CRM capabilities.

Table 1  
List of items used for SFE of social CRM capabilities.

Item	Description
1 Social media resource inputs (SMR): HasTag, HasLink, HasVideo, IsReply HasImage	HasTag — the number of posts that contain tags HasLink — the number of posts that contain superlinks HasVideo — the number of posts that contain videos IsReply — the number of posts that are replies to others HasImage — the number of posts that contain images
2 Sales, general, and administrative stock (SGAS)	Sales, general and administrative expense
3 Receivable stock (RCS)	Account receivables
4 industry and market conditions (MC)	Dummy variables based on the four-digit SIC code of firm $i$
5 Sales output	Total sales

Because resources from previous years can influence current revenue, we use a Koyck lag function with higher weights on more recent years to derive measures of sales, general, and administrative stock; receivable stock; and advertising expense stock (Dutta, Narasimhan, and Rajiv 1999). For example, we define ADSTOCK for period  $t$  as  $\text{ADSTOCK} = \sum_{k=1}^t k^{-\gamma} \times \text{ADExpense}_k$ , where  $\gamma$  represents the weight attached to the past value of

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

advertising expenses. Following previous literature (Dutta, Narasimhan, and Rajiv 2005), we used a weight of .5; the results were robust to different weights. Using the same formula, we calculated SGASTOCK for period  $t$  as  $SGASTOCK = \sum_{k=1}^t k = t \varphi t - k \times SGAexpense_k$ . Although sales, general, and administrative stock also includes items that are not strictly within the domain of marketing, it is a good proxy for the amount the firm spends on its market research, sales effort, trade expenses, and other related activities. Other stock variables are also calculated by the same method.

To control for industry and market conditions that might differ across the sample, we divided our sample of firms on the basis of their four-digit Standard Industrial Classification (SIC) code. For estimation purposes, we code the variables as dummy variables based on the four-digit SIC code of firm $i$ .

Then, we used the stock variables as inputs ( $X_{it}$ : Resource $_{it}$ ) in Eq. (2).

$$\ln(Sales_{it}) = \alpha_0 + \alpha_1 \ln(SGAS_{it}) + \alpha_2 \ln(RCS_{it}) \\ + \alpha_3 \ln(SMR_{it}) + \alpha_4 MC_i + \varepsilon_{it} - \eta_{it}. \quad (2)$$

We derived the maximum likelihood estimate of the inefficiency term  $\eta_{it}$ , then rescaled the estimate  $\eta_{it}$  to be between 0 and 100, and used  $100 - \eta_{it}$  as the marketing capability measure (Xiong and Bharadwaj 2013). Appendix 1 describes the statistics of the inefficiency term  $\eta_{it}$  and the efficiency index  $100 - \eta_{it}$ .

### *Firm Performance*

We used Tobin's q as the dependent variable in our study. We measured it by summing the market value of equity and the book value of debt, divided by the book value of the total assets for the period in which the individual firm is involved. We gathered financial data from COMPUSTAT.

### *Control Variables*

We collected customer satisfaction data from the ACSI, a customer-based measurement system for evaluating and enhancing firm performance. The ACSI is designed to be representative of the economy as a whole and covers more than 300 firms from over 40 industries in the seven major consumer sectors of the economy, whose 1994 sales are in excess of \$2.7 trillion. An individual firm's ACSI represents its served market's (i.e., its customers') overall evaluation of total purchase and consumption experience. The ACSI contains 20 years of records beginning from its baseline year, 1994, according to firms' marketing activities. We used the indexes of the matching company each year from 2004 to 2014 as the customer satisfaction measurement.

To control for firm heterogeneity and industry, we also used the control variables firm size, leverage, industries categories, and total sales every year, and year fixed effects. To do so, we used the average total number of employees as an indicator variable for firm size and nine industry categories with dummy variables.

### **Analysis and Results**

We used STATA 14.0 to generate descriptive and inferential statistics and to conduct panel regressions to test the hypothesized relationships. Table 2 presents the correlation matrix

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

descriptive statistics (means, standard deviations, and correlations) for all variables. The range of social media usage variable and the time length using social media is large, which means our sample companies have a wide range of strategies. The results of the correlation matrix indicate that social CRM capability is positively related to Tobin's q ( $r = .05$ ) and customer engagement is positively related to Tobin's q ( $r = .03$ ).

Table 2  
Correlation matrix and descriptive statistics.

No.	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1	Firm performance (Tobin's q)	4.11	8.06	1.00								
2	Year	2009	3.16	.06	1.00							
3	Social CRM capability	88.04	1.90	.05	.01	1.00						
4	Social media usage	11.37	17.87	.01	.38	-.17	1.00					
5	Customer engagement	6.01	12.28	.08	.56	-.16	.85	1.00				
6	Sales	9.30	2.47	-.10	-.02	-.92	.11	.12	1.00			
7	Employee	3.64	1.84	-.18	-.03	-.65	.03	.07	.80	1.00		
8	Leverage	.22	1.37	-.15	-.01	-.25	-.02	-.03	.27	.15	1.00	
9	Customer satisfaction	76.55	5.71	-.11	.07	.06	.05	.05	-.04	.01	.27	1.00

### Hypotheses Test

Table 3 presents fixed-effect panel regression results testing H1–H4. Model 1 represents H1, H2, and H3; the mediating effect; and full model. Model 2 represents the moderating effect of social media usage between social CRM capability and firm performance (H4). In H1, we predicted a positive relationship between social CRM capability and customer engagement. The coefficient estimate for the social CRM capability variable is significantly positive ( $p < .001$ ), providing support for H1. As we predicted in H2, social CRM capability had a positive and statistically significant effect ( $p < .01$ ) on firm performance. However, contrary to H3, customer engagement had negative but insignificant impact on firm performance. Finally, the statistically significant and positive coefficient estimate of social media usage  $\times$  social CRM capability ( $p < .1$ ) in H4 confirms that social media usage positively moderates the relationship between social CRM capability and firm performance.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Table 3  
Results of fixed-effect (within) panel regressions.

Models	1						2		
	H1	H2	H3	Mediating effect			Full model	H2	H4 (Full model)
Dependent variable	Customer engagement	Tobin's q	Tobin's q	Tobin's q	Customer engagement	Tobin's q	Tobin's q	Tobin's q	Tobin's q
Constant	-1,170.318 (343.982) **	-429.921 (131.726) **	-45.427 (13.170) **	-429.921 (131.726) **	-1,170.318 (343.982) **	-45.427 (13.170) **	-436.990 (133.425) **	-429.921 (131.726) **	-526.561 (137.439) ***
Social CRM capability	13,310 (3.506) ***	4.085 (1.380) **		4.085 (1.380) **	13,310 (3.506) ***		4.164 (1.399) **	4.085 (1.380) **	5.044 (1.432) **
Social media usage									-.226 (.023)
Customer engagement			-.293 (.020)			-.293 (.020)	-.006 (.018)		
Social media usage × Social CRM capability									.812 (.367) *
Sales	3,113 (6.230)	8.244 (2.023) ***	-5.316 (.937) ***	8.244 (2.023) ***	3,113 (6.230)	-5.316 (.937) ***	8.273 (2.027) ***	8.244 (2.023) ***	8.800 (2.024) ***
Employee	7,441 (3.808) *	-2,954 (1.216) *	-.835 (.849)	-2,954 (1.216) *	7,441 (3.808) *	-.835 (.849)	-2,906 (1.224) *	-2,954 (1.216) *	-2,798 (1.210) *
Leverage	-1,499 (21.967)	-8,948 (7.142)	-12,740 (5.063) *	-8,948 (7.142)	-1,499 (21.967)	-12,740 (5.063) *	-8,902 (7.155)	-8,948 (7.142)	-6,653 (7.174)
Customer satisfaction	-.335 (.232)	.075 (.072)	.072 (.064)	.075 (.072)	-.335 (.232)	.072 (.064)	.072 (.073)	.075 (.072)	.751 (.723)
Industry fixed	Included	Included	Included	Included	Included	Included	Included	Included	Included
Year fixed	Included	Included	Included	Included	Included	Included	Included	Included	Included
Observations	232	232	232	232	232	232	232	232	232
R2	.7	.12	.12	.12	.7	.12	.12	.12	.14

\*  $p < .10$ .

\*\*  $p < .01$ .

\*\*\*  $p < .001$ .

### Mediation Effects Test

In the hypotheses, we suggested one mediation effect of customer engagement on the relationship between social CRM capability and firm performance. We tested four conditions that should be met to verify the mediating effect:

1. Social CRM capability is significantly related to firm performance.
2. Social CRM capability is significantly related to customer engagement.
3. Customer engagement is significantly related to firm performance.
4. After controlling for customer engagement, the relationship between social CRM capability and firm performance is no longer significant.

For the mediation effect of customer engagement, the first criterion is satisfied. Social CRM capability is positively and significantly related to firm performance ( $p < .01$ ). The second criterion is also satisfied. The social CRM capability has a positive impact on the mediator, customer engagement ( $p < .001$ ). The third and fourth criteria, however, are not satisfied. Customer engagement has negative insignificant impact on firm performance, and after controlling for customer engagement, the relationship between social CRM capability and firm performance is still significant. Thus, the results fail to show clear statistical evidence to verify that customer engagement plays a mediating role in the relationship between social CRM capability and firm performance.

### Questions for your consideration

1. What research questions were proposed in the article?
2. What scientific methods were applied to investigate each of these questions?
3. What are the drawbacks of the research design (data, methods, analysis)?
4. What managerial implications of the findings do you suggest?

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

- For what areas these research ideas may also be applicable? Illustrate with an example highlighting how the research design should be adapted.

## **Критерии оценивания критического анализа предложенной статьи**

- Понимание главного вопроса исследования, владение понятийным аппаратом
- Анализ использованных в статье методов
- Недостатки дизайна исследования (данные, методы, анализ)
- Возможность применения на практике результатов (для других рынков/компаний)
- Релевантность приведенных примеров
- Отсутствие фактических ошибок в трактовке содержания статьи
- Логичность и обоснованность ответа
- Уровень эрудиции, широта кругозора, знание специальной литературы

## **Демонстрационный вариант для трека «Управление в сфере науки, технологий и инноваций»**

**Please answer two open questions in English.**

- In light of people's growing environmental awareness companies have to rethink product offerings. How should companies align their products and process toward sustainability?
- Skilled labor continues a strategic advantage of companies over their competition. How can companies keep talent for innovation? Describe possible measures and schemes companies can apply.

**The criteria for evaluation one question:**

- the ability to express thoughts in a logical and reasoned manner (10 points);
- demonstration of a broad outlook in the subject area (5 points);
- knowledge of key scientific and analytical works (10 points).

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

**Демонстрационный вариант для трека «Международный менеджмент»**

**Read the article<sup>2</sup>, critically analyze it and answer five questions in English.**

## Fine Wine in China

For many great wines, China's searing thirst for the finest vintages are the new frontier. Recent auctions have raised astronomical sums, and the biggest wine trade fairs are increasingly dominated by Chinese buyers in a mêlée of brand-obsessed acquisition (*The Times*, 11 December 2010)

Times change and power rises and falls. Still this has not changed the deep-rooted, haughty attitudes of certain Europeans (*People's Daily*, 6 June 2013)

In early June 2013, the Chinese Ministry of Commerce launched an anti-dumping trade probe against EU wine importers, claiming that subsidies created an unfair advantage for European (mostly French) producers. The probe, ostensibly first spurred by complaints from domestic Chinese wine producers, was acknowledged as a political backlash against the EU's imposition of heavy duties on the cheap solar panels that China exports (e.g. BBC, 2013; Reuters, 2013; Waterfield, 2013). Or, as a world-renowned wine writer commented: 'the Chinese government made wine its diplomatic weapon of choice in the trade war' (Robinson, 2013: 39).

The impact of this incident was widely reported in the media in both Europe and China. Both sides exchanged sharp words. *The Telegraph* (UK) quoted an EU official as saying that 'the Chinese elite will be first to suffer if fine French wines are subjected to tariffs' (Waterfield, 2013). Similarly, *Xinhua* (PRC) quoted a German wine merchant who exports to China: 'Compared to high-end wine consumers, the middle class is more concerned about prices. If import duties are raised, we will lose them' (Ho, 2013). As if in reply to these ominous predictions, the *People's Daily* (PRC), as quoted by a Shanghai correspondent for *The Telegraph*, noted on behalf of the ruling Communist Party: 'Times change and power rises and falls. Still this has not changed the deep-rooted, haughty attitudes of certain Europeans' (Phillips, 2013).

The key actors and themes which have emerged from this tussle form part of a familiar tapestry of cultural and diplomatic conflict between China and the West that goes back centuries. At stake in these febrile interactions are notions of taste and culture that continue to underpin the politics of consumption in world markets. Wine is a high-status good associated with cultural legitimacy, *savoir faire*, sophistication and high culture and yet, we contend, it remains an under-researched cultural field with regard to how the changing global order impacts on the reproduction of wine's cultural cachet and how wine features in processes of societal legitimization.

Questions of cultural taste and legitimacy with regard to wine are tied to larger questions surrounding the role of status competitions between nations. Cultural goods have long been

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<sup>2</sup> Подготовлено на основе: Smith M. J. Lim M. 2014. Lafite in China: Media Representations of Wine Culture in New Markets. Journal of Macromarketing.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

pawns in national jockeying for status and credibility, and cultural practices are a long-standing basis for the reproduction of positions of cultural superiority and inferiority. Appreciation and consumption of fine wines have an established place as potent forms of cultural capital — material and symbolic resources that warrant social esteem, connoting distinction and privilege. Closely linked to European — and especially French — culture, fine wine production has diversified since the late twentieth century, with ‘new world’ producers, such as in Australia and the United States, taken as seriously as their ‘old world’ counterparts. This seeming democratization of wine production has been paralleled by an apparent democratization of wine consumption, thanks in part to a consumer co-produced and mediated wine culture that opens up access to what was once reserved for the elite (Arvidsson, 2008). Moreover, new consumer markets have emerged in countries such as China and India, where a critical mass of upwardly mobile, middle class and professional managerial individuals provide demand for the accoutrements of a middle class lifestyle. The competing logics of democratization of consumption preferences, on the one hand, and consumers’ desires for distinction, on the other, raise some interesting questions for macromarketing scholars of status consumption. In other words, how do we make sense of nations’ sparring over global representations of prestige and what is the role of cultural goods (such as wine) in such contests? Further, how do such contestations play out in arenas of public discourse such as the mass media?

## Context

Wine was historically a drink of the social and religious elite in China, with grape wine making and consumption dating back at least to the Han period (Li, 2011). Yet, wine has not been as popular as rice spirits or beer until recently (Li, 2006) and wine consumption makes up only one per cent of the Chinese domestic alcoholic drinks market, which is otherwise dominated by ‘traditional’ drinks such as beer and hard liquor. Domestic wine production remained small-scale until the 1980s, when government initiatives, partnerships with foreign (notably French and Californian) wineries led to the emergence of some large, domestic brands, and an increasing (if uneven) focus on the production and regulation of quality (Li, 2011; Moslares and Ubeda, 2010). Current domestic production places China among the top six wine producing countries in the world by volume (Moslares and Ubeda, 2010).

While China is projected to become the world’s top wine consuming nation by 2016 (Paramaguru, 2013), present consumption in China is primarily of domestically-produced wine. The consumption of foreign brands represents a small upper niche of the wine market. Nevertheless, a rapidly-growing affluent middle class of urban elites and high net worth individuals are driving demand for fine wines. Consumption of wine is strongly related to social class, with the wealthiest provinces—Shanghai and Guangzhou—having the highest rates of wine consumption (Moslares and Ubeda, 2010: 78). Wine builds upon an established economic base for the consumption of foreign brands (Tian and Dong, 2011), on cultural rituals such as the raising of toasts at special events and gift-giving of alcohol (*baijiu*) and beliefs in the health benefits of drinking wine (Yu et al, 2009). Underpinning all these facilitating factors for wine consumption is an established culture of connoisseurship around the drinking of tea. Thus, social, cultural and economic factors intertwine in the emergence of the fine wine market in China.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Last year, Chinese wine consumption reached 45 billion yuan in value, making China the world's fifth largest consumer of fine wine (Xinhua News Agency, 2010). By 2005, Chinese wine consumption had reached 420,000 tonnes or 564 million bottles, making China on the world's top ten countries for wine consumption (Foodmate, 2007). Foreign wines from the U.S., Australia, New Zealand and South America are rapidly increasing in popularity. In a crowded market, French wines stand out as the gold standard for many Chinese investors and consumers. More than two-thirds of the 430m litre of wine imported by China in 2012 came from the EU, with French wine accounting for more than half of the EU exports (BBC, 2013).

In 1995, fewer than 60,000 cases of imported wine were sold in China (Zhao, 2003); since then, China has emerged as a major player in the global fine wine market, credited—or blamed—for soaring prices for particular wines (e.g. Wiggins, 2007; Lau, 2008). Among the most desired wines by Chinese wine buyers are those of Chateau Lafite, as the paper explores. Over the 2000s, as prices of Lafite and other fine wines continued to rise, Hong Kong pursued a strategy to become a hub in the global fine wine market (Lister, 2010), leading to the removal of all duties on wine imports in 2008, which was quickly followed by the arrival of auction houses and exponential increase in the number of wine importers and merchants (Lister, 2010; Leroux, 2010). This seemed to culminate in November 2010 with a Chinese buyer at a Hong Kong auction paying £147,000 for a single bottle of 1869 Lafite (Wallop, 2010). Reports of widespread fake Lafite seemed to cool the market shortly thereafter (e.g. Château Lafake, 2011), and over 2011, Chinese buyers' interest seemed to shift increasingly towards Burgundian wine (e.g. Barrett, 2011; Stimpfig, 2011).

## Global Elites and Status Consumption

Increased economic power has repositioned China within the global elite, yet — like the nouveaux riches of Veblen's 19<sup>th</sup> century America (1934), betrayed by their lowly origins, which were embedded in their too-conspicuous aping of the consumption patterns of the established leisure class — patterns of culture and styles of life operate to reproduce difference. The parallel pursuit of economic and military power, on the one hand, and cultural power, on the other, has intensified over the contemporary period as consumption and cultural diplomacy become central to geopolitical strategies. This examination of the place of wine in representations and positionings of China — by and for Western and Chinese media and its audiences — is a timely one.

At the macro scale of the nation, China's social structures are shifting, with an economic middle class well established, but a middle class culture still emerging. And, at the macro scale of global relations, despite China's economic power, its legitimacy on a global scale remains low with regard to global hierarchies of taste and distribution of prestige, as our paper explore. Meanwhile, at a micro scale, status consumption is clearly alive and thriving in the urban centres of China, corresponding to a globally unprecedented wave of new consumer middle classes in countries such as Mexico, India, Malaysia, Chile, Brazil, Turkey, Saudi Arabia and South Africa, just to name a few from a long list (see Myers and Kent, 2004).

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Thus, a theoretically-informed approach is required in order to develop our understanding of the complex inter-societal dynamics at play in the appropriation of established forms of legitimate culture by an ascendant global player such as China, and the response on the part of the dominant—if declining—players from which such culture stems. The literature on cultural globalization has added much in this regard, with an increasingly nuanced appreciation for the interplay between homogenizing and heterogenizing processes of inter-societal exchange, such that the ‘myth’ of a global trickle down of Western goods and tastes to new markets has been problematized, if not yet abandoned (e.g. Üstüner & Holt, 2010; Ram, 2004; Robertson, 1995). Such perspectives draw—often implicitly—from a processual sociological orientation, associated with the writings of Elias (1994), whose account of inter-civilizational dynamics provides us with a perspective that anticipates much of the cultural globalization literature.

Elias (1994) offers a proto-account of globalization through the lens of colonialism. Writing of the long-term historical interaction between cultures with regard to colonialism, Elias noted the commingling of Western and non-Western cultural forms, which gave rise to new forms of legitimate (or, for him, ‘civilized’) conduct: ‘It is not a little characteristic of the structure of Western society that the watchword of its colonizing movement is “civilization”’ (Elias, 1994: 509). That is, civility was a moral position claimed by groups (not ascribed by Elias) in asserting their dominance over others. In addition, it is marked by regularities across instances, such that one can deduce a modus referred to as ‘civility’ or ‘civilization.’ This modus is associated with self-restraint, foresight, elaborated manners, and so forth (1994: 153). These codes of civility are enshrined in the repertoires of good taste of the dominant group which, in the case of wine, refers to (broadly) a European bourgeois canon (Bourdieu, 1984; Ferguson, 1998).

With that template of civility as the benchmark, Elias notes that the ‘contrasts in conduct between the upper and lower groups are reduced with the spread of civilisation; the varieties or nuances of civilised conduct are increased’ ([1939]1994: 464). It is a ‘universal human theme’ for groups that are stronger to both define themselves as morally and culturally superior, and to use such definitions of their superiority and the inferiority of other groups to maintain and defend their dominance (Elias, 1994). As the power balances between groups are not static, this therefore entails an on-going process of groups in positions of dominance—particularly if that dominance is threatened—defining and defending their style of life as superior or more civilized, and ascendant groups attempting to emulate those dominant styles of life, and/or reject them and define new styles as more legitimate, as part of an attempt to improve their power ratio vis-à-vis their social relations with other groups. We can see this universal human theme playing out at the level of communities (e.g. Elias and Scotson, 1994), societies (Veblen, 1934) and nations (Maguire, 1993).

Social relations and their associated power balances are not static; so too, then, must the dominant forms of prestige and civilized conduct be acknowledged as the outcome of unceasing processes of social construction and reproduction. How is it done? Here, we turn to Bourdieu for a particularly useful conceptualization of the role of culture and forms of cultural capital in the reproduction of the unequal distribution of prestige.

# **«Высшая лига»**

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Bourdieu (1986) defines cultural capital as embodied or objectified forms of cultural knowledge and competence, which both are socially esteemed and facilitate participation in other socially-esteemed activities (e.g. having experience attending art exhibitions with one's parents, receiving art history training in school, and thus being better equipped to discuss and assess a piece of art). Because of their social prestige, forms of cultural capital are worthy of acquisition and monopolization. Thus, the reproduction of social stratification is accomplished, in part, through mechanisms for the transference of forms of capital, that make it more likely that those of the dominant class come to acquire particularly valuable forms of capital, while those of the subordinate classes do not. In the case of objective cultural capital, for example, the quality and content of elite schools' curricula makes it more likely that the children of the dominant class will be endowed with more cultural capital than their equally educated counterparts from poorer schools. This dynamic is also observed in the transference of social capital and embodied cultural capital. As a result of these dynamics, group dominance is reproduced, and the means of reproduction work as both a means of exclusion (lack of certain forms of cultural capital hinder upward mobility) and the grounds of condescension (attempts by subordinate groups to acquire elite forms of cultural capital—or the subordinate groups' own versions of such material or symbolic goods—are subject to stigmatization and marginalization by the dominant group). However, such denigration is typically directed at the tastes or practices of the ascendant group, not the group itself, thereby naturalizing their subordination as an effect of their choices rather than prejudices or insecurities of the dominant group (Elias and Scotson 1994).

Bringing Elias and Bourdieu together, our attention is thus directed at a number of dimensions to the operation of cultural capital in the reproduction of status hierarchies. These include processes of legitimization: ways in which some tastes/cultural goods are framed as legitimate, esteemed and thus worthy of possession, which extends to the possessors of such tastes/goods as also being deemed legitimate and, by virtue of juxtaposition, to those who do not possess said resources as being deemed illegitimate. Strategies of acquisition directed at legitimate goods/tastes are also, then, to be expected: ways in which subordinate groups go about acquiring/adopting (and possibly adapting) the legitimate forms of taste and cultural capital. At the same time, processes of de-legitimation are also at work, as a shield for the dominant group, against subordinate groups' strategies of acquisition. These are ways in which some tastes/goods/possessors of such tastes/goods are framed as illegitimate or perhaps not-yet-legitimate (i.e. possibly redeemable). De-legitimation might be accomplished by framing goods/tastes as lacking in sufficient discernment and self-control—in other words, as uncivilized (Elias, 1994) or vulgar (Bourdieu, 1984).

At the level of societies, we would expect in the case of global group dynamics between nations to find that the social reproduction of dominance and exclusionary practices will operate, at least in part, through forms of cultural capital, and that the forms of cultural capital and legitimization and de-legitimination strategies will work through an emphasis on discernment and 'civilized' codes of conduct, rather than an out-of-hand rejection of a particular group. This has been demonstrated through research on sport as a cultural form, for instance, and how it is deployed in the creation of zones of prestige, emulation and resistance (Maguire, 2012).

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

In summary, our paper is informed by a theoretical perspective that understands consumption as a field and cultural practices as devices for nation-state competition over the stratification of power resources on a global stage. In the case of fine wine, a globally-accepted order of legitimacy operates to maintain norms of consumption and etiquette. As that order is increasingly challenged with regard to who is consuming fine wines—through the strategies of acquisition on the part of ascendant groups—then we expect to see representations of such practices reflecting both claims to, and rejections of, legitimacy on the part of the ascendant and dominant groups, respectively.

As an entry point to studying inter-group power dynamics, we examine the mediatization of taste, asking how consumption practices are represented in the media with regard to the construction of some as superior, and others as inferior, and their association with particular social (indeed, national) groups. Media genres such as lifestyle media and news media reporting on consumption and lifestyle matters are crucially important to the reproduction of cultural fields — such as that of fine wine. Acting as second-order field texts (Ferguson 1998), such media forms consolidate and circulate norms and repertoires of legitimacy — both through representations of ‘correct’ practices (thereby allowing members of the dominant group the satisfaction of self-recognition in those practices, thereby building group cohesion), but also through stigmatizing representations of subordinate groups’ practices (particularly the ‘bad’ practices of the ‘worst section’ of that group (Elias 1994: xix)), in order to define and strengthen the association of the dominant group with a superior style of life, thus naturalizing and reaffirming their dominance. This dynamic comes especially to the fore when an established dominance is perceived to be under threat, as we see today with the case of China’s rise to dominance in terms of economic power.

Therefore, China’s emergence as a relatively new market for French wine – and, especially, for Lafite as an important (although by no means the definitive) marker of prestige and cultural value — holds rich implications for a better understanding of how cultural and symbolic capital intersect with questions of elite taste. The ways in which the media present and represent rituals of consumption of fine goods such as rare wines in fast-growing markets like China becomes particularly interesting in such considerations.

## **Findings**

The deductive analysis of the UK/US sample found that 71% of the reports included an indication that the global fine wine market was being driven by China—both in terms of constituting the market (e.g. Chinese fine wine buyers overtaking their ‘traditional’ counterparts in terms of purchases), and inflating it (e.g. Chinese buyers paying well over estimated values in auctions, thereby driving up prices more generally). The significance of China to the global fine wine market is epitomized in a 2010 FT article that noted that the American wine critic Robert Parker ‘is no longer the most important factor determining the price of Bordeaux wine. That honour goes to rich Chinese consumers, who are especially mad about Chateau Lafite.’ Of these articles, 15 were explicitly negative in their framing of the impact of China on the fine wine market, including the ‘truly terrifying’ prospect of Chinese interest now moving on to Burgundian wine.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

There was, therefore, broad consensus across this media sample that Chinese fine wine buyers were taking up a central place in the fine wine market. This destabilized the previously established organization of the field, as indicated by the reports referring to Europeans and Americans not by their nationality but as the ‘traditional’ buyers of fine wine. Not only was the established market perceived to be changing in terms of anticipated buyers, but also in terms of the primary forces driving the market: it was no longer the tastes of the traditional buyers, and opinions of legitimate wine critics (such as Parker) that confirmed value in the marketplace, but the purchases of Chinese wine buyers.

The most common finding—in 79% of the sample—was discussion of Chinese fine wine buyers’ tastes and consumption practices. Informed by our theoretical perspective, we expected that the destabilization of the established cultural order of fine wine would be met with attempts on the part of the (formerly) dominant group to disarm the ascendant group, by denigrating their cultural practices as ‘bad taste’ and asserting their own, more ‘civilized’ mode of consumption as ‘good taste.’ Deductive coding of representations of the tastes of Chinese fine wine buyers identified defensive representations in both media samples, including both overt and covert attempts to reinforce European/Western cultural dominance, even while conceding economic dominance to China. Four framings of Chinese fine wine consumption were disentangled through the deductive coding—vulgar consumption, populist consumption, functional consumption, and discerning consumption—broadly confirming our hypothesis.

Vulgar consumption: ‘It’s the Wild West out east.’

The most common frame for Chinese fine wine consumption was that of vulgar consumption, which was found in 55% of the articles (40 of the total 73). Three themes were apparent here. The first — in 27 articles — consisted of references to the lack of restraint or discipline in the manner of purchasing the wine, including descriptions of Chinese buyers at fine wine auctions as frenzied, bonkers, crazy, mad and obsessed. In 2010, a Daily Telegraph article asked of the Chinese buyer who had recently paid £43,000 for a (still un-bottled) case of 2009 Lafite: ‘at the time of writing you could pick up a case for £14,000; one has to ask, was the buyer drunk, badly advised or just caught up in the excitement of it all?’<sup>6</sup> Similarly, a 2008 FT article quoted a Hong Kong-based wine educator’s description of the wine market in China: ‘It’s the Wild West out east.’ This characterization was also echoed in the Chinese media:

I now understand that the Chinese people are not sensitive to Burgundy wine culture... it represents only status...only a very few people understand or even care about how it tastes. Now we have become wary of their predatory tactics. We call them Chinese crazies (*zhongguo fengzi*).

A second theme, found in eight articles, was unrefined or untutored manners of consuming or drinking wine. For example, a NYT article in 2000 opens with this scene: Yao Yun pulls the cork on a bottle of red wine in a fashionable restaurant here and does something that might horrify a Frenchman: he pours himself half a glass and tops it up with Sprite.

Having juxtaposed the Chinese drinker with the French (horrified, and hence legitimate) drinker, the article then goes on to refer to the importing of vast quantities of ‘cheap European

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

wine', quoting a Spanish importer, who: says his fax machine began whirring with order after order from China in 1996. "People wanted four, five containers in the first order, no sample required," he says now from his mostly empty warehouse just west of Shanghai. ... Mr. Rovira moved to Shanghai, established a bottling plant and began pumping wine from truck to tank as if it were home-heating oil.

Judgements of taste are, of course, relative to the field in which they are enacted: the 'vulgar' act of mixing wine with Sprite or the ordering of wine as just another commodity may be locally understood as hallmarks of connoisseurship and rationality. Nevertheless, one must not confuse the assignation of vulgarity, as demonstrated in our findings, with the lived perceptions of the consumers being represented: what is framed as 'bad taste' is undoubtedly understood by at least some of the consumers as 'good taste' and acts of discernment, but it is exactly this misrecognition that further damns them in the eyes of the Western elite, at least as they are positioned by the media reports. Furthermore, the emergence in China of a new vocabulary surrounding consumption and taste would suggest that Chinese perceptions of Chinese luxury consumption—if not of wine specifically—are not dissimilar: in September and October 2013, there were over 100 million references on Chinese social media to the term 'tuhao', a description of the nouveau riche that refers both to their wealth and their lack of sophistication (Tuhao and the Rise of Chinese Bling, 2013).

The UK/US and Chinese media nevertheless also help to feed the frenzied buying of wine as a lucrative investment, fuelling speculative activity with reports like this, from a Chinese news source:

Over the last ten years, the price of Lafite has soared over 30%. Fuelling the excitement are reports that trumpet the investment returns to be had from red wine: Given the plethora of investment choices in China for rich people today, which ones are the most lucrative? Gold or precious works of art? Neither! It's red wine! According to the Times of London, the returns from investing in Bordeaux wines far, far exceed those from gold, oil or stocks and shares, antiques, fine art, diamonds...nothing beats fine wine. And of the wines in question, France's premier Lafite wine is the best. The name 'Lafite Rothschild' – that's all you need to know...The name alone guarantees upward returns. (Global News Network, June 2011)

Finally, 13 articles analysed in the UK/US sample referred to a manner of choosing wines for purchase or consumption that demonstrated a lack of cultural knowledge, such as the perceived luckiness of the number eight, or the fact that 'Lafite' is easier to say than the names of other top Bordeaux producers. It is worth noting that Château Lafite has capitalized on the cultural resonance of their iconography for the Chinese market. For example, a 2010 Daily Telegraph article included the observation that 'Lafite's 2008 vintage rose from £9,000 to £13,000 a case in just two days after it was announced the bottles would be etched with the Chinese figure eight - a lucky number in China.' Such manners of choosing demonstrate a failure to know of, and abide by established criteria for the evaluation of the qualities of the wine (either directly or via reliance on legitimate critics' reviews, etc).

All three of these themes—related to purchasing, drinking and selecting—frame Chinese fine wine consumption as vulgar. Such practices do not simply contravene the bourgeois norms of fine wine consumption, but overtly display their absence: a lack of self-restraint, foresight,

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

refinement of manners, and due deference to elaborated taboos around inappropriate behaviour (Elias 1994: 153).

Populist consumption: A 'mélée of brand-obsessed acquisition'

The second most common framing in the UK/US sample was that of populist consumption: 52% of the articles included at least one reference to fine wine consumption being primarily driven by associations of status or fashion ('Lafite-mania' rather than appreciation of the wine per se). This overlaps with vulgar forms of wine selection—here, reliant not on the naive criteria of luck or ease of pronunciation, but on the assured prestige of buying the 'right' brand. For example, from the same 2010 Daily Telegraph article noted above:

Judging by the number of Chinese tasters in Bordeaux this week, the boundaries of the wine world may be expanding further east than ever. Knowledge doesn't always match desire, however: one château in the Pessac-Léognan region was asked by a would-be Chinese buyer if they could make him Lafite-Rothschild, currently the "hottest" estate for the Chinese. Baron Eric de Rothschild would not have been amused had the answer been yes.

The scope for 'vulgar' consumption continues to expand via the popularization of particular brands in the eyes of nouveau riche consumers. Other articles echo the stereotype of the Chinese brand-mad luxury consumer; for example, The Times in 2010 noted that 'the biggest wine trade fairs are increasingly dominated by Chinese buyers in a mélée of brand-obsessed acquisition.'<sup>12</sup> Others draw equivalences between the popularity of Lafite and other luxury brands: 'Everyone in China is thinking Lafite ... It is seen in the same light as Louis Vuitton, Prada and Gucci.'

Chinese media reports back up this phenomenon: 'The Chinese investors are fanatical about the Lafite brand but they don't understand its exclusiveness. Wine in the [Chinese people's] eyes is just a powerful symbol. Not many people really care about the taste of it' (Haiwainet.cn). In a similar vein, Global Network News (July 4, 2013) reports on the complaint by a French export manager of a wine trade body that: 'This buying binge [by Chinese investors] makes me upset. I believe they are buying French vineyards for purely commercial reasons, not in order to pursue plans to find the most suitable soils or conditions.'

Populist forms of consumption are often linked in the representations to vulgar forms of consumption; 27 articles (37% of the UK/US sample) included reference to both. This conjunction of 'bad taste' is embodied in the stereotyped figure of the nouveau riche Chinese consumer. A 2010 FT article reported that 'Lafite has become the darling of the market, especially in mainland China where the brand is the drink of choice of high-rolling tycoon collectors - to serve anything else is almost insulting.' Or consider this 2010 Guardian article:

With its creamy chateaux and immaculately tended vines, the Bordeaux wine region has for centuries catered to the discerning tastes of European elites. But this week, as leading critics declared the region's 2009 vintage the best they have ever tasted, a distinctly new clientele crashed the claret party.

Interestingly, both vulgar and populist consumption frame the Chinese fine wine buyer as less civilized than their 'traditional' counterpart — those whose actual consumption practices

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

(civilized and uncivilized) are assumed and typically not referred to by journalists and commentators, although the implied message is quite clear.

Another twist on the uncultured tastes of the Chinese nouveaux riches is the seeking out of the brand for its cultural cachet, regardless of the intrinsic qualities of the product. The country-of-origin effect alone is often enough for the investor. According to wine expert Oliver Poehler, interviewed in the 'French Wine Review' section of Food and Wine magazine (September 2011), many Chinese wine investors want a 'French-produced reputation'. With this 'rubber stamp,' he says, they can improve the sales price of their wines and wineries. And yet, this kind of behaviour causes him confusion because the wine (domestically) produced in Chinese vineyards was already overpriced, in his view. This perception is probably rooted in a Eurocentric view of cultural legitimacy that extends from wine and food to literature, fashion and places (A New Grand Tour, 2010).

Functional consumption: 'Lafite has become a unit of business'

The third framing, found in 16 articles (22% of the sample), was that of functionalist consumption: the use of wine for some other function than that of connoisseurship—typically, as a gift or for displaying 'face'. For example, a 2010 FT article reflected that 'Lafite-mania clearly has little to do with the taste of the wine'. In other words, the Chinese fine wine consumer was depicted as not appreciating wine on its own, established aesthetic, normative terms, but instead as a tool to fulfil some other social function. That function might be related to drinking—the use of toasting, for example, in which to show respect in social gatherings—or to cooking. According to a Reuters report on a Chinese website, a wine shop cashier ('Ms Yang') is reported to observe that, for many Chinese customers, wine was still regarded as a kind of condiment for use in the kitchen: 'Chinese wine mainly used to cook.' She added, '(they) buy Chinese wine to drink, and most of those men alcoholics.' For them, 'French wine (was) more romantic' and required a 'candlelit dinner when drinking' for its enjoyment: 'Certainly not a kitchen!' More commonly, however, the discussion was of fine wine being appropriated within established Chinese rituals of gift giving, networking and the management of social obligations. A Times (2010) article demonstrated a less overtly stigmatized view of Chinese fine wine consumption through overt acknowledgement of the importance of guanxi in Chinese social relations. The article quotes a representative of one of the most prominent and prestigious importers in Hong Kong who observes that: Lafite has become a unit of business, and it is not being stored, but drunk. ... The buyers aren't thinking about the price of the wine, but about the value of the relationship or obligation you establish by serving it.

However, while this potentially suggests a greater tolerance of Chinese fine wine consumption on Chinese terms—and thus affirming the UK/US social/liberal beliefs around tolerance, cultural openness, awareness of other cultural traditions—the functional framing of wine was accompanied by negative association: all but two of the 16 articles also included reference to vulgar or populist (uncivilized) consumption practices. In addition, the frequency of the functionalist framing diminished over time: 27% of the articles in 2000-10 had that framing, whereas only 16% of the 2011-13 articles had it. Nevertheless, the fourth framing of Chinese fine wine consumption does fall more clearly within the realm of the legitimate and civilized.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Discerning consumption: 'Chinese palates are slowly but surely adapting'

The final framing of Chinese fine wine consumption was discerning consumption: 20 articles (27% of the sample) made explicit reference either to Chinese wine consumers undertaking established, legitimate forms of consumption, or referred to Chinese wine consumers in established, legitimate terms (e.g. as oenophiles or wine lovers). That is, discerning consumption is understood as legitimate because it takes place on Western terms. For example, a 2010 FT article acknowledges that an 'ever-increasing number of wealthy Asians are embracing a fine wine culture'. Similarly, approving note is taken of growing numbers of wine education classes (and wine investment classes). Furthermore, there is the suggestion in our sample that Chinese fine wine culture is increasingly regarded as legitimate and sustainable, with a marked increase between 2000-10 and 2011-13 in the frequency of the discerning frame. In the 2000-10 sample, 22% of articles used that frame, compared with 34% in 2011-13.

Such examples of inclusion within the 'established' group, however, are tempered by other references that diminish the legitimacy of the Chinese consumers. For example, a 2009 Times article places Chinese connoisseurship at a nascent state, quoting a representative of a European wine investment house with growing numbers of Chinese clients as saying: 'Chinese palates are slowly but surely adapting, learning the complexities attached to wine and, accordingly, wine has become a greater understood commodity.' A neutralization of the legitimacy of Chinese discerning, legitimate consumption also occurs through who serves as a voice of authority: it is typically Western importers, auctioneers, educators and investment advisors who give accounts of the Chinese market, and/or who are positioned as the conduits of an emerging, legitimate wine culture in China.

If representations of 'civilized' Chinese wine buyers and consumers are increasingly common, they are nonetheless accompanied by overwhelmingly negative reports of their impact on the global fine wine market (i.e. the Chinese have vulgarized the wine market for others). From 2010 to 2011, the wine market witnessed record-breaking auctions of Lafite with Chinese buyers paying multiple times the wine's value in October and November 2010. By January 2011, commentators were referring to a wine bubble; Lafite lost value over the year, and the Bordeaux en primeur sales in June 2011 were modest (despite 2010 being heralded as an excellent year), as Chinese buyers shifted to buying Burgundy. As one well-regarded wine writer noted: There are dangerous signs that China's (still small) nucleus of seriously well-heeled wine buyers may now be turning their attention to Burgundy. Dangerous because the quantities of top burgundy produced are so tiny that Chinese interest could upset the market.

With such moves in the patterns of wine consumption, the international wine market has experienced fluctuations in price that do not reflect the behaviour of their traditional markets – does this herald a form of market subversion, albeit unintended?

Reflecting the media's role as a diffuse mode of education, Chinese reporting reflected the minority status of 'legitimate' connoisseurs. The Chinese media reports between 2012 and 2013 highlight the trend towards 'market confusion and chaos' (luan xiang). A Yangtze Evening News report (2013) found that (loosely translated) 'the summer season – considered the peak wine-drinking season – would find many consumers unable to decide between

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

hundreds of brands of French wine'. They were unable to discern the 'halo' or 'aura' (yun) of the authentic product, especially in the case of Lafite. Like many products within the luxury sector in China, the Lafite brand suffers from over-exposure, over-selling and counterfeiting. In the same report, reporters visiting several xinjiekou liquor stores discovered that the Lafite market was highly heterogeneous, with different sub-brands of Lafite jostling for prominence. Bizarre scenarios such as 'Buy one Lafite, get one free' (if one phoned in to a hotline) as well as wild fluctuations in price from a few hundred to a several million renminbi prevailed at supermarkets. There were also homophonic imitations using 'Lafitte' (with a double 'T' denoting, confusingly, the original, 'legendary' Lafite), while 'Rafael' was also a common name. Such reports of the growth of fake wine underline the predominant view that the Chinese market remains naive.

As a result, several wine magazines take pains to distinguish between three categories of Lafite for their readers: the 'genuine' product, according to the Yangtze News report, for instance, is 'Lafite Chateau Lafite Rothschild,' starting at '89 thousand'; the second category are the 'little Lafites' (xiaolafei) and finally, a series called 'Rafi Legends Series-Legende', 'Rafi Legends Series-Sag'a, 'Rafi Collection-Réserve Spéciale' and 'Rafi Noble Series-Selection Prestige'.

The Yangtze Evening News (July 8, 2013) clearly sees an educative role for itself by inserting warnings on the 'chaotic choices' facing consumers. The article features 'expert analysis' (zhuanjia jiexi) on how to identify wines that are left on shelves past their expiry dates, Australian wines advertised and deliberately mis-labelled as French and so on. The 'tricks of the trade' must be learned, in order to avoid getting cheated. One of its recommendations is not to confuse wine with red wine, not to assume that screw caps on wine bottles denote inferior quality compared to cork seals and, most importantly, to look for the 'AOC' label on French wine bottles: Appellation + Origine + Contrôlée:

In other words, the middle one 'O' will be different according to the wine (that denotes the origin of the name: the smaller the range of names, the higher the level of wine, generally speaking).

The Chinese print media also regularly report on British wine magazines that track the price and demand for Bordeaux wines, in line with the former's obsession with tracking changing consumer tastes. A Global Network News (July 11th, 2013) report, for instance, announces that 'the Chinese consumer's wine buying and consumption habits are transforming' and, as a result, 'Chinese consumers' fanatical enthusiasm for premium wines is fading because they are just too expensive even for wealthy consumers. In recent reports, the price of Lafite stood at €330 per bottle, a decrease of 21.4% from 2011. The same report observes that 'China's consumers no longer splurge €1000 on bottles of Bordeaux wine and are instead wanting to spend 600-1500 yuan to buy wines from other regions, such as Italy or Burgundy wines.

## Questions for your consideration

1. How does status consumption, and in specific, wine consumption, differ across the studied countries?

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

2. What are the implications of the paper's findings for international marketing managers of fine wine?
3. What are the macromarketing implications of fine wine consumption discussed in the article?
4. What managerial implications of the findings do you suggest?
5. What changes could be seen in wine consumption in the nearest future of China?

## **Критерии оценивания критического анализа предложенной статьи**

- Обозначение основного вопроса исследования
- Осведомленность с авторами, периодическими и монографическими изданиями по теме исследования
- Системные знания материала
- Умение использовать модели, теории менеджмента
- Владение понятийным аппаратом
- Широта эрудиции
- Логичность изложения
- Обоснованность выводов
- Грамотность фактологическая, релевантность предлагаемых идей

## **Демонстрационный вариант для трека «Операционная эффективность»**

**Прочтайте статью<sup>3</sup> и сделайте её критический анализ на русском языке.**

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***When manufacturers develop a process innovation, they frequently seek to keep it under wraps. But that's often not the best approach.***

MOST RESEARCH ON open innovation has focused on the use of ideas and knowledge from outside the organization in the development of products and services. But openness can be useful for process innovation, too. Our research shows that manufacturers can benefit substantially when they look for ideas beyond the factory gates, especially when their operations are already advanced.

We often meet managers in manufacturing companies who keep process innovation activities tightly under wraps. Some see their processes as a source of competitive advantage that should not be shared with anyone. Others consider them organizational knowledge that could be detrimental to expose to outsiders.

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<sup>3</sup> Von Krogh G., Netland T., Wörter M. (2018) Winning with open process innovation.// MIT Sloan Management Review 59.2 . P. 53-56. <http://sloanreview.mit.edu/x/59220>.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

Some companies have good reasons for keeping process innovations concealed. For example, a combination of process and product innovation often jointly results in competitive advantage for a company. If you have found a unique production process with which to manufacture a differentiated product — for example, a new metal alloy or a medicine — it can be wise to keep that know-how within the company. In such cases, there is an obvious risk of loss of intellectual property.

However, our research suggests that for many manufacturers, such defensiveness deprives companies of a valuable source of ideas for productivity improvement. We draw our conclusions from an analysis of nine years of survey responses from 1,000 Swiss manufacturers, as well as 200 interviews with personnel at the Volvo Group (AB Volvo), a manufacturer of trucks, buses, construction equipment, and marine and industrial engines that is based in Gothenburg, Sweden<sup>4</sup>. One of the authors also visited 45 Volvo Group factories around the world.

Even for an industry leader, walling off process innovations from the outside world can be a losing strategy, because sooner or later, competitors usually catch up<sup>5</sup>. As counterintuitive as it may seem, our research suggests that most operations managers can build greater advantage for their company by following a policy of open process innovation rather than secrecy. However, evolving from a closed culture to an open one is not easy, and it generally requires taking six big steps.

## 1. Open up internally

Most large global manufacturers encourage their factories to share innovative practices and success stories with one another. The best ideas that emerge from this sharing become part of the overall corporate program. Empirical evidence shows that sharing process ideas has a profoundly positive effect on operational performance<sup>6</sup>. Companies that already do this informally can extend the process improvement activities with a systematic effort inside their factory networks. In this way, they gain some of the advantages of open innovation without the risk — while laying the groundwork for other open information sharing about processes.

This tends to work well. Because the factories belong to the same “family,” their operations and contexts are usually comparable. This means the hurdles for implementing novel ideas are often lower than when technology or knowledge stem from outside the network. Through open process innovation within the company, the factories lift the productivity bar together.

For approximately 10 years, the Volvo Group has worked intensively to share process innovation practices among its manufacturing sites. One goal is to raise all truck factories in the network to a defined “gold standard” by 2018. One initiative is a corporate process innovation program that collects best practices from factories in a global database accessible through the Volvo Group’s intranet. Another initiative is a global online knowledge-sharing conference that brings together about 200 to 300 attendees from across the company’s

<sup>4</sup> Note that AB Volvo, the Volvo Group, is not the manufacturer of Volvo cars. Volvo Car Group is owned by the Chinese company Zhejiang Geely Holding Group Co. Ltd.

<sup>5</sup> E. v. Hippel and G. v. Krogh, “Open Source Software and the ‘Private-Collective’ Innovation Model: Issues for

<sup>6</sup> T. Netland and K. Ferdows, “What to Expect From a Corporate Lean Program,” MIT Sloan Management

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

operations. Held about 10 times a year, the conference is scheduled in the morning according to the U.S. Eastern time zone so that the majority of factories located in the U.S., Europe, South Africa, and East Asia can participate. The conference slogan captures the idea behind intracompany open process innovation: “Everyone has something to teach; everyone has something to learn.”

## 2. Focus on the pace of process innovation

We find that many managers tend to overrate the quality of their company’s process innovation. The truth is that not everybody can be above average. Even in the exceptional case where a factory’s processes are indeed state of the art, hiding them can usually fend off competition for a limited time only. The only way to know how advanced your practices actually are is to compare them with someone else’s practices.

A more sustainable way to create competitive advantage in the manufacturing industry is not to keep your manufacturing excellence off the radar screen but to be faster than your competitors at process innovation. In Lyon, France, for instance, Renault Trucks, a subsidiary of the Volvo Group, has a state-of-the-art engine factory. In a central, highly visible part of the factory, quality rejects are put on display. Anybody who visits the factory — employees, customers, suppliers, sister plant managers, collaborating researchers, or others — can immediately see whether the factory has unresolved quality issues. Such exposure motivates factory managers and employees alike to speed up problem-solving and idea generation, as a way to keep the rejects out of sight. The “open” strategy increases the creativity, motivation, and, most importantly, the pace of process innovation at the plant. This gentle nudge provided by openness has helped Lyon become one of the Volvo Group’s flagship factories for process innovation, motivating the factory to strive always to be the best possible version of itself.

## 3. Exploit connectivity technologies

Our research found that data access systems help companies capture process innovations from the outside and spread them internally. Many business systems come with preinstalled “production know-how” that vendors have already integrated from their experiences across a multitude of customers. Although off-the-shelf solutions never guarantee that operations will improve, our findings show that increased use of data access systems leads to greater production cost reductions as employees adopt process innovations recommended by the software. Customer relationship management, supplier relationship management, supply chain management, and enterprise resource planning (ERP) software systems all require codification of tacit knowledge, which makes it easier to understand and transfer a process. This enhances a company’s capacity to spread external process ideas and technology to the people who need it.

A medium-size Volvo Group remanufacturing factory for engines and transmission boxes in North Carolina offers an interesting case in point. Until a few years ago, the factory was digitally disconnected from the rest of the Volvo Group’s dispersed remanufacturing factories. Remanufacturing operations tend to incorporate a lot of tacit know-how, and the factory had

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

previously not seen any particular need for what managers described as “static software to plan its highly dynamic business.” In spite of the managers’ opposition, Volvo Group headquarters mandated that the factory implement the same ERP suite as other remanufacturing plants within the group. Since then, the new business software implementation forced the factory managers to think harder about their current practices and learn about new best practices from other units in the group.

Although such global ERP implementations can be difficult and expensive, they offer many benefits to users. A process innovation elsewhere in the factory network — which can be codified as an ERP parameter or a new planning procedure — can be shared across all the network’s factories quickly.

## **4. Improve your organization’s ability to absorb and implement ideas from external sources**

To make innovations matter for production cost reduction, factories must strengthen their ability to make learning from the outside stick — something scholars call an organization’s absorptive capacity<sup>7</sup>. Absorptive capacity starts with a deep belief that there are important lessons to be learned from others. In addition, factory management must establish routines for gathering ideas from external sources and putting them to use. A good way to do this is to specify and codify the existing knowledge in a set of standards. While standards should never be taken as generally valid across all areas of a company, they make it easier for people to use past learning and help focus improvement efforts. The use of standards and regular standards revision meetings are practical ways to build absorptive capacity, particularly when those standards can be shared online with the entire plant and any sister factories.

A Volvo Group powertrain plant in the Kantō region of Japan offers an excellent example of what strong absorptive capacity can do for process innovation. For decades, the plant’s managers benchmarked their operations against others in Japan and incorporated practices that they found better than their own. After many years of systematic internalization of external best practices, the factory found itself at the “performance frontier.” Seeking new inspiration, the factory teamed up with Volvo Group headquarters to access the group’s powertrain R&D departments in Sweden and external technology partners. Today, managers have tried to combine the best of Japanese kaizen culture with the latest engine assembly technology from abroad — and they’re not done yet: The managers report that leveraging their proficiency in absorptive capacity helps them stay at the forefront of competition.

## **5. Open up to the outside**

It is not surprising that factories that lag in operational performance tend to improve when they participate in open process innovation. The benefits for the best-in-class factories are not so obvious, but they are real. Cutting-edge factories can attain deeper expertise by teaching others, but they often need to search outside their factory network for new

<sup>7</sup> S.A. Zahra and G. George, “Absorptive Capacity: A Review, Reconceptualization, and Extension,” *Academy of Management Review* 27, no. 2 (April 2002): 185-203.

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

inspiration. Our research indicates that the deeper a company searches for a source of external knowledge (for example, understanding a novel casting technology researched at a university), the greater the cost reduction it will experience, whether or not it is a leader in its industry.

In fact, under normal circumstances, the better you get, the more you can gain by opening up. In a Volvo Group truck assembly plant in Virginia, the management team decided to move their customer fairs from exotic locations to the factory site. This turned out to be wildly successful: During the fairs, old and new customers would ask blue-collar operators questions directly on the line. The customers received passionate answers from skilled people who were not trying to sell anything and just wanted to convey their expertise. At the same time, operators learned firsthand what customers really wanted from Volvo trucks. Opening up to the outside paid off in terms of both higher sales and increased productivity.

## 6. Utilize unconventional sources of knowledge

Art Fry, who co-invented the Post-it note at 3M Co., has proposed that creativity is "a numbers game"<sup>8</sup>: The more ideas you have, the more good ones you find. Innovation fairs, internal contests, conferences and exhibitions in other industries, and joint projects with research institutions and universities are all good sources of fresh ideas that enable managers to step back and think outside the box. Provocative ideas from nontraditional sources of knowledge may spark process innovation and help overcome difficult problems<sup>9</sup>.

ggle Between Efficiency and Creativity," BusinessWeek, June 11, 2007, [www.bloomberg.com](http://www.bloomberg.com).

<sup>8</sup> E. v. Hippel and G. v. Krogh, "Identifying Viable 'Need-Solution Pairs': Problem Solving Without Problem Formulation," Organization Science 27, no. 1 (January-February 2016): 207-221.

<sup>9</sup> See "Taiichi Ohno," The Economist, [www.economist.com](http://www.economist.com), July 3, 2009; and T. Ohno, "Workplace Management"

<sup>10</sup> See, for example, McLaren Technology Grou

One good example is from a truck plant in Pennsylvania. Operators had identified a safety hazard when technicians worked on top of the cab to do final installations. Searching for ideas from outside the organization, they came up with a tailored bungee jump cord that safeguarded the technicians without limiting their mobility. The role of unconventional sources of ideas at the Volvo Group resonates with other iconic examples from the manufacturing industry. For example, Toyota's Taiichi Ohno took his inspiration from American supermarkets when designing and introducing just-in-time parts delivery to Toyota's assembly lines after World War II<sup>10</sup>. Another example is the way that GlaxoSmithKline plc learned to minimize downtime from McLaren Honda, a British Formula 1 automotive racing team company that shared its expertise about pit stop operations<sup>11</sup>.

## 7. How to Get Started

Open product innovation is already a well-known strategy. We think open process innovation is a logical extension. As product life cycles continue to decrease and demand for

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<sup>8</sup> B. Hindo, "At 3M, a Struggle Between Efficiency and Creativity," BusinessWeek, June 11, 2007, [www.bloomberg.com](http://www.bloomberg.com).

<sup>9</sup> E. v. Hippel and G. v. Krogh, "Identifying Viable 'Need-Solution Pairs': Problem Solving Without Problem Formulation," Organization Science 27, no. 1 (January-February 2016): 207-221.

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<sup>11</sup> See, for example, McLaren Technology Group, "Case Study: GSK," May 15, 2014, [www.mclaren.com](http://www.mclaren.com).

# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

individualization increases, companies that master the combination of superior product and process development will be better positioned.

Ultimately — and ironically — the success of a program of operational openness will depend most of all on how well a company knows itself. Managers will need to ask: What part of our product innovation would benefit most from the search for external knowledge? What part of our process innovation could benefit most? Where should we combine the search for product and process knowledge? Given our strengths and weaknesses, from whom would it be most beneficial for us to learn? What can we offer them in terms of product and process know-how in return for what they can teach us?

As with many organizational changes, open innovation is best begun gradually. We do not recommend switching from closed to open process innovation in a day. However, that is not to say that companies should not start now. The bulk of our research persuades us that the businesses that win in the future will be those that master both the process and product sides of open innovation.

## Questions for your consideration

1. What are the managerial problems the article examines?
2. How six big steps of a policy of open process innovation described in the article might be applied in other companies (if so)? Please provide an example.
3. Imagine yourself being a manager responsible for Production System development in a company. What lessons would you learn after reading this article?

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# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

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# «Высшая лига»

ОЛИМПИАДА СТУДЕНТОВ  
И ВЫПУСКНИКОВ

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