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RISK MANAGEMENT IN EMERGING FASHION MARKETS

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A thesis submitted in partial fulfilment of the
requirements of the

Manchester Metropolitan University for the
degree of Doctor of Philosophy

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Declaration

No portion of the work referred to in this dissertation has been submitted in support of an application of another degree or qualification of this or any other university or other institute of learning.

Christiana Arvaniti

25th October 2010

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Abstract

Apparel retailers operating in global markets need to consider all kind of risks associated with their expansion strategies. Emerging markets present a unique profile of risks including geopolitical, regulatory, financial, currency and governance. Companies operating in emerging markets must protect their investment and develop safeguards against risks. This can be achieved through an understanding of the country's requirements for business and by tailoring their supply chain strategies to meet the unique needs of each market. The European integration allows countries with emerging and developing economies to offer opportunities for business growth and high returns. However, as they conceal greater risk than mature markets, a coherent strategy is necessary with strong communication links within the supply chain and an effective risk management framework is needed. Through the initial literature review it was hypothesised that countries at different stages of becoming emerging markets would present different levels of risks for fashion apparel firms. The meaning of risk within the business environment is evaluated and the tools that organisations have developed according to companies' risk appetite. A deductive qualitative approach to this research employs case studies of three Eastern European Countries - Hungary, Czech Republic and Greece and four fashion retailers – Esprit, Mango, H&M and Zara.

Risks, uncertainties and disruptions that the companies had reported were connected with the risks identified in the selected markets. Twelve models were developed in order to test the hypothesis and satisfy the objectives. The models were based on the impact of, and the frequency of the risks identified by measuring the risk factors of Political, Economical, Social, Technological, Legal, Environmental and Supply Chain (PESTLE). First of all, the evaluation of the risk factors in each set of companies and countries was presented by creating a generic model showing the different levels of risk and following with an identification of risks concealed in each country for each company. On the basis of risks and uncertainties, each of the selected companies presented information regarding risks according to its nature and its risk appetite. The generic model was developed using IRM, COSO and ONDD frameworks. The risk factors were measured qualitatively and were determined by multiplying the impact and the

likelihood presented in additional tables, and expressed as ratios. The results of this study do not show significant differences in the examined risk areas as it was expected. However, Greece presented a slightly riskier character than Hungary and Czech Republic which are still developing. This can easily be seen in the models.

Table of Contents

CHAPTER 1 INTRODUCTION	1
1.1 Research Aims.....	5
CHAPTER 2 EUROPEAN UNION AND EMERGING COUNTRIES	7
2.1 Introduction.....	7
2.2 European Integration.....	7
2.3 The New Era of Globalisation	9
2.4 Emerging Markets.....	11
2.4.1 Emerging Market Business Environment.....	14
2.5 Challenged Markets in Eastern Europe.....	16
2.5.1 Foreign Direct Investment in Eastern Europe	17
2.6 Transition and European Integration.....	19
2.7 Entry Methods in Foreign Markets	21
2.7.1 Wholesaling.....	22
2.7.2 Franchising.....	23
2.7.3 Wholly Owned; Branches and Subsidiaries	24
2.8 Summary	25
CHAPTER 3 RISK MANAGEMENT IN EMERGING MARKETS	26
3.1 Introduction.....	26
3.2 Identification of Risk.....	26
3.3 Risk Management Process.....	29
3.3.1 Risk Management Institute	31
3.3.2 COSO (Committee of Sponsoring Organisations of the Treadway Commission	34
3.3.3 The Office National du Dueroire / Nationale Delcrederedienst (ONDD) ...	38
3.4 Supply Chain Management Risk.....	39
3.4.1 External Drivers.....	40
3.4.2 Internal drivers	40
3.4.3 Disruptions within the Supply Chain	41
3.4.4 Supply Chain Risk in the Fashion Sector.....	42
3.5 Risk and emerging markets in Eastern Europe	46
3.6 Summary	51

CHAPTER 4 SUPPLY CHAIN, LOGISTICS & COMMUNICATION LINKS	52
4.1 Introduction.....	52
4.2 Supply Chain Integration.....	52
4.2.1 Supply Chain Management	54
4.3 Supply Chain Strategies.....	55
4.3.1 Value Drivers.....	55
4.4 Apparel Logistics.....	59
4.4.1 Domestic and Global Logistics	60
4.4.2 Key Elements of Logistics	61
4.5 Marketing Mix and Internationalisation	63
4.6 Communication throughout the Supply Chain	65
4.6.1 Cultural Communication	66
4.6.2 Strategic Communication	67
4.7 Business Driven Information System in an Organisation.....	68
4.8 E –Business/E-Commerce Models	71
4.8.1 Business-to-Business (B2B).....	72
4.8.2 Business-to-Consumer (B2C).....	72
4.9 E-marketing within the Supply Chain	73
4.10 Summary	75
CHAPTER 5 RESEARCH METHODS.....	76
5.1 Introduction.....	76
5.1.1 Research Design	76
5.2 Case Study Rationale	78
5.2.1 Case Study Selection Process	79
5.2.2 Company profile Development	81
5.3 Qualitative Observations and Benchmarking	82
5.3.1 The Visits	83
5.3.2 Pilot Observation	84
5.3.3 The Observations	85
5.4 PESTLE and Risk Analysis	86
5.5 Model Development	88
5.6 Summary	89
CHAPTER 6 COMPANIES AND COUNTRIES RISK ASSESSMENT.....	91

6.1 Introduction.....	91
6.2 The fashion retailers.....	91
6.2.1 Esprit.....	91
6.2.2 H&M.....	93
6.2.3 Mango.....	95
6.2.4 Zara.....	96
6.3 Findings from the Observations.....	98
6.3.1 Esprit.....	99
6.3.2 H&M.....	102
6.3.3 Mango.....	105
6.3.4 Zara.....	108
6.4 Risk Management Techniques by Fashion Retailers.....	111
6.4.1 Esprit.....	111
6.4.2 H&M.....	114
6.4.3 Mango.....	118
6.4.4 Zara.....	121
6.5 Communication Links.....	126
6.5.1. Supply Chain Communication Issues.....	127
A) Esprit.....	127
B) H&M.....	129
C) Mango.....	130
D) Zara.....	131
6.5.2 Business to Customer Model.....	133
6.6 The PESTLE Analysis.....	134
6.6.1 Political.....	134
6.6.2 Economical.....	139
6.6.3 Social.....	144
6.6.4 Technological.....	147
6.6.5 Legal.....	150
6.6.6 Environmental.....	155
6.7 Summary.....	159
CHAPTER 7 EVALUATION OF RISK MANAGEMENT.....	160
7.1 Introduction.....	160
7.2 Modelling the Risk.....	160
7.3 Evaluation.....	180
7.3.1 Market risk assessment.....	180
7.3.2 Supply Chain Risk Assessment.....	182
7.4 Summary.....	188

REFERENCES	203
BIBLIOGRAPHY	212
Appendix 1 ONDD Risk Assessment for Hungary.....	216
Appendix 2 ONND Risk Assessment for Czech Republic.....	217
Appendix 3 ONDD Risk Assessment for Greece	218
Appendix 4 Benchamarking Template	219
Appendix 5 Mapping Countries and Companies	234
Appendix 6 CD Companies and Countries Profiles-Conferences Papers ...	235

Figures

2.1	Market Entry Options.....	22
3.1	The risk management process.....	33
3.2	Supply chain risk drivers.....	41
3.3	The '3-P' approach of: Philosophy; Principles; Processes.....	49
5.1	Environment and marketing mix.....	87

Tables

3.1	Types of Risks in Business Area.....	28
3.2	Risk Factors in Business.....	30
3.3	Risk Description.....	32
3.4	Consequences.....	32
3.5	Probability.....	33
3.6	Components of Enterprise Risk Management.....	36
3.7	Risk Management Continuum.....	38
3.8	Factors Influence the Risk Management.....	44
4.1	Different Logistics Performance Objectives of Different Products Ranges.....	60
4.2	Different Internationalisation Strategies.....	65
4.3	E-Marketing Advantages and Disadvantages.....	73
6.1	Esprit Market Position.....	92
6.2	H&M Market Position.....	94
6.3	Mango Market Position.....	95
6.4	Zara Market Position.....	97
6.5	Esprit Observation Summary.....	100
6.6	Esprit 4 P's.....	101
6.7	H&M Observation Summary.....	103
6.8	H&M 4 P's.....	104
6.9	Mango Observation Summary.....	106
6.10	Mango 4 P's.....	107
6.11	Zara Observation Summary.....	109
6.12	Zara 4 P's.....	110
6.13	Esprit Risks.....	111
6.14	Esprit Risk Management.....	114
6.15	H&M Risks.....	115
6.16	H&M Risk Management.....	117
6.17	Mango Risks.....	118
6.18	Mango Risk Management.....	121
6.19	Zara Risks.....	122
6.20	Zara Risk Management.....	126
6.21	B2B and B2C Model of Fashion Retailers.....	127
6.22	Companies Internet Performance.....	133
6.23	Key Political Points.....	138
6.24	Key Economical Points.....	144
6.25	Key Social Key	147
6.26	Technological Points.....	150
6.27	Key Legal Points.....	155
6.28	Key Environmental Points.....	159
7.1	Scale of impact and likelihood.....	161
8.1	Companies Information Summary.....	192
8.2	Companies presence in different markets in Europe.....	194

Models

Model 1.	Esprit Risk Factors in Hungary-Franchise.....	165
Model 2.	Esprit Risk Factors in Czech-Franchise.....	166
Model 3.	Esprit Risk Factors in Greece-Franchise.....	167
Model 4	H&M Risk Factors in Hungary -Wholly Owned.....	169
Model 5.	H&M Risk Factors in Czech Republic -Wholly Owned.....	170
Model 6	H&M Risk Factors in Greece-Wholly Owned.....	171
Model 7.	Mango Risk Factors in Hungary Franchise.....	173
Model 8.	Mango Risk Factors in Czech Republic- Franchise.....	164
Model 9.	Mango Risk Factors in Greece Franchise.....	175
Model 10	Zara Risk Factors in Hungary-Wholly Owned.....	177
Model 11	Zara Risk Factors in Czech Republic-Wholly Owned.....	178
Model 12	Zara Risk Factors in Greece-Wholly Owned.....	179
.		
Summary	Esprit in Hungary, Czech Republic and Greece.....	
Models 1.	196
Summary	H&M in Hungary, Czech Republic and Greece.....	
Models 2	197
Summary	Mango in Hungary, Czech Republic and Greece.....	197
Models 3	198

Abbreviations

APS	Advanced Planning & Scheduling
ALARM	The Public Risk Management Association
AIRMIC	The Association of Insurance and Risk Managers
B2B	Business-to-Business
B2C	Business-to-Consumer
B2E	Business-to-Employees
BDIS	Business Driven Information System
BRIC	Brazil, Russia, India and China
BRIMC	Brazil, Russia, India, Mexico and China
CEE	Central and Eastern Europe
C2B	Consumer-to-Business
C2C	Consumer-to Consumer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CPFR	Collaborative, Planning, Forecasting and Replenishment
CRS	Customer Response System
EU	European Union
EEC	European Economic Community
EDI	Electronic Data Interchange
ERP	Enterprise Resource Planning
E2E	Exchange-to-Exchange
FCO	British Foreign & Commonwealth Office
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
H&M	Hennes & Mauritz AB
IIA	Institute of Internal Auditors
IMS	Inventory Management System
IRM	Institute of Risk Management
LIS	Logistic Information System
M&A	Mergers and Acquisitions
M&S	Marks and Spencer
MIS	Management Information System
MNE	Multi National Enterprises
NAFTS	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
ONDD	The Office national du ducroire / Nationale Delcrederedienst
PESTLE	Political, Economical, Social, Technological, Legal and Environmental Analysis
PPP	Purchase Power Parity
RBIA	Risk Based Internal Auditing
SARS	Severe Acute Respiratory Syndrome
SCM	Supply Chain Management
TMS	Transportation Management System
WMS	Warehouse Management System
WTO	World Trade Organisation

4P's Product, Price, Promotion, Place

Chapter 1 Introduction

In today's competitive environment, apparel retailers operate in global market and therefore need to consider all kinds of risk associated with this activity. This new era of globalisation has resulted in fashion retailers having to expand their operations in foreign markets including those of emerging markets and having to launch their products to new customers (Hodge et al, 2004). Their purpose is to increase their competitiveness in international markets by identifying all of the risks they may face by doing business outside of their domestic market and also to develop their supply chain keeping in mind customer satisfaction (Hodge op cit). For this reason there have been major changes in the logistical strategies adopted by companies and it is reasonable to assume that these same changes have impacted on the fashion industry (Rushton, 2000).

According to Jones (2006) the development of the apparel industry has happened through a number of changes to its performance according to trends in price, consumption, investment, trade and production which have declined significantly in most developed countries, thus making the textile and apparel industry extremely attractive to developing countries seeking to industrialise. In order to minimise their expenses many fashion companies have shifted their production to emerging markets such as India, China and Eastern Europe where the labour cost is low (Jones, 2006). Moreover, by creating an expansion strategy, companies must consider many important differences between mature and emerging markets. This has to do with specific indicators which exist in each country and the most fundamental of these is consumer needs. For this reason apparel businesses or firms sourcing from overseas impose penalties on their suppliers to ensure quality and deadlines (Ericson, 2001).

Risk can be defined as the possibility that an event will occur and adversely affect the achievement of objectives of a business or cause of failure. It cannot be considered as definite thing such as an apple, a car or a telephone which are tangible everyday objects that everyone knows and recognises. Risk is intangible and can be perceived differently by different people not in terms of what the risks are but what the range of possible outcomes are and probabilities they attach to

those outcomes. In the business area it relates to business risk appetite which means how much risk a business is able to accept (Olsson, 2002). Supply chain risk refers to the uncertainty of an event affecting one or more of the parties within the supply chain setting, which can negatively influence the achievement of business objectives. It is necessary for a company to gain a full understanding of the developments and uncertainties which may emerge at any point in the supply chain thus ensuring that the main organisational objectives stand a better chance of being attained.

The textiles and clothing industries have a long tradition in countries in Central and Eastern Europe (with Turkey and North Africa). These countries have become major suppliers of clothing to Western Europe (Heymann, 2005) and one of the major markets. The biggest producer of textiles and clothing in Eastern Europe is Poland followed by the Czech Republic, (Heymann op cit) Romania and Hungary. But, in recent years western firms shifted their sourcing to Romania and Bulgaria due to lower wage costs. These countries (Paliwada, 1995) are fairly industrialised with a trained workforce and a high literacy level. Eastern Europe cannot compete with the size, the population and the market power of China as it offers geographical and cost-saving advantages over a European company and when the stock exchanges are fully established will eventually reach western economic standards. The prospects for fashion industry are very positive especially for companies which offer fast fashion products and need therefore to minimise lead times. In addition, the development of technology has considerably facilitated supply chain communications ensuring a quick and accurate flow of information.

Communication is the process by which a human being can assign and convey meanings in an attempt to create shared understanding. Effective communications within any firm can be vital for gaining competitive advantage in the market and managing growth and increasing success. In the business environment communication plays an important role in establishing good relations between all parties inside or outside of the organisation and it can be seen from the two different viewpoints of *culture* and *strategy* (Rouse and Rouse, 2002). The development of an E-Business interface has facilitated two way communications between partners and customers. Two of the most important characteristics of e-

business components are e-logistics and e-procurement (Baltzan and Phillips, 2007). E-commerce and E-business seems to be the same though there is a small difference. The electronic commerce in today's global business environment is giving the opportunity to companies to further develop their international existence.

Over the last two decades Eastern Europe has become a very important market (Fogel, 1994; Kolodko, 2003) which will play a considerable role in the development of the fashion industry in the whole of Europe. Emerging markets present a unique profile of risks, such as geopolitical, regulatory, financial, currency and governance amongst others. By trading in these countries companies must not only protect themselves but also develop safeguards against the risks and fully understand the requirements of doing business in these countries. It is therefore important to look beyond traditional strategies of the supply chain in order to meet the unique needs of each market and effectively leverage the diversification of each country at all levels. By considering and managing risks a company can build up a competitive profile and thereby ensure success in the market place. Successful businesses survive and grow by taking risks and by constantly adapting and responding to the changing environment in which they operate. For this reason it is necessary to have a coherent strategy, an effective risk management framework and a robust but flexible approach to implementation.

In recent years Europe became an integrated area in which services, goods, capital and people among the member states can move freely. It encompasses developed countries such as Germany, France, Britain and also a large number of Eastern European countries with emergent and developing economies. These emerging markets, as well as the opportunity they represent for business growth and high returns, also hold a greater risk than mature markets. The political collapse of the Soviet Union produced a group of countries, the so-called 'transitional economies' which have played a significant role in the future of the global economy. These countries have started changing towards capitalist market economies. This process is demanding as they have to pay attention to basic manufacturing and also to lead themselves to growth potential. These countries are an important strategic location for firms which seek lower - cost production

sites inside the European Union (Dickens, 2003). Many developing nations have begun to take important steps necessary to adapt their economies to the effect of the international capital flow and globalisation making them more attractive to foreign direct investment.

The main purpose of this research is to identify and analyse risks are concealed in emerging markets in central and eastern Europe and to evaluate ways of managing these risks (financial, operational, political, natural, procedural, technical and so forth) in order to understand how a fashion company is able to gain competitive advantage and establish its business in a country which often has complex regulations and difficult bureaucracies. The decisions that fashion businesses undertake in order to accept the risks in entering such markets is explored to identify the strategies that can produce effective risk management. Once the threats were identified, the likelihood of the threat being realised was assessed its potential impact. The contribution of this research to knowledge concentrates on the modelling of the challenges a fashion retailer faces when entering emergent European member states. Taking into account the risks and how effective risk management can lead to competitive advantage. It can be assumed that risk management can help seize opportunity as well as avoid danger (Borge, 2001).

Three countries in central and Eastern Europe, Hungary, Czech Republic and Greece were selected to show different levels of development. Four apparel retailers, Esprit, H&M, Mango and Zara were chosen for the case studies as they all operate in all three specified countries and they all have a similar target segment. The risks in the three countries were analysed following a PESTLE analysis model, while from the companies perspectives the risks were reported based on financial, social, environmental and supply chain issues. As Sadgrove (2005) mentioned many companies are able to accept new ventures and risky acquisition while some others prefer to run a steady course. That means that the risk management depends upon the nature of the company and its risk tolerance. For this reason companies which tend to expand their operations in the international arena according to their risk appetite decide the way in which they will approach the market and which entry method is suitable for them.

1.1 Research Aims

1. Analyse the risks faced by apparel retailers in order to gain competitive advantage when entering in developed and developing countries in Europe.
2. Analyse and evaluate the risk management approaches used by fashion retailers when operating business in emerging European markets.
3. Provide a critical analysis of the communication links throughout the supply chain and their effect on competitive advantage in European emerging markets by analysing further the supply chain risks.
4. Qualitatively measure the risk factors of the different types of risks in different markets according to their impact and likelihood in each country and company.
5. Evaluate the risk factors in each set of companies and countries by creating a generic model showing the different level of risk.

In this **Chapter**, the main purpose and aims of this research project are given and a brief account of textile and clothing industry operations within emerging countries and the risks are concealed in their markets are set out. The research is then presented as follows: **Chapter two** refers to European integration; the constitution of European Union, the existence of emerging markets within the European continent which are based in Central and Eastern Europe and their attractiveness in Foreign Direct Investment is discussed. **Chapter three** evaluates the meaning of risk within the business environment and explores the tools that organisations have developed in order to manage the risk disruptions, specifically in emerging markets, according always with their risk appetite which is related to the total risk that an organisation is willing to take in order to achieve its strategic objectives. **Chapter four** puts supply chain and logistics into context with the business environment, through a discussion of the strategies that organisations develop to ensure a smooth flow of both information and products through the manufacturing processes to consumers referring also to the best communication links between the partners and customers. **Chapter five** sets out the research methods used for the data collection and analysis stages of the study. **Chapter six** presents the

companies and countries information for the analysis of the risks are concealed in the selected countries following a PESTLE analysis (political, economic, social, technological, legal and environmental factors) and also what strategies each of the fashion retailers have developed to face these risks according to their risk appetite. **Chapter seven** i) evaluates the risks are concealed in each of the examined countries and link them with the information which have collected from the literature review (chapters 2, 3 and 4) ii) twelve models were developed based in the impact and the frequency of the risk by measuring the risk factors based on Political, Economical, Social, Technological, Legal, Environmental and Supply Chain issues. **Chapter eight** concludes the results and includes recommendations for further research. In addition as the amount of information for the company and the country profiles was huge a **CD** is provided which includes these detailed profiles.

Chapter 2 European Union and Emerging Countries

2.1 Introduction

Jobbers (2007) described Europe as being a massive, largely deregulated market in which services, goods, capital and people among the member states can move freely. Recently eight central and eastern European countries, among them Hungary and Czech Republic, joined the EU increasing opportunities for western fashion retailers to enter into these and establish their businesses. The aim of this chapter is to introduce the meaning of European integration within the global economy, identifying the threats and opportunities concealed in emerging markets in central and Eastern Europe for fashion retailers to consolidate their businesses. Also, the different entry methods companies use to approach an emerging market that can reduce possible risks for competitive advantage are presented.

2.2 European Integration

Europe is one of the seven traditional continents comprising 48 countries, of which the largest is Russia both in area and population, and the Vatican is the smallest. European integration led to the formation of the Council of Europe and the European Union in Western Europe, both of which have been expanding eastwards since the fall of the Soviet Union in 1991. Politically, Europe comprises the countries in the European Union and non-EU countries. The concept of a European unity has developed since the end of the Second World (CIA World Factbook, 2008). The Treaty of Rome in 1957 established the European Economic Community (EEC) between six Western European states with the goal of a unified economic policy and common market. In 1967 the EEC, European Coal and Steel Community and Euratom formed the European Community, which in 1993 became the European Union. The EU established a parliament, court and central bank and introduced the euro as a unified currency. The single market officially opened on 1st January 1993 which then consisted of 345 million consumers from twelve country members of the European Community.

The collapse of the Communist regimes in Eastern Europe resulted in a further expansion of the union as eastern countries began to join the EU to form its

current size of 27 European nations (Gerbet, 2006). The main objectives of an integrated Europe and by extension a unified European Market can be developed by identifying the existing physical, technical and fiscal barriers between all the member states establishing at first four freedoms of movement and then abolishing systematic controls at the borders (El Kahal, 1998). These are free movement of goods, people, service and capita, the removal of physical, technical and fiscal barriers and the liberalisation of internal competition through strict completion policies (Santos and Cosgrove-Sacks, 2001). From this elimination of barriers and the boost of competition four major consequences were expected according to Cecchini Report (1992, p.73).

1. Significant reduction in costs, thanks to improved exploitation by companies of economies of scale in production and business organisation.
2. Improved efficiency within companies, widespread industrial reorganisation and a situation where prices move down the production cost under the pressure of more competitive markets.
3. New patterns of competition between entire industries and reallocation of resources as in home market conditions, real comparative advantages play the determining role in market success and finally increased innovation, new business processes and product generated by the dynamics of the internal market.

Additionally, peace, prosperity and freedom for its 500 million citizens in a fairer and safer world have become its priority. Generally the importance of this integration will be the offer of greater opportunities for success in the trading environment, as the input cost will be lower by removing non-tariff barriers. Direct reductions to the cost means affordable prices of goods and services for consumers. One of the largest trading blocs in the world after North America and Far Asia is the Single European Market which has attracted the attention of politicians, business people and academics (El Kahal, 1998). It is obvious that in the past year domestic firms and local authorities have faced European competition within their own domestic markets. In order to compete successfully, or simply to survive in such a dynamic environment, the firms have to find opportunities in the single market as well as in local domestic markets. So, the competition in today's environment takes an international face rather than

concentrating only within the national boundaries. The community has established rules on company take-overs, mergers and acquisitions, joint ventures and licensing agreements. Common sense assumes that differences between countries in Europe will continue to persist even if Brussels have undertaken enormous efforts to homogenise the market with a common legislation (CIA World Factbook, 2008).

The reinforcement of the European community was followed from the establishment of the European Union which finally comprises an Economic and Monetary Union as well as a political union. This was the aim of the Treaty of Maastricht which was signed on 7th February 1992 (Gerbet, 2008). EU currently consists of 27 member states which are acting through common institutions and characterised under an economic, political and cultural union. It is primarily a civilian power, accounting for almost half of the world trade and nearly one third of the world's output. Its members contribute more than 45 per cent of the capital of the World Bank (Santos and Cosgrove-Sack, 2001). As Sacks mentioned, EU is not acting as a 'superpower' such as USA, whose interest is to be involved in all issues around the world rather, its main challenge is diplomacy and development cooperation with other countries concerning issues such as human rights, violence, trading collaboration, political and economical stability.

2.3 The New Era of Globalisation

According to Marber (1998) the world has begun to be characterised by a global homogenisation in every aspect of life which will include the same restaurants, hotels, clothing, malls and superstores with the same streets crowded with cars. Today it is no longer possible for a country to insulate totally itself from the rest of the world as it has to follow the evolution of globalisation and become part of it. Economic developments, technological developments and ideological developments, whether good or bad, have a global impact. The production and assembly has shifted from cheaper labour from the multinational home countries. Trade arrangements and organisations such as NAFTA (North American Free Trade Agreement), GATT (General Agreement on Tariffs and Trade) and WTO (World Trade Organisation) have intensified the trends. According to Dickens (2003 p10) global is claimed to be the natural order of affairs in today's

technologically driven world in which time –space has been compressed, the end of geography has arrived and everywhere is becoming the same. Also Kolodko (2002; 2003 p12) has defined globalisation as “...*the historical process of liberalisation and integration of goods, capital and labour markets, which have hitherto functioned to a certain extent in separation, into a single world marketplace.*”

Kolodko analyses globalisation process in three phases:

- 1) Globalisation of the Age of Exploration (16th to mid -17th centuries)
- 2) Globalisation of the Industrial Revolution (mid-18th to 19th centuries)
- 3) Globalisation of the Age of the Computers and the Internet (last quarter of 20th and beginning of 21st century)

Modern globalisation is characterised by the fast increase of the volume of the world trade, nearly twice as fast as output-reduction of customs barriers, the steady increase of the capital flow, the dissemination of new technologies, technological and scientific revolution in accordance with cultural changes and the existence of the phenomenon of the internet which has formed the world as a ‘global village’ and finally population migration and post –socialist systemic transformation (Kolodko, 2002; 2003a)

In today’s changing environment multinational corporations play a superior role in the global growth shifting their businesses in new, alluring markets termed emerging. These markets seem to be really promising if the companies understand what their customers want; can develop distinctive and affordable offers; can market their offers effectively; and can overcome internal organisational barriers. The challenges in these volatile markets are many as decision-making processes and communications with head offices are not so flexible or the subsidiaries are not able to react quickly and efficiently in the fast-changing conditions. According to Olsen et al (2005) multinational companies must develop a management model which can ensure flexibility in these unstable markets and also apply practices that can be accommodated from market to market during the passing of time. These practices are:

1. Establishing and reviewing long term directions
2. Fitting emerging market business within the organisational structure.
3. Defining roles and decision rights between headquarters and the local leadership
4. Prioritising local decisions
5. Managing resource allocation flexibility
6. Monitoring and managing performance

It is necessary to mention the difference between the meaning of internationalisation and globalisation. Internationalising processes involve the simple extension of economic activities across national boundaries whereas globalising processes involve not only the geographical extension of economic activities across national boundaries but also the functional integration of all of these activities. A market is established from different sellers and buyers entering into a marketplace and is operated from specific rules such as written laws, self-organised behaviours and political governance. A market economy consists of different markets where some may link while others may not. It may be wrong to suggest that there is a perfect market as there are many limitations such as information flow, legislation, transaction costs and cultural characteristics. European economic integration has been described as a process of removing trade barriers in four different categories of markets: the goods market; the labour market; the service market; the capital market. As a result this has integrated economies to satisfy free trade, free movement of goods and service by sharing the same tariff levels. The main purposes are to increase competition, exploit economies of scale, improve factor allocation and increase growth (Hacker et al, 2004).

2.4 Emerging Markets

An emerging market can be defined as a country in which its national economy grows rapidly, its industry is structurally changing, its marketing is promising but volatile, its regulatory framework favours economic liberation and the adoption of a free market system and its government is reducing bureaucratic and administrative control over business activities (Luo, 2002). Moreover, the term emerging market is commonly used to describe business and market activity in industrialising or

emerging regions of the world. The term signifies a business phenomenon that is not fully described by or constrained to geography or economic strength; such countries are considered to be in a transitional phase between developing and developed status. Examples of emerging markets include China, India, Mexico, Brazil, Chile much of Southeast Asia, countries in Eastern Europe, parts of Africa and Latin America. It can be said that an emerging market is a region where economic and political transactions have happened (Hacker et al, 2004). Additionally, the term 'emerging markets' refers to a certain region of the world that seems to be rapidly entering the world business system. This includes most of the Asian countries, some Eastern European countries including Hungary, Czech Republic and some Latin American countries. These countries have attracted great attention for personal and institutional investors as well as for international corporations (Millar et al, 2000). On the other hand Kolodko (2003b p 16) found that it is easier to define what an emerging market is not rather than what it is. He stated that one could say that:

'Emerging markets do not include, by definition, either those highly developed market economies which have long evolved mature institutional systems, or those countries which have yet set out on the path of market development'

Kolodko mentions that outside this group are all rich, institutionally mature countries such as "old" members of the OECD (except Turkey), and several countries which have attained a high development level in recent decades, acceding wholeheartedly to the world economic exchange and liberalizing their economic regulations.

Sabal (2002) suggested that emerging markets share some specific attributes which are not necessarily categorised within the ranks of the developing world by strictly applying them. These attributes are:

1. A significant percentage of the population is either illiterate or has a low level of education.
2. The per capita gross national product is lower than levels experienced in developed countries.
3. The distribution of wealth tends to be uneven. A small minority controls a majority of assets, while the rest of the population lives in poverty.

4. The economic and political conditions tend to be unstable.

Therefore, Luo (2002) gives The World Bank's definition about emerging markets as one where GDP (Gross Domestic Product) per capita income is below \$8,000 per annum but potentially dynamic and rapidly growing economies where Multinational Enterprises can seek lucrative opportunities for medium to long term investments. The research on emerging markets is diffused within management literature. It appears that emerging markets lie at the intersection of non-traditional user behaviour, the rise of new user groups and community adoption of products and services, and innovations in product technologies and platforms. The term "rapidly developing economies" is now being used to denote emerging markets such as The United Arab Emirates, Chile and Malaysia that are undergoing rapid growth. In recent years, new terms have emerged to describe the largest developing countries such as BRIC and BRIMC. These countries do not share any common agenda, but some experts believe that they are enjoying an increasing role in the world economy and on political platforms (Hacker et al op cit). There are 25 countries listed as emerging markets.

- 10 in Asia - China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand
- 6 in Latin America - Argentina, Brazil, Chile, Columbia, Mexico, Venezuela
- 2 in Middle East - Israel, Turkey
- 1 in Africa - South Africa
- 2 in non- socialist Europe - Greece, Portugal
- 4 in the former Soviet - Czech, Hungary, Poland, Russia

In addition, Keane (1993) assumes that new and emerging markets consist of a special case in investment because they present unusual growth, exhibit above average risk characteristics, have a useful diversification and have high transaction costs. Lenartowicz and Johnson (2007) mention that emerging markets economies are characterised as transitional economies as they are in the process of moving from a closed to an open market economy. This which characterises an emerging market, is the application of economic reform programs that can lead a market to a better financial performance, a stronger position among the other countries, transparency and efficiency in the capital market.

Additionally the reform of the exchange rate can ensure local currency stability by giving confidence to local investors to keep their capital inside the domestic market and also attracting foreign investors. The implementation of reforms has resulted in the guidance and the support of emerging markets from donor countries and organisations, such as the World Bank and International Monetary Fund (Luo, 2002).

2.4.1 Emerging Market Business Environment

In emerging markets, long term direction and objectives are significantly more difficult to achieve due to greater uncertainty and macroeconomic volatility. The competitiveness is built upon the high, low and mid-range assumptions about market growth, pace of deregulation and other economic conditions. Developing countries comprise approximately 85% of the world's population, 77% of the earth's land mass and 63% of global commodity but their economies constitute less than 22% of world income and only 12% of the global stock market capitalisation. Moreover developing economies are growing at more than 6% per annum, more than double the 2.5% growth rate for the first world. There are many reasons suggested for this difference in economics such as long term trends in labour and technology, demographic shifts and political reorientations. The developed world can prosper from having new markets and cheaper production costs (Marber, 1998).

The entrance of developing countries in the global economy reflects a differentiation in the cost structures of the poorer nation. These countries have attracted great attention as they export competitive products, low skill, labour intensive goods or commodities (Marber, 1998). The root for the aggressive expansion of the multinational firms into developing countries is hard economic intensity as they are driven only by profits. During the years 1997-1998 the low annual growth rates for products in mature markets resulted in sales in emerging markets providing the potential growth at an exponential rate for an indefinite future (Millar et al, 2000).

It is obvious that these markets were hiding huge risks for foreign firms that had made decisions to develop their operations in such a way that they can flexibly

switch their production according to the market needs. The main problem for them was the restrictions concerning the transfer of profits outside the country. This has now been improved and foreign enterprises are permitted to transfer their profits to their country of origin (Koldoko, 2003a).

The increased demand of technological products reduces the importance of primary low-technology activities in favour of more skill-intensive activities. Firms are able to manage their business more efficiently as new information and communication technologies intensify competition (Luo, 2002). Location decisions are based on the ability of the host country to provide skills, infrastructure, suppliers and institutions to operate technologies efficiently and flexibly. The core competitiveness of a country is focused on productivity. Productivity is the value of the output produced by a unit of labour or capital. It is the superior element of a long term standard of living and is the root source of national per capita income. Productivity depends on quality and features of products and services and the efficiency with which they are produced or provided. With this, a country's productivity can be enhanced.

However, developed countries export those products in which they have a competitive advantage and import those in which they do not. Countries no longer have a relative advantage in manufacturing and other labour intensive industries because of the huge increase in living standards and wages. They succeeded in developing comparative advantage through high technology and service sectors. Emerging markets have now discovered their own competitive advantage based on manufacturing allowing them attract and generate capital and reinvest back to their own economies (Marber, 1998).

Industrialised countries supply manufacture goods, non industrialised supply materials and agricultural products to other industrialised countries and act as a market for some manufactured goods. This is a result of a new global division of labour and the transformation of the old geographical patterns of specialisation. The development of technologies, transportation and communication between a corporation and production process have led industrial production to new industrialised economies enforcing the idea of a global economic map without national boundaries (Dickens, 2003). Finally, throughout history only around 30

nations with a total population of less than a billion (15 percent of mankind) has managed to attain a relatively high development level. Originally, this group consisted of North America and Western Europe and countries from Asia (Japan, South Korea, Singapore) and Australia. In 2001 the small country Slovenia joined the group followed by Czech Republic.

2.5 Challenged Markets in Eastern Europe

From 1986 one thousand enterprises established their businesses in many countries in Eastern Europe. By the end of 1989 this number had increased to 3,000 and by the end of 1990 to over 7,000. This resulted in the volume of capital investment to grow considerably to 2 billion dollars in 1990 and surpassed the 4.5 billion dollars by the end of 1991 (Kolodko, 2003a). The reasons why many companies initially invested in Eastern Europe were primary due to the possibilities of economies of scale, exploitation of technological advantages, security in an assured market, enhancement of positioning and many immigrants from Eastern Europe have begun living in the West. The majority of these immigrants were unskilled workers looking for jobs to survive. However their descendants had become qualified and had started their own businesses (Kolodko, op cit).

The political collapse of the Soviet Union produced a group of countries, the so-called 'transitional economies' which have played a significant role in the future of the global economy. These countries have started changing their entities to capitalist market economies. This process is demanding as they have to pay attention to basic manufacturing and also to lead themselves to growth potential. These countries are an important strategic location for firms which seek lower - cost production sites inside the European Union (Dickens, 2003). Many developing nations have begun to take important steps necessary to adapt their economies to the effect of the international capital flow and globalisation making their countries more attractive to foreign investment. There are three basic areas where action is taken:

1. Macroeconomic

- Managing the Net Inflows of Foreign Exchange
- Reducing the impact of Reverse Fluctuations on Monetary

Aggregates

- Reducing the impact of Capital Flow on Aggregates Demand.

2. Banking System Development

- Modernisation of banking laws and regulations
- Strengthening bank supervisory agencies
- Improvements on credit risk controls of bank portfolios
- Increasing the capitalisation of banks
- Implementation of better mechanisms to deal with banking crises promptly and effectively

3. Capital Market Reform

- Infrastructure
- Property Rights
- The Regulatory Framework

(Luo, 2002)

International business and global expansion are now driven by more than 60,000 multinational enterprises concentrated in electronics and electric equipment, automobiles, petroleum, chemicals and pharmaceuticals, with over 80,000 overseas subsidiaries. The top ten in 1999 were General Electric, Exxon/Mobile, Royal Dutch/Shell, General Motors, Ford, Toyota, Daimler/Chrysler, Total Fina (France), IBM and BPT (Luo, 2002).

2.5.1 Foreign Direct Investment in Eastern Europe

The main vehicle for a global expansion is the Foreign Direct Investment (FDI) for MNE's (Multi National Enterprises), which has reached more than 50 countries amongst which 24 are developing. FDI in the manufacturing industry has still grown during the past ten years. In 1999 they accounted for more than half of the total stock of inward FDI in developed countries and one third of that in developing countries (Luo op cit). According to Rugman and Collinson (2006) the triad countries are three trading and investment blocs in the international arena which includes United States, European Union and Japan. Triad-based and non-triad-based firms have the same objectives when exploring market-seeking investment. They want to increase sales in each others territories by customising products and

services following market requirements, establishing distribution and sales networks and raising their profiles and brands. MNE's invests in production-related activities to benefit cheaper or better sources of inputs in particular locations. These activities can include raw materials, components or labour and expertise (resource-seeking FDI). However, MNE's also invest in distribution sales and marketing operations in order to sell products or services in particular country markets (Market – seeking FDI). Around 70% all of the FDI flows into the developed countries mainly the Triad. The remaining 30% goes to the developing countries with the majority share going to Southeast Asia. Central and Eastern Europe attracts only 3-4% of the global FDI flow. Poland, Czech Republic and Hungary receive larger shares than the other countries in the region but now they have experienced a decline.

The idea of the FDI is for companies to choose their own structure and location with the aim to minimise overall transaction costs. It also focuses on the decision making processes for investment without providing any information about the motivations or the reasons for the possible success of the internationalisation. It includes modes such as licensing, international joint ventures partnering and wholly owned subsidiaries (Freeman and Reid, 2006). In some industries MNE's have set up an integrated international division of labour spanning regions (as in automobiles) or continents (as in semi conductors). Within this complex system the function transferred to different locations varies greatly. It is obvious that less industrialised locations are assigned simpler tasks like assembly and packaging while more skilled and technology intensive operations are allocated to more developed locations (Luo, 2002). Cross-border Mergers and Acquisitions (M&A) remain popular in recent FDI. Most of these industries are horizontal aiming at economies of scale, technological synergies, increasing market power, eliminating excess capacity or consolidating and streamlining innovation strategies. The leading industries of M&A are telecommunications, energy and financial services (Luo, 2002).

According to Klonowski (2007) investing capital in Central and Eastern Europe (CEE) hides a number of challenges. First of all local venture capitalists often confuse venture capital with other types of financing. So, they have to act as

educators and negotiators supporting entrepreneurs. Secondly, local entrepreneurs are not ready to receive venture capital as they do not have documentation describing their businesses nor do they have a business plan or financial projections. Thirdly, it is a difficult deal in the CEE as the legal infrastructure is not well established and therefore venture capitalists face many problems with transactions. The investment process as presented by Klonowski (2007) has to do with the dealing origination, screening, evaluation, deal structuring and post investment activities.

FDI into central and Eastern Europe emerging markets also raised reaching \$27 billion in 2000. Privatisation is the key determinant of FDI throughout the region with the exception of Hungary where the privatisation process had by and large run its course. FDI flow into these markets can be facilitated when changes in emerging market government policies occur (Luo, 2002). Trade and investment liberalisation allows MNE's to specialise more and to search for competitive locations (Luo, op cit). Privatisation in developing countries accounts for 85% of all privatisations in the world from 1988 to 1993 (Marber, 1998). However, particular problems that wealthy countries face are the growing number of older people and a shrinking number of youths. Therefore it is necessary to look for new markets for sales growth (Marber, 1998).

2.6 Transition and European Integration

Transition means that a country transforms its economy from central-plan allocation mechanisms to market mechanisms. Integration means that several market economies harmonise their economies in such a way that they are integrated into a single market, sharing the same allocation mechanism (Hacker et al, 2004). Accession countries are those that tend to be more developed in comparison with the transitional countries such as Estonia, Lithuania, Latvia, Poland, Hungary, Slovakia, Malta, Czech Republic and Cyprus. Cyprus and Malta cannot be included in the transitional countries sector as they are relatively prosperous however; they do belong to the accession economies. The non-Accession countries include Russia, Bulgaria, Belarus, Romania and Turkey.

Transaction is an arena where many activities are exchanged and requires many organisations where middlemen and brokers aggregate information and keep the transaction cost low. The transformation of the transition economies into market economies has two processes, legislation and institutional development. Economic legislation includes establishment of property rights commercial law, company law, tax law and generally other similar legal instruments. In EU there are a set of conditions that the new members have to follow. There are:

1. Political stability which can ensure democracy where the rule of law applies, human rights is respected and minorities are protected.
2. New countries are expected to accept the aims of a political economic and monetary union and they have to implement the EU legislation effectively.
3. A functioning market economy must be in place with a capacity to adjust competition and pressure from market forces.

Economic growth is stimulated from:

- Increase of labour outputs
- Increase of human capital
- Increase of production capital
- Expansion of the market potential, increase of customer accessibility
- Improved allocation of resources that enhance economic efficiency
- Technological development

(Hacker et al, 2004):

Productivity grows as a consequence of investment in capacities that are characterised by increasing returns. The most important types of economic integration as Dickens (2003) presents in his book are:

- The free trade area in which trade restrictions between member states are removed by agreement but where they retain their individual trade policies towards non-member states.
- The customs union in which member states operate both a free trade arrangement with each other and also establish a common external trade policy (tariff and non-tariff barriers) towards non-members.

- The common market, in which not only are the trade barriers between member states removed and a common external trade policy adopted but also the free movement of factors of production (capital, labour) between members is permitted.
- The economic union, which involves the highest form of regional economic integration short of full scale political union. In an economic union not only are internal trade barriers removed, a common external tariff operated and free factor movements permitted but also broader economic policies are harmonised and subject to supranational control.

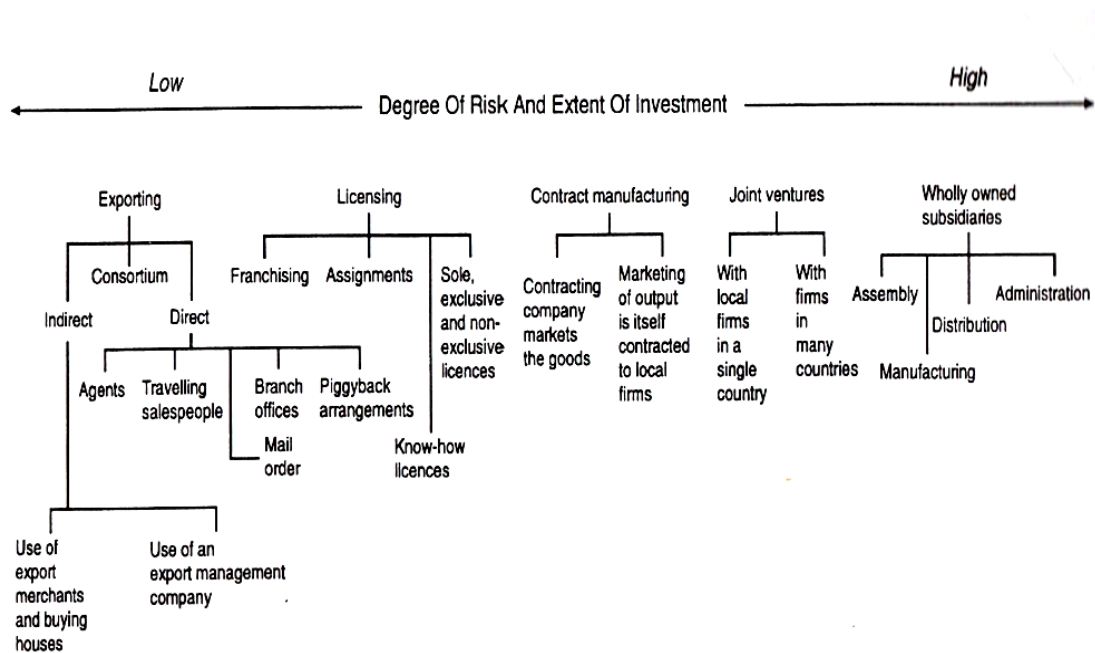
2.7 Entry Methods in Foreign Markets

The entry method of an international retailer depends upon the market position of the firm, the trading format and the international expansion strategy. When entering into a foreign market, a firm must be able to respond effectively to the foreign environment and compete among the local firms. Particularly, the entry method indicates the level of control that the retailer seeks to exert over the foreign operations, the degree of flexibility required in order to effectively respond to market conditions that the foreign enterprise may face, and also the amount of resources that the retailer wishes to allocate for overseas expansions.

The selection of the entry method into a new market is particularly crucial on a management basis. Its implementation has significant implications for a wide range of international marketing concerns. Time and method of approaching foreign markets must be selected with extreme care and demands decision making processes which are based on extensive market research (Bennett and Blythe, 2002; Bruce et al, 2004). Bruce, Birtwistle and Moore (2004) refer to the five most common entry methods that can be met in the international arena. These are non-controlling interest, internal expansion, merger or takeover, the franchise type agreements and joint ventures. More extensively, according to Bennett and Blythe (2002) the options for entering foreign markets are exporting, use of agents or distributors, joint ventures with foreign firms, licensing and franchising, contract manufacturing, establishment of foreign branches or subsidiaries and direct marketing via the internet. Each one has a particular mix of cost, risk and ease of

control. Figure 2.1 shows the different market entry options and their degree of risk (Bennett and Blythe, 2002 p196).

Figure 2.1 Market Entry Options



(Source: Bennett and Blythe, 2002 p196)

2.7.1 Wholesaling

In the fashion sector wholesaling is commonly used as a market entry method. Wholesaling is, in essence, exporting by another name and involves one company supplying the range of branded goods to a third party retailer in exchange for payment. In today's competitive environment fashion retailers are favouring the internal expansion, or better, wholly owned approach and franchise agreements. The internal expansion involves the opening of individual stores in a foreign market using the same format as that used within the home country. This method of expansion is financed internally. The advantage is that this method can be used for any size of firm and experimental opening can be made at minimum cost. This also offers full control of the business operation to the international retailer. The main disadvantage is that it needs funding resources and it is time consuming. Also the retailer operates in isolation as there is no benefit of local management knowledge or expertise. For this reason it requires a full assessment of the location before investment takes place (Bruce et al, 2004).

2.7.2 Franchising

The franchise system is based on a contracted formula between the franchisor and the franchisee. The franchisee adapts from the firm the entire business format in the local market - the name, trade mark, business method, layout of premises. The franchisor provides supplementary management services such as training, technical advice, stock control systems and sometimes financial support. The franchisee has to pay royalties and a lump sum fee. The advantage of this method is based on rapid expansion at low cost and low risk for the franchisor. Franchising incorporates the talent and local knowledge of foreign management and provides for the development of locally competitive marketing policy. The franchisees are self employed not employees of the parent company and rarely can possess rights against the parent company in case an individual outlet does not run successfully and collapses. The main disadvantage is the difficulty of recruiting the right franchisee with the appropriate financial basis (Bruce et al, 2004; Bennett and Blythe, 2002).

According to Jobber (2007) franchise agreement provides a contractual vertical marketing system through the formal coordination and integration of marketing and distribution activities. A very good example in the fashion sector is Benetton. Benetton chooses the location of outlets and determines prices, layout, colour blocking of clothes, keeping also some control of the stocking. Some product range has to be bought from the franchisee and could be returned. The poor performance of Benetton in the USA resulted in the closure of 300 stores but the company itself was protected as it did not own any of them. Franchising can occur at four levels:

1. Manufacturer and retailer: the car industry in particular uses this method of arrangement. The manufacturer gains retail outlets for its cars and repair facilities without the capital outlay required by ownership.
2. Manufacturer and wholesaler: this method is used predominantly in the soft drinks industry. Manufacturers such as Coca-Cola and Pepsi grant wholesalers the right to make up and bottle their concentrate in line with their instructions and to distribute the products in specific geographical areas.

3. Wholesaler and retailer: this is not as common as other franchising arrangements but is more often found with car products and hardware stores. It allows wholesalers to secure the distribution of their products to consumers.
4. Retailer and retailer: an often used method which is very successful in retailing operations that seek international expansion. Examples are McDonald's, Benetton, Pizza Hut and KFC.

2.7.3 Wholly Owned; Branches and Subsidiaries

A simple definition of a wholly owned entry strategy is that the parent company owns the company outright and there are no minority owners. This strategy is divided into two different types; a branch and a subsidiary. According to Bennett and Blythe (2002) the difference between these two types is that a branch is a direct extension of the parent firm in a foreign market and a subsidiary is seen in law as separate business whose parent company owns 100% of its common stock. Branches are easy to set up and dismantle. The parent company is legally responsible for all the branch's debts and activities which mean that profits and losses of the branch are treated as those of the parent company and are shown in its accounts. Problems can arise as tax situations in some countries are complicated and the parent company can be taxed for its worldwide profits rather than its branches profits. Also branches are concerned with the transport and storage of goods, marketing, the provision of after-sales service and liaison with local banks. On the other hand a subsidiary is responsible for its own debts and accounting regulations as any other local business. It acts independent in the local market by monitoring the trends, providing after-sales service and liaise with local advertising and research agencies. It is responsible for warehousing, transport and distribution of the goods, collecting debts and possibly selling the products to neighbouring countries. Its establishment may release marketing resources at head office which is an advantage for the parent company. In other words a subsidiary carries a local identity (Bennett and Blythe, 2002).

2.8 Summary

While the world is characterised by a global homogenisation in every aspect of life, Europe has become a large deregulated market which through a standardised system of laws, applied to all the member states, can ensure the free movement of goods, services, people and capital. In this integrated environment there are countries that are developed and some others that are in the developing process which are known as emerging markets. This chapter discussed the creation of European Union and the evolution of globalisation within the business environment. It referred to European emerging entities which are located in Central and Eastern Europe and have become an attractive region for investment. A number of companies have started operating within these countries, having first investigated the political, economical, social and legal factors and then use specific entry methods such as franchise, wholly owned and wholesaling, which conceal the lower risk for their existence.

Chapter 3 Risk Management in Emerging Markets

3.1 Introduction

The meaning of risk has not particularly changed over time but when commercial activities began to increase and people initiated new ventures further away from the limitations of their domestic locations the meaning of risk began to take shape (Olsson, 2002). The developments in the field of science and mathematics brought about a greater understanding of risk and its associations with human actions and the need to be controllable. The aim of this chapter is to evaluate the meaning of risk within the business environment and to explore the tools that organisations have developed in order to manage the risk disruptions, specifically in emerging markets, according always with their risk appetite which is related to the total risk that an organisation is willing to take to achieve its strategic objectives.

3.2 Identification of Risk

The Institute of Risk Management defined risk as the combination of the probability of an event and its consequences. Similarly, Spekman and Davies (2004) defined risk on a more general level as the probability of variance in an expected outcome, or better, it is seen as a negative consequence since the inference is the downside affect of an outcome. However through their research they conclude that the definition of risk is context specific and also has both an objective and a subjective nature. Additionally risk can be determined either on a personal or an organisational level and can be obscured in every aspect of life (Olsson, 2002). The definition which has been adopted according to Olsson (2002 p2) is:

“Risk is the uncertainty of future outcomes.”

It is not easy to recognise risk as it is something that is very much intangible and is likely to be considered differently by different individuals not only in terms of what the risks are but also what the consequences would be and probabilities they attach to these outcomes. The factors that will influence a person’s perceptions are experience, knowledge, culture, position, and financial status, ability to

influence the outcome asymmetry, complacency, inadequate time horizons, single beliefs and preferences. The reviewed literature on risk assessment concentrated on technical terms and methodological issues, concerning the quantification of risks and a comparative neglect of important perspectives from sociology, economics, political science, anthropology and psychology. Especially in the field of economics and politics, risk is quite high and must be managed by promoting human welfare such as health, safety, environmental quality as well as the consumption of goods and services (Kraft and Freeman, 1989).

In every aspect of life there is the possibility of success and failure. There is no system such as, government, organisation, corporations, without risk. Whatever the mission, vision, goals, values or standards risk can affect progress. Significantly in the business environment, the risk can be defined as a threat a company faces which can affect its main corporate objectives (Carroll and Webb, 2001). Managers must be able to identify effectively potential risks for the good of their business. Lack of identification means that there would be difficulties in managing the business process. All businesses seek to take advantage through taking risks but first they have to set a framework to deal with such risks and thereafter list the main risk types. Before entering into a market a company must assess the market opportunities, understand the factors which set the size and nature of demand and also consider which competitors it must face and how they propose to do this. The key areas according to Olsson (2002) are:

- Economic environment- interest rates, exchange rates, inflation, taxation level, growth level;
- Physical resources- availability of agriculture products, mineral resources, geographical position of a country;
- Social Factors- population size, education levels, religion, social; stability, work ethic, production basis and labour availability;
- Political climate- who runs the country, the degree of political freedom, the economical stability and development

It is obvious that in business, managers need to face different types of risk and they must always be fully aware of the consequences each can have on their business. Flexible strategic planning enables them to decide on business

investments and development, design, implement and improve the processes of the business by evaluating and managing the risks and monitoring performance (Carroll and Webb, 2001). Table 3.1 summarises the types of risks in each business area.

Table 3.1 Types of Risks in Business area

Business Risk	The risk of failing to achieve business targets due to inappropriate strategies, adequate resources or changes in the economic or competitive environment.
Credit Risk	The risk that a counterpart may pay amounts owed when they fall due.
Sovereign Risk	The credit risk associated with lending to the government itself or a party guaranteed by the government.
Market Risk	The risk of loss due to changes in market prices. This includes: <ul style="list-style-type: none"> • Interest rate • Foreign exchange risk • Commodity price risk • Share price risk
Liquidity Risk	The risk that amounts due for payment cannot be paid due to a lack of available funds.
Operational Risk	The risk of loss due to actions on or by people, processes infrastructure or technology or similar which have an operational impact including fraudulent activities
Accounting Risk	The risk that financial records do not accurately reflect the financial position of an organisation.
Country Risk	The risk that a foreign currency will not be available to allow payments due to be paid because of lack of foreign currency or the government rationing what is available.
Political Risk	The risk that there will be a change in the political framework of the country.
Industry Risk	The risk associated with operating in any particular industry.
Environmental Risk	The risk that an organisation may suffer loss as a result of environmental damage caused by themselves or others which impacts on their business
Legal/regulatory Risk	The risk non-compliance with legal or regulatory requirements
Systematic Risk	The risk that a small event will produce unexpected consequences in local, regional or global systems not obviously connected with the source of disturbance.
Reputational Risk	The risk that the reputation of an organisation will be adversely affected.

(Source: Olsson, 2002)

Some risk types are easy to consider and measure such as credit risk and market liquidity. Others are much more difficult to plan for and measure, such as reputation and systematic risk. The ability to measure risk in developed countries is clearly more advanced than in emerging markets. That happens because data collection is more problematic than in the developed world both in term of quantity and quality. Therefore, in today's changeable economic environment managers not only need to be clear about the types of risks that they may face but also how

they intend to measure and control those risks, considering always the most important elements of measuring which is time and cost. Prevention can be achieved by obtaining good quality data. Thereafter this information needs to be delivered to the appropriate people in the most meaningful format to enable decisions. The frequency of reporting such details varies depending upon the situations the business is to deal with. However, the danger in misunderstanding risks or to not assess them correctly is high and may yield negative results.

In past decades, probabilistic risk analysis techniques have been applied to create new challenges for risk managers, who struggled with decision making. Risk analysis involves three basic elements of risk assessment, risk management and risk communication. Risk assessment has an impact on both risk management and risk communication and highlights remaining research issues associated with using improved sensitivity and uncertainty in risk assessment analysis. The concept of variability and uncertainty can easily cause confusion. Uncertainty differs significantly from uncertainty as it arises from the lack of perfect knowledge. Uncertainty can be reduced by obtaining better information though this is something that may be extremely problematic. Improvement on risk itself is applicable to decision-making, if there is no inimical change on the scientific knowledge and if the stakes are not too high to warrant further analysis (Thompson, 2002).

3.3 Risk Management Process

The Institute of Risk Management refers to risk management as being a central part of any organisation's strategy. It is a process that the organisation follows in order to address the risks attached to their activities with the main goal of achieving sustained benefit within their activities. Borge (2001, p 4) defines risk management as:

'The taking of deliberate actions to shift the odds in our favour to increase the odds of good outcomes and to decrease the odds of bad outcomes'.

On the other hand, Culp (2001) supports risk management only as the process of reducing risk is to miss potentially significant efficiency enhancement and new business and product development opportunities. A business can be successful,

surviving and growing in the market place by taking risk and responding to the changing environment. It is obvious that in order to achieve this, there must be a coherent strategy, an effective risk management framework and robust flexible implementation. Risk management must be a continuous process within the boundaries of an organisation's strategy by addressing all the risks surrounding the business activities in the past, present and future (IRM, 2002).

The risk factors that a business faces have arisen through numerous issues. These can be grouped and further sub-divided into other categories which are relevant to each organisation or industry, knowledge and background (Carroll and Webb, 2001). Table 3.2 refers to the risk factors within the business environment.

Table 3.2 Risk Factors in Business

The technological factors	Development of computer software; Communication techniques; Buyers increasing technological knowledge
The human factors	Knowledge, Responsibility, Accountability
The environmental factors	Ever increasing need to protect the environment; Buyers' knowledge of current environmental issues; Investors' awareness; The authoritarians' factors; Central European Government Dictate; Health and safety legislation Influence of media campaign
The political factors	EU-Membership and the Euro; Differences between politics in different countries
The organisational factors	Continual change to organisational structure; Reflecting evolving working practices; Responding quickly to change
The legal factors	Compliance with the latest laws; Demonstration of compliance; Balancing differing demands whilst satisfying all requirements
The economic Factors	Changes in standards of service reflecting buying power; Fashion, fads, trends; Links with sport, media and leisure

(Source: Carroll and Webb, 2001p31)

Roehrig (2006) states that a list of uncertainties is endless. Politics, economics, environmental issues, technology, compliance regulations, privacy laws, physical security requirements, impact on credit and reputation are all factors that are characterised as risk to a business. As risk is ubiquitous in business, leaders are seeking a way to increase predictability. For a firm which sources products from abroad, it is necessary to consider how to purchase and manage this outsourcing service. It is essential to identify which risks pass to the service provider, which

risks the buyer retains and finally how both can jointly manage the risks. Nothing in business is free and typically whatever protection is given will not fully cover the business cost.

Some outsourcing customers view outsourcers as a kind of insurance policy and if something goes wrong, there is an agreement assigning blame to them. A contract can be a way to offer security for customers. However, every contract is different and there are certain risks that the vendor can absorb. A contract is not enough to manage business risk as it is not easy to cover all the aspects of risk management. Close collaboration, good governance and effective communication can ensure the best business performance and minimise the risks. The risk of service delivery which can have, as a result, penalty charges and a future pricing risk such as the fluctuations of cost may be the most important uncertainties a vendor can face. The rewards of following an effective risk management are higher sales or profits, increased share price, increased market share, industry awards and recognition, high public esteem – customer satisfaction and good reputation (Culp, 2001).

3.3.1 Risk Management Institute

Risk management is a strategy with a main purpose of reducing negative effects. In order for this to be achieved the managers must be able to establish a specific context in order to develop the most beneficial risk management process. According to the Institute of Risk Management (2002) this includes, first of all, the identification of risk in a selected domain of interest such as strategic, operational, financial, knowledge management and compliance. The identification of the risk can be carried out by outside consultants; however, an in-house approach with well communicated, consistent and co-ordinated process tools could be more effective. The risk description is essential as it can facilitate the identification of the risk which is based on business activities and decisions and can classify the risk into the four main areas: Operational risk which is related to the organisations productions or operations; Strategic risk which requires strategic planning for the progress of the business; Compliance risk concerning issues of health and safety, environmental, data protection, employment practises and finally; Financial risk which includes effective management and control of the finances within the

organisation (Sadgrove,2006; IRM, 2002). Table 3.3 describes the different types of risks.

Table 3.3 Risk Description

Name of Risk	
Scope of Risk	Qualitative description of the events, their size, type, number and dependencies
Nature of Risk	Strategic, operational, financial, knowledge or compliance
Stakeholders	Stakeholders and their expectations
Quantification of Risk	Significance and Probability
Risk Tolerance/ Appetite	Loss potential and financial impact of risk Value at risk Probability and size of potential losses/gains Objective(s) for control of the risk and desired level of Performance
Risk Treatment and Control Mechanisms	Primary means by which the risk is currently managed Levels of confidence in existing control Identification of protocols for monitoring and review
Potential Action Improvement	Recommendations to reduce risk
Strategy and Policy Developments	Identification of function responsible for developing strategy and policy

(Source: A Risk Management Standard, published by IRM, ALARM AIRMIC, 2002)

The next step is the risk estimation which can be quantitative, semi-quantitative or qualitative in terms of the probability of occurrence and the possible consequences. Probability may be high, medium or low and requires different definitions in respect of threats and opportunities. The risk analysis process is completed after creating a business risk profile. Tables 3.4 and 3.5 depict the consequences and the probability in the risk assessment.

Table 3.4 Consequences

HIGH	Financial impact on the organisation is likely to exceed £x. Significant impact on the organisation’s strategy or operational activities. Significant stakeholder concern.
MEDIUM	Financial impact on the organisation likely to fall between £x and £y. Moderate impact on the organisation’s strategy or operational activities. Moderate stakeholder concern.
LOW	Financial impact on the organisation likely to be less than £y. Low impact on the organisation’s strategy or operational activities. Low stakeholder concern.

(Source: A Risk Management Standard, published by IRM, ALARM AIRMIC, 2002)

Table 3.5 Probability

Estimation	Description	Indicators
HIGH (Probable)	Likely to occur each year or more than 25% chance of occurrence.	Potential of it occurring several times within the time period. Has occurred recently.
MEDIUM (Possible)	Likely to occur in a ten year time period or less than a 25% chance of occurrence.	Could occur more than once within the time period. Is there any history of it occurring?
LOW (Remote)	Not likely to occur in a ten year period or less than 2% chance of occurrence.	Has not occurred. Unlikely to occur.

(Source: A Risk Management Standard, published by IRM, ALARM AIRMIC, 2002)

According to Dorfmann (1997) once the risks have been identified and assessed, all the techniques to manage risks are divided into four major categories which are the risk avoidance, reduction, retention and transfer. It is very difficult for the managers to remove the risk from all the business activities. The only thing they can do is to identify which is the risk tolerance of their organisation and assess its impact according to the nature of the business (Kaye, 2008). The risk managers' toolbox varies from organisation to organisation, objective by objective but there are some principles that are common to all. Figure 3.1 represents the risk management process.

Figure 3.1 The Risk Management Process



(Source: A Risk Management Standard, published by IRM, ALARM AIRMIC, 2002)

3.3.2 COSO (Committee of Sponsoring Organisations of the Treadway Commission)

It is well documented that in recent years risk management has attracted considerable concern and focus and it is crucial for organisations to be able to effectively identify, assess and manage risk. As well as the Institute of Risk Management, another organisation involved in the field of risk management is COSO (Committee of Sponsoring Organisations of the Treadway Commission). COSO is a recognised voluntary private-sector US based organisation which provides guidance on critical aspects of organisational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. It is aimed at helping boards of directors to strengthen their oversight of enterprise risks. COSO's sponsoring organisations are American Accounting Association, The American Institute of Certified Public Accountants, The Financial Executives International, The Association for Accountants and Financial Professionals in Business and the Institute of Internal Auditors. In 2001, COSO developed a framework that would be readily usable by management to evaluate and improve their organisations' enterprise risk management. In contrast with COSO, IRM has generalised the risk and has focused on risk management as a rapidly developed discipline which exists in all aspects of life and not only in corporations and public organisations. It is a UK based organisation which collaborated with The Association of Insurance and Risk Managers (AIRMIC) and Alarm (The Public Risk Management Association). COSO has focused on enterprise risk. According to the COSO executive summary (2004, p2) Enterprise risk management has been defined as:

"... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

The definition of Enterprise Risk Management reflects certain fundamental concepts, which are:

- A process, ongoing and flowing through an entity;
- Effected by people at every level of an organisation;
- Applied in strategy setting;
- Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk;
- Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite;
- Able to provide reasonable assurance to an entity's management and board of directors;
- Geared to achieve objectives in one or more separate but overlapping categories.

(COSO, 2004 p2)

Additionally, Brehm et al (2007) referred to Enterprise Risk Management as a process of systematically and comprehensively identifying critical risks, quantifying their impacts and implementing integrated strategies to maximise enterprise value. This definition covers a number of key aspects which are based to regularly monitor the risk by categorising it in different aspects such as financial, strategic, hazardous and operational risk. This conflicts with COSO's and IRM's main objectives. Enterprise risk management consists of eight interrelated components which are derived from the way management runs an enterprise and are integrated with the management process. That means that the above definition of ERM shows the importance of the internal auditors objectivity within an organisation and how the risk management becomes a vital process for business viability. Table 3.6 summarises the components of enterprise risk management according to COSO's framework.

Table 3.6 Components of Enterprise Risk Management

<p>Internal Environment</p> <p>The internal environment encompasses the tone of an organisation, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate</p>
<p>Objective Setting</p> <p>Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.</p>
<p>Event Identification</p> <p>Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channelled back to management's strategy or objective-setting processes.</p>
<p>Risk Assessment</p> <p>Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.</p>
<p>Risk Response</p> <p>Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.</p>
<p>Control Activities</p> <p>Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out</p>
<p>Communication Activities</p> <p>Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.</p>
<p>Monitoring</p> <p>The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.</p>

(Source: COSO, 2004)

The work of COSO is being brought to the attention of managers in the UK by the Institute of Internal Auditors (IIA). The role of the internal auditor can be seen as pivotal in its implementation both in their regular audit work and in special assignment work. Their work will be largely in evaluating reliability of risk management systems, reviewing the effectiveness and efficiency of operations, safeguarding assets and ensuring compliance with laws and corporate governance rules. Internal auditing can be defined as:

“An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

Currently the IIA has emphasised its processes on Risk Based Internal Auditing (RBIA) which has the main purpose of adopting a risk - based approach to internal auditing which has to do with the risk appetite of each business. The objective of RBIA is to provide independent assurance to the board that:

1. The risk management processes that have been put in place within the organisation are operating as intended.
2. The risk management processes are of a sound design.
3. The response which management has made to risks is both adequate and effective.
4. A sound framework of controls is in place to mitigate sufficiently those risks that the management wishes to address.

(Position Statement; the Institute of Internal Auditors – UK and Ireland, 2003)

It is important to mention that not all organisations are at the same stage of risk management implementation. Table 3.7 sets out a range of stages of risk management maturity and the internal audit approach that might be adopted at each stage. The IIA’s Risk Continuum is helpful in identifying where an organisation is positioned in respect to risk management and at each level what the IIA response should be.

Table 3.7 Risk management continuum

Level of Risk Maturity	Key Characteristics	Internal Audit Approach
Risk Naive	No formal approach developed for risk management	Promote risk management and rely on audit risk assessment
Risk Aware	Scattered silo based approach to risk management	Promote enterprise-wide approach to risk management and rely on audit risk assessment
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	Facilitate risk management / liaise with risk management and use management assessment of risk where appropriate
Risk Managed	Enterprise wide approach to risk management developed and communicated	Audit risk management processes and use management assessment of risk as appropriate
Risk Enabled	Risk management and internal control fully embedded into the operations	Audit risk management processes and use management assessment of risk as appropriate.

(Source: Position Statement; the Institute of Internal Auditors – UK and Ireland, 2003)

3.3.3 The Office National du Ducroire / Nationale Delcrederedienst (ONDD)

ONDD is the Belgian public credit insurer with a mission to promote international economic relations. ONDD performs this task as an autonomous government institution. ONDD, founded in 1921, was the world's second credit insurer after Great Britain's public credit insurer. The Belgian government wished to create a public body that would insure political risks and revive exports. In 1939, the government decided to make it a permanent body as a financially and administratively autonomous institution that is guaranteed by the government.

In 2004 ONDD set up a public limited company under private law to guarantee the continuity of its services to European businesses. This public limited company's mission is to protect its clients against the risks associated with domestic and international commercial transactions and to facilitate their financing. Ducroire / Delcredere SA.NV insure and reinsure the political and commercial risks of current trade transactions. It also issues legal and contractual bonds. It offers its services to all businesses within the European Union and insures clients in their domestic markets and in all other countries across the world. ONDD information is

based on the systematic analysis of each country's political and financial situation and is based on the most reliable information sources: International Monetary Fund, World Bank, Institute of International Finance, The Economist Intelligence Unit, Wiener Institut für Internationale Wirtschaftsvergleiche. The outcome of the analysis made by its team of specialised economists is continually compared to other credit insurers'. Examples of the way ONDD is modelling the risk assessment, with full information of the examined countries of this thesis, Hungary Greece and Czech Republic are presented in Appendix 1, Appendix 2 and Appendix 3.

The ONDD organisation in order to analyse and assess the risk has developed a specific framework by analysing the environmental, social and human rights impacts of all transactions for which applications for support are received. The basis of the impact analysis is inspired by the OECD "Recommendation on Common Approaches on Environment and Officially Supported Export Credits". More information can be found in 'www.oecd.org/dataoecd/26/33/21684464.pdf'. As it can be seen Political *risk* (classed on a scale of 1 to 7, with 7 being the highest risk) denotes any event occurring abroad that represents a force majeure (e.g. war, revolutions, natural disasters, shortages of foreign currency, etc.). *Systemic commercial risk* (scale from A to C, with A being the lowest risk) denotes the set of factors at country level that affect the ability to pay of all the debtors in a country, like an economic recession, an abrupt devaluation, high real interest rates, a background of widespread corruption.

3.4 Supply Chain Management Risk

Supply chain management risk is a structured, synergetic and systematic process of managing, throughout the supply chain, unwanted events or unwanted changes, seeking to optimise the totality of strategy, processes, human resource, technology and knowledge. Supply chain disruptions can arise from many sources and often without warning. In recent years modern supply chains or better supply networks are becoming more and more complex as they include many directions and information flow, in order to ensure that products are delivered in the right quantities, to the right place and not only at the right price but also in a cost effective manner (Chapman et al, 2002). These disruptions can be entirely

external, such as a natural disaster, or they can be internal, rising from the failure to integrate all functions in a supply chain. Supply chain risk can generate as a result of risk 'drivers' which are external and internal within a company.

3.4.1 External Drivers

Demand risk relates to potential or actual disturbances to the flow of product, information, and cash, emanating from within the network, between the focal company and the market. This demand risk can be a failure on either the high or low side to accurately accommodate the level of demand.

Supply risk is the upstream equivalent of demand risk, it relates to potential or actual disturbances to the flow of product or information emanating within the network, upstream of the focal company. Therefore, it is risk associated with a company's suppliers, or a supplier's suppliers being unable to deliver the materials the company needs to effectively meet its production requirements or demand forecasts.

Environmental risk is the risk associated with external and, from the company's perspective, uncontrollable events. Examples would include port and depot blockades, closure of an entire industrial area due to fire or chemical spillage, events such as earthquake, cyclone, volcanic or terrorist activity. Processes are the sequences of value adding and managerial activities undertaken by the company. Process risk relates to disruptions to these processes.

3.4.2 Internal drivers

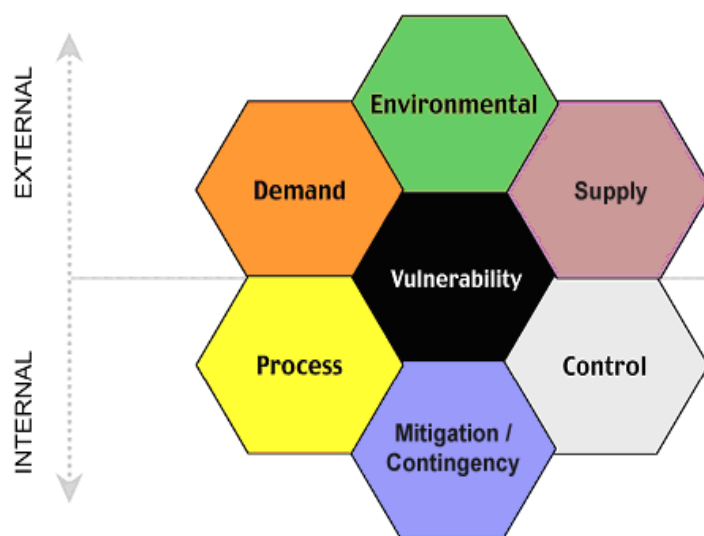
Control risk is the assumption of rules, systems and procedures that govern how an organisation exerts control over the processes. In terms of the supply chain these may be order quantities, batch sizes, safety stock policies etc. Control risk is therefore the risk arising from the application or misapplication of these rules.

Process risk which has to do with the sequences of value-adding and managerial activities undertaken by the company.

Mitigation which refers to hedging against risk and; **Contingency** which is the existence of a prepared plan in case a risk is identified. The classic mitigation

within the management of the supply chain is the inventory control, capacity, dual sourcing, distribution and logistics and back up arrangements. Figure 3.2 presents the internal and external drivers within the supply chain as referred above.

Figure 3.2 Supply chain risk drivers



(Source: Desicioncraft.com, 2004)

3.4.3 Disruptions within the Supply Chain

Disruptions can also result from attempts to create a more efficient, cost-conscious supply chain environment. A supply chain must be fully integrated to operate at maximum efficiency. Failing to understand the potential vulnerabilities can compromise the supply chain's ability to handle unexpected and sudden shocks. By understanding risk within and external to the supply chain, an organisation can more clearly identify its options for optimising the supply chain to ensure viability and strength. Companies today are heavily dependent upon the smooth operation of other players within the supply network. This means that supply chain management initiatives can no longer be confined within the "four walls" of a single operation. Rather, they need to embrace the extended supply chain — that is, their customers and suppliers as well as their customers' customers and their suppliers' suppliers. Risk is an inherent part of every business' environment.

The movement of manufacturing off-shore increases risk. In China the effect of SARS (Severe Acute Respiratory Syndrome.) virus on business was widely publicised and impacted on the supply chain. The potential consequences of the

war in Iraq on higher oil prices and its effect on logistics cost is considerable. Also, threats from North Korea could affect purchases of items in South Korea and China. Juttner (2005) states that in recent years the disruptions caused from fuel protests and then by foot and mouth diseases in the UK, by terrorist attacks and threats of weapons in the USA, including all the above concerning China, Hong Kong and Canada, have transformed perceptions of security across supply chains giving great attention to their vulnerability. For example an earthquake in Asia can negatively affect the marketplace in America and Europe. On the other hand, world political events can create risks in a supply chain. These include product availability, distance from source, industry capacity, demand fluctuation, changes in technology, labour market, financial instability and management turnover. Prevention is the key word for firms to secure themselves from risk by developing supply managers who will be in a good position to understand and prepare strategies to mitigate risks (Giunipero and Eltantawy, 2004).

3.4.4 Supply Chain Risk in the Fashion Sector

As supply chains today are perceived as a source of competitive advantage, supply chain management is expected to decrease the risk by controlling the cost and assuring continuity. Attempts to drive costs out of supply chains through such methods as decreasing inventory, single sourcing of raw materials, or adopting just-in-time (JIT) manufacturing and delivery techniques can also add to the complexity of supply chain risk. However, many organisations fail to take into account the inherent risks of such initiatives. In striving for efficiency, companies can inadvertently introduce risks into their supply chains. Just in time is a 'pull' system of production, so actual orders provide a signal for when a product should be manufactured. Demand-pull enables a firm to produce only what is required, in the correct quantity and at the correct time. This requires a well planned schedule and flow of resources through the production process. Supplies are delivered right to the production line only when they are needed. For example, a car manufacturing plant might receive exactly the right number and type of tyres for one day's production, and the supplier would be expected to deliver them to the correct loading bay on the production line within a very narrow time slot. However just-in-time can become "just-too-late" if something goes wrong such as minimal stock is kept for re-working faulty product, if stock is not

delivered on time, the whole production schedule can be delayed and in case there is no spare finished product available to meet unexpected orders (Rushton et al, 2000). Whatever their cause, supply chain disruptions can have an enormous ripple effect. For this reason the JIT managers must be aware of the disruptions. The results of supply chain disruptions can be financial, political, economical, and social. But the ability to more effectively manage the supply chain by understanding the potential impact of such disruptions can create a strategic advantage in a competitive marketplace. Much of the research undertaken in academia argues that risk management creates value as it decreases the variability of a firms' value or cash flow (Giunipero and Eltantawy, 2004).

Risk management has become a significant parameter in fashion supply chain retailing where continuously changing consumer demand brings clarity to the importance of quick response, just-in-time processes and the sourcing of low labour cost countries, notifying that the business field has become more vulnerable. Quality and profitability are the main aims of all fashion retailers. For example M&S is one of the most well-known fashion retailers which has succeeded in managing risk by applying specific strategies. Almost 75% of its production has been shifted overseas but the close collaboration and good relationships maintained with its suppliers have ensured the healthy flow of the business process. M&S has concentrated on a small, loyal number of suppliers communicating directly with them without the interference of intermediates (Khan, 2008). An example of suppliers selection criteria for M&S is to bring something unique in the company i.e. skills or expertise, produce better quality products than existing suppliers, set their laboratories as the same quality standard according to the company's demands, maintain financial stability and follow the code of practice for Global Sourcing Principles and according to the Ethical Trading Code of Practice.

Fashion is a dynamic and creative business in which many people are employed (designers, product developers, buyers, merchandisers, supply chain managers, fashion models). However, fashion exists in a very volatile market as customer requirements are changing continuously. The traditional Spring/Summer/Autumn/Winter seasons are far away from customer perceptions in light of more recent fast

fashion concepts and operations. Research planning and market penetration is in a higher risk band than ever before because of competition. Also from the suppliers' part, the risk is high as well as having to concentrate on shorter manufacturing lead times, technological progress and innovation in design and research (Khan, 2008). The risk management process is all about assessing the risks and seeking to improve the odds of successful outcomes which are defined as an opportunity to minimise the uncertainty and to have positive results. There are many factors that influence the type of risk management, so the organisation must establish a framework in order to be able to manage the business process. According to Olsson (2002) factors that influence risk management are shown in table 3.8 below.

Table 3.8 Factors influence the risk management

Factors influence the risk management requirement	Dimension to consider
Strategy	Aggressive or conservative
Risk appetite of owners/managers	Risk taking or risk averse
Industry	Sunrise or sunset industry; Primary, manufacturing, service sector.
Geographical coverage	Local, national, regional or global
Critical success factors	Is the company critically dependent on one or two factors which require close management?
Volatility	Significant change of the environment or unpredictability?
Position in industry	Monopoly, few or limited number of players, or free market with many players and no barriers to entry.
Regulatory	Is area of operations highly and/or regulatory bodies? Are regulators intrusive or hands off? Is deregulation occurring or the level of regulation increasing?
Management style	Centralised/decentralised
Resources	Adequate or in adequate people and technology resources. Financial position, adequate funds available, highly or lowly geared
Status/ownership	Public or privately owned. Sole proprietor, partnership, limited company, incorporated society.
Organizational culture	Is the culture strong or weak?
Nature of risks faced	Simple and predictable or complex/unpredictable? Size of risks manageable or catastrophic ?

(Source: Olsson, 2002, pp110-111)

There are many characteristics of inbound supply that can affect the managerial perception of supply chain risk. Supply chain risk has been defined as *“the potential occurrence of an incident associated with inbound supply from individual supplier failures or the supply market, in which its outcomes result in the inability of the purchasing firm to meet customer demand or cause threats to customer life and safety”* (Zsidisin, 2002). Within this definition are two key concepts of

probability and effect, where risk consists of the combination of the probability of loss and significance of loss.

Many elements can influence the supply chain process either positively or negatively and endanger the whole performance of a business. The inability of a system to produce an output quantity in a particular time can impact profits regardless of price. This can happen when there are only supply sources. According to Zsidisin (2003) supply chain market conditions are very important for supply chain risk management. Global sourcing, market capacity, market price increases and a number of qualified suppliers are the key elements which influence the supply process.

Nowadays several organisations source products from suppliers located overseas. Much of the time these countries are developing communities and emerging markets. The labour cost there is very low therefore they become extremely attractive to developed countries for the manufacture of products to then import into their own markets. However, the risks that a firm has to face in an emerging society are greater than in a developed one. Such risks which include currency fluctuations, long-term cost savings, natural disasters, suppliers' management and transit times are all greater than in a developed country. Moreover, another important problem is quality. If the supplier is unable to ensure quality then their company will soon be out of business. Customers demand fashion, good quality and affordable prices. According to Olsson (2002) risk appetite has to do with the level of risk a management team expects. Emerging markets are very tempting for companies as their appetite can be tested as surviving in transitional markets is more risky.

It may be true to say that risk management can be effective if the best strategy has been used by adopting a framework which may vary according to the size and complexity of the organisation. There are many techniques and tools which are used such as what deals should be done, on what terms the business can be developed, how it can be monitored and how to trade the risk but most times simply transforming the risk rather than eliminating it and creating new risks is more appropriate. Risk management is a continual process that involves long-term dedication of supply chain members. Ongoing risk assessment involves

gathering, communication and evaluation of information that helps in developing appropriate risk management strategies (Zsidisin et al, 2000). According to Giunipero and Eltantawy, 2003) within the new supply chains there is a number of risks. The authors explain further that fewer suppliers and lower inventories mean that a problem at one supplier can be magnified throughout the supply chain. Similarly, a disruption in transportation services could quickly cripple the entire supply chain since inventories are very low throughout the chain. Transportation risk management contingency plans would provide for alternative modes of transportation. Thus, if a trucking company failed, alternative modes such as air or rail backups would be in place to guard against supply disruption.

3.5 Risk and emerging markets in Eastern Europe

There are numerous emerging markets which have unique combinations of characteristics that make them attractive or unattractive to different companies looking at expanding their businesses abroad. The word 'business' means that a firm is an economically and/or money motivated purposive social organisation which its success has been linked with profits (Ansoff, 1986). The risk characteristics of emerging markets may obscure low relevant risk if the security returns happen to have a low correlation with those of established markets (Keane, 1993). The main purpose is for these newly formed markets to increase their efficiency and be able to accept new investment, thus offering a secure and stable environment for new companies to run their business. The term efficiency can be used to describe several aspects of a secure market such as the institutional infrastructure, the cost of transaction, the financial disclosure system and the markets' pricing behaviour. There is a possibility that an emerging market is inefficient in the three first senses but efficient in its behaviour.

Emerging markets (Keane, 1993) present a unique problem for investment. They need time to develop their market and became attractive to new investors who before making any decisions must consider some implicit assumptions about the nature of each emerging market. Emerging markets present excess return opportunities, have distinctive diversification advantages, possess above average risk and are subject to high transaction costs and thin market conditions. These

markets are really attractive to investors who are very well informed about the conditions there and are probably avoided by investors who do not have the knowledge or the tolerance for risk. In emerging markets data problems are significantly greater than in developed countries in terms of quality and quantity.

According to Griffy-Brown (2003) in current uncertain political and economic environments companies have to deal with many supply chain disruptions. For this reason they need to adopt particular ways of managing their business and gaining competitive advantage which is driven by speed delivery and cost reduction. Efficiency nowadays is the key word for success. The existing supply chain technologies were designed to reduce the risk in the flow of material components and finished goods across the global supply chain. However this system was introduced many years ago when the trading conditions were different. Particularly the catastrophic event of 11th September and the continuing threat of deliberate disruption have changed the business environment.

Ericson (2001) stated that companies must readdress the issues of unforeseen supply chain disruption such as terrorist attacks or natural disasters. Each firm has a unique challenge related with supply chain risk. It is really difficult to foresee what will happen in the future, but by developing an effective connectivity in the entire supply chain and collaborating closely with other parties, then a faster recovery can be ensured. The implementation of specific regulations inside the chain can ensure better collaboration between the members which exist within the supply chain. In retail, overseas apparel orders can take nine months to fulfil. Once the order is placed and acknowledged, the retailer generally loses visibility of the goods until the advance shipping notice arrives, when the goods are loaded on the ship, or the port, or the distribution centre. The retailer already struggling with this may suffer from further complications such as goods held at a port of which they may not be fully aware (Ericson, 2001). Clothing retailers count on suppliers penalties to ensure quality and timeliness. Unexpected events can extend this lack of visibility. A revision of supply chain technologies may give the opportunity for firms to assess the events and react appropriately. Risk, in the context of the supply chain is essentially the inability of a company to meet customer demand.

The dimensions of risks inside the supply chain as Zsidisin (2003) had developed in 'Managerial perceptions of supply risk' are as follows:

1. The physical movement of goods
2. The flow of information
3. The flow of money related with stable pricing, hedging, timely letters of credit, and payment of bills
4. The firm's internal information system security. The threat from an unknown third party who may or may not be a member of the supply chain network and whose purpose is to steal information or knowledge and destroy, upset or disable a firm's operation
5. Relationships forged among supply chain partners. This is related to the degree of independence among partners
6. Notion of corporate social responsibility and supply chain members reputation

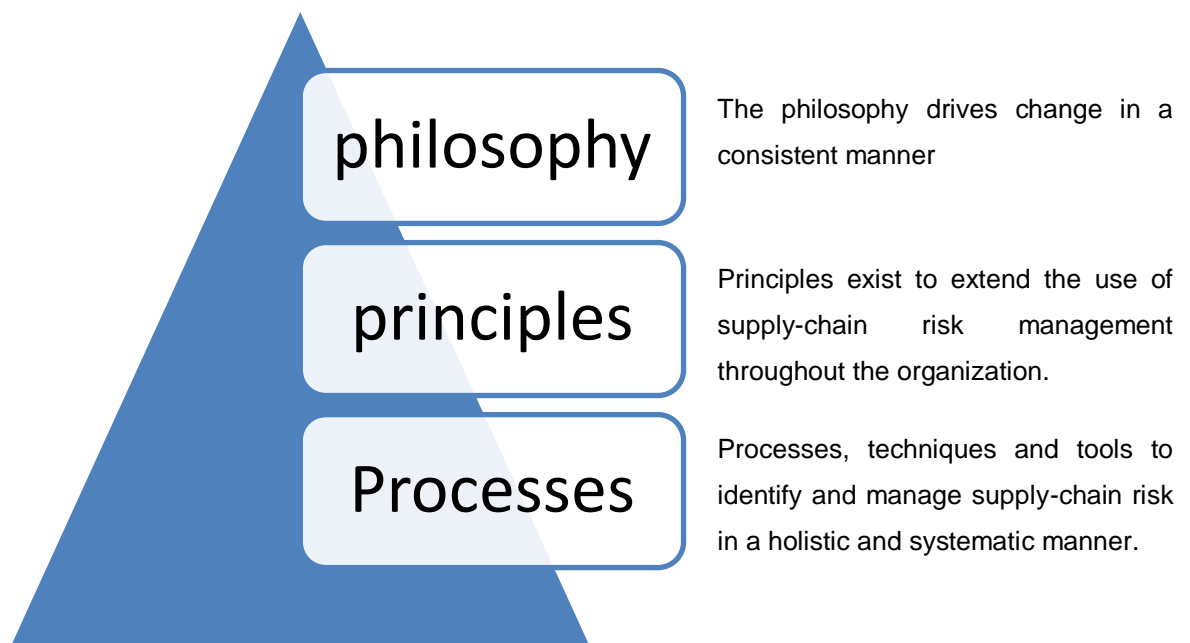
According to Spekman and Davies (2004) every individual firm has to consider the need for disaster recovery or crisis management, particularly in areas such as information technology and production. Business risk and continuity management are two fields that many companies pay considerable attention to in regards to the loss of market share and the time and the cost of re-entering a market after a disruption. The main concept of a supply chain network is customer satisfaction. So, while the chain is tending to increase the levels of risk and vulnerability are also increasing. The supply chain risks are generated from a lack of visibility, lack of ownership, self imposed 'chaos', the misapplication of Just-in-time practices and inaccurate forecasts. Supply chain management aims to identify areas of potential risk and implement appropriate actions to face this risk. It can be defined as the identification and management of risks within the supply chain and risks external to it. This can be managed through a coordinated approach amongst supply chain members, to reduce supply chain vulnerability as a whole (Chapman et al, 2002). While international businesses conceal many risks and can easy fail, managers have a responsibility to take into account specific factors in order to guide their firm on a successful course (Gentle, 2002). These are:

- Successful management of the headquarters – country relations

- Not letting headquarters have free access to country data
- Limiting the number of international software versions
- Keeping the initial architecture simple
- Ensuring that level one support is in the local language
- Ensuring that the key project has international experience

Supply chain disruptions can play an important role in industrialised, advanced economies. The internal efficiency can be improved by reducing supply chain vulnerability to ‘everyday’ commercial supply chain risk. It is true that supply networks connect businesses, industries and economies. Chapman et al (2002) developed a model called ‘The 3-P Approach of: Philosophy; Principles; Processes; which act as the managerial ‘toolkit’ required to change management approaches and also to give t managers the opportunity to deal with vulnerability. This model is shown below in figure 3.3.

Figure: 3.3 The ‘3-P’ Approach of: Philosophy; Principles; Processes



(Source: Chapman et al, 2002)

In the late 1990's industry was transformed from single-channels, product-oriented companies to attractive, multi-channels, customer centric companies with the ability to sell to profitable and loyal customers under the umbrella of

integrated processes and systems. Most important for a firm is to reduce costs, consolidate its existence and keep the international synergy (Gentle, 2002). In today's demanding retailing environment the retailers give access through multiple channels beyond traditional stores: Internet, catalogues, phone, text-messaging, kiosk, etc. Companies with effective strategies are reaping the benefits. The majority of the fashion retailers such as Marks and Spencer, Next, Mothercare, Mango H&M and many others, have started operating through a multi-channel processes with main purpose customers' satisfaction.

The above approach (figure 3.3) recognises that the 'right' philosophy for tackling supply chain vulnerability depends on the culture, structure and business drivers dominant in an industry sector. Against these qualifying criteria, it was possible to identify four issues that foster success in supply chain continuity management:

- a) Risk awareness among top managers
- b) Risk management as an integrated part of supply chain management
- c) Each individual employee in each entity must have risk awareness and understanding of his/her role in the processes.
- d) Understanding that changes in business strategy change supply chain risk profiles

(Executive Report Cranfield University, 2002)

Risk management techniques mix a wide variety of investments within a portfolio. The most important aspect is in what level a market is integrated, as that implies high correlation between expected returns in different countries. The portfolio of different kinds of investments will, on average, attract higher returns at a lower risk than any individual investment found within the portfolio. This can happen when investors improve the risk, return characteristics through the strategy of international diversification. Up to this point diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralise the negative performance of others. Therefore, the benefits of diversification will hold only if the countries in the portfolio are not perfectly correlated and integrated (Patev et al, 2006). Emerging markets in Eastern Europe are able to face the requirement for the diversification process and according to many contemporary studies such as Mishra and Akbar (2007)

have presented diversification as beneficial in emerging markets, while in developed countries can be a reason for a valued discount of the diversified company

3.6 Summary

Olsson (2002) referred to risk as the uncertainty of future outcome. This chapter introduces a number of different definitions of risk and its impact in the business environment. A company, before entering in a market, must be able to assess the opportunities, understand its demands, consider the other competitors and develop specific risk management strategies in order to consolidate its existence. There are many types of risk such as credit, environmental, political, accounting, legal, supply chain and many others, some of which can be easily identified and managed. Three organisations, the Institute of Risk Management, COSO and ONDD, are discussed in relation to the way they measure the different types of risk in different markets. Even if these organisations have different backgrounds and structure, they have similar principals but different way of approaching and measuring the risk. Their principal is to identify the risk, evaluate and measure it with main purpose to protect an organisation/company from a possible internal or external disruption. IRM (a UK based organisation) and COSO (a US based organisation) both are categorising the risk (financial, operational etc), use a very similar risk management process and measure with a different scale the risk level. ONDD (a Belgian based insurer) has a different approach in the way it categorise the risk and the way it measures it from the other two. IRM and COSO analyse the risk for the organisations/companies perspective while ONDD analyse the country risk and apply then to its clients developing different projects for each one. Additionally a more detailed reference of supply chain risk and risk management strategies focused up on emerging markets was presented.

Chapter 4 Supply Chain, Logistics & Communication Links

4.1 Introduction

The aim of this chapter is to put supply chain and logistics in context with the business environment, through a discussion of the strategies that organisations develop to ensure a smooth flow of both information and products through the manufacturing processes to consumers. The different communication means used throughout the supply chain, which is essentially the whole process of running a business, and ensuring lower cost and competitive advantage in the market place are discussed.

4.2 Supply Chain Integration

Supply chain is a system of organisations, people, technology, activities, information and resources that collaborate with each other with the main purpose of delivering products or services to the end consumer. Harrison and Van Hoek (2005) define supply chain as a group of partners who collectively convert a basic commodity (upstream) into a finished product (downstream) that is valued by end-consumers and all the partners within the supply chain are responsible for each process which is taking place and set the cost of the product. In other words, a supply chain is a synchronised action of sourcing materials for the manufacture of products through to putting those products into the hands of the end customer; or better, a number of processes that extend from the initial raw materials to the ultimate consumption of the finished product. Supply chains essentially link across supplier-user companies by managing production and distributing goods on a global scale (Harrison, 2002). In the supply network a number of organisations are linked together to supply goods or services that are required by end consumers. . The concept of flow is based on time, essentially how quickly a given network responds to consumer demand. The drivers in supply chain flow which play considerable roles in its performance are; Facilities, Inventory, Transportation, Information, Sourcing and Pricing. In the apparel industry a company may manage a supply chain which consists of a fibre provider, a yarn manufacturer, a textile

manufacturer, a textile launderer, a clothing design firm, a 'proofing house' which is responsible for the sizing, a 'cut and sew' firm, a clothing finisher, distributors and retailers (Johnson et al,1999). Also, this specific chain may include every company which supplies information and services. Supply chain management functions can be viewed as a combination of art and science that aims to improve the way a company finds the raw components required to make a product, or to provide service and deliver this to consumers. Five basic components of supply chain management have been identified and categorised from the literature (Hill, 2000; Hines, 2004; Fredendall, 2001) as follows:

1. Plan – This is the strategic portion of supply chain management. It is a necessary strategy for managing all the resources that go toward meeting consumer demand for an organisation's product or service. A large part of the planning process involves the development of a set of metrics to monitor the supply chain so that it is efficient, costs less and delivers high quality and value to customers.

2. Source – This involves best selection of the suppliers to deliver the goods and services needed to create the product. The development of a set of pricing, delivery and payment processes with suppliers and creating metrics for monitoring and improving the relationships are required. Moreover, the processes for managing the inventory of goods and services received from suppliers; including receiving shipments, verifying them, transferring them to the manufacturing facilities and authorising supplier payments are of great importance.

3. Make – This is the manufacturing stage which brings about a schedule of the activities necessary for production, testing, packaging and preparation for delivery. This is the most metric-intensive portion of the supply chain where quality levels, production output and worker productivity are measured.

4. Deliver – This stage is often referred to as logistics. It involves the coordination of the receipt of orders from customers, developing a network of warehouses, selecting carriers to transport products and setting up an invoicing system to receive payments.

5. Return – This may be considered to be the most problematic part of the supply chain. A network for receiving defective and excess products back from customers and supporting customers who have problems with delivered products is a necessity.

4.2.1 Supply Chain Management

Supply Chain Management is the collaboration of a number of firms which aim to leverage strategic positioning and improve efficiency. Harrison (2002) defines supply chain management as the alignment of upstream and downstream capabilities of the supply chain partners, to deliver superior value to end customers at the least cost. According to Waller (2002) an integrated supply chain model contains three interrelated flow streams. The first stream is material flow which itself has three distinct stages:

- Purchasing - buying raw materials, components and services from suppliers.
- Transformation - manufacturing and assembly of these raw materials and components into finished goods in work centres.
- Distribution - finished goods are distributed to the retailers (often referred to as business logistics or physical distribution).

The second stream in the supply chain refers to the physical flow and is the information stream that contains the needs and requirements of the purchaser, manufacturers, distributors and retailers. Information flow today is predominantly in the form of electronic data interchange and web linkage. The third stream is financial flow, which includes the payment of transactions to suppliers, subcontractors for goods and services and also payments from consumers to the retailer for the end product. Supply chain has a more complex meaning as it links many suppliers or subcontractors who may be located overseas.

In times of uncertainty and social change it is necessary to have established a very well organised management of the physical resources of the production or provision of an item (Hill, 2000). Every organisation has to manage specific factors, people, assets and cost, in order to have both short and long term

success. Nowadays managers recognise that the entire firm is one link in a chain of firms whose purpose is to add value to the products or services offered to final customers, for payment (Bowersox et al, 2007). It is necessary to add that customers are also part of a supply chain.

Furthermore, supply chain management requires communication to all participants in the chain (Fredendall, 2001). Software tools are used to facilitate the management of the supply chain. This management always has a percentage of risk. Each enterprise which participates in the chain has a specific performance role by specialising in an area or function that coincides with its unique core competency (Christopher and Peck, 2006; Harrison, 2002). High competency assumes less risk. A firm can hedge the risk by offering consumers a wide range of different manufactured products. Satisfied customers are the only source of profit, growth and security (Harrison, 2002).

4.3 Supply Chain Strategies

The literature strongly suggests that companies today operate in an environment with a myriad of supply chain strategies at their disposal. It is essential for companies to look at product and supply chain characteristics to apply a framework for aligning the best strategies for its needs, with the purpose of improving efficiency and reducing costs. It is necessary to consider the major supply chain inefficiencies, including unpredictable lead times, stockouts, mistrust between supply chain partners, and higher manufacturing and transportation costs. Once the causes of problems are identified, the company can then develop the best strategies to mitigate or remove the problems encountered. In order to be competitive, an organisation's supply chain must be customer-centric; in other words the supply chain must be integrated with the demand chain (Hines, 2004).

4.3.1 Value Drivers

Organisations have to analyse value drivers in order to enable supply chain requirements to work smoothly. It is obvious that if the operation management does not work correctly then the client will not be satisfied. For this reason a company must be able to:

- Control the cost of the business
- Operate the capital investment for machinery effectively
- Provide necessary equipment and buildings
- Employ motivated and highly productive staff
- Conform to customers requirements
- Apply a strong synergy between operation management and strategic management and also the operations have to abide by the laws including worker safety, working hours and rules impacting the ecological environment

(Waller, 2002)

Market driven firms include manufacturing industries and service industries. The main purpose of the manufacturing sector is to physically turn raw materials into tangible products. Whereas the service sector provides intangible products that may not be easily defined.

The apparel industry has suffered generally for a number of years. Problems began with the mass importation of cheaper garments from countries with low production costs, a lack of trust among the suppliers, barriers in communication between suppliers and retailers and finally having no significant technological investment for better flow of information (Adewole, 2005). The supply chain strategy and operations capability improves business performance by optimising the flow of both material and information throughout the supply chain. In developing and implementing supply chain strategies, companies are able to improve customer service levels and drive significant operating and work-in-capital costs. A specific supply chain strategy can include channel flow analysis, network optimisation, supply chain information technology assessments and go-forward plans, logistics analysis and inventory management optimisation. It would be effective if they focus on driving improved business performance through the implementation of process, technology and change leadership initiatives. According to Harrison (2002) supply chain strategies:

- Produce every product that needs to be produced every day through short cycle production

- Communicate with suppliers in real time, building long term relationships
- Draw demand data from the point nearest the customer
- Let innovation and new technologies drive the implementation.

When a firm shares customer demand information across the supply chain, it can create a direct demand chain at providing enhanced customer value (Harrison, 2002; Johnson, 1999). Information technology enables the rapid sharing of demand and supply data increasing the levels of detail and sophistication. The integration across a supply chain can be achieved by meeting demands in the market place with maximum dependability and minimum inventory. Harrison (2002) states that supply chains are now slower, costly and do not deliver particularly good value to the end customer.

4.3.2 Vertical Integration

This well known theory has gained maximum efficiency through economies of scale as its main objective. According to Hines (2004) and Jones(2006) Vertical integration refers to a firm's ownership and control over successive stages of the value chain for its product which means that is a growth strategy based on acquiring organisations at different points in a distribution chain. Vertically integrated companies own much of their supply chain (factories, transportation). For example a retailer takes over a supplier, who has perhaps in turn already bought into farms or factories to ensure supplies. Globalisation, highly competitive markets and the rapid development of technology have driven the modern day supply chain to a more flexible and responsive operation. Companies that use the most cost effective operations are now passing supply chain and logistics operations to third parties (Hugos and Thomas, 2006).

The extent of vertical integration is indicated by the ratio of a firm's value added to its sales revenue. Vertical integration can be either *backward*, where the firm takes over ownership and control of producing its own components or other inputs, or *forward*, where the firm takes over ownership and control of activities previously undertaken by its customers. Vertical integration may be also *full* or *partial*.

Full integration exists between two stages of production when all of the first stage's production is transferred to the second stage with no sales or purchases from third parties. A fully integrated organisation would own raw material suppliers, manufacturers, wholesalers and retail stores (Hines, 2004)

Partial integration exists when stages of production are not internally self-sufficient.

Particularly in the apparel sector the majority, if not all, of the retailers use vertical integration, partial or full, as opposed to methods of outsourcing. H&M, Gap, Zara, Mango and Next have succeeded in integrating their processes and systems upstream (towards the suppliers) and downstream (towards their wholesaler) in the supply chain. In today's competitive environment the apparel industry has become considerably competitive and pricing has become a major factor in order to survive economical down turns. This moved vertical retailers towards:

1. Increasing the probability of designing a bestselling product by dramatically shortening the time-to-market
2. Piloting products in stores and then replenishing the bestsellers within 14 days by new types of make-to-order processes
3. Driving inventory sales productivity by keen assortment and delivery planning
4. Integrating the IT systems from point of sale back into garment production factories and from there towards fabric suppliers
5. Focusing on quality of workmanship through fitting and process quality

In addition a very important characteristic of vertical retailers is that they own their retail stores and have developed long term and close relationships with their suppliers. Successful supply chain means flexibility, reliability, transparency and fast moving under constant low cost. Many brands, such as Esprit and Nike, have begun to shift their interest in developing their strategies to vertical integration in order to become more competitive and approach a wider market segment (Harrison and van Hoek, 2005).

4.4 Apparel Logistics

Hugos and Thomas (2006) states logistics typically occurred within the boundaries of a single organisation. Christopher (2005, p4) refers to logistics as “*the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory and the related information flow through the organisation and its marketing channels in such a way that current and future profitability are maximised through the cost-effective fulfilment of orders*”. Logistics includes all the activities required to move product or information to, from and between members of a supply chain and happens around the world twenty four hours of every day, seven days a week, fifty-two weeks a year and it has to do with getting the right product and service where they are needed when consumers desire them. Ballou (1999) and Christopher (2005) refer to logistics as the mission of getting the right product or service to the right place, at the right time, at the right cost in order to satisfy customers and increase the company’s profits. It is necessary to add that business development cannot be attained without logistical support.

Logistics as a process has the same aim for all the companies, that is to satisfy their customers. However, it may operate differently even within the same company. As Harrison and van Hoek (2005) state, different product produced by the same manufacturer and passed through the same distribution channel can in effect perform differently. The authors gave an example of two product ranges which are worthy of mentioning to explain how logistics processes can be impacted upon. The first range was a standard shirt which was sold in a limited range of ‘classic’ colours and sizes, while the second was a range of fashion blouses designed for a specific season in a wide range of colours and a choice of styles with an associated designer label. Both of the ranges had different performance criteria for the marketplace which resulted in a distinction between the logistic processes shown in table 4.1.

Table 4.1 Different logistics performance objectives of different product ranges

	Classic shirts	Fashion blouses
Product range	Narrow: few colours, standard sizes	Wide: many colours, choice of styles, design labels
Design changes	Occasional	Frequent (at least every season)
Price	Everyday low price	Premium prices
Quality	Consistency, conformance to (basic) spec	High grades of material, high standards of workmanship
Sales volumes	Consistent sales over time	Sales peak for given fashion season
Order winners	Price	Product range Brand/label Quality
Order qualifiers	Quality Availability	Price Availability
Logistics priorities	Cost Dependability Quality	Speed Flexibility Quality

(Source: Harrison and Van Hoek, 2005 p.22)

4.4.1 Domestic and Global Logistics

According to Bowersox et al (2007) logistics has great importance for both domestic and external operations. Domestic logistics concentrated on a relatively controlled environment in which the logistic operator is usually familiar with the market place and its constraints and opportunities. Global logistics, on the other hand must adapt all the internal requirements of domestic logistics and also to face all the uncertainties associated with distance, demand, cultural diversity and documentation. Global operations have, as a result, increased logistical costs and complexity. The cost may differ from country to country and is higher in comparison with domestic cost. Moreover, complexity decreases the capability of controlling the operations and increases the uncertainty as every global company has to consider the destination, the long lead times and possibly a lack of market knowledge (Taylor, 1997).

It is necessary here to clarify what order winners and order qualifiers are. According to Hill (2000) order winners are factors that directly and significantly help products to win orders in the marketplace which means that the company has the chance for further businesses while the price of the product plays a superior role for customer attraction. Order qualifiers are factors that are regarded by the market as an 'entry ticket'. These factors rely on the standards and quality of the product or the service. Quality accreditation can affect the decision making of

customers to purchase. Nowadays global economies have developed interlinks by material suppliers, logistics systems, manufacturing capacity and markets (Bowersox et al, 2007). It can be said that it takes the form of a regional alliance which influences the geographical proximity and the financial standard. The major triad is North America, Europe, and Pacific Rim. There are four stages of economic integration:

- Free trade agreement - eliminating tariffs on trade between countries in a region
- Custom union - eliminating tariffs between member countries by establishing specific external tariff for operations in other non member countries
- Common market - allowing free movement of production factors such as labour and capital between member countries as the market demands
- Economic union - implying harmonisation of economic policy in a common market.

This includes common currency, the same tax structure for all the country members and free traffic of goods. Logistics support competitiveness of supply chain by satisfying customers' demands by supplying what is needed in the form it is needed at a competitive cost (Harrison, 2002; Hines, 2004). The key principles for a successful performance in the market are quality, speed dependability (quick response), flexibility and cost.

4.4.2 Key Elements of Logistics

Quality is the most visible aspect of the supply chain and influences customer loyalty. Unavailability of a product, defects and late deliveries are all symptoms of quality problems in the supply chain process (Harrison, 2002; Hines, 2004). **Time** measures how long the customer has to wait in order to receive a given product or service. The lead time varies from zero (immediate availability in supermarkets) to months or years (Harrison, 2002; Hines, 2004). Time plays an important role in meeting promises. The firm must inform its customers when the specific product will be in stock. Time and quick response are linked to each other as quick

response is essentially minimising the length of time it takes for merchandise to move from the state of raw material to garments purchased.

According to Birtwistle et al (2003) **quick response** strategies were developed in the 1980's in USA between suppliers and fashion retailers to compete with off-shore manufacturers. A quick response agreement is demand driven rather than based on forecasts. It requires a very good collaboration between suppliers and fashion retailers in sharing information about sales data based on stock, keeping units such as size and colour, also providing details about time and deliveries. Quick response strategy is threefold;

- To reduce excess stock holding in the supply chain from raw material to consumer purchase
- To reduce the risk of forecasting by making the decision of what and how much to buy closer to the time of consumer purchase
- To pass savings gained through great efficiencies on to consumers

(Birtwistle et al, 2003)

This means that by implementing quick response strategies a company can benefit by maximising sales volume and margin, reducing product development expenses and stock holding, increasing stock turnover and improving customer service, which equates to competitive advantage. Also a retailer can gain benefit by making decisions on design and style along with the colour ranges following consumer demand. As a result, this allows for a reduction in stock holdings and the possibility of wrong decisions. The flexibility in design and production ensure a company's success in the market and allows it to offer the latest fashion for customer requirements (Birtwistle et al, op cit).

Flexibility in supply chains allows companies to respond to short term changes in demand or supply situations or other external disruptions together with adjustments to strategic and structural shifts in the environment (Christopher and Lee, 2004). Hines (2004) refers to flexibility advantage as a means to reduce the cost of the final product. Supply chains must always be ready to respond to new

products, new markets and changing customer demand. Flexibility has four forms (Harrison, 2002);

1. Product flexibility - how quickly a new product can be introduced
2. Mix flexibility - the time taken to change between different products in a given range
3. Volume flexibility – measurement of the time taken in increasing or decreasing overall demands
4. Delivery flexibility – the ability to change deliveries by bringing them forward or pushing them back.

Customer responsiveness is the key to success in today's markets and which is linked to supply chain flexibility. Companies work together to achieve a level of agility which customers will find attractive (Sadler, 2007). Additionally, Christopher and Lee (2004) explain the flexible ability of a company in terms of three distinctive components. These components are general characteristics of flexible supply chains since it is not described how these components influence the functional operations in the supply chain.

1. Adaptable: Adjust the supply chain's design to meet structural shifts in markets, modify supply network strategies, products and technologies.
2. Alignment: Create incentives along the partners within the supply chain for better overall performance.
3. Agility: The ability of a supply chain to respond to short-term changes in demand or supply quickly and handle external disruptions smoothly

4.5 Marketing Mix and Internationalisation

In practice, marketing starts with analysing segments, evaluating and targeting them. This has to do with the marketing mix as a set of decisions to implement a positioning strategy through target market segments and differential advantage to achieve financial goals. E. Jerome McCarthy, a prominent marketer, proposed a 4P's classification in 1960, which is widely used. The 4P's are:

1. Product: range, size, presentation and packaging, design and performance

2. Price: list price, discounts, geographical pricing, payment terms
3. Promotion: sales force, advertising, consumer promotion, trade promotion, direct marketing
4. Place: channel selecting, market coverage, distribution systems, dealer support.

(Bennett and Blythe, 2002)

In essence, logistic strategies can be affected by the four parameters of the marketing mix as it contributes to the place decision as well as to product and promotion decisions in order to satisfy the main goal of the logistic system which is: 'the right product in the right place at the right time' (Harrison and van Hoek, 2005). However, today people have become increasingly connected and interdependent in all aspects of life. The trade environment has changed significantly, affecting also the apparel industry. In the mid-twentieth century the majority of the textile and apparel products were produced in domestic markets serving customers in developed markets. But now products are being sourced from international and multinational origins. Companies expand internationally, approaching new markets with different cultures and different customer requirements. Their objectives have to deal with each local characteristic (Kunz and Garner, 2006). This has resulted in changes of logistics strategies (inventory, handling, transport policies) as the generic drivers of a company in the international arena are:

- A search for low-factor and supply cost (land, labour, materials).
- The need to follow customers internationally in order to be able to supply locally and fast.
- A search for new geographical market areas.
- A search for new learning opportunities and exposure to knowledge.

For both international and domestic marketing the basic tools and concepts are the same and have customer demand satisfaction as the main focus. The main differences between them are the techniques the companies have to apply operating in a home market and the international market. A firm's home country is a familiar environment and easily accessible to data sources in relation to the international countries where the firm has to face a new cultural, political,

economic, social, and legal environment, possibly totally different from its domestic environment. Table 4.2 shows different internationalisation strategies of a firm.

Table 4.2 Different internationalisation strategies.

Dimension	Setting in a pure multi-domestic strategy	Setting in a pure global strategy	Setting in an integrated network strategy
Competitive moves	Stand-alone by country	Integrated across countries	Move based on local autonomy and contribution of lead subsidiaries, globally coordinated
Product offering	Fully customised in each country	Fully standardised worldwide	Partly customised, partly standardised
Location of value-adding activities	All activities in each country	Concentration one activity in each (different) country	Dispersal, specialisation and interdependence
Market participation	No particular pattern; each country on its own	Uniform worldwide	Local responsiveness and worldwide sharing of experience
Marketing approach	Local	Integrated across countries	Variation in coordination levels per function and activity
Logistical network	Mainly national; sourcing, storage and shipping on a national level and duplicated by country	Limited number of production locations that ship to markets around the globe through a highly internationalised network with limited localised warehouse and resources	Balanced local sourcing and shipping (e.g. for customised products and local specialties) and global sourcing and shipping (e.i. for commodities)

(Source: Harrison and van Hoek, 2005 p94)

4.6 Communication throughout the Supply Chain

Communication is the process by which a human being can assign and convey meanings in an attempt to create shared understanding. This process requires a vast repertoire of skills in intrapersonal and interpersonal processing, listening, observing, speaking, questioning, analysing and evaluating. The use of these processes is developmental and transfers to all areas of life: home, school, community, work, and beyond. Nind and Hewett (2005) have defined communication as any act by which one person gives to or receives from person information about that person's needs, desires, perceptions, knowledge or affective states. Communication may be intentional or unintentional, may involve conventional or unconventional signals, may take linguistic or non-linguistic forms

and may occur through spoken or other modes. There are three forms of communication:

- Oral Communication
- Written Communication
- Non Verbal Communication.

In the business environment communication functions can add value by influencing four critical business elements such as the clarity of business initiatives, the quality of interfaces, particularly interpersonal, the effectiveness of communication systems and the communication behaviour of top management. Communication in most companies occurs in a different way and is concentrated to different audiences such as the top management, employees and communication with the outside world (Clutterbuck, 2001). It is represented along with the other key communication functions, including IT, HR, marketing, sales, operations and finance, at the highest level. The following figure depicts the communication within an organisation. Effective communications within any firm can be vital for gaining competitive advantage in the market and managing growth and increasing success. In the business environment communication plays a superior role in establishing good relations between all the parties inside or outside of the organisation and it can be seen from two different points of views which are *culture* and *strategy* (Rouse and Rouse, 2002).

4.6.1 Cultural Communication

Culture is the framework that enables and interprets communication. As a phenomenon it varies across national, regional and organisational boundaries. Culture is different upon location, duration, formality and interaction between societies. When a company has decided to expand its horizons and develop its business outside the domestic market it must be ready to face the different lifestyles, customs, habits and behaviours of other groups of people (Rouse and Rouse, 2002; Trompenaars and Woolliams, 2003). As cited by Mueller (1996) culture is “*the integrated sum totals of learned behavioural traits that are manifested and shared by members of society*”.

Doing business in any cultural environment, a businessperson carries out their own cultural characteristics that may or may not be acceptable in different surroundings, and while communication involves people, culture is shared among the individuals. Additionally, culture can be defined as a social phenomenon and plays a powerful role in any aspect of life (Mueller, 1996). Organisations which expand their business in the global environment have to consider the existence of subculture. All their decisions must be sensitive to the local characteristics and complexities. Therefore, many barriers in the communication process can be generated such as; socio-cultural barriers, psychological barriers and organisational barriers (Rouse and Rouse, 2002). Moreover, strategy can be described as an organisation's sense of purpose or a guiding purpose or policy, a focus statement, even a philosophy for the achievement of an objective. In other words, strategy is the 'mean' by which individuals or organisations achieve their main aims. Means refer to plans, policies and principles that guide and unify a number of specific actions. A strategy involves the allocation of resources and implies consistency, integration and cohesiveness (Lowson, 2002). There are two basic questions that stimulate a strategic choice: *Where to compete?* and *How to compete?*

4.6.2 Strategic Communication

The main goal of a firm is to survive and prosper. Survival requires that the firm earns a rate of return on its capital that exceeds its costs. There are two levels of strategy within an enterprise; the corporate strategy and the business strategy. Business strategy is concerned with how a firm competes within a particular industry or market. If it is to prosper within the industry, it must establish a competitive advantage over its rivals. Strategy is the key element that can be viewed in terms of goals, analysis, synthesis and implementation and on the other hand can provide competitive advantage for organisations by applying communication strategies and operating the business better than their competitors (Rouse and Rouse, 2002). Every organisation needs to manage strategies within their internal resources, to the external environment in which they operate as well as adding value to what it does. A strategic position leads a firm to gain competitive advantage in the marketplace opposed to its competitors and ensures

low cost, good quality, flexibility and quick response to customer requirements (Lowson, 2002).

As the economic world is changing and consumers are more fastidious, services must be individualised and the products to be provided by flexible and responsive organisations. Consumer purchases are a reflection of a lifestyle or fashion statement rather than the satisfaction of basic needs. Considerable competitive advantage can be provided by selecting the best strategies (Lowson, 2002). A good management strategy therefore involves goals, analysis, synthesis and implementation. These four concepts can be applied to the communications and can ensure a positive result for the challenges faced in the market place. A communication strategy involves a number of analytic tasks such as oral communication (face-to-face, telephone), written communication (letters, memos, reports, emails) or a combination of oral and written communication (presentations, advertisement). The credibility in the communication process plays a superior role for a successful collaboration. It measures audience acceptance to the main message that a firm sends. Also, in the communication process, the most important characteristics of credibility are: Trustworthiness and reliability; Expertise and credentials; Image and attractiveness; Status and power; Shared values and beliefs; Fairness and integrity.

4.7 Business Driven Information System in an Organisation

Business Driven Information Systems (BDIS) discuss business initiatives and how technology supports those initiatives. The premise for this unique approach is that business initiatives drive technology decisions in a corporation. Every discussion first addresses the business needs and then addresses the technology that supports those needs (Baltzan and Phillips, 2007). These areas are independent and also interdependent as every department has to work together and share common information through the information system which enables the whole operation in the business to be more efficient and effective. Information technology includes every computer-based tool that people use to work with information and support the information-processing needs of an organisation. Management Information Systems (MIS) are a subset of the overall internal controls of a business covering the application of people, documents, technologies, and

procedures by management accountants to solving business problems such as costing a product, service or a business-wide strategy. Management Information Systems are distinct from regular information systems in that they are used to analyse other information systems applied in operational activities in the organisation (Baltzan and Phillips, op cit).

More specific in the twenty-first century is how the evolution of information and communication technology has aggressively affected the business environment and that changes have significant results on a global basis in both developed and developing countries (Kamel and Hussein, 2002). Internet has brought a new era in the communication and business life as it is not a simple way of presenting goods or services. Baltzan and Phillips (2007) claim that internet adds value and provides useful information in an innovating way. The sites are built in a sense of community and collaboration becoming the core for business.

The Internet is not a single entity; it is more a complex system of services and programs each having different capabilities and functions. Working together, they provide users with a unique variety of services that can be used by businesses for researching, networking and advertising. Internet is a worldwide network that connects computers under the same rules to transmit data (protocol). Private businesses, governmental departments and universities have a local area network with a server that is connected to the internet and is working in a national and international telecommunication infrastructure (Standing, 2000). The internet has numerous advantages such as; No boundaries, as it can be accessed in a matter of seconds; New markets all over the world with minimal costs can be entered; Customers all over the world can be reached and especially by using email a firm can quickly keep in contact with the customers at a very low cost. The Web allows consumers to market products or services to clients or other potential customers. Also the Internet has a variety of uses. Some of the most important that companies are taking advantage of are: providing human resources information, customer service and support, remote office and field support, public relations (i.e. news releases), selling products and offering product information, corporate profiles, investor relations - stock performance. In theory E-business is the conducting of business on the Internet offering not only buying and selling, but

also serving customers and collaborating with other partners or suppliers. Two of the most important characteristics of e-business components are e-logistics and e-procurement (Baltzan and Phillips, 2007).

E-logistics manages the transportation and storage of goods, whereas, *E-procurement* is the business to business purchase sale of supplies and services over the internet.

E-commerce and E-business seems to be the same though there is a small difference. E-commerce is the buying and selling of goods or services over the internet. The meaning of E-business derived from the term e-commerce but includes also the exchange of information, collaboration with business partners and the electronic transaction within an organisation (Turban and King, 2003). The electronic commerce is global. These are technical (reliable and fast internet); regulatory (legal framework and standardisation); and social concerns (trust and digital democracy). In developing e-Business, a company must enable customers to trust it among the business community. Even if electronic commerce offers flexibility in shopping, there is lack of face-to-face interaction between the company and the customers. This may result in uncertainty and confusion on the users' part that must be sure that legislation has been applied in order to feel secure when using the internet for any kind of transaction (Papazafeiropoulou, and Pouloudi cited in Fazlollahi, 2002).

Thus, a firm must be able to establish a secure Web presence where it can fulfil orders and other transactions constantly. For this reason Enterprise Resource Planning (ERP) can integrate all the departments and functions within an organisation into a single system. All the employees can share the same information reducing wasted time. The core ERP traditional components which focus on internal operations are accounting and finance, production and material management and human resources. The extended ERP components meet organisations needs and focus on external operations such as business intelligence, customer relationship management, supply chain management and e-business. Companies are expecting e-business to increase profitability, create competitive differentiation and support innovative business practice. Also, ERP should be flexible in order to respond to changing needs. It must be open and

support multiple hardware platforms, must ensure online connectivity for the partners of the customers and finally to support a variety of organisational functions, being suitable for a wide range of businesses. Internet, Interface and Wireless technology is the future for ERP and their success depends upon how quickly a firm can respond to the market by using these tools (Baltzan and Phillips, 2007).

There are many barriers for an organisation to develop e-business and are related with different factors such as education, location, age and internet access. Delivery rates and taxes are different from country to country. For example in the rural districts people have lower levels of internet access, older people may not be familiar with internet while others may not know how to use it at all (Markus and Soh, 2002). Also, taxes from country to country are different and this can affect the cost of purchasing from abroad when trading from Asia and American. Within the European Union trade policy is totally different and goods move freely.

4.8 E –Business/E-Commerce Models

E-commerce is a way to conduct electronic business on the internet and transactions take place between customers and businesses. All business activities happen in two different types of business relationship: 1) the exchange of product between businesses (B2B) 2) the exchange of products and services with customers (B2C). The main difference between them is the customers. B2B customers are other firms or businesses while B2C are end consumers. There are also two more models which are customers-to-business and customers-to-customers. All of them have a very important role in the e-business environment and are shaped from structural conditions which are consisted from physical, social and economic arrangements (Markus and Soh op cit). These conditions differ from country to country and have a relationship with the natural dimension of the culture. The different models of e-commerce are:

1. Business-to-Business (B2B)
2. Business-to-Consumer (B2C)
3. Consumer-to-Business (C2B)
4. Consumer-to Consumer (C2C)

5. Mobile Commerce (m-Commerce)
6. Intrabusiness (Organisational) EC
7. Business-to-Employees (B2E)
8. Collaborative Commerce
9. Nonbusiness EC
10. E-government
11. Exchange-to-exchange (E2E)

Not all of the above types relate to the fashion industry. The most common to be considered here for fashion retailing are B2B and B2C.

4.8.1 Business-to-Business (B2B)

As previously mentioned B2B is the exchange of products and services between businesses or other organisations over the internet. This model can support online access to data such as expected shipping dates, delivery dates, shipping status which is provided either by the seller or from a third party. This model represents a business community called electronic marketplace or e-marketplace where many sellers and buyers participate in e-business activities. Commercial exchanges, supply chain establishment and sales channels are accomplished inside this place. The main goal is to increase market efficiency by developing a tighter relationship between seller and buyers (Baltzan and Phillips, 2007; Cunningham, 2001). B2B auctions began in the basic markets and expand rapidly into new and more complex industries based on instant communications capabilities which decrease the whole cost of business performance in the marketplace (Griffin et al, 2001).

4.8.2 Business-to-Consumer (B2C)

This model includes transactions between businesses and customers online. With this, firms are able to offer their products or services to consumers through e-shops or e-malls. E-shop sometimes referred to as an e-store or e-tailer is a version of a store where a customer can do shopping anytime of the day without leaving the house or place of work. These online stores support all services and products and most of the time are an extension of a real store. Good examples of fashion e-stores are Gap, Monsoon and Marks and Spencer. These retailers are

well known and they have a large number of outlets around the UK market and internationally. On the other hand e-mall consists of a number of e-shops and acts as a gateway through which the visitor can access other e-shops. E-malls may be generalised or specialised according to the product and the revenues are based on membership fees, advertising or a fee on each transaction (Baltzan and Phillips, 2007).

4.9 E-marketing within the Supply Chain

While e-marketing brings together a range of technologies such as internet, email, electronic data/payment interchange and short message service applications, many advantages and disadvantages must be considered when a business goes online. Brennan, Harris, Baines and Garneau (2003) have summarised these as follows in table 4.3.

Table 4.3 E-marketing advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • Global research • Speed and flexibility • Low cost transaction • Interactivity 	<ul style="list-style-type: none"> • Clutter and congestion • Anonymity • Cost • Sensory limitation

Due to the recent competitive environment of the fashion sector, the majority of fashion apparel retailers have developed an e-Business profile concerning their collaboration with other firms, suppliers and their relationship with their customers. Quick response is the key element for a successful performance in the market place and relies on consumer demand information being used by all parties in the supply chain. The use of EDI (Electronic Data Interchange) can ensure quick and reliable information flow between suppliers and retailers. Through the literature review, it is obvious that the B2B Model exists within the firms and it is the core of any business process. On the other hand the firms, in order to consolidate and differentiate themselves from their competitors, have begun to develop B2C models which ensure a direct communication between the firm and the customers.

Today, supply chains are becoming more and more complex and the need for a more practical and effective approach of delivering them is gained through e-

commerce. According to Gattorna (2003) e-commerce is the key enabler of breaking down boundaries because it provides not only the solutions required for inter-company transactions but also applies the standards that will enable it to communicate and connect with other companies and consumers. E-commerce offers inter-company collaborations, e-marketplaces and supply chain management. Inter-company collaboration and e-marketplaces refer to the Business-to-Business and Business-to-Customer environment hence their inclusion in this chapter.

Supply chain event management is based on a number of software packages that are used to provide solutions in different areas within a business environment and improve the overall inter-company transactions. Considerable change has taken place in supply chain software packages. The internet is the means that provides a vastly improved communication system for the coordination of the movement of goods. Supply chain management consists of choreographing the flow of demand, supply and cash. Demand and cash flow can be moved entirely using as a tool the internet. Orders, payments, plans, forecasts and notices in textual data can be shifted from the internet. The advantage for the supply chain is great as with the exception of the actual shipping of goods, every function of the supply chain can be performed faster, cheaper and more accurately. There are some products that can be distributed electronically such as music, newsletters, information, designs, books and software. The use of Web service allows application to interact almost instantly, which means that the information flow within the supply chain is very fast (Taylor, 2004).

There are many software packages for supply chain and assembling the best system for the chain. The most important decision for a company is the choice of design and planning systems, and acquiring the optimum capabilities of APS either as part of ERP package or separately. Logistics packages are also important to support the function of the chain. Logistic Information Systems (LIS) are the means by which a company can capture, analyse and communicate information related to logistics and supply chain management. ILS includes sub-systems in order to execute the main meaning of logistics. These are:

- Customer Response Systems (CRS)

- Inventory Management Systems (IMS)
- Supply Chain Management (SCM)
- Transportation Management Systems (TMS)
- Warehouse Management Systems (WMS)

The supply side of logistics management is one of the great beneficiaries of e-commerce. Vendor website make vendor selection processes easier and reliable. Online marketplaces make shopping for materials from alternative sources easier than ever before. Another web-based capability for supply chain management is collaborative, planning, forecasting and replenishment (CPFR). In the CPFR logistics model manufacturers, wholesalers, retailers, carriers, financial institutions and customers are exchanging information related to the demand and supply of their resources, working together for the best performance of the supply chain maximising the customer service (Frazelle, 2002).

4.10 Summary

Logistics and supply chain management are both necessary as a way of managing the production of goods from different manufacturers all over the world, following the distribution of goods on a global scale to satisfy customer demand. This chapter introduced the components of supply chain management and how these can affect the supply chain strategies, explaining the importance of a well organised logistic system within an integrated supply chain and finally evaluating the communication links developed in the business area and support the best practise of supply chain management. The new era of internet has brought the collaborative parts of a supply chain closer by transferring information easier, faster and more accurate. E-business, Business-to-Business (B2B) and Business-to-Customer (B2C) types were discussed in relation to today's competitive environment. Fashion retailers are using both of these ensuring the best possible communications for both their partners and their customers.

Chapter 5 Research Methods

5.1 Introduction

This chapter sets out the research methods used for the data collection and analysis stages. A deductive qualitative approach was considered most appropriate as it allows for an in-depth exploration of environments in relation to apparel retailers business strategies for global marketplace presence and different risks are faced when entering in developed and developing countries in Europe. According to Gummesson (2000), a qualitative methodology can provide the tools for research in management and business administration where general management, accounting, marketing, organisational studies and other subjects related to business are included. In addition the main objective is the qualitative measurement of the risk factors of the different types of risks according to their impact and likelihood in each selected country and company. For measuring the risk factors no mathematical model is used which can refer to a quantitative research method. The numbers are translated in words and a descriptive way of measuring the risk is followed as well as this was conducted according to IRM, COSO and ONDD models (Chapter 3, Section 3.3.1, 3.3.2 and 3.3.3). A qualitative method can also ensure improvement in the quality and usefulness of academic research though it is noted that particular care must be taken in collecting and analysing the data.

5.1.1 Research Design

Through the initial literature review it was hypothesised that countries at different stages of becoming emerging markets would present different risks or different levels of risks for fashion apparel firms. To test this hypothesis it was essential to set up clear objectives which were presented in Chapter 1. The first step was to identify the risk concealed in emerging markets and then evaluate the risk management techniques in order for a firm to develop its business in these areas. Simultaneously, the analysis of the risks faced by apparel retailers in order to gain competitive advantage when entering in developed and developing countries in Europe was another crucial objective to pinpoint risk management policies and furthermore to evaluate the main strategies followed by them. Supply chain is a

sensitive part of business processes which conceals great risk and can directly affect the viability of a firm. The analysis of supply chain risk and the effect of communication links throughout the supply chain can also affect apparel retailers entering into European emerging markets. Therefore, in order to analyse the risks that apparel retailers face to gain competitive advantage in the marketplace when entering emerging (developed or developing) markets, case studies were developed after undertaking a process to select appropriate European countries and high street fashion retailers that operate in those countries. This was achieved using a criteria developed from the literature review and is presented in section 5.2.2. The hypothesis was tested using sets of data accumulated through a second data collection process to build the case study profiles as discussed in section 5.2.1. Data collected from observations; in the first instance through visits to the case study company stores within each of the selected countries and then through virtual observations of the company websites are discussed in section 5.3.1. Through the detailed profiles the hidden risks, both in each marketplace and in the companies' business strategies themselves were identified. The full profiles can be found on the accompanying CD ROM.

The observations were used to enrich the secondary data and served well to help clarify each company's business strategies that were evaluated using the Marketing Mix 4P's model (Product, Price, Place, Promotion). In addition, academic articles, books, journals, statistics and electronic databases such as Mintel, Verdict and Emerald were also used in the process to evaluate the strategies each retailer used in order to manage diversification in each market. In addition, the companies' annual reports were used to analyse their supply chain risk and the risk management for each of the selected countries was evaluated using the PESTLE analysis tool. Further to this, a risk analysis was conducted for each country according to the Institute of Risk Management Standard, COSO's framework and ONDD model (Chapter 3, Section 3.3.1, 3.3.2 and 3.3.3). A critical analysis of the communication links within the supply chain was also undertaken as part of the development of the risk analysis. Finally, to further support the testing of the hypothesis a set of twelve models were developed from the analysis to show the different levels of risk that each of the companies face in each of the selected countries.

5.2 Case Study Rationale

A case study approach was taken in order to establish how a fashion company can gain competitive advantage and establish its business in countries which often have complex regulations and difficult bureaucracies. The case studies were guided by descriptive, explanatory and exploratory functions; as a case study by nature is a strategy of inquiry, a methodology or even better, a comprehensive research strategy which explores and explains a phenomenon in real life (Yin, 1993; 1994). According to Creswell (2007) qualitative research is engaged with when a problem or issue needs to be explored and when a complex detailed understanding of the issue is needed. Denzin and Lincoln (2005) and Creswell (2007) agreed with Yin (1993) that the most basic reason for using case studies is when both a phenomenon and the context must be understood. McNamara's (2005) discussion of case studies considered this approach to be the most appropriate to collect data for comprehensive and comparative examinations. However, as McNamara also points out there are some disadvantages that need to be taken into consideration such as the method often being quite time consuming in terms of data collection and organising and describing the results and as Soy (1997) states, it represents depth of information rather than breadth. Many critics believe that the case study method cannot offer reliable or general findings and may bias the information. Others, such as Gerring (2007) regard it only as an explanatory tool. Denscombe (1998) also pointed out difficulty may be experienced when defining the boundaries and to decide what sources of data to include and exclude. Also in case studies, access to documents and settings can generate ethical problems. However, many researchers continue to use this method with success in carefully organising and planning their research.

Soy (1997) argued that when this method is introduced it enables complex issues or objectives to be explored and can emphasise the results of previous research. Denscombe (1998) stated the purpose of case studies is to enable a focus on a specific thing and allows for a holistic analysis rather than an isolated analysis to be achieved. Bryman (2008) stated that a wide range of information can be obtained from an unlimited range of sources for a case study and can include

many other tools for collecting and interpreting data such as observation, interviews either structured, semi-structured or unstructured, archival records and documentation. Through case studies a researcher can not only explore a situation but also attribute casual relationships. This method was therefore considered an appropriate approach in order to realise the relationships between the different marketplaces for each of the selected fashion companies. The examination of specific indicators such as financial position, political condition, poverty and literacy that exist in these countries contained in the case study profiles contributed greatly to understanding the performance of each company both in the European context and on a global level.

5.2.1 Case Study Selection Process

The process of sampling is a significant aspect of case study design which should follow certain standards and methodological principles to attain a suitable representative. Sapford and Jupp (2006) define a sample as a set of elements selected in some way from a population and the sampling process helps the researcher to save time and effort by obtaining consistent and unbiased estimates of the population status in terms of whatever has being reached. Samples must be selected using a systematic and objective approach that should be based on criteria that is sound and can be easily identified. To achieve a systematic approach to the data collection two parameters are to be considered; first there must be a clear idea of the case to be investigated by defining the population of interest accurately and second there must be documentation of feasible techniques in collecting samples for the cases (Flick et al, 2004; Sapford and Jupp, 2006). Population consists of individuals or elements; it could be people, events, organisations, or tangible components that can attract the research interest.

According to Marshall and Rossman (cited in Creswell, 2007) sampling during the study can be changed, giving flexibility to the researcher to deal with the study's condition. However a plan facilitates the process of sampling and minimises the likelihood of declining from the main objectives of the research. Bryman (2008) and Sarantakos (2005) argue that researchers undertaking qualitative research are engaged with a purposive sample as this type of sampling is related to the

selection of cases (people, organisations, documents) which do not ensure good representation and has direct reference to the research objectives. Non-probability sampling allows selections to be made purposively (Sarantakos, 2005; Creswell, 2007) and for this reason it was considered preferable to random or probability sampling.

In order to test the hypothesis a number of countries were required for the case studies. Mandon (2009) stated that in the heart of Europe there is a group of emerging markets such as Czech, Hungary, and Poland that have attracted great attention from Foreign Direct Investment. According to Alexakis (2001), Greece left the ranks of emerging markets a decade ago and is now regarded as been one of the developed economies within the European Union and Eurozone while Hungary and Czech Republic are still in the process of transition having joined the European Union but not the Eurozone. A set of criteria was developed from the literature review in order to select the countries as follows.

All countries should:

1. Be members of European Union situated in Eastern Europe
2. Have been in a transitional process for at least the last two decades
3. Attract funding for development from EU and the International Monetary Fund
4. Be emerging markets of Eastern Europe: Countries which have attracted Foreign Direct Investment specifically in the clothing sector in the last two decades
5. Republic states having similar population and area of coverage as other selected countries
6. Have different levels of emergence within the EU, according to their Gross Domestic Product (GDP) delivered from Purchasing Power Parity

Hungary, Czech and Greece were the only three European countries to match all of the above criteria and were therefore selected. As the study focuses specifically on the fashion sector a number of fashion retail companies were required. For this selection process a second set of criteria was developed as follows.

The company must:

1. Be a high street fashion retailer
2. Have a similar target market to the other selected companies
3. Follow an expanding strategy
4. Have international presence
5. Operate in the three selected countries

The fashion companies selected that matched the criteria were Esprit, H&M, Mango and Zara.

5.2.2 Company profile Development

Detailed profiles of each country were developed including information regarding political, social and financial situations, technological and transportation infrastructures, legal systems, international relations, educational systems and statistical information regarding the development of the clothing industry in each market. A range of resources including databases such as Verdict, Mintel, Fame and Business Source Premier, the official website of EU Europa, the World Bank Website, OECD website, the British Council, the British Foreign and Communication Office (FCO), the International Monetary Fund and the Institute of Risk Management were all used in conjunction with academic texts and articles to develop the country profiles. In addition, the official website of each country and also local authorities such as the Ministry of Education and Finance were used. The same process was followed to develop detailed profiles for each of the companies including information concerning historical overviews, marketing strategies such as those of the marketing mix model; price, product, promotion and place as well as target segment, logistical systems, supply chain management and financial position data. Annual reports were used specifically to identify the risk each company faces including credit risk, supply chain risk, financial risk, labour risk, market risk, social risk and environmental risk and to uncover the measures that each company undertakes in order to manage these risks. The profiles were extremely valuable for the analysis process.

5.3 Qualitative Observations and Benchmarking

A qualitative research strategy emphasises an inductive approach between theory and research. It constructs social reality and cultural meaning where the researcher is involved and can concentrate on the interactive processes and events (Neuman, 2000). It tends to reject the practices and norms of natural scientific models and embodies a view of social reality as a constantly shifting emergent property of an individuals' creation (Bryman, 2004). Observations can be structured, unstructured or semi-structured and always involves the participation of the observer which cannot be erased (Denzim, 2008). According to Bryman (2004) this can be perceived as a negative with the approach being too subjective as, like case studies, the findings rely on the researchers' own opinion of what is useful and important and is therefore difficult to replicate. Also like case studies, there can be problems with generalisation due to its unstructured behaviour and it can present a lack of transparency. However, observations need not necessarily be unstructured as structured observations are commonly used in experimental and evaluative research designs. Structured observation employs a strictly organised procedure with a set of well defined observational categories and is subjected to a high level of control. This is in contrast to unstructured observations which employ a more flexible approach (Sarantakos, 2005).

The purpose of using qualitative data is to understand social or human problems from multiple perspectives. It is usually conducted in natural settings to build a complex and holistic picture of the phenomenon of interest (University of Nevada Rino, 2006). Yin (1994) emphasised that direct observations can take place in different locations, can involve more than one observer, may include interviews and contacts with specific people and covers context and events in real time. Participant observation is a special mode of observation in which the researcher is not passive. The techniques are commonly used in anthropological studies of different cultures and also in organisational settings in small groups. The method provides the same opportunities as observation methods but has the added advantage of aiding insight into interpersonal behaviour and motives. The major problems related to participant observation again have to do with bias (Yin, 1994).

The benchmarking method was used to develop semi-structured observations to

collect the required data. Benchmarking is a process which is used to discover and incorporate best practice into business operations (Nuesoft.com, 2010). The tool is used for comparing one's business processes and performance metrics to those in the industry and best practices from other industries. Dimensions typically measured are quality, time, and cost. The main benefit of benchmarking is learning how well competitors perform and, more importantly, how they do it. The benchmarking process allows organisations to develop plans on how to improve their performance by adapting specific best practices (Damelio, 1995; Nuesoft.com, 2010).

Pre-determined characteristics were observed in the same manner for the four companies visited in the three selected countries. This approach enabled a clearer perspective regarding the whole function of each company. The typical benchmarking process consists of the three factors; analysis, discovery and implementation. This approach was followed through the development of a template, which can be found in the Appendix 4 to ensure that the same evidence was observed and recorded in each store. This template design is the observation instrument which enabled elements of the marketing mix such as visual merchandising, advertisement campaigns, product availability and pricing strategies used to attract customers to gain competitive advantage within these markets to be sufficiently recorded. The expectation of the observations referred to similarities between the stores and some differences on product availability and store size. The use of the template was to standardise the observation was made in each company in each country.

5.3.1 The Visits

Primary research observations were conducted during visits to the companies in different locations to inform the research of the way in which each had developed their business strategies, the locations they had chosen for their stores, the entry methods used in each market (i.e. wholly owned, franchise or partnership) and the marketing strategies used to gain competitive advantage in those new environments. The most important decision was in ascertaining which stores to visit to provide the best conditions for the observations. The decision was made to conduct the observations in the capital cities of each country (Athens, Prague and

Budapest) as there would be a large local population, tourist interest and where one would expect their core markets to be. The next challenge was to identify the main market streets and malls in each city centre. An internet investigation via the company websites was conducted to locate stores and determine how many stores each of the retailers had in these city centre locations. The internet searches also served to establish if all the companies were operating in the same market street. The decision was made to observe the companies in the streets that complied with the following criteria:

- 1) where the majority had stores
- 2) was easily accessible to consumers by metro, bus or car
- 3) was close to tourist attractions
- 4) was a pedestrian road

Decisions were then made regarding stores located in shopping centres or malls. These were determined according to the location of the mall being close to the city centre and housing the majority of the selected companies. Additional criteria included:

- 1) easily accessible by car, bus, or metro
- 2) had parking
- 3) offered other entertainment to consumers such as cafés, restaurants, cinemas

5.3.2 Pilot Observation

Pilot observations were undertaken in a Manchester market street and in the Trafford Centre in the UK, to gain a better understanding of the benchmarking process and to identify any possible limitations imposed by the template design. Market Street is a major high street in the city centre which is a pedestrian area, easily accessible by bus and car and houses the majority of the four selected fashion retailers, thus meeting the criteria given in section 5.3.1 above. Trafford Centre is close to the city centre and is easily accessed by bus and car, offers parking, and houses the majority of the selected firms and also has cinemas, cafés and restaurants, again meeting the criteria given in section 5.2.1. The pilot observation was conducted over two days in each location. It was necessary

to set a time limit as the visits to the three countries imposed limitations due to cost constraints.

5.3.3 The Observations

The visits to conduct the observations took place in three stages as follows;

1st Visit

Country: Budapest Hungary

Date: Saturday 4th April - Thursday 9th April 2009

Locations:

Esprit: Váci utca 9, 1052, Budapest, Hungary *and* WestEnd City Centre Shopping Mall

H&M: Vörösmarty ter 2, 1052, Budapest, Hungary *and* Váci utca 12, 1052, Budapest, Hungary

Mango: West End City Center - Váci út, 31069, Budapest *and* Váci utca 19-21, 1052, Budapest, Hungary

Zara: Vaci utca 6, 1052, Budapest, Hungary

2st Visit

Country: Athens Greece

Date: Monday 13th April - Saturday 18th April 2009

Locations:

Esprit: Ermou, 19, 10563, Greece *and* The Mall' Shopping Centre Marousi, 35, 13671, Andrea Papandreou street

H&M: Ermou, 22, 10563 Athens, Greece *and* Athens Heart',Pireos Avenue, 180, 17778, Athnes Greece

Mango: Ermou, 39, 10563, Athens *and* The Mall' Shopping Centre Marousi, 35, 13671, Andrea Papandreou street, Greece

Zara: Ermou 9, 10563, Athens, Greece

3rd Visit**Country:** Prague Czech Republic**Date:** Tuesday 25th August - Sunday 30th August 2009**Location:****Esprit:** Palladium Shopping Centre Namesti Republik 1,1100, Prague, Czech Republic**H&M:** Na Prikope 19-21,Prague,Czech Republic and 117 19 and Palladium Shopping Centre Namesti Republik 1,1100, Prague, Czech Republic**Mango:** Na Prikope, 8, 11000, Prague, Czech Republic**Zara:** Na Prikope, 15, 11000, Prague, Czech Republic

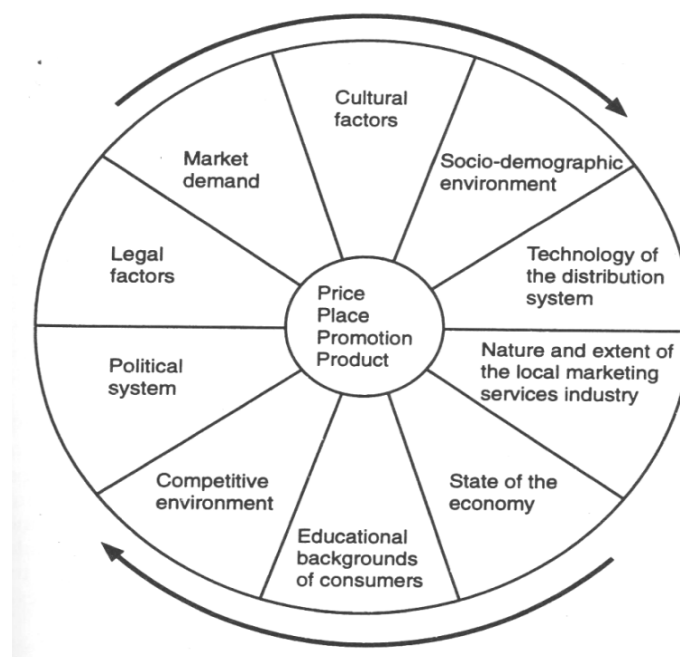
Visits to two stores of each retailer were planned in each country, one in a market street location in the centre of the capital city and one in a nearby shopping centre or mall this being the rationale in accordance with the given criteria in section 5.3.1. However, it was found that Zara in Budapest, Athens and Prague, Esprit and Mango in Prague only operated in one of the desired locations at that time resulting in only one visit to these particular retailers. Replacement stores were considered, however none were found to satisfy the aforementioned criteria. The results of the observations are presented in chapter 6, section 6.3.

5.4 PESTLE and Risk Analysis

It is well accepted by authors such as, Kotler, Armstrong, Saunders and Wong (2005), Brassington and Pettitt (2007), Kurtz and Boone (2006), Bearden, La Forge and Ingram (2007) and McDonald (2007), that all marketing activities occur within a legal, economical, cultural, political and environmental framework to which strategies and policies are applied to establish best practice. The PESTLE model offers opportunity for a better understanding of the environment in which a company is operating within and the opportunities and the threats that exist, particularly when the operations are outside domestic barriers (Jobber, 2007; Bennett and Blythe, 2002). By considering the opportunities available to them a company can easily face and minimise threats. PESTLE is a mnemonic for Political, Economic, Social, Technological, Legal and

Environmental factors which can be used to assess a situation within a market in order to develop an appropriate strategic plan. Tax changes, new laws, trade barriers, demographic changes and government policies are elements of the macro environment that can affect the decision making of an organisation (Jobber, 2007; Bennett and Blythe, 2002). According to Bennett and Blythe (2002), the firm should predict the external changes that might occur and then identify how they would be affected by them and how they should respond. Also, it should define the business's major functions and outline all of the environmental factors that are likely to affect these functions. That means that an organisation must comply with the nature of its business, in other words how it implements its marketing mix (4P's model) within the legal, cultural and socio-economic infrastructure of each country in which they are operating. According to McDonald (2007) the central idea of marketing is related to a company's capabilities and the wants of customers in order to achieve the objectives of both parties. The marketing mix involves the use of several tools and techniques in order to implement the concept of marketing. Figure 5.1 shows the marketing mix objectives in relation to the environment in which a company is operating.

Figure 5.1 Environments and Marketing Mix



(Source: Bennett and Blythe, 2002 p37)

The use of PESTLE linked with the marketing mix for each of the four selected companies enabled a better understanding of how each, according to its nature, was able to overcome the risk that exists in each of the selected countries. This allowed an exploration of the risk indicators in each country and an investigation of the disruptions that can subsequently have on the companies' operations in the present and the future. These risks were then compared with the risks reported in the company annual reports. The next stage involved the analysis of the different strategies that were developed by each company in order to manage the risks in each market, bearing in mind the nature of the company and its risk appetite. The risk analysis was based on the risk institute standards and COSO's (Committee of Sponsoring Organisations of the Treadway Commission) which was discussed in chapter 3.3.2.

5.5 Model Development

According to Bryman (2008) a hypothesis is an informed speculation which is defined and then tested regarding a possible relationship between two or more variables. Qualitative researchers discuss hypothesis and theory testing through the process of conducting research. The hypothesis stated in section 5.1 proposed the concept of the different states of emerging countries presenting different risks or different levels of risks for fashion apparel firms. In order to test this hypothesis and satisfy objectives 4 and 5 (Chapter 1), twelve models were developed to show the different levels of risk for each company in each of the three selected countries. Risks, uncertainties or disruptions that the companies had reported were connected with the risks identified in the selected markets. First of all a detailed table was prepared for each company in each country which included the key risk points (Political, Economical, Social, Technological, Legal, Environmental and Supply Chain) and also measured qualitatively, using IRM, COSO and ONDD framework, the risk factor for each one. This information is presented in chapter 6, section 6.6 in order to show the levels of risk according to the risk factor measurement.

5.5.1 Measuring the Risk

Twelve tables and twelve models were developed to enable the comparison of the risks which were concealed in each country and to show the effect of these risks on the selected fashion companies. The models are discussed in chapter 7. The risk factor result was determined from two parameters; the impact of the risk and the likelihood that it may happen as previously discussed in chapter 3, section 3.3.1. The risks were measured by firstly considering their impact on the companies and then the likelihood of them happening according to the existing situation in each country and were based on:

1. Risk Management Framework published by the Institute of Risk Management (IRM)
2. COSO's framework
3. ONDD's risk assessment

Three organisations, with different backgrounds have given different types of risk measurements without using any mathematical model but reporting numbers in words or graphs (Chapter 3 section 3.3.1, 3.3.2 and 3.3.3). A table of impact and likelihood was developed as a generic model (Chapter7 section 7.2 giving the measurements of them following IRM's and COSO's framework and then a graph was prepared as the applications of the generic model, having as an example ONDD's framework, showing the possible differences in risk factors. The risk factor number was determined by multiplying the impact and the likelihood figures and also appeared in additional tables expressed as ratios (tables and models are presented on pages 164 to 179).

5.6 Summary

In this chapter the research methods used to collect the data, the analytical processes and model building processes in order to test the hypothesis were presented and satisfy the objectives. A case study approach was taken in order to develop a detailed profile of four fashion retailers and three Central and Eastern European countries. The data was collected from secondary sources and the profiles then supplemented by observations which enabled a clearer perspective

regarding the whole function of each retailer in each country. The chapter explains the selection of the three country case studies and the four company case studies following specific criteria. To analyse the risks in the three countries, a PESTLE analysis was undertaken as a standard tool to evaluate the risk management strategies that the companies had developed in order to consolidate their businesses to be competitive in each selected marketplace. Finally the method used to build the models and qualitatively measure the risk factors was presented. In chapter 6 the analysis of the findings from the case studies is presented and in chapter 7 the development of the models is fully explained.

Chapter 6 Companies and Countries Risk Assessment

6.1 Introduction

The aim of this chapter is to present the company information which was used in the chapter that follows to model the risks for each company when operating in Hungary, Czech Republic and Greece. To analyse the risks in these three countries a PESTLE analysis (political, economic, social, technological, legal and environmental factors) was undertaken and is presented with detailed profiles of each country and company. The country profiles include historical information, demographic characteristics, political situations, financial indicators and information regarding educational systems, transportation infrastructure, technological innovation, terrorism activity and legal status. The company profiles included information based on their history, international expansion, marketing mix, logistical system, supply chain management and financial position.

6.2 The fashion retailers

The annual reports provided by the four fashion retailers were used to identify the risk, subsequent impacts, and opportunities for sustainability in the marketplace and plans for the future. The annual reports for both Zara and H&M included detailed information about their supply chain management, risks faced by the two companies including ways of implementing solutions for them, financial data and their codes of ethics. The annual reports for Esprit and Mango however focused on the international expansions of these two firms paying less attention to risk and risk management.

6.2.1 Esprit

Esprit Holdings Ltd is a retail and wholesale distributor of lifestyle products designed under its own brand name. Esprit brand is internationally known for its women's wear, men's wear and children's wear ranges, shoes and accessories, and cosmetic products under the Red Earth brand name. It has over 660 directly managed retail stores and around 4,500 wholesale points-of-sale in more than 40 countries. Esprit is headquartered in Kowloon Hong Kong employing around 9,600

people and licenses its Esprit trademark to third party licensees that offer non-clothing products (Datamonitor, 2008a) (Lee Han Shih, 2009). According to the Group’s annual report 2007-2008, the company experienced substantial growth from 1976 and established its European head office in Germany. It invested in high potential markets within the European continent such as Germany, Benelux and France and continues to penetrate other markets in Eastern and South-Eastern Europe such as Poland, Czech Republic, Hungary and Serbia. In order to develop its business in such new markets and mitigate risks the company diversified itself following its customers’ requirements. The group divided its operations into three geographical areas; Europe, Asia Pacific and North America. For the year 2007-2008 86% of the operations were in Europe covering 56% of its wholesale, 43% retail and 1% licensing operations.

The main market has remained in Germany (46.7%) followed by the rest of Europe (40%), Asia (10.9%) and America & Others (2.4%). The turnover in Germany includes wholesale operations from countries such as Greece, Russia, Poland and Croatia. Additionally, the firm has developed a successful e-shop which is available in more than 10 countries in Europe. The company directly owns stores in ‘core markets’; Germany, Netherlands, France, Belgium, Great Britain, Austria, Denmark, Luxemburg, Finland and Norway. Its main strategy is to approach the markets through wholesale operations by collaborating with local partners. If the business is successful then the next step is to open its own retail segment in these markets which means wholly owned stores operating directly from the headquarters. Table 6.1 shows the total number of stores within Germany, Hungary, Czech Republic and Greece, covering operations via partnerships, wholly owned and shop-in-stores and online provision (Esprit Holding Ltd, 2008)(Mintel, 2007; 2008a; 2009). Germany has been included in the table as a country in which Esprit has established its European Headquarter and is referred as ‘core market’.

Table 6.1 Esprit Market Position

Esprit	Hungary	Czech Republic	Greece	Germany
Directly Managed Stores	N/A	N/A	N/A	140
Partnerships Stores	11	9	13	380
Shop-in-stores	2	5	15	3611
Online Sales	Yes	Yes	Yes	Yes

Hungary, Czech Republic and Greece belong to the countries in which the group started its operations in the last decade (2000-2010). All of Esprit's retailing performance is based on partnerships with local entrepreneurs. Greece has the majority of the company's' sales points in partnerships and shop-in stores. *Fokas Group* is the operator franchisee of Esprit in Greece and offers the franchise of the brand to private individuals. The 15 shop-in stores are located in *F Fokas*¹ Department Store in different locations in Greece such as Athens, Thessaloniki, Larisa, Xanthi and Crete. In Hungary and Czech Republic the group has developed partnerships directly with local individuals without the contribution of any operator. In Hungary SALAMANDER GmbH licences Esprit branded products to sell in their stores, while in Czech Republic *Reno Obuv* and *Heinemann* stores include a specific section for the Esprit brand (Esprit.com, 2009) (Esprit Holding Ltd, 2008).(A detailed profile of the company is given on the CD)

6.2.2 H&M

H&M (Hennes & Mauritz) is one of the world's largest and fastest growing fashion retailers. It is engaged in the design, production and retailing of clothing, cosmetics and accessories. Its clothing product range includes underwear and sportswear for men, women, children and teenagers. The company provides fashion and quality products at reasonable prices. H&M is known as the pioneer of 'fast fashion' as it combines fashion with effective, economic production by offering a wide range of clothes that can satisfy both those that search for good basics and those wanting the latest catwalk trends. H&M operated 1,738 stores in around 33 countries by the end of November 2008 and has direct sales operations in selected areas internationally. Germany is H&M's first market, accounting for nearly 25% of sales. The company has production operations in Asia and Europe (Datamonitor, 2008b; Mintel, 2008b, Verdict, 2009). In 2007 the company opened many new stores in new and existing markets, attracting new customers and consolidating its performance as a completely new store chain.

¹ F FOKAS is the name of the Groups retailing sector

H&M introduced its new footwear collection for men and women along with the new range using organic cotton, which was well received by consumers. Additionally, 2007 was the starting point for the company to further develop its online operations after it first launched in the Netherlands where it again experienced great success. The company expanded its online operations in Austria, Denmark, Finland, Germany, Holland, Norway, Sweden and Swedish Finland. They collaborated with famous names such as Roberto Cavalli, Kylie Minogue and Madonna and have become well known for offering fashion and quality at the best price. The first store was opened in 1947 and at the end of the fiscal year 2007 had 1,522 stores in 28 countries. H&M employs around 100 in-house designers together with buyers and pattern makers which enables them to refresh their stores daily with new fashion items. Rather than owning factories 700 independent suppliers are used in Asia and Europe in conjunction with 20 production offices. According to the company's financial indicators their profitability has developed strongly since 2000 as sales have increased almost 73% including VAT and profit after tax by 139%.

According to Managing Director Rolf Eriksen, the company's main aim is to open more stores all over the world including USA, Japan, Egypt and Saudi Arabia. He stated that H&M is a truly global retailer which operates mainly through wholly owned outlets in new markets. However in some markets where the regulations are more complex they have developed franchise operations with local groups. Alsaya Group is its main cooperative franchisee partner for approaching new markets such as Egypt, Saudi Arabia, Bahrain and Oman. Table 6.2 shows H&M's market position in the selected countries. Sweden is included in the table as the country in which H&M is headquartered and is the 'core market' for the company

Table 6.2 H&M Market Position

H&M	Hungary	Czech Republic	Greece	Sweden
Directly Managed Stores	8 100% effective ownership	14 100% effective ownership	10 100% effective ownership	156 100% effective ownership
Partnerships Stores	None	None	None	None
Shop-in-stores	No	No	No	Yes
Online Sales	Yes	Yes	Yes	Yes

The first H&M store in Hungary opened in 2005 and until the end of the fiscal year 2002 the company had a total of six wholly owned stores. The company entered Czech Republic in 2003 and in Greece in 2007. There are 14 stores in the Czech market and three in the Greek market. Germany is H&M's core market which covers one third of the sales by operating through 346 stores and generating profits in SEK (Swedish Krona) 25,487m (Sales in 2008). Sweden is their second market with 156 stores and profits of SEK 7,444m. The company offers an online sales facility in both of these main markets. (A detailed profile of the company is given on the CD)

6.2.3 Mango

Mango is an international Spanish company focusing on the design, manufacture and marketing of clothes and accessories for women and men under the MANGO/MNG brand name. It is headquartered in Barcelona and its main target segments are young, urban women and men. Mango is the second largest Spanish exporter in the textile sector after Inditex, the mother company of Zara. The company operates more than 1200 stores in 92 countries located on five continents. This strong expansion throughout Europe and the rest of the world resulted from the opening of company-owned stores, franchise outlets and concessions. Its main aim is to reach 3000 stores over the next ten years. Mango has developed its businesses in around 89 countries worldwide. It states in its annual report that the franchise system is used in countries where the cultural and administrative characteristics are different, by giving local people the opportunity to run their own businesses under a strong brand name (Mango Annual Report, 2007; FashionUnited, 2004a). Table 6.3 summarises Mango's market position and includes Spain as a country in which Mango has established its headquarters and is the 'core market' for the company.

Table 6.3 Mango Market Position

Mango	Hungary	Czech Republic	Greece	Spain
Number of owned stores	7	4	2	151
Number of franchise stores	2	2	10	109
Shop-in-stores	No	No	Yes	Yes
Online Sales	Yes	Yes	Yes	Yes

According to Mintel (2008) Mango's strategy concentrates on the international expansion of the brand, by opening new stores all over the world via company owned stores, franchises or concessions. The main qualities that the company promotes are youthfulness, sharing responsibilities and creating an environment for new ideas and positive attitudes which play a considerable role in developing its marketing strategies. The group envisages its products as quality garments based on in-house production at affordable prices, targeting a specific segment of the market that encompasses simplistic, dynamic, young urban women. Mango's brand, generally, has a strong design handwriting interpreting the season's trends into a young and colourful style (Mintel, 2008b; Anonymous, 2008b; Rodriguez, 2008).

According to the 2007 annual report, the company achieved a higher turnover in Hungary (1.16%), where the majority of its stores are owned, followed by Greece (0.95%) where the majority of its stores are franchised and Czech Republic (0.65% where the stores are franchised too. For the 2007 financial year the group had a net turnover of 1,333.127 Euro with sales of 1,039.573 Euro in the foreign markets covering 77.98% of the total sales. Also, Mango succeeded in communicating with consumers in different ways by phone, email, chat, fax or letters and accepts their suggestions, congratulations, complaints or requests for information. The company participates in many social projects directly or via specialist organisations. Its commitment to society is based on financial, non-financial and volunteer collaborations (Mango Annual Report, 2007). (A detailed profile of the company is given on the CD)

6.2.4 Zara

Zara belongs to Spanish retail group Inditex which is engaged in textile design, manufacturing and the distribution of fashion products. The group is headquartered in La Coruna, Spain. The group has other fashion brands such as Massimo Dutti, Pull and Bear, Oysho, Uterqüe, Stradivarius and Bershka. The first Zara store opened in 1975 in A Coruna Spain. The company has 1,475 stores located in major cities in around 71 countries around the world offering fashionable women's wear, men's wear and children's wear, accessories, cosmetics,

fragrances and home ware at affordable prices (Verdict, 2008; Datamonitor, 2008c, Dutta,2002; ,2002).

The philosophy of the group is to characterise the brand in terms of uniqueness, innovation and flexibility. Creativity, design and quality together with a rapid response to market demands have resulted in fast international expansion and excellent response to its sales concepts. The Inditex business model is vertical, locating the customers at the centre of its activity. Its main aim is to offer the customer a unique shopping experience when visiting its stores, and always satisfying their demands. As stores are the places where the company has direct communication with customers, they devote significant effort to location and image to attract the attention of customers. Zara is the most successful chain of the group and the most well received by its customers. Europe has become a domestic market where the group has considered expansion. The European markets continue to be responsible for the majority of the group’s openings, surpassing 80% of the new stores opened during 2006. Spain continues to be the main market in which the group generates a significant amount of profits. Almost in every European city Inditex has opened a Zara store (Dutta, 2002; Enotes, 2009).

Inditex has around 2,661 stores in the European continent according to the annual report 2006-2007, while Zara has 761 stores and represents 65% of the group’s sales. All Zara stores in Europe are wholly owned by the Inditex group. However, Zara has franchise operations in regions where the regulations do not permit the wholly owned model. Of all the Zara stores, 90% are directly managed by the group while only 10% are under franchise agreements (Enotes, 2009). Table 6.4 summarises Zara’s store information in the three markets in comparison with its ‘core market’ in Spain.

Table 6.4 Zara market position

Zara	Hungary	Czech Republic	Greece	Spain
Number of owned stores	3	5	41	286
Number of franchise stores	None	None	None	None
Shop-in-stores	No	No	No	No
Online Sales	No	No	No	No

The group recorded revenues of 9,434 million Euros during the fiscal year 2008, with an increase of 15.1% over 2007. The net income rose by 9% year-on-year (12% in local currencies on a constant basis) and the gross profit rose by 11% year-on-year resulting in a higher gross margin. Operating profits also rose by 7% on a yearly basis. Zara's segment of the group has reported revenues of 6,661.2 Euro, experiencing an increase of around 17% over 2007. Zara is one of the fastest growing businesses in Europe's retail landscape. This success is a result of its in-house design team based in A Coruna and the tight control of its factory and distribution network. More than half of the company's factories are situated in Europe which ensures rapid movement of inventory (Datamonitor 2008c). At the end of 2008, Zara Home operated 204 stores in 20 countries and reported a 45% increase on sales to 201 million Euros. According to Mintel (2008), Zara accounts for an increasingly large share of the total store numbers with 37% while now it incorporates the Kiddy's Class stores and accounts for 67% of all sales space. (A detailed profile of the company is given on the CD)

6.3 Findings from the Observations

This section presents information obtained from the observations that were conducted and includes the performance of each company and the marketing strategies that have been developed to attract customers and to gain competitive advantage in the three countries. The strategies discussed relate to visual merchandising (interior - such as lights, music environment, merchandising presentation and exterior - such as window display with seasonal range changes or new arrivals), advertisement campaigns, product availability, signs and signage (brand logo, location, information points, promotions), available currency, trading hours, payment methods and pricing strategies. Also virtual observations were taken place through their websites to collect additional data regarding their operations. A template was developed (see Appendix 4) to aid the data collection process using sets of questions providing a framework for the observation process. The observation was used in order to enrich the secondary data and served well by helping clarify each company's business strategies by contributing indirectly to the assessment of the risks as the business strategies in each marketplace have resulted from the risk appetite of each company.

6.3.1 Esprit

At the time of the observations, Esprit had six partnership stores in Budapest, two of which were visited, the first in the popular pedestrianised tourist street Vaci utca 9 located in the **city centre** close to the Danube River and the second at **WestEnd City Centre shopping mall**. Four partnership stores were located in Prague's city centre. However, only one store was visited as it was the only one which was situated in the city centre, satisfying the observations main criteria and was situated within the **Palladium Shopping Centre** very close to Wenceslas **Square**. Three partnership stores were located *in Athens*, two of which were situated in the **city centre** High Street Ermou street 19, one of which was visited, and the third store was located in '**The Mall**' **Shopping Centre** Marousi, 35, Andrea Papandreou street, which was also visited. In addition to these stores Esprit was also located within the large department store FOKAS in Athens city centre and Sales Style in Halandri in the suburbs. The company also licensed its products such as accessories, home ware and shoes to third parties. Table 6.5 summarises further findings for Esprit Holdings in the three countries and table 6.6 summarises data from the observations collected using direct and virtual observations related to the 4 P's model (Place, Product, Promotion and Price) showing the similarities and differences within the three countries. As it can be seen, Esprit used the same method of franchise partnerships to enter the three markets. The stores have many similarities, as they are following the same strategies which are stipulated by the mother company. Few differences were found to exist in product availability, the currency options available to consumers or in the promotional efforts as they also have to follow the local requirements.

Table 6.5 Esprit Observation Summary

ESPRIT						
TYPE OF ENTRANCE	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
	Franchise-Partnership Licensing		Franchise-Partnership Licensing		Franchise-Partnership Licensing	
LOCATION	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
		Y	Y	N	Y	Y
TRADING DAYS Monday to Sunday Monday to Saturday	Y	Y	Y	Y	Y	Y
AVAILABLE CURRENCY Forint (HUF) Czech Crown (CZK) Euro €	Y	Y	Y	Y	Y	Y
PAYMENT METHODS Cash Credit/Debit Cards	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
STORE LAYOUT	Mixed	Mixed	Mixed	Mixed	Mixed	Mixed
MERCHANDISE PRESENTATION Shelving Hanging Folding	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y
SIGNS-SIGNAGE Promotional Location Brand Logo Information	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y
STORE WINDOW Seasonal Changes New Arrivals	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
INSTORE ATMOSPHERE Lights Music Environment	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music, Clean and tidy	Spots lights Pop music Clean and tidy

Table 6.6 Esprit 4 P's

ESPRIT						
COUNTRY	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
PLACE	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
	Y	Y	N	Y	Y	Y
PROMOTION						
Magazines	Y	Y	Y	Y	Y	Y
Newsletters emails	Y	Y	Y	Y	Y	Y
Online shopping	Y	Y	Y	Y	Y	Y
Gift Cards	Y	Y	Y	Y	Y	Y
Billboards instore	N	N	Y	Y	Y	Y
Billboards on the road	N	N	N	N	Y	Y
PRODUCTS						
accessories	Y	Y		Y	Y	Y
bodywear - women	N	N		N	N	N
casual - men	Y	Y		Y	Y	Y
casual - women	Y	Y		Y	Y	Y
collection - men	N	N		Y	N	N
collection - women	N	N		Y	Y	N
de.corp	N	N		N	N	Y
edc - men	N	N	N/A	Y	Y	Y
edc - women	Y	Y		Y	Y	N
eyewear	N	N		N	N	N
jewel	N	N		N	N	N
kids	N	N		N	N	N
shoes	N	N		N	Y	N
socks+tights	N	N		N	N	N
timewear	N	N		N	N	N
sports-men	N	N		Y	N	N
sport women	N	N		Y	N	N
Licensing products such as shoes textiles, Accessories	Y	Y		Y	Y	Y
PRICE						
Medium bag for women	25.95-79.95 Euro		25.95-79.95 Euro		25.95-79.95 Euro	
Polo shirt for men	9.95-39.95 Euro		9.95-39.95 Euro		9.95-39.95 Euro	
Black trousers for women	25.95 Euro		25.95 Euro		25.95 Euro	
Jean for Kids	N/A		N/A		N/A	

6.3.2 H&M

In Hungary, H&M had eight stores in total at the time of the observations. Two were visited in the popular tourist street **Vörösmarty ter 2 and Váci utca 12** in Budapest's city centre which is located very close to the Danube River) as there were no H&M stores in the nearby shopping mall. The first store was located in Vörösmarty ter 2, which is a traditional square where many other well known retailers were found. Here visitors are able to combine a nice walk near the river viewing the traditional architecture of Budapest with a shopping trip resulting in a unique shopping experience. The store location was in a particularly preferential position as it was near a Metro station making access easy, while the store situated in Váci utca 12 was more simplistic where the whole environment, including the lighting, store layout, signage and merchandise presentation was the same but with a limited range of stock. In Czech Republic H&M had 17 stores in total, two were visited, one located in the pedestrian street **Na Příkopě** which is in the middle of the New town, the Old town and Wenceslas Square and the second located inside the **Palladium Shopping Centre**. Ten stores were located in Greece, of which two were visited, one located in the pedestrian street **Ermou** in the heart of Athens, opposite Esprit and close to Zara and Mango and the second, in the shopping '**Center Athens Heart**' located in Pireos Avenue. Table 6.7 summarises the findings from the observations in the three countries. H&M had opened wholly owned stores in the three markets and as it can be seen they apply exactly the same strategy in all three countries. The same products are offered following the same promotions and store performance under one brand image. Table 6.8 depicts the 4 P's model for H&M in the three markets.

Table 6.7 H&M Observation Summary

H&M						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
TYPE OF ENTRANCE	Wholly owned		Wholly owned		Wholly owned	
LOCATION	HIGH STREET	MALL (2nd store in high street too)	HIGH STREET	MALL	HIGH STREET	MALL
	Y	Y	Y	Y	Y	Y
TRADING DAYS Monday to Sunday Monday to Saturday	Y	Y	Y	Y	Y	Y
AVAILABLE CURRENCY Forint (HUF) Czech Crown (CZK) Euro €	Y	Y	Y	Y	Y	Y
PAYMENT METHODS Cash Credit/Debit Cards	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
STORE LAYOUT	Mixed	Mixed	Mixed	Mixed	Mixed	Mixed
MERCHANDISE PRESENTATION Shelving Hanging Folding	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y
SIGNS-SIGNAGE Promotional Location Brand Logo Information	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y
STORE WINDOW Seasonal Changes New Arrivals	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
INSTORE ATMOSPHERE Lights Music Environment	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy	Spots lights Pop music Clean and tidy

Table 6.8 H&M 4P's

H&M						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
PLACE	HIGH STREET	MALL (high street too)	HIGH STREET	MALL	HIGH STREET	MALL
	Y	Y	Y	Y	Y	Y
PROMOTION						
Magazines	Y	Y	Y	Y	Y	Y
Newsletters emails	Y	Y	Y	Y	Y	Y
Online shopping	Y	Y	Y	Y	Y	Y
Gift Cards	Y	Y	Y	Y	Y	Y
Billboards instore	N	N	Y	Y	Y	Y
Billboards on the road	N	N	N	N	Y	Y
PRODUCTS						
Fashion Against AIDS						
Ladies						
Ladies	N	N	N	Y	N	N
Men	N	N	N	Y	N	N
Young	N	N	N	N	N	N
Ladies						
H&M Ladies	Y	Y	Y	Y	Y	Y
H&M Trend Ladies	Y	N	N	N	Y	N
H&M L.O.G.G.	Y	Y	N	Y	Y	Y
Urban Basics	N	Y	N	N	Y	N
H&M Sport	N	Y	Y	N	N	N
H&M BIB	N	N	N	N	N	N
H&M Mama	Y	N	Y	N	N	Y
&Denim	Y	Y	Y	Y	Y	Y
Underwear	Y	Y	Y	Y	N	Y
Cosmetics	N	N	N	N	Y	N
Accessories	Y	Y	Y	Y	Y	Y
Ladies Shoes	N	Y	N	N	Y	N
Men						
H&M Men	Y	N	Y	Y	Y	N
Man Trend	N	N	N	N	N	N
H&M Man Modern Classic	Y	N	Y	N	N	N
H&M L.O.G.G.	Y	N	Y	Y	Y	N
H&M Sport	N	N	N	N	N	N
&Denim	Y	N	Y	Y	Y	N
Underwear	Y	N	Y	Y	Y	N
Accessories	Y	N	Y	Y	Y	N
Kids						
H&M Baby	Y	N	Y	N	N	Y
H&M Kids	Y	N	Y	N	N	Y
H&M Young	N	N	N	N	N	N
H&M L.O.G.G.	Y	N	Y	N	N	Y
&Denim	N	N	N	N	N	Y
Underwear	Y	N	Y	N	N	Y
Accessories	Y	N	Y	N	N	Y
Young						
Divided Female	N	N	N	Y	N	N
Divided Male	N	N	N	Y	N	N
Home	N	N	N	N	N	N
PRICE						
Medium bag for women	6990 HUF		499Kc		17.95 EURO	
Polo shirt for men	3990HUF		399Kc		14.95EURO	
Black trousers for women	7990HUF		399Kc		14.95EURO	
Jean for Kids	5490HUF		799Kc		24.95EURO	

6.3.3 Mango

Mango stores in Budapest had their own identity because they were franchised to private owners. Two stores were visited, the first was located in **WestEnd shopping centre** the same as Esprit and the second in **Vaci utca**. Mango had three stores in Prague, though only one was located in the city centre itself the other two were situated in the suburbs. The store visited in the popular market street **Na Prikope, 8** occupied the ground floor of a classical building and had a winter collection on display in the store window (the visit had taken place at the beginning of September). Mango had five stores in the heart of Athens, three of which were independent stores, one in the Mall Shopping Centre and one within F-Fokas department store. The first of the two stores visited was located in the most popular market street of **Athens, 39 Ermou** and the second in **The Mall Shopping Centre in Maroussi**. Mango was found to have used two types of entry method; wholly owned and franchises to private franchisees. The stores had many similarities following the strategy set by the headquarters. As a number of stores belonged to private owners, differences in store image were noted. A very good example was evident in the two stores visited in Budapest where the customer could easily identify the brand name but the stores offered different apparel items and also had a totally different window-image. Table 6.9 depicts a summary of the findings from the observations in the three countries. Table 6.10 summarises the information related to the 4 P's model showing the similarities and differences among the three countries.

Table 6.9 Mango Observation Summary

MANGO						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
TYPE OF ENTRANCE	Wholly owned		Wholly owned		Wholly owned	
LOCATION	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
	Y	Y	N	Y	Y	Y
TRADING DAYS						
Monday to Sunday	Y	Y	N/A	Y		
Monday to Saturday					Y	Y
AVAILABLE CURRENCY						
Forint (HUF)	Y	Y				
Czech Crown (CZK)			N/A	Y		
Euro €					Y	Y
PAYMENT METHODS						
Cash	Y	Y		Y	Y	Y
Credit/Debit Cards	Y	Y	N/A	Y	Y	Y
STORE LAYOUT	Mixed	Mixed	Mixed	Mixed	Mixed	Mixed
MERCHANDISE PRESENTATION						
Shelving	Y	Y	Y	Y	Y	Y
Hanging	Y	Y	Y	Y	Y	Y
Folding	Y	Y	Y	Y	Y	Y
SIGNS-SIGNAGE						
Promotional	Y	Y	Y	Y	Y	Y
Location	Y	Y	Y	Y	Y	Y
Brand Logo	Y	Y	Y	Y	Y	Y
Information	Y	Y	Y	Y	Y	Y
STORE WINDOW						
Seasonal Changes	Y	Y	Y	Y	Y	Y
New Arrivals	Y	Y	Y	Y	Y	Y
INSTORE ATMOSPHERE						
Lights	Spots&decor	Spots&decor	Spots&decor	Spots&decor	Spots&decor	Spots&decor
Music	Pop music	Pop music	Pop music	Pop music	Instrumental	Instrumental
Environment	Clean and tidy	Clean and tidy	Clean and tidy	Clean and tidy	Clean and tidy	Clean and tidy

Table 6.10Mango's 4P's

MANGO						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
PLACE	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
	Y	Y	N	Y	Y	Y
PROMOTION						
Magazines	Y	Y		Y	Y	Y
Newsletters emails	Y	Y		Y	Y	Y
Online shopping	Y	Y		Y	Y	Y
Gift Cards	Y	Y	N/A	Y	Y	Y
Billboards instore	N	N		Y	Y	Y
Billboards on the road	N	N		N	Y	Y
Catalogue	Y	Y		Y	Y	Y
PRODUCTS						
Women						
Daywear	Y	Y	N/A	Y	Y	Y
Occasion	Y	Y		Y	Y	Y
Lingerie	Y	Y		Y	Y	Y
Accessories	Y	Y		Y	Y	Y
Shoes	Y	Y		Y	Y	Y
HE Stores	N	N		Y	N	N
Zuhair Murad Stores	N	N		Y	N	N
LeeJeans Stores	Y	Y		Y	N	N
PRICE						
Medium bag for women	4,995HUF		499Kc		17EURO	
Polo shirt for men	N/A		799Kc		N/A	
Black trousers for women	5,445HUF		549Kc		19EURO	
Jean for Kids	N/A		N/A		N/A	

6.3.4 Zara

Zara had three stores in Hungary though only one was situated in the city centre and located in **Váci utca**, almost opposite Mango and Esprit's stores and near to H&M. The logo could easily be identified. In Czech Republic five stores were found though only one was located in the city centre and none in nearby shopping malls. For this reason only one Zara store was visited which was located within a three floor store building which offered clothing for men, women, children and also accessories and shoes. Six stores were located in the centre of Athens, where again only one store was visited located in the popular tourist high street **Ermou 9** in the city centre, very close to Mango, Esprit and H&M. Table 6.11 depicts a summary of the findings from the observations in the three countries. Table 6.12 summarises information related to the 4 P's model showing the similarities and differences of Zara among the three countries. Zara stores had more similarities than differences as it can be seen that the company follows exactly the same strategy in all three countries. The only significant difference was with the affinity cards which were only available in Greece. The Affinity Card can be used to pay for goods in all the establishments of the eight commercial formats of the Inditex Group in Spain (Zara, Kiddy's Class, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home) And as yet is only available in Spain, Greece and Mexico.

Table 6.11 Zara Observation Summary

ZARA						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
TYPE OF ENTRANCE	Wholly owned		Wholly owned		Wholly owned	
LOCATION	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
	Y	N	Y	N	Y	N
TRADING DAYS Monday to Sunday Monday to Saturday	Y	Y	Y	Y	Y	Y
AVAILABLE CURRENCY Forint (HUF) Czech Crown (CZK) Euro €	Y	Y	Y	Y	Y	Y
PAYMENT METHODS Cash Credit/Debit Cards	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
STORE LAYOUT	Mixed	Mixed	Mixed	Mixed	Mixed	Mixed
MERCHANDISE PRESENTATION Shelving Hanging Folding	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y	Y Y Y
SIGNS-SIGNAGE Promotional Location Brand Logo Information	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y	Y Y Y Y
STORE WINDOW Seasonal Changes New Arrivals	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y
INSTORE ATMOSPHERE Lights Music Environment	Spots lights Pop Clean and tidy	Spots lights Pop Clean and tidy	Spots lights Pop Clean and tidy	Spots lights Pop Clean and tidy	Spots lights Pop Clean and tidy	Spots lights House Clean and tidy

Table 6.12 Zara's 4P's

ZARA						
	Hungary-Budapest		Czech Republic-Prague		Greece-Athens	
PLACE	HIGH STREET	MALL	HIGH STREET	MALL	HIGH STREET	MALL
	Y	N	Y	N	Y	N
PROMOTION						
Magazines	Y		Y		Y	
Newsletters emails	Y		Y		Y	
Online shopping	N	N/A	N	N/A	N	N/A
Gift Cards	Y		Y		Y	
Billboards instore	Y		Y		Y	
Billboards on the road	N		N		Y	
PRODUCTS						
Women						
Daywear	Y		Y		Y	
Occasion	Y		Y		Y	
Lingerie	Y		Y		Y	
Accessories	Y		Y		Y	
Shoes	Y		Y		Y	
		N/A		N/A		N/A
Men						
Casual	Y		Y		Y	
Jeans	Y		Y		Y	
Accessories	Y		Y		Y	
Shoes	Y		Y		Y	
Children						
Boys & Girls from 0-16 years old	Y		Y		Y	
PRICE						
Medium bag for women	32,990HUF		4,399 Kc		35.95 EURO	
Polo shirt for men	3,990HUF		499 Kc		9.99 EURO	
Black trousers for women	8,990HUF		1,399 Kc		19.99 EURO	
Jean for Kids	6,990HUF		1,299 Kc		16.95 EURO	

6.4 Risk Management Techniques by Fashion Retailers

Companies develop risk management techniques by identifying and assessing the effect of uncertainties in their operations in order to establish their presence in the market. These strategies include ways to avoid the risk, transferring it to another party or accepting some or all of the consequences. In the following section, the risk each company has identified when operating internationally and the tools each has developed in order to enable them to face these risks according to their risk appetite and nature are presented. The four selected companies have a similar risk assessment model based on financial, social, environmental and supply chain risks.

6.4.1 Esprit

The group, by competing in the international marketplace, has identified some of the risks and in doing so has developed some specific tools to implement in order to minimise or control them. The risks are presented as financial, social, environmental and supply chain risk factors. The group declares its revenues on the basis of distribution channels as wholesale, retailing and licensing. The group has a strong balance sheet and is not dependent on external resources for funding its growth plans (Esprit Holdings Ltd, 2008). Table 6.13 shows the risks that the company had reported.

Table 6.13 Esprit Risks

TYPES OF RISKS	ESPRIT
Financial	<ul style="list-style-type: none"> • Credit risk • Exchange rate risk • Interest risk • Liquidity Risk
Social	<ul style="list-style-type: none"> • Counterfeit products. • Non-compliance with the Code of Ethics from employees, suppliers and partners. • Quality and safety • Legislation • Competition with other private companies • Market risk–demanding customers
Environmental	<ul style="list-style-type: none"> • Environmental Issues
Supply Chain	<ul style="list-style-type: none"> • Risks that can either disrupt the chain from the suppliers to the central warehouse or warehouse to the stores. • Integration and outsourcing.

Derivative financial instruments are used by the finance team to hedge certain risk exposures. It is obvious that its international operations expose it to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk essentially arises from future commercial transactions and recognised assets and liabilities. For this reason, for the group to minimise foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia are asked to quote and settle in Euro and also to manage the foreign exchange risk arising from future commercial transactions. The group enters into foreign currency forward contracts with reputable financial institutions in order to hedge foreign exchange risk (Esprit Holdings Ltd, 2008).

The group's credit risk is primarily attributable to trade and other debtors and deposits with banks. There is no concentration of credit risk with respect to trade debtors as the group has a large number of internationally dispersed customers. It has policies in place to ensure that sale of wholesale product are made to customers with an appropriate credit history. Sales to retail customers are made in cash, bank transfer or by credit card. The group grants credit for a period which is usually 30 to 60 days to certain wholesale and franchise customers. The group does not hold any collateral over the trade debtors and manages credit risk mainly by purchasing credit guarantee insurance and arranging the trade debtors to be covered by letters of credit or bank guarantees. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilisations of credit limits are monitored regularly. The credit risk on deposits with banks is limited because the group mainly places the deposits in banks with a high credit rating and management does not expect any losses from non-performance by banks. Liquidity risk is managed by continuously monitoring forecast and actual cash flows, by keeping sufficient cash and cash equivalents and by maintaining adequate banking facilities. The group does not have significant financial liabilities except for creditors and accrued charges which have contractual maturities of less than one year. As the group has no interest-bearing borrowings, exposure to change in interest rates, which is mainly attributable to interest-bearing assets, including bank balances and short-term bank deposits are therefore negligible and there are no interest charges (Esprit Holdings Ltd, 2008).

Almost 50% of the company's total revenue is generated from Germany which is a disadvantage as income growth is limited by the growth potential of the economy they are therefore exposed to risks associated with the economy. The size of the group is relatively small in comparison with its competitors such as Inditex and H&M who have economies of scale in both funding and administrative expenses. As Esprit does not have this inability to face pricing pressures may result. Another consideration of importance is counterfeit products. Many of Esprit products have been copied and sold as originals (Esprit Holdings Ltd, 2008). For this reason the main objective of the group is to create stylish products at reasonable prices which are readily accessible to their customers.

In the supply chain the company is very much concerned first of all with quality, paying great attention to its cosmetics range. New stricter regulations in EU can be risky for the group if it is not able to comply. In addition the group tries to maintain sustainable relationships with shareholders, partners, employees and suppliers by engaging with several social activities; charities, donations and grants. At the same time it promotes environmental awareness-ECO Desk which is the environmental and social department sources product from 200 suppliers worldwide. Careful selection of suppliers and close monitoring can ensure high standards in the production of the product and the supply chain as well as product quality. All the partner companies have to comply with the Business Social Compliance Initiative (BSCI) and all the suppliers and their subcontractors must comply with the code. For ensuring the best practice of the BSCI, the group closely monitors its suppliers and manufacturers and maps their performance in their supplier management system. Esprit's supply chain is web-based which equates to a very well structured and developed IT system which provides information throughout the entire process from the pre-transaction negotiation stage to proof of delivery. The main aim of the group is to offer the customers the right product to the right market at the right time. This results in a high volume of product to be shipped or delivered directly to the stores from the suppliers or partners (Esprit Annual Report, 2008; Oxfam, Hong Kong, 2009). Table 6.14 presents the ways Esprit manages the risks.

Table 6.14 Esprit Risk Management

Types of Risks	ESPRIT
Financial	<ul style="list-style-type: none"> • Monitor and forecast actual cash flows. • Keep sufficient cash • No significant financial liabilities except for creditors and accrued charges which have contractual maturities less than 1 year. • No interest or borrowings. • The group does not have any interest charges. • The income growth of the company is limited by the growth potential of the economy. • The group is exposed to risks associated with the economy. • The group's size is small in comparison with other competitors such as Inditex and H&M have economies of scale in both funding and administrative expenses. This may result the inability of the group to face any pricing pressure. • Strong balance sheet. It is not depend on external resources for funding its growth plans. • Use derivative financial instruments to hedge certain risk exposures. • For minimizing foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia are asked to quote and settle in Euro.
Social	<ul style="list-style-type: none"> • Quality concerning the cosmetic products. New more strict regulations in EU can be a risk for the group if it is not able to comply with them • Code of conduct • Sustainable relationships shareholders, partners, employees and suppliers. • Engage with social activities; charities, donations and grants. • Size research developing European, Asian and American sizes.
Environmental	<ul style="list-style-type: none"> • Promote environmental awareness-ECO Desk which is the environmental and social department.
Supply Chain	<ul style="list-style-type: none"> • Three distributions channels; retailing, wholesale and licensing • close collaboration with suppliers and monitor them (around 200 suppliers) • Development of and IT Infrastructure • Logistical system to third parties. • All companies have to comply with the Business Social Compliance Initiative (BSCI).All the suppliers and their subcontractors must comply with the code. • Production in Asia-lower cost. • Comply with BSCI requirements.

6.4.2 H&M

H&M is well known globally operating in Europe, Asia and USA. This global presence has inherent significant risks which must be taken into consideration. The risks that have been identified by the company fall in the areas of financial, social, environmental and supply chain. The group has developed tools in order to manage and mitigate these risks and control any disruption. Their business consists mainly of the sales of clothing and cosmetics direct to consumers. In order to develop its business in the most efficient way, it has divided its operations into three geographical areas: the Nordic region, Euro Zone countries excluding Finland, and the rest of the world. As it is reported, the risks and opportunities are similar in each area. Table 6.15 shows H&M's risks which were reported in their annual report.

Table 6.15 H&M Risks

Types of Risks	H&M
Financial	<ul style="list-style-type: none"> • Credit risk • Exchange rate risk • Interest risk • Liquidity Risk
Social	<ul style="list-style-type: none"> • Market risk –demanding customers • Change of the trends-Fashion • Climate changes-weather • Quality and Safety • Legislation • Non-compliance with the Code of Ethics from employees, suppliers and partners
Environmental	<ul style="list-style-type: none"> • Environmental Issues
Supply Chain	<ul style="list-style-type: none"> • Risks that can either disrupt the chain from the suppliers to the central warehouse or warehouse to the stores. • Quality of the products.

There are a number of factors related to the nature of the business that can have an affect including the fashion product itself which constantly changes the weather, textile quotas and foreign currency. As fashion trends are ever changing there is always the possibility that anticipated new trends are not acceptable to customers. For this reason H&M control the volume of their products but always balances the mix of fashion casuals with on trend items. Also by operating in different markets the company has focused on following local preferences, paying attention to cultural and seasonal needs. All the clothing styles are similar but differences may occur in order to satisfy all of the customers. The weather is an important consideration as all the goods are launched to stores on the basis of normal weather conditions for the season. If the weather does not follow the expected normal seasonal patterns, such as warm, dry summers and cold, wet winters, then this can affect sales. Foreign currency is an important consideration in any business process. The most significant purchase currency for the group is US Dollars and Euro. In order to minimise risk, the product is exchanged in foreign currency to reduce the effects of future exchange rates the majority of the group’s products are hedged under contracts on an ongoing basis throughout the year. Transaction risk exists because of the changes in exchange rates between local currencies of various subsidiaries and the strength of the Swedish Krona (H&M Annual Report 2007; 2008).

The management of financial risk is made centrally from the group's financial department according to the policies established by the Board of Directors. Financial policy is the most important financial control tool for the company's financial activities and establishes the framework within which the company works. In the course of doing business the group is exposed to risk associated with financial instruments such as liquid funds, short-term investments, accounts receivable and accounts payable. Liquid fund covers cash and balances as well as short term investments. At this point no sufficient risk is carried by these investments. The group also executes transactions involving currency derivatives for the purpose of managing currency risk that arises in the course of the group's business. Derivative instruments comprise forward currency contracts used to hedge the risk of exchange rate fluctuation for internal and external product flows. The risks relating to these instruments are primarily the following: Interest risk associated with liquid funds and short-term investments; Currency risk associated with foreign currency flows; Credit risk associated with financial assets and derivative positions including risk arising in connection with sales on credit in the group's internet and catalogue sales (H&M Annual Report 2007;2008).

Additionally, leasing agreements have substantial risks and benefits. Rental agreements for premises are the only agreements that the group has, the legislation of which follows agreements of the leaser in each country. H&M uses the COSO framework (chapter 4, section 4.3.2) as a basis for internal control over financial reporting. The COSO framework, which is issued by the Committee of Sponsoring Organisations of the Treadway Commission, is made up of five components: control environment, risk assessment, control activities, information and communication and monitoring. The control environment forms the basis of internal control and it is related to ethical values and integrity, expertise, management philosophy, organisational structure, responsibility and authority, policies and guidelines, as well as routines. The Code of Ethics is a policy which describes the way in which colleagues should act in relation to the company and in business transactions with suppliers. H&M carries out a regular risk analysis to review the risks of errors within its financial reporting (H&M Annual Report 2007; 2008; H&M CSR, 2007).

Operational risks are also charted on an ongoing basis. Among other things, during the year the company carries out a thorough update of the risk analysis in order to obtain an overall picture of the main risks within each function as well as the systems and methods that are in place to minimise any impact of a risk. Where financial reporting is concerned, H&M has identified certain areas with a higher intrinsic risk of errors, including stock-in-trade shrinkage, cash-desk manipulation and misappropriation of merchandise. Another risk area is the valuation of stock-in-trade, including assessments relating to dead stock. To limit the risks there are appropriate policies and guidelines as well as processes and controls within the business. Table 6.16 summarises the H&M's risk management strategy (H&M Annual Report 2007; 2008).

Table 6.16 H&M Risk Management

TYPE OF RISKS	H&M
Financial	<ul style="list-style-type: none"> • The group hedge the currency risk through contracts. • All the financial indicators are settled in Euro and US dollars. • To limit the credit risk, toward contract transactions are only executed with counterparties with good credit rating. Funds are only invested in banks with a minimum rate.
Social	<ul style="list-style-type: none"> • Code of conduct • Sustainable relationships with partners, employees and suppliers • Product Recalls • High quality requirements • Product policy
Environmental	<ul style="list-style-type: none"> • Organic Cotton • Green Logistics • Efficient use of resources • Chemical restrictions to suppliers
Supply Chain	<ul style="list-style-type: none"> • Around 700 independent suppliers in Asia and Europe • 20 Production offices around the world • Have few middlemen • Buy large volumes of casual clothing, smaller volumes on trendier product.

6.4.3 Mango

The Mango group created a Board of Administration made up of eight members with a professional profile and extensive experience in the apparel retail sector. The main purpose of this board is to identify possible risks that can affect the company and identify opportunities and solutions in order to minimise the impact on the company's performance. For this reason the board periodically reviews such risks determining the appropriate strategy for further investment based always on the criteria of profitability opportunity. Risks that have been identified by the company are presented in table 6.17.

Table 6.17 Mango Risks

TYPES OF RISKS	MANGO (Private company founded in Spain)
Financial	<ul style="list-style-type: none"> • Taxation (The company does not specify financial indicators such as credit, exchange or interest rate risk)
Social	<ul style="list-style-type: none"> • Aspect cooperation with the society (employment, quality of life of the employees and all the people who contribute in this business. • Legislation • Non- compliance with the Code of ethics from sides, suppliers and partners
Environmental	<ul style="list-style-type: none"> • Environmental Issues
Supply Chain	<ul style="list-style-type: none"> • Quality and safety of the products • Import and export Barriers • Production and delivery not on time

The group has divided the risks into four sectors; financial risk, social risk, environmental risk and supply chain risk. Mango's report does not give detailed information about financial indicators which are focused on financial, credit, liquidity and interest rate risk. The financial risk exists in each business when it operates internationally and deals with different currencies. According to Mango's report the company direction is to open as many stores as possible in different markets, approaching them mainly through franchise agreements which are a strong criterion of gaining more profits and minimising the risk. However, competitive advantage is always a priority, so for this reason the purpose of the Board of Administrators is to monitor the opportunities the company has in regard

to its present and future needs. It can be said that the board is acting as a risk management team. However its creation is so recent that the results of its work will only be visible in the future concerning a focused and effective risk management. Mango complies with the trading law of each country in which it operates in and is always aware of the local legislation, the changes in taxation, and the import and export barriers. Hungary, Czech Republic and Greece belong to the European Union so Mango and any company trading within the Union have to face the same trading laws which facilitate the movement of goods within the EU country members. Therefore, the local legislation from country to country may differ on a basis of prerequisites of opening and running a business, taxation and labour cost and rights. Mango reported on respecting and following each country's regulations.

In addition, Mango's team works on the trends and specific characteristics appertaining to each country or region. The franchisees who are independent businessmen are invited to the headquarters to work with the firm to decide what stock is suitable for their region. If it does not succeed in following the local preferences of each country then the consumers will not be satisfied and they will lose their competitive advantage. Every season workshops are held in the head office to analyse trends and decide together with the franchisees which products from garments to accessories are suitable for their store. The satisfaction and loyalty of the final customers are a priority and the reason why the company exists. Well designed stores are stocked with goods selected to allow customers to choose and combine garments with ease. Strict quality control through the whole supply chain process ensures the best quality (Mango Annual Report; 2007).

In relation to supply chain risk, the company has applied strict prerequisites on selecting a supplier who must have a strong profile. There are established procedures for internal and external control and the suppliers are monitored either directly from the firm's staff or jointly by partners. Mango's perception is to establish long-term relations with the suppliers and good cooperation with any partner. Additionally the company has established a strict policy for product quality and safety. This risk is controlled to detect and eliminate garments or accessories from its collection that do not meet with their standards. To achieve the best

quality clear instructions are given to suppliers and they are continually monitored by specialised laboratories.

Mango's main aim is to have the best relations with suppliers, logistics operators and store/franchisees. To support this initiative they use an IT system which can provide constant information to the suppliers/manufacturers for seasonal planning and specifications of the models. It is an interactive tool giving the supplier the opportunity to leave queries or comments. Mango has two production systems the first involves designing a product outsourcing it, manufacturing and acquiring it ready to retail, the second requires designing the product, the company then purchases the materials and sends them to the suppliers to complete. Also, it forecasts the stock before each season by collecting information from the sales in each store. In this way it is able to avoid surplus stock enabling discounts and promotions. The company's environmental impact is external from the transport and production activities. The rationalisation of good deliveries and the monitoring of environmental aspects in production plants are undertaken from internal and external audits. The principal aim of the company is to obtain the ISO 14001 certification for all the offices and distribution centres which is the final stage. Mango has developed a strong environmentally friendly profile by putting in place a series of best environmental activities which includes the parts of the business, the headquarters, the logistical centres, the transportation means, the suppliers and the stores (Mango Annual Report, 2007; Mango.com,2009).

Additionally social and employment aspects can become a considerable risk for the company's sustainability and lies in possible non-compliance with the code of ethics and the code of conduct established for the suppliers. Specific procedures have been developed concerning the labour and social standards. This code of working practice is based on fundamental guidelines of the agreements of the ILO (International Labour Organisation) and other values and principles of the group. This code does not permit child labour, forced or compulsory labour, it does however ensure health and safety in the workplace, freedom of association and the right to collective bargaining, non- discrimination, compensation and respect to working hours (Mango Annual Report, 2007; Mango.com,2009). Table 6.18

presents the risk management strategies Mango has applied to ensure competitiveness.

Table 6.18 Mango Risk Management

TYPE OF RISKS	MANGO
Financial	<ul style="list-style-type: none"> • Forecast the future and prepare Action Plan. • Follow the taxation system in each country. • All the financial indicators are settled in Euro and US dollars.
Social	<ul style="list-style-type: none"> • Compliance with the Code of Ethics • Compliance with the local legislation and regulation. • Customers requirements. • Establish principles concerning human rights, labour standards, corruption and environment. Collaboration with OXFAM, PETA, CCOO, FITEQA, Greenpeace • Participate in research projects • Advantage to employees (gym, discounts, trips) • Organic cotton • Work closely with franchisee and characteristics in each country.
Environmental	<ul style="list-style-type: none"> • Monitor environmental aspect in production. • Focus on obtaining ISO 14001 certification • Environmentally friendly logistical system.
Supply Chain	<ul style="list-style-type: none"> • Control the quality by specialised laboratories. • Two production systems according to geographical and technical factors. • Delivery from suppliers to stores directly or warehouse to stores or in case of emergency store to store. • Strong relations with suppliers-long term • 145 suppliers and 266 manufacturers monitor them • No subcontracting • Development of the technology and cross-docking.

6.4.4 Zara

Inditex Group operates under eight commercial formats which are all subject to different kinds of risks. Each concept manages its own supply chain, corporate policy and network of stores, while taking advantage of the synergies of belonging to the Inditex group. These are mainly in the areas of support, market intelligence, and economic solvency before third parties and in all corporate activities. This study focuses on Zara's operations which is the main retailing body of the group and represents 65.3% of the group's total sales. Inditex group has identified risks and has developed tools in order to minimise, control and implement them according to its risk appetite. These risks are divided into financial, social, environmental and supply chain risk. Risks that have been identified by the company are presented in table 6.19.

Table 6.19 Zara Risks

TYPES OF RISKS	ZARA (Founded in Spain) Mother company is INDITEX
Financial	<ul style="list-style-type: none"> • Credit risk • Exchange rate risk • Interest risk • Liquidity Risk
Social	<ul style="list-style-type: none"> • Market risk –demanding customers • Qualified personnel • Catastrophes, fires, strikes of key employees of suppliers, might affect significantly the normal operative. • Stores Rents • Legislation • Non- compliance with the Code of Ethics from employees, suppliers and partners
Environmental	<ul style="list-style-type: none"> • Environmental Issues
Supply Chain	<ul style="list-style-type: none"> • Risks that can either disrupt the chain from the suppliers to the central warehouse or warehouse to the stores.

The group reported on being exposed in certain types of financial risks such as market risk (including exchange rate risk), credit risk, liquidity risk and interest rate risk on cash flow. The group's risk management policy centres on the uncertainty of financial markets and attempts to minimise the potential adverse effects on its profitability by using certain financial instruments. First of all, exchange rate risk exposure plays a considerable role in the company's operations. Particularly, from the US Dollar, the Mexican Peso, the Japanese Yen and the Pound Sterling exchange rate risk arises on future commercial transactions, assets and liabilities recorded in foreign currencies and net investments in foreign businesses. In order to control the exchange rate risk, group companies use forward exchange contracts by recording all of the commercial activities to the company's functional currency and to hedge exchange rate fluctuations (Inditex Annual Report, 2007).

The group is not exposed to significant concentrations of credit risk, as policies have been applied to control sales to franchises and retail sales which comprise the majority of the revenue. Collections are primarily made in cash or through credit card payments. According to the group's report there is no significant exposure to liquidity risk, as it maintains sufficient cash and cash equivalents to meet the outflows of normal operations. In the event of the group requiring financing, either in Euros or in other currencies, it reverts to loans, credit facilities

or other types of financial instruments. Interest rate fluctuations affect the fair value of assets and liabilities which accrue a fixed rate of interest, as well as future cash flows from assets and liabilities indexed to a variable interest rate. Group exposure to this risk is not significant. Consequently, any changes in interest rates at year end will not significantly affect consolidated profits. The group's policy extends financial guarantees only to subsidiaries. The international presence of the group and its multi-brand format hide considerable risk. In order to be able to compete in the different markets the group must diversify itself increasing its effectiveness in each marketplace through its business lines and stores, achieving considerable growth which means that risk is diversified, reducing the joint exposure to this market risk.

In addition the group ensures that all of its products are subject to standards of health (clear to wear), safety (safe to wear) and socially responsible production (tested to wear). For this reason supervision for compliance with codes of conduct and external workshops for strengthening the production chain and corrective plans for suppliers have been applied throughout the supply chain. It is trading according to the local law being aware of the changes in taxation, import and export barriers and labour cost. Another risk is within the Human Resource area in the case of a lack of qualified personnel and an inappropriate labour environment. This includes the risks connected with the recruitment and turnover of personnel. To minimise these risks, the Human Resources Department carries out continuous recruitment and hiring processes of new personnel. It has also developed a periodical training program for its staff and has implemented specific systems to combine quality in the performance of their duties by the employees and the satisfaction they may obtain in their workplace. This is to facilitate the exchange of jobs among those employees wishing to broaden their experience in the different areas of the organisation. However, the group ensures high health and safety conditions for its staff and respects their rights (Inditex Annual Report, 2007).

Other risks the group faces are based on political and legislative issues as it performs in different areas with different legislations. These are listed as; Accounting legislation, relating to the accounting principles and standards; Securities market legislation, which affects all listed companies; Intellectual and

industrial property legislation, relating to rights over designs and trade Marks; General civil and mercantile legislation, relating to company law and civil and commercial contracts; Competition law, which specifically affects the relations with other competitors in the market; Real Estate legislation which fundamentally affects the leases of business premises where the stores are located; Legislation governing personal data protection, regarding the custody of personal information that is confidential; Environmental legislation, regarding the proper treatment of waste and spillage. In order to reduce exposure to the risk of non-compliance with the different legislations to which the group is subject, the Legal, Tax and Labour Departments carry out the task of coordination with the various members of management of each geographical area and external legal advisors of each country (Inditex Annual Report, 2007).

With respect to environmental awareness, the company has developed a Strategic Environmental Plan which includes 50% of the usage of renewable or high efficiency energy sources in the logistics centre and headquarters; reduce the CO₂ emission by 20% associated with road distribution; reduce electricity consumption by 20% in stores constructed. The group structure is based on a vertical integration of the production process giving it the flexibility to satisfy customers' requests. The logistics system supported from a computer application which enables the European stores to replenish in 24 hours and the stores in America or Asia in 40 hours. This process starts from the receipt of the order in the distribution centre up to the delivery of the products in store. Zara has a number of warehouses though all of them are in Spain and 49% of its production is in Spain, Portugal and Morocco, a further 35% in Asia, 14% in other EU countries and 2% in other regions. The group keeps close collaboration between its commercial teams and stores in order to face disruptions or problems that may occur in the retailing operations.

The group reported on risks that may arise from interruptions in transactions such as catastrophes, fires, strikes by key employees of suppliers, which could significantly affect the normal operative and therefore the group has focused its attention on its logistical centres. The distribution of the finished product is centralised on an independent basis, through its logistics centres located in each

of the commercial units. The Zara format currently has four main hubs located in Arteixo (A Coruña), Zaragoza, Madrid and León, thus facilitating the contingency plans in case of potential accidents or ceasing of distribution activities. The group takes active measures to reduce exposure to these types of risks, keeping high protection levels in all of its distribution centres, together with the insurance policies that cover both damages incurred by the stock and loss of profit. In order to ensure the growth of the group and foster the flexibility of the business model, the Plan of Logistics Expansion envisages carrying out investments in new hubs, or the enlargement of the existing ones, which enables them to mitigate the risk associated to the planning and sizing of logistics. At present, the new hubs in Madrid and León are operative, as well as an additional centre in Tordera. In addition, relevant investments have been conducted for improvements and automation in the existing centres to increase their capacity and efficiency. To mitigate the risks associated with the quality of the finished product, the group has several control systems based upon some defined standards which are implemented in the production line, both for goods manufactured by the group itself and for those made by external manufacturers. To reduce exposure to the risk arising out of the inappropriate service and satisfaction of the customer the group implements standardised “service at stores” procedures, training and monitoring programs for the store managers and telephone communication channels with the customers in order to ensure the quality of the sales and post-sales service (Inditex Annual Report, 2007).

The commercial premises in which the group carries out its retail activities are leased from third parties. These rental contracts are classified as operating lease. Normally these agreements have fixed rental payments with an initial duration of 15-25 years. The group operates in different countries with a variety of legislation governing lease contracts, diverse nature and economic statuses of the owner that leads to a range of clauses regulating the lease contracts. The group reduces the risk linked to the real estate management through the monitoring of every local market where it operates by means of specialised teams. Table 6.20 presents Zara’s risk management strategies.

Table 6.20.Zara Risk Management

TYPE OF RISKS	ZARA
Financial	<ul style="list-style-type: none"> • By recording all the commercial activity to the companies' functional currency and hedge exchange rate fluctuations. • The Group is not exposed to significant concentrations of credit risk, as policies have been applied to control sales to franchises and retail sales which comprise the majority of revenue. Collections are made in cash or through credit card payments. • No significant expose to liquidity risk, as it maintains sufficient cash and cash equivalents to meet the outflows of normal operations. • Interest rate fluctuations affect the fair value of assets and liabilities which accrue a fixed rate of interest, as well as future cash flows from assets and liabilities indexed to a variable interest rate. • The Human Resources Department carries out continuous recruitment and hiring processes of new personnel, it has developed a periodical training program for its staff to ensure quality in the performance of their duties.
Social	<ul style="list-style-type: none"> • Diversify itself in each market. • Products are subject to standards of health (clear to wear), safety (safe to wear), socially responsible production (Tested to wear). • Compliance with the Code of Conduct. • It is trading according to the local law being aware of the changes in taxation, import and export barriers, labour cost. • The company as Insurance to protect the business from any kind of unrespectable risk. • Follow the local regulations.
Environmental	<ul style="list-style-type: none"> • Develop a Strategic Environmental Plan
Supply Chain	<ul style="list-style-type: none"> • 49% of its production is in Spain, Portugal and Morocco, 35% in Asia, 14% other EU countries and 2% other regions. • The logistics system supported from a computer application which enables the European stores to replenish in 24hours and the stores in America or Asia in 40 hours. • The distribution of the finished product is centralised on an independent basis, through logistics centres located in each of the commercial units. • Standardised "service at stores" by training the store managers-IT developments

6.5 Communication Links

Technology has become an important enabler of accuracy, accountability and efficiency in managing the challenges in the continuously changing business environment. The evolution of the internet brought about a new era in relationships between businesses and their customers. Companies use the Web to sell goods, get supplies from other companies, to collaborate on sales promotions, and to undertake research (Baltzan and Phillips, 2007; Standing, 2000). Given the current competitive environment in the fashion industry, the majority of fashion apparel retailers have developed an E-business profile that they use to collaborate with suppliers to improve their relationship with customers. Quick response is the key element for a successful performance in the market place and relies on consumers' information being used by all parties in the supply chain. The use of

EDI (Electronic Data Interchange) can ensure a rapid and reliable information flow between suppliers and retailers. The business to business (B2B) and business to customer (B2C) models for the four selected retailers are shown in table 6.21 emphasising the communication modes each uses to reach their partners and customers.

Table 6.21 B2B and B2C Models of Fashion Retailers

Type of Business		Companies			
		Esprit	Mango	H&M	Zara
B2B	Partners-Suppliers	Y	Y	Y	Y
	Stores	Y	Y	Y	Y
B2C	Online shopping	Y	Y	Y	N
	Internet Presence	Y	Y	Y	Y

6.5.1. Supply Chain Communication Issues

In the business environment communication functions can add value by influencing the clarity of business initiatives, the quality of interfaces, particularly interpersonal, the effectiveness of communication systems and the communication behaviour of top management. Within the supply chain communication plays a superior role among all the parties which participate as it can ensure a smooth and accurate flow of information.

A) Esprit

Esprit has focused on enhancing the IT and logistics system in order to optimise and unify workflow, achieving long-term savings, opening a new distribution centre and being more conscious in supply chain issues. For this reason its logistic system operates from third party companies. Esprit cooperates with LOCOM Consulting GmbH whose main purpose is to redesign their global supply chain. Esprit's main warehouse, which supplies all the wholly owned stores and the partnership stores, is situated in Ratingen, Germany. The firm, in collaboration with LOCOM, aims to integrate their logistical system and improve its efficiency by redesigning warehouse locations and processes and also improving the supply chain throughout including transportation in the countries of origin by sea, air and

land, developing warehouse facilities and organising its system to readily sustain all aspects of business (LOCOM, 2009).

Generally, Esprit has made considerable effort to develop its logistical system in the most efficient way. An executive of the company realised that supply chain information is very difficult to manage manually or via limited-access proprietary systems that are costly and ineffective. The first attempt for a real-time system occurred in San Francisco with Capstan 2.0 from Capstan System. Capstan 2.0 comprised four main modules: transaction management, logistics management, export management and import management. Each module can function as an independent unit. The modules contain banks of standard regulatory data and can be customised to ensure compliance with contracts and internal company policies. Transaction workflow is incorporated within each module. Real-time collaboration was an essential feature for Esprit. With this software the company was able to send and track shipment information via the Internet with its suppliers, third-party logistics providers, brokers and customers (Delio, 2000). In 2003 the firm announced its collaboration with RETEC SOLUTIONS in order to improve its merchandising operations. Retek(R) Merchandise Operations Management (TM) solutions, including Retek(R) Merchandising System(TM) (RMS) and Retek(R) Data Warehouse(TM) (RDW), help retailers to provide the right product, in the right place, at the right price. Retek's mid-market rapid deployment process simplifies and speeds the implementation by exploiting efficiencies, derived from processes and programming developed on multiple Retek implementation projects. In other words, this system enabled the company to streamline and automate its operations with a single, clear source of accurate sales and inventory information, with the exception of driven management based on retail alert information, improved promotions handling and improved merchandise allocation (Business Wire, 2003).

In 2007 SAP AG (NYSE: SAP) announced that Esprit selected SAP to increase efficiency and the effectiveness of its processes, supporting its international growth. SAP is a business software provider which offers innovative solutions to its customers on supply chain operations, customers' relations and partner collaboration. Its main aim is to help the company to react quickly within the

changing environment (SAP.com, 2007). Additionally, in Esprit, the store manager has to produce sales data and send it to the head office. Esprit does not offer any cash-desk system or merchandise system, only an EDI Interface between the retail stores and the head office. Through EDI the shops are able to send inventory information and sales reports while also receiving product master data, order response and any further advice from the head office. On the other hand the manufacturers can communicate only with the head office and not with the stores directly. According to the results a developed information system could be beneficial as the manufacturer could retrieve the information from the market immediately and would be able to predict trend sales (Gustafson et al, 2004).

B) H&M

H&M has succeeded in having full control of its logistics as every year millions of items of clothing are handled in a continuous flow that is controlled centrally from the head office in Stockholm. The company's main objective is to 'move faster than the others' (Anonymous, 2008). The company followed the trend of using comparative advantages in low-wage countries with 60% of its production in Asia, and the rest in Europe. The H&M strategy, in essence, optimises both time and cost. H&M follows a supply chain model with two supply chain directions. The first supply chain is mainly concerned with cost-efficiency, hence why it concentrates mainly in low-wage Asia. Large order volumes, long transportation distances, and slow lead times are characterised. The second supply chain, which is called rapid reaction, is used for fashion-sensitive garments, which have to be replenished and delivered to the stores in a short time. Therefore it is mainly based in Europe. Of course this system puts a strong emphasis on logistics. The logistic department employs 3,200 people. The central warehouse is located in Hamburg, Germany. From there the clothes are distributed to call-off warehouses around Europe, which is H&M's most important market. The rest of the world is covered by 13 smaller warehouses. The company uses the Offer Follow up System (OFS) to deal with information management and to keep track of its supply chain. For more fashion-sensitive clothes, H&M places its orders with European suppliers who quickly respond through a rapid-reaction supply chain (H&M Annual Report, 2008;2007).

Green Cargo is responsible for global fashion giant H&M's transportation to and from shops in the company's home country, Sweden. A typical day starts at half past six in the morning in the Green Cargo terminal where the containers of clothes, packed in boxes and hanging on clothes hangers arrive in a large Volvo FM9 truck which is ready to distribute the stock to the shops. The larger H&M stores receive several deliveries a day. Usually a morning shift covers deliveries to a couple of stores in central Göteborg and to one just outside the city, "Everything has to be on display within a specific time" (Anonymous, 2008a).

H&M is a good example of having a competitive advantage through an integrated e-business. Procurement and logistics can track sales and stock status as owning the stores enables them to share a common IT platform. In this way the company is able to react quickly to new trends and customer requirements. An integrated system for inventory management has increased efficiency ensuring adequate stock management. Individual stores are connected with the logistics and procurement departments and the central warehouse. From central departments, it is possible to follow sales of individual items, thus feeding an intelligent procuring system. The company relies on IT integration between the central office and the production offices. Communications between departments take place electronically, including design and product development (ebusiness-watc.org, 2009).

C) Mango

Centralised and fast supply chain is the key to Mango's successful performance utilising concentrated production in China with only 15% based in Spain. Around 25% of its sourcing comes from Morocco, Turkey and India. In order to develop a truly integral implantation, Mango supplied its stocks to its franchisees under a deposit system. In 2000, the company completed a logistics system that was created specific to its own personality, acquiring and adapting the latest technologies at its facilities and making it possible to classify and distribute 30,000 garments per hour. At the Dynamic Distribution Centre (CDD) all processes are automated: loading, storage, invoicing and dispatch. This reduces the workload and increases the work rate of employees, thus making the CDD the most efficient in its sector, with a management system that is 5 to 7 times faster than that of their

competitors. The SLM (MANGO LOGISTICS SYSTEM) is based on speed, information and technology, its aim being to ensure that every store has the goods it needs at any moment, according to rotation speed and sales forecasts. With a production and distribution of 90 million garments a year, this guarantees the continuous renewal of goods and a production rate in accordance with market demand, both in terms of volume and variety (Mango.com, 2009).

According to Enric Casi technology, velocity and information are the key elements for a system to work correctly. Technology is essential especially for logistics and supply chain. Mango designs clothes but it does not manufacture them. The company has in total 140 suppliers around the world and each region specialises in one type of clothing. Mango's successful performance is based on a computer platform which took around four years to develop. All the partners of the group are in permanent contact through a communication network and an IT platform called the Oracle. With this procedure, the product which is Mango's property is shipped to franchisee-owned stores. The logistics system replenishes its stock every day in its European shops and twice a week in its shops elsewhere around the world. The company's main logistics centre is in Barcelona, at the corporate headquarters. Logistical support is provided in three other locations – New Jersey, Hong Kong, and Shanghai. With this IT platform Mango has developed an integrated supply chain in which the exchange of data and information can be ensured and the lead times can be shortened. Mango can manage its more than 7,000 plus direct employees as well as the additional 22,000 people who work for Mango indirectly (Anonymous, 2008b; Rodrigez, 2008).

D) Zara

In 1980, Ortega, the founder of Zara began to formulate a new type of design and distribution model aiming to accelerate the production processes which can cause long lead times and reduce the year collections to just two to three per year. His main awareness was to create 'instant fashion' which will be able to respond quickly to consumers' tastes. In 1984 Jose Maria Castellano, a computer expert, joined Ortega and with his help developed a distribution model that was revolutionary in the clothing sector. This computerised system helps the firm to reduce its design-to-distribution process to just 10-15 days (Enotes, 2009). Zara's

supply chain is a vertically integrated system unlike most other textile chains which rely on outsourcing and cheap labour in low wage countries such as China (, 2002). Zara utilises human intelligence (from store managers and market research) and information technology (such as their PDA devices) in order to use a hybrid model for information flow from stores to headquarters. For example, managers at Zara stores use handheld devices to send standardised information regarding customer feedback and ordering needs directly to in-house designers. This not only keeps Zara's designers informed of fast-changing customer trends and demand, but also provides the company with insight on less-desirable merchandise.

Zara's quick response to market is a composition of human resources and information technology. The firm pays great attention to use background vertical integration to become a very quick fashion provider than achieving manufacturing efficiencies. Zara is not focused on building inventory but moving the stock quickly offering 'fresh fashion' to customers. Zara has a centralised distribution facility which gives the company a competitive advantage by minimising the lead time of its products. Around 60% of the products that Zara sells are manufactured in Spain in their own factories, around 20% are manufactured in the rest of Europe and 20% in Mexico and Asia. Clothes with a longer shelf life, such as basic T-shirts, are outsourced to low-cost suppliers, mainly in Asia and Turkey. Zara's internally and externally produced merchandise goes to the distribution centre in Arteixo A Coruna.

Unlike Zara's hybrid model which incorporates human intelligence and IT applications, competitors rely almost completely on information technology. Zara's unique approach of human intelligence assisted IT solutions results in well-managed inventories, linkages between demand and supply, and reduced costs from obsolete merchandise. However, there is still room for improvement in their IT processes to realise a more effective management of inventory levels. Hence, the hybrid information and communication system that Zara uses provides cost advantages to Zara's operations and helps to abide by their fundamental principle to have the ability to rapidly respond to changes in consumer demand.

Zara owns its internal logistics and every two to three days small trucks deliver the garments to the 5000-6000 exclusive sewing assembly cooperatives and collect them when they are completed. In particular, in order to increase delivery speed, Zara's shipments are scheduled by time zones and shipped by air and land. The typical delivery time within and outside Europe is between 24 to 48 hours. Generally, Zara's information and communication protocols are different from its competitors as the company spends less than 0.5% of total revenue on IT and IT workforce. This differs from their competitors who spend on average 2% of total revenue on IT expenditures and have 2.5% of their total workforce devoted to IT (Inditex Annual Report, 2007).

6.5.2 Business to Customer Model

It was found from the virtual observations that the four companies had also started to develop successful business to customer (B2B) models. They each have online presence with well structured websites which are very attractive for people who like surfing the internet. Through their websites each company gives information about their status and their products. For contacting their future customers they ask them to subscribe and receive newsletter emails for the new trends and offers. Zara is the only retailer that does not offer online shopping for fashion clothing but 'Zara Homes' a subsidiary of Zara offers online purchases. However Zara does have an interactive website which gives information of the new trends and products. H&M has had an established internet facility in Nordic countries since 1998 (Verdict, 2009). Table 6.22 summarises what each of the firms' websites offer to customers and how they communicate with them.

Table 6.22 Companies Internet Performance

	Internet performance	Online Purchases in EU	Subscription-newsletters	Customer service-return policy	Product Information (Price-quality)
Mango www.mango.com	Y	Y	Y	Y	Y
Zara www.zara.com	Y	N	Y	Y	Y
Esprit www.esprit.com	Y	Y	Y	Y	Y
H&M www.hm.com	Y	Y (In Nordic Countries)	Y	Y	Y

6.6 The PESTLE Analysis

The PESTLE model was used to identify and analyse the risk in each country within the political, economical, social, technological, legal and environmental framework of the analytical tool PESTLE analysis is a tool that can aid organisations making strategies by helping them understand the external environment in which they operate now and will operate in the future. This tool was appropriate in order to identify and analyse the risks that were concealed in the selected countries. The critical factors for each PESTLE element are provided in table form. In chapter 7, section 7.2 it is expressed how these critical factors are measured including supply chain factor, transforming PESTLE analysis to PESTLES analysis. In addition, full profiles for each country are provided on the accompanying CD ROM.

6.6.1 Political

Hungary joined the European Union on 1st May 2004 and became a member of OECD, NATO, WTO, V4. It is a Schengen state but still has not entered the euro-zone, as its economy does not cover the Maastricht criteria. However it is expected that it will enter the eurozone in 2012-2013, as first the government has to reform and stabilise the economy (Datamonitor, 2008d). The Hungarian government has succeeded in maintaining strong relations with neighbouring countries and other countries within EU such as Austria, Germany and Russia. China has recently become a key source for imports, while Hong Kong is one of the largest export markets for Central and Eastern Europe (hktcd.com, 2008). The relationship between Hungary and UK is officially friendly, but UK is not one of the first partners of choice. Hungary is a foundation member of the Central European Free Trade Agreement (CEFTA) that includes most of the countries in the region (Poland, Czech Republic, Slovakia, Slovenia, Romania and Bulgaria) (Datamonitor, 2007a) (Austrade, 2009b). Hungary is a member of the Visegrad Four, with Poland, Slovakia and the Czech Republic.

A serious political issue with considerable impact on society is terrorism. According to the British Foreign and Commonwealth Office (FCO) (2009a) there is a low threat of terrorism in Hungary as there no known terrorist groups within the country and the government closely monitors potential extremists, including

nationals. The government is a reliable counterterrorism partner by supporting both US Government and EU efforts to counter terrorist organisations, including terrorist financing and money laundering activities. (Refworld, 2009a; Zsohar, 2009). According to NationMaster Statistics Hungary is ranked 108th of 112 terrorist incidents with zero injuries for the years 2000-2006.

The Czech Republic joined the European Union on 1st of May 2004 and has become a member of NATO, OECD, WTO, V4 (BBC NEWS, 2003; 2009a). In December 2007 it joined the Schengen area where the people of the member states move freely within the EU, but still has not entered the euro-zone, as its economy does not cover the Maastricht criteria. The Czech Republic is a founding member of the Visegrad Group with Hungary, Poland and Slovakia. The group seeks to work together to promote their common interests. The Czech Republic has now largely achieved its prime post-communist foreign policy goal of integration into the Euro-Atlantic mainstream. In July 2000, the then Foreign Secretary, Robin Cook, launched the UK-Czech Action Plan. This provided £100,000 in practical assistance on EU accession preparations, to which a further £125,000 was added each year for projects. These have been focussed on Justice and Home Affairs, the legal climate for business, economic governance, and support to the regions. The UK also provides assistance through EU PHARE programmes. Czech has good relations with the UK as it has become their 30th largest export market. Also, the UK is responsible for approximately 3% of Foreign Direct Investment in the Czech Republic. Principal UK investors include International Power, LogicaCMG and Shell. Several British household names can now be seen on the streets of Prague such as Tesco, Next, Marks & Spencer, Mothercare and Debenhams. The Czech Republic has been very successful at attracting foreign direct investment, running at twice per capita of any other country in the region. The relations with the UK are covered by the British Council, which offers a wide range of activities including English teaching, examinations, and events and projects in the arts, education, science, and public policy. Additionally in an effort to establish good relations with US, Czech Republic allowed the US government to place a radar in its territory in 2008. This exposes its relationship with Russia in danger which has already criticised this agreement and may result in disruption to the oil supply from Russia.

Another political issue is that of terrorism. There is no sufficient evidence of terrorist attacks within the country; however Czech authorities cooperate with United States across a wide spectrum of security, law enforcement and military matters, focused on anti-terrorism activity (Refword, 2009b). A good example is the underground (metro) in Prague which has the best anti-terrorism protection system in the world. Cameras monitor the passage and devices have been installed to identify the slightest leak of dangerous chemical substances and immediately warn police and the Metro security (ABC Prague, 2008). According to NationMaster Statistics Czech Republic is ranked 77th of 112 of terrorist incidents with zero injuries for the years 2000-2006.

Greece is a parliamentary republic, belonging to the developed countries and has been a member of the European Union since 1981, a member of the Economic and Monetary Union of the European Union since 2001, NATO since 1952 and the OECD since 1961 (CIA World Factbook, 2009; BBC, 2009; PRS Group Inc, 2008a). According to The Economist Intelligence Units (2008), Greece performs less well than other countries in Western Europe in the categories of government functioning, political culture and political participation. The level of perceived corruption is high in the government. The ethnic composition of the Greek population has changed over the year as a large number of economic immigrants have entered into the country. The EU placed Greece under surveillance because of the excessive deficit procedure in 2004. In 2006 the deficit fell under the Stability and Growth Pact target of 3% and Greece was removed from surveillance. Even if the Greek economy has shown some characteristics of instability, the growth is considerable underpinning high levels of public investment, primarily through substantial EU funding, and private consumption growth. After the recent recession both investment and consumer demand growth fell following the collapse of the US sub-prime mortgage market, the rising costs of servicing personal debt and high inflation.

Greece succeeded in hosting the Olympic Games in 2004 under a safe and secure environment, with this enhancing its international reputation and prestige. This resulted in a great reform for the country leaving an impressive legacy of new roads, spectacular stadiums, and modern transportation systems. Even though the

EU funded the construction and development of the infrastructure for the Olympic Games, in 2006 the government reported that the debt stood at 104.6% of GDP. The growth rates have decreased considerably, while political unrest cannot assure security to the Greek people concerning the management of unemployment, the health care system, education and the pension scheme. Additionally, according to Euromonitor International (2009a) there is a considerable political risk as the ageing population threatens fiscal sustainability.

Another major political problem is the triangular relationship between Greece, Turkey and Cyprus which remains an unresolved situation even if after political changes in Greek control in Cyprus in 2008. The relationship between Greece and other Balkan states is sensitive too. A large number of people have moved to Greece from Albania while the Greek minority in the Albania region has declined. With FYROM (Former Yugoslav Republic of Macedonia), Greece has faced considerable trouble for the use of the name 'Macedonia'; however many companies have invested in the region, because of a sense of fellowship with Orthodox Serbia, anti-Western sentiment for historic reasons, fear of regional instability and concern at the disruption of economic and political ties with the then Former Republic of Yugoslavia (FCO.gov.uk, 2009c, Euromonitor International 2009a). UK and Greece has a close relationship and has historical roots. Three million British tourists visit Greece each year, while there are approximately 30,000 Greek students currently in higher education in the UK. The Greek and British Governments co-operated in the pursuit of the killers of Brigadier Stephen Saunders, the former UK Defence Attaché in Athens who was murdered by the November 17 terrorist group on his way to work on 8 June 2000 (FCO.gov.uk, 2009ac. Greece has had close relations with Australia since a large number of Greek people moved there during the 1950's and 1960's. Also, the two countries are collaborating on a commercial basis (DFAT.gov.au, 2009; Austrade, 2009c; 2009d; 2009e).

Greece has close relations with USA on a political and cultural basis. Both of the countries are members of the North Atlantic Treaty Organisation (NATO) and have fought on the same side of both World Wars. Also they collaborate against terrorism and have developed trade relations which will lead to the successful

resumption of the proceedings of the Economic and Commercial Cooperation Commission (ECCC) which was set up in 1998. According to the British Foreign and Commonwealth Office, Greece belongs to the safer countries for visiting and developing business. The government has made considerable effort to face different situations which can put people’s lives in danger. First of all Greece is a country that has faced several terrorist incidents and has a long history in domestic terrorism. There are many anarchist-related teams or terrorists which have increased in recent years who have attacked banks, police stations, Greek institutions, commercial interests, media establishments, up-market shopping areas and other "imperialist-capitalist targets" with tools such as firebombs and Molotov cocktails (Refworld, 2008c; FCO.gov.uk, 2009c). Greece is collaborating closely with United States and other EU countries to decrease possible incidents and ensure a secure environment. Additionally, Greece is one of the countries with high levels of illegal immigrants coming from the Middle East and South Asia. For this reason there is a concern that Greece could be a transit route for terrorists who want to travel in other EU countries and USA (Refworld, 2008c; FCO.gov.uk, 2009c). Currently, Greece is ranked is high in terms of political stability however the internal dissent in the government body has caused tension within the political regime faltering the regulatory quality and rule of law (Datamonitor, 2008e). While according to NationMaster Statistics, Greece is ranked 14th out of 112 countries with 8 injuries for 2000-2006. Table 6.23 summarises the political points in each country.

Table 6.23 Key Political Points

Countries	Hungary	Czech Republic	Greece
Key Political Points	<ul style="list-style-type: none"> • Member of EU, NATO, WTO • No member of the Eurozone • Transition to democracy • Good relations with EU and non EU countries • Political Corruption-Bureaucracy (39 to 179 countries in 2007) • Terrorism (108th to 112 countries with no injuries for 2000-2006) 	<ul style="list-style-type: none"> • Member of EU, NATO, WTO • No member of the Eurozone • Transition to democracy • Good relations with EU and non EU countries • Political Corruption-Bureaucracy (41 to 179 countries in 2007) • Terrorism (77th to 112 countries with no injuries for 2000-2006) 	<ul style="list-style-type: none"> • Member of EU, NATO, WTO • Member of the Eurozone • Old democratic state • Good relations with EU and non EU countries/Troubled relations with neighbours • Political Corruption-Bureaucracy (56 to 179 countries in 2007) • Existence of Terrorism (14th to 112 countries with 8 injuries for 2000 2006)

6.6.2 Economical

Currently the main purpose of the Hungarian Government is to implement a package of economic reforms which aim to reduce the budget deficit to 3.2% GDP by 2009 and 2.7% by 2010. Hungary has begun to attract FDI due to its political stability rising productivity and healthy GDP growth. Nearly 90% of GDP is now generated by the private sector compared with just 10% in 1990. Hungary is concentrating on structural investment, and has a higher skills-base than most of its neighbours. Hungary attracts one third of the foreign direct investment which is flowing into Central Europe as its political and economic institutions have proved stable and effective. Income tax is quite high but corporate taxes are low. Inflation is low and has become more stable (Eurostat, 2009). Generally, the policy for investors is friendly, but in October 2007 the government introduced a legislation to prevent the takeover of companies in strategic sectors (energy, gas) by foreign companies (Datamonitor, 2007a).

The Hungarian banking system consists of two types: the central bank and commercial bank. The central bank is responsible for safeguarding the value of the national currency and it acts independently from the government and other institutions. The OECD views Hungary's system as one of the healthiest in the region. The regulation for foreign exchange rates is set by the ministry of finance. Importers can automatically exchange through the banking system and foreigners may freely repatriate profits and dividends in foreign currency. In 1996, the parliament voted a foreign exchange bill giving the opportunity for free exchange of the local currency Forint to foreign currencies. Forint can float freely, following the decision by the National Bank to abolish the +/- 15% intervention band from February 2008 (Datamonitor, 2007a). The main purpose of the current government is to achieve a deficit target of 3.8% GDP by 2010.

Considerable effort has been made in order to increase international transit transport and also to ensure road safety particularly in 2007 a considerable amount of money (\$1.5billion) was invested for this reason. Even if motorway provision is limited, Hungary still has the most developed highway network among new EU member states. The railway covers all the country connecting Hungary with most Railway Networks and the sea ports of Hamburg, Bremen and

Rotterdam on the North Sea, Koper (SI) and Trieste (I) on the Adriatic and Constantza (RO) on the Black-Sea. The Koper, Trieste and Constantza seaports also offer alternative shipping routes from Asia. Lead times from these ports to Hungary are within 16-36 hours by road or direct train. The country has six international paved airports. It is obvious that further development is needed in the transport infrastructure of the country in order to be able to ensure that the supply chain of the country works in the best way without disruptions.

The Czech Republic is one of the most stable and prosperous of the post-communist states. Economic growth has been driven, in particular, by high levels of foreign direct investment (FDI), domestic consumer spending and Czech exports, especially to the EU which touches 70% of trade, notably in Germany. On average the real GDP growth has increased 6% between 2005 and 2007 while unemployment stands at 7.1% (Jan 2007) (OECD, 2007). The Czech Republic has been extremely successful at attracting FDI, mostly in automotive and electronics. In 2006 the Czech Republic attracted 8.8 bn Euros of FDI, nearly double that in 2005 (CIA World Factbook, 2009a).

The primary objective of Czech National Bank is to maintain price stability and keep a low-inflation environment in the economy. For this reason it supervises the entire banking sector within the country, the capital market, the insurance industry, the pension funds, the credit unions and the foreign exchange. The main purpose of the government was to cut the budget deficit from 4% GDP in 2006 to 3% in 2008 and 2.6% in 2009. The fiscal deficit dropped about 1.9% GDP in 2007 which is under the forecast of the finance ministry. Additionally, the Czech Koruna has gained strength against major currencies. However the risk of depreciation for Czech Koruna is significant.

According to the latest European Focus Report by EC Harris mentioned in Nargess Shahmanes-Banks article, the Czech economy is currently driven by a growing housing market, high levels of foreign investment in the commercial sector and increasing funding for infrastructure. Construction output had risen 25% in 2007 while strong in 2006 as GDP touched 6% of customers' consumption and a further rise of 5.7% was expected in 2007. Fletcher (2005) stated that Czech has begun to attract FDI since 1990 and for this reason the government took measures in order to give more opportunities to companies to develop or expand their

businesses. Additionally, much attention had been given to regions where the unemployment rate was high by covering 35% of the cost for training people. The Czech economy has grown faster than the average EU economy, recording an average growth rate of 4.1% compared to 2.2% in the EU. Step by step Czech Republic is realising a closer integration with the EU.

Currently there is a dip in consumption spending as inflation has remained moderate. For this reason Czech seems to be unable to fulfil the Maastricht conditions for euro entry. Even though the government has focused on the fulfilment of the Maastricht criteria, leading policy makers believe that further reforms are required to familiarise the country with the euro area. The main challenge is the reassurance of fiscal sustainability and deficit reduction, by giving great attention to improve efficiency and discipline. According to the OECD report the deficit goals must be more ambitious offering positive economic developments to adjust the consolidation rather than concentrating on making people spend more. The policy makers have to consider the risk and avoid setting easy deficit targets. (OECD Survey, 2008). The government is now targeting 2012 as the date for Euro entry.

In addition the government has made considerable effort on the implementation of the transportation infrastructure. It has developed measures in order to make people feel safe and secure. First of all, Czech government has focused on safety on the motorway network. Through the development of the motorway network, the modernisation of vehicle fleets and the implementation of the National Road Safety Strategy with the help of the Police, they have minimised accidents considerably and deaths on the road. Speed regulations have been applied in order to face major road safety problems such as speeding, safety belts, safety in urban areas, on railway crossings, drinking and safety on the national motorways (OECD, 2008a).

The Greek economy is capitalistic with the public sector accounting for about 40% of GDP and with per capita GDP about two-thirds that of the leading euro-zone economies. Tourism provides 15% GDP. Immigrants make up nearly one-fifth of the work force, mainly in agricultural and unskilled jobs. Greece is a major beneficiary of EU aid, equal to about 3.3% of annual GDP. The Greek economy grew by nearly 4.0% per year between 2003 and 2007, due partly to infrastructural

spending related to the 2004 Athens Olympic Games, and in part to an increased availability of credit, which has sustained record levels of consumer spending. But growth dropped to 2.8% in 2008, as a result of the world financial crisis and tightening credit conditions. Greece violated the EU's Growth and Stability Pact budget deficit criteria of no more than 3% GDP from 2001 to 2006, but finally met those criteria in 2007-08. Public debt, inflation, and unemployment are above the euro-zone average, but falling (CIA World Factbook, 2009b).

The Greek economy can be considered as the fastest growing economy in the EU. Since 1990, it has recorded a strong GDP growth averaged at 3.5% per year between 1997 and 1999, which accelerated during 2000-2007 to 4.2%. This acceleration process in the economic development happened after the entrance of Greece in the EU. The financial liberalisation and the low interest rates encouraged a rapid expansion in consumer credit which resulted in the increase of consumer demands. Foreign Direct Investment in Greece is supported from the Hellenic Centre for Investment and the competent Greek Agency. Both of these authorities encouraged targeted sectors to invest in the Greek market such as in tourism, renewable energy sources, research and development, organic farming and communication technology. The regional position of Greece also makes it attractive for FDI as it can be the centre for further expansion and access to other emerging markets in Balcans (Koumoutsakos, 2009).

Therefore, the gap in real per capita income between Greece and the other members of EU is significant. The Greek economy is based very much in the service sector i.e. tourism, shipping industries contribute around 77% GDP while agriculture accounts for only 3% and the manufacturing industry 20%. Greece has limited heavy industries but in recent years the number of investment plans have increased and it is expected that further investment action will take place in years to follow under public private partnership agreements (Datamonitor, 2008e). The government draft for 2008 is to balance the budget until 2010. The budget deficit was estimated to be around 2.5% GDP in 2007 and to fall further to 1.7% in 2008. The revenues are forecast to increase by 12.3% through a crackdown in tax evasion and reform fuel and property taxes. The public debt is expected to fall to 98.9% GDP in 2008 from 101.9% in 2007.

The banking system in Greece is very stable and has enjoyed profitability with adequate liquidity. The state's stakes in banks have declined while the share of private sector in credit disbursements has increased. In general the banking system has been fairly well implemented from the Central Bank of Greece which is responsible for any subject concerning the monetary policy. The capital markets and insurance sectors need further development. The insurance market is very expensive failing to constitute adequate technical reserves. As the insurance sector remains uninsured, market penetration is low, with gross domestic income equal to 2.03% GDP in 2006. The capital market regulations are in process which has resulted in almost 70% of Greek companies being listed on the stock exchange. That means they are not required to report their financial results and less development is considered in the next few years (Datamonitor, 2008e).

The most serious problem that the Greek government faced is high public deficit, 106% GDP in 2006. The main aim is to balance it until 2010 but the revenues and expenditure policy were not enough to achieve this. Through the privatisation process the government was challenging to increase the investment within the country. The market opened and international firms began to enter into the country establishing their businesses. Moreover, through the improvement in tax collection and the reduction of deficits from health care and public enterprises the government expects to restructure the fiscal deficit and minimise the debt under 100% in 2008 (Datamonitor, 2008e). The Greek economy, even if it experienced great opportunities for development, still needs further improvement in many different sectors in order to continue to be competitive within the EU. Table 6.24 summarises the Economic factors of the three countries.

Table 6.24 Key Economic Points

Countries	Hungary	Czech Republic	Greece
Key Economic Points	<ul style="list-style-type: none"> • Flow of FDI • Exchange Rate of Forints • Banking System based on National and Commercial Bank • Slowdown of the economic growth 3.9% of GDP in 2007 • VAT 25% 15% or 5% • Implemented Transportation infrastructure • Inflation Rate 5.7% • Corporate Taxes is 10% on taxable income HUF5 million and 16% on taxable income in excess of that figure. 	<ul style="list-style-type: none"> • Flow of FDI • Exchange Rate of Czech Koruna • Banking System based on National Bank maintaining price stability • Growth 5.9% of GDP in 2007 • VAT 19% 5% • Implemented Transportation Infrastructure • Inflation Rate 6% • Corporate Taxes 21% with reduction for pension and investment 	<ul style="list-style-type: none"> • Investment with Public Private Participation/ Flow of FDI • Trading in EURO • Stable Banking System • Slowdown of the economic growth 2.9% of GDP in 2007 • VAT 19% 8% or 4% • Good transportation infrastructure • Inflation 3.1% • Corporate Taxes 25% with some exception of 20%

6.6.3 Social

Hungary is composed of ethnic Hungarians (90%) and allows freedom of religions. The life expectancy has increased to 77 years of age for women and 70 for men. Hungary can be considered to have social performance. First of all the rate of literacy is very high while the Human Development Index (HDI) is 0.874 ranking the country 36th of 177. Among the emerging countries such as Albania, Bulgaria, Argentina and Poland, Hungary has the higher HDI. The majority of the people have engaged in upper secondary education which signifies a highly educated workforce. Education was compulsory from the age of 6 to 16 (ten year duration) however, since September 1998 the duration changed to twelve years. Education for state-funded students is free of charge, only foreign citizens have to pay tuition fees. The ICT market has seen improvements while internet access has grown by 8.3% in 2007 affecting the IT market in a positive manner. However, the local market lacks innovation and only the multinational companies are able to develop innovatively as they have the means to do so. Hungary has poor performance on patents and research even though it has been involved in international space projects. In the future the country is likely to face a potentially major problem if it does not take measures to enforce people to develop their IT skills. On the other hand, the country has experienced considerable immigration from Russia, China

and Ukraine but still accounts for less than 2% of the total population (Datamonitor, 2008d).

Additionally, the degree of risk from major infectious diseases is intermediate (CIA World FactBook, 2009a). The most common diseases are food or waterborne such as bacterial diarrhoea and hepatitis A and vector borne such as tick-borne encephalitis. The rate of HIV/AIDS prevalence is only 0.1% and around 2,800 people are living with the disease. . The high rates of mortality are another challenge for the country, which not only has a low level healthcare service but has also experienced a decrease in labour force. Unemployment stood at 7.3% in 2007 largely due to many job losses in the public sector following the government's efforts to decrease public expenses. The future risk for the country is the increase of an ageing population as the rate of the births has fallen significantly. People at the age of 65 increased from 14% in 1995 to 15.2% in 2006, and if this continues then by 2025 it is expected to reach 40%.

Czech Republic is composed of ethnic Czech (90%) and allows freedom of religions. The life expectancy has increased to 79 years of age for women and 73 for men. It can be considered that Czech Republic has a good social performance. First of all the rate of literacy is high, touching 99%. The majority of the people have engaged with upper secondary education signifying a highly educated workforce. Education is compulsory for 9 years after which pupils are able to apply to study at secondary schools which is then followed by a report on a final exam and a vocational certificate stating professional capability that entitles students to go to University. Expenditure on education increased from \$6 billion to \$7 billion in 2006 which equates as a percentage of GDP as an increase from 4.8% in 2005 to 5% in 2006. Furthermore the healthcare system in Czech Republic is well developed. The government plans to increase the retirement age in order to implement the social expenditure but this will take place gradually in order to avoid a collapse in the pension system. Also, the country does not face high rates of immigration. Ukrainians constitute the main migrants of the country while the government has offered green cards in order to attract a highly skilled population 9 (Datamonitor, 2008f).

In addition, the degree of risk from major infectious diseases is intermediate according to CIA World FactBook. The most common diseases are the same as for Hungary which are food or waterborne such as bacterial diarrhoeal and hepatitis A and vector borne such as tick-borne encephalitis. Also the rate of HIV/AIDS prevalence is the same as Hungary at only 0.1% though less people, around 2,500, are living with the disease. Again similar to Hungary high mortality rates are a challenge which demonstrates a low level healthcare service and also Czech Republic has experienced a decrease in the labour force with unemployment at 7.3% in 2007.

Greece has identical social issues as many European nations with an ageing population and unemployment being consideration challenges. In the last few years births rates of have decreased and its believed that by 2050, 31% of the population will be at least 64 years of age and only one in two will be able to work. This will have a considerable effect on the demographic structure of the health care and pension systems. Life expectancy has increased because of improved health care facilities. According to Datamonitor (2008) the educational system is unable to offer the right skill to young people in order to secure a job. On the other hand, regarding international relations, Greece has significant problems with some of its neighbours such as Turkey and FYROM also 65% of the population live in urban areas such as Athens, Thessaloniki, Western Peloponnesus and the large islands. The religious composition of the Greek population is Orthodox Greek and there is a small minority of only 1.3% situated on the North of Greece. The Greek educational system is divided into three levels; primary, secondary and tertiary. At university level undergraduate, postgraduate and PhD studies are available and there are other non-university institutions that offer higher education. Greece has a literacy rate of 96% for the total population, with a literacy rate of 97.8% for males and 94.2% for females. Public expenditure on education in 2004 was around 3.5% GDP, which is less than the European average of 5.3%. There are private and public funded schools but private universities are not allowed under the Greek constitution (IACM/FORTH, 2003; Giamouridis and Bagley, 2006; YPETH.gr, 2009).

In addition, the Greek government is very well organised in case of a flu outbreak. Recently the entire world had to face a new virus_A (H1N1) - Swine Flu which was responsible for the deaths of many people in Mexico and USA as well as smaller numbers in other countries. The World Health Organisation (WHO) raised its Pandemic Threat Alert Phase to Level 6. The Greek government confirmed a number of cases of Swine Flu and is organised in order to provide the best medical care (FCO.gov.uk, 2009c).The Hellenic Centre for Infectious Diseases Control (KEELPNO) also released guidance in English regarding their pandemic planning. Travellers should be aware that if should they contract swine flu when overseas, they may be subject to quarantine and treatment to prevent the spread of the disease. Table 6.25 summarises the social factors in each country.

Table 6.25 Key Social Points

Countries	Hungary	Czech Republic	Greece
Key Social Points	<ul style="list-style-type: none"> • Equality between genders • Freedom of religions • High educated population • High mortality rate(Deaths exceed births) • Ageing people • Unemployment 7.3% in 2007 • Low degree of infections and diseases 	<ul style="list-style-type: none"> • Equality between genders • Freedom of religions • High educated population • High mortality rate(Deaths exceed births) • Ageing people • Unemployment 7.3% in 2007 • Low degree of infections and diseases • Green card to skilled immigrants 	<ul style="list-style-type: none"> • Equality between genders • Freedom of religions • Rapid urbanization • Inadequate education system • High mortality rate(Deaths exceed births) • Ageing people • Unemployment 8.9% in 2007 • Low degree of infections and diseases • Increase of immigration

6.6.4 Technological

Technology in Hungary has considerably improved with a growth of 8.3% in 2007 positively affecting the IT market. First of all the government has applied specific regulations for IT security in intellectual property, by eliminating IT material. However the country still experiences a large share of technological piracy from Ukraine and Russia. Hungary became part of the European Space agency which is related to the development of the international space station. At the moment the Hungarian ICT market is one of the largest in Eastern Europe. Since the EU recession in 2004 international companies such as Vodafone, Deutsche Telekom,

Telenor, and Tele Denmark have entered the market offering mobile, internet and land line services. In particular, the internet service first introduced in 1991 has grown substantially. Mobile and convergence technologies such as UMTS, WiMAX and Triple Play (TV, Voice and Data) have already been introduced by the leading telecommunication company Magyar Telecom and UPC. Hungary has undertaken considerable effort to invest in research and development. Its main purpose is the establishment of the right institutional infrastructure for innovative action in pharmaceuticals, biotechnology, environmental protection and IT. In 2007 it invested \$1.1 billion for research and development which represented approximately 1% of its GDP (Datamonitor, 2008d).

Czechoslovakia was one of the most industrialised countries in the world. The communist government had given great attention to heavy industry. The first approach to information technology happened in May 1999 when the government approved the State Information Policy which focuses on electronic commerce, information literacy, information democracy, communication infrastructure, reliability and security of information systems and personal data protection. The country's research and development (R&D) expenditure consistently increased during 2003–06. R&D expenditure in 2003 was recorded at \$1.14 billion in 2003, which increased to \$2.21 billion in 2006. The number of R&D personnel increased consistently during 2003–06, from 55,699 in 2003 to 69,162 in 2006. However, there are insufficient human resources for R&D in the Czech Republic. Furthermore, the skills of graduates do not always correspond with market demand. Czech university participation in the application of R&D is very limited and there is very little co-operation and collaboration between institutes and businesses. Czech Republic has considerably improved its regulation for intellectual property rights (IPR) by strengthening relevant laws. Also the low corporate tax rates give the opportunity for doing business in its market (Datamonitor, 2008d).

In the technological and scientific research field Greece ranks 22nd out of 30 countries in the EU. The government has funded public-private partnerships in business innovation. Technological innovation has become priority for the Greek government paying great attention to telecommunications. There is an increase in

internet usage while the prices for broadband access have declined by 85%. Also the mobile phone industry has experienced dramatic growth. Technological development leads the country for further investments in other sectors such as energy, tourism, food and beverages. Greece is one of the more inequitable societies in the EU as the average monthly earnings fall below those in other European nations. In Greece, the average monthly gross wage in 2005 was € 1,440 (around \$2,200) compared with an average of € 2,110 (around \$3,300) in the EU15. This indicates that the monthly labour costs in Greece amounted to only 68% of the EU15 average. According to the latest statistics released by the Greek government, 13.6% of the population lives below the poverty line. Greek society is also considered to be highly inequitable as the income of the wealthiest 20% of the population is regularly around six times higher than that of the poorest 20% of the population (Datamonitor, 2008e).

The Greek research, technology, development and innovation policy is based on three aspects: structural and programmatic interventions, thematic or sectoral specifications and the regional dimensions of these specifications. Its main purpose is to increase gross expenditure in R&D (GERD) to 1.5% of GDP by 2010 with industry participation reaching 40% of GERD. This objective is in line with the EU directives. Currently, most of the funding for research activities comes from the public sector, while this sector has low participation because there are a large number of small and medium enterprises (SMEs) in Greece. Lack of a proper institutional framework means there is no co-ordination between government and research organisations however the government's priority is to develop a scientific and technological framework by setting up international collaboration in research activities while an increase in patenting activities has been experienced. According to the Greek Industrial Property Organisation (OBI), in 2006, the number of patent applications rose by 12% compared to 2005 and by 38% compared to 2004. In 2005 and 2006, the Greek applications for European patents increased by 14% and 28% respectively. The patents granted by Greece's national patents agency increased by 9.5% in 2006 compared to 2005. The Greek parliament has ratified the modifications to the European Patent Convention. In addition, Greece has a Patent Act in place but the implementation of this Act has been questioned due to the high levels of copyright piracy. Piracy was highest in the business software

industry, which lost \$106 million as a result. The level of piracy in business software reached a high of 65%. Sound recordings and entertainment software also experienced losses as a result of the extensive piracy in the country. Table 6.26 summarises the technological factors in each country.

Table 6.26 Key Technological Points

Countries	Hungary	Czech Republic	Greece
Key Technological Points	<ul style="list-style-type: none"> • Development of the ICT sector • Growth on Telecommunication • Lack of innovation and poor performance on patents • First step on research and development (\$1.1 billion in 2007) • Lack of skilled workers and technicians 	<ul style="list-style-type: none"> • Development of the ICT sector • Good level of Telecommunication • Increase Investment in Research and Development • Funding from EU • Lack of innovation and poor performance on patents • Lack of skilled workers 	<ul style="list-style-type: none"> • Development of the ICT and energy sector • Great growth on internet, mobile and telecommunication • Growing number of Research and Development personnel • Lack of innovation and low performance on patents

6.6.5 Legal

Recently Hungary’s judicial system has witnessed significant reforms which have become very strong in support of the democratic character of the country. However because of the bureaucratic character of the state there are many cases in judicial proceedings which are pending. The regulations for doing business in the country have been facilitated giving the freedom to start, operate and close a business. The entrance of Hungary into the EU and its participation in WTO has made the country’s climate friendlier for investments and trade. Customs and tariffs have been shaped as Hungary has adopted the EU’s common external tariff rates. About 96% of imports by value do not require and import licenses and a number of products under quota constraints are increasing year by year. In 2008 Hungary was ranked 21st out of 27 countries in the World Bank’s Business ranking for doing business within the country. Business organisations in the Republic of Hungary are entities that have referred to the Hungarian Law. According the law the organisations must acquire property and conclude contracts before the registration. For certain activities, special permission is needed from the relevant authorities. Companies with foreign participation may be founded in any form listed

in the Companies Act. The types of companies that can be found are: Unlimited Partnerships (Kkt.); fxjLimited Partnerships (Bt.); Limited Liability Company (Kft.); Limited Company by share (Rt.); Branch offices (HLB Klient Group, 2008).

Companies operating in Hungary are subject to corporate income tax on their worldwide profits. The standard rate of income tax for Hungarian and foreign companies' is currently 16%. From 2006, the former offshore companies were also subject to the general corporate income tax rate of 16%. However, companies engaged in financing activities can benefit from an effective 8% corporate income tax rate on this activity. Corporate tax in Hungary in 2009 was fixed at 16% and there is an additional 4% solidarity tax (HLB Klient Group, 2008). The standard rate of income tax is 18% and an additional 23% is payable at the time dividends are paid out of post-1994 after-tax profits. Value Added Tax (VAT), known as ÁFA in Hungary, is based upon EU frameworks and it is charged by all individuals and legal entities that supply goods or services. The standard VAT is 25%, however, there is a VAT scheme of 15% on basic consumer goods, books, newspapers and transportation and 5% for some medicines and exports (Worldwide-tax.com, 2009a).

Business organisations in Czech Republic are referred to as legal entities which aim to carry on business activities following the legislation of the European law. These are: Limited liability company (s.r.o.), Joint stock company (a.s.), Unlimited partnership (v.o.s.), Limited partnership (k.s.), Societas Europea European Economic Interest Grouping. There is no mixed legal type of business that can often be found within other EU countries. The most popular type of company is the Limited Liability Company (HLB PROXY, 2008). In Czech Republic the tax year starts from 1st of January to 31 December and it consists of the following types: **Direct taxes:** personal income, corporate income, inheritance tax, gift tax, real estate transfer tax, road tax. **Indirect taxes:** value added tax, excise duty, tax on natural gas, electricity and solid fuels. **Other taxes:** stamp duty and withholding tax.

Czech Republic entered into an agreement with 70 other countries following the OECD model, by signing a number of double tax treaties which focus on the avoidance of double taxation on income earned in those countries. In particular,

the taxation for foreign corporations trading in the Czech market are taken for the actual profits as recorded in their accounts. The corporate income tax rate was 21% in 2008. As previously stated, Czech Republic does not fulfill the Maastricht criteria, this means that the country is trading in its local currency CZK Koruna. This can conceal considerable risk for local and international businesses due to enormous exchange rates caused by the recent global financial crisis. However, the Euro has become a cross-border currency as many companies are trading with it. The riskiest is for those businesses which are not active in international trade and use the local currency (PricewaterhouseCoopers Česká republika, s.r.o., 2009).

The economic transformation and the general change of Czech economy have led the larger companies to act under innovative marketing practices. Almost 1,400 'old state enterprises' have successfully moved into the private sector. As Savitt (2000) stated the new private firms must adopt modern management practices especially in marketing if they want to become competitive and ensure long term viability. Within the Czech firms most of the new managers or owners are unqualified and they do not have a clear idea about the meaning of marketing. Marketing initiatives remain in the hands of those of the past. Market orientation requires leadership from the top. Therefore the country still faces a major challenge for attracting FDI. The government is working on simplifying and reducing the regulatory framework for opening a business in Czech Republic. Further changes have been introduced in legislation such as The Price Law from the Ministry of Finance in order to regulate prices. There are minimum and maximum prices in goods and services such as telecommunication, energy, raw material, domestic rents and transportation tickets in order to control competition. Additionally, in the government's recent prospects, there is to be a reform of unemployment benefits in order to control the rising welfare expenditure of the country.

In order to develop new businesses in any country, entrepreneurs must consider the procedures required to incorporate and register the new firm before they can legally operate. The regulatory structure differs greatly from country to country as in some aspect the process is straightforward and affordable, whereas in others

the procedures are time consuming and bureaucratic (The World Bank Group, 2010). According to Datamonitor (2008e) the Greek legal system has an independent judiciary which it is not influenced by other branches of government. The national reform policy (NRP) is responsible for enhancing the legal climate in relation to the Greek economy. There are three categories of courts: civil courts, penal courts and administrative courts. The Supreme Court within the civil and penal justice systems is the Court of Cassation. After becoming a member of EU Greece reformed its legal system following the prerequisites of the EU integration.

The Greek government has encouraged private foreign investment as a matter of policy. The liberalisation of the electricity and telecommunications markets in 2001 (previously closed to private investment, foreign as well as domestic) and of the gas market more recently and the possibility of developing the legacy of Athens 2004 Olympic Games offer considerable investment opportunities. Companies are legal entities which carry out businesses following the legislation of the European Law. In the Greek Business environment Greek company law is based on the French system and the most common way to establish a company is to be registered as; Individual Companies; Limited by shares company (Anonymous Etairia –SA/AE); Limited Liability Company(Etairia Periorismenis Efthinis-Sàrl/EPE); Establishment of a branch or foreign company's agency; Offshore Companies (UHY,2008).

It is necessary to add that the Greek government has tried to attract more interest in establishing businesses in the Greek market from both domestic and foreign investors by reforming the Tax system. Greece as an EU member provides a reasonably friendly environment for foreign investment. Its membership in the EU and the Monetary Union offers currency stability while the infrastructure has improved considerably in last five years. The liberalisation of the energy and telecommunication markets opens doors for further investment opportunities. Greek businesses have become leading investors in South-eastern Europe. Greece still needs to work on improving its economy's performance as according to the Transparency International the country accounts for high levels of corruption in economic and commercial aspects. Greece has a modest level of foreign investment and it is ranked 24 out of 27 EU members.

Investment proposals are screened only when the investor wants to take advantage of government-provided tax and investment incentives. In some sectors, such as banking, mining, broadcasting, and maritime and air transport, foreign investors are treated less favourably than domestic investors. The public utilities sector, including the energy and telecommunications markets, is gradually being opened up for foreign investment. Considerable effort to implement tax reforms has taken place and to reduce bureaucratic delays in business transactions and expedite market deregulations. This has made Greece friendlier for further investments. In the World Bank's latest Doing Business report, Greece was ranked 24th among 27 OECD members' countries for the year 2008 with regard to the regulation of employment (The World Bank Group, 2010).

As an EU member Greece requires clear and transparent policies. However it has been reported that there are multiple laws covering the same issue. For foreign companies the complex regulatory systems played a negative role in investing and operating in Greece. For this reason in order to simplify the investment processes the Greek government established the Hellenic Centre for Investment (ELKE) in 1996 and thus improved the whole bureaucratic process. The government reformed the Tax System, which had previously lacked stability, predictability and transparency, to increase competitiveness and make the market attractive by providing lower taxes to corporations as previously stated. Generally, Greece is open to foreign investment by working on improving the rules of transparency and accountability especially for publicly traded companies (PRS Group Inc, 2009b). On the other hand, Greece has a weak implementation of intellectual property (IP) laws as piracy rates are very high in the entertainment sector, business software and books. Greece is considered to be one of the worst offenders for software piracy in the EU. Also, the corporate tax rate was reduced from 29% in 2006 to 25% in 2007, and for smaller enterprises from 22% to 20%. Table 6.27 summarises the legal factors in each country.

Table 6.27 Key Legal Points

Countries	Hungary	Czech Republic	Greece
Key Legal Points	<ul style="list-style-type: none"> • Strong judicial structure • Improvement on legal indicators and transparency in capital market • Strong law for intellectual property rights • Ease of Doing Business Rank 21st to 27 countries of OECD 	<ul style="list-style-type: none"> • Stable judicial system • EU legislation In business area • Strong law for intellectual property rights • Ease of Doing Business Rank 25th to 27 countries of OECD 	<ul style="list-style-type: none"> • Legal framework according to EU standards / Multiple regulatory system property rights • Facilitation of FDI • Implementation of labour and pension reforms • Weak Implementation of Intellectual Property • Ease of Doing Business Rank 27th to 27 countries of OECD

6.6.6 Environmental

Flood is Hungary’s major natural peril yielding high frequencies but also the country is exposed to windstorm, hail, and earthquakes. Recently the country has suffered particularly from earthquakes and floods which are normally caused by either heavy rainfall or snowmelt. The two most exposed areas are the northern reaches of the Tisza and the Danube, south of Budapest City. This was evident in August 2002 and April 2006, when flood waters from Central Europe raised the Danube to dangerously high levels but fortunately was not high enough to expose the city to danger. The possibility of earthquake exposure has been underestimated, the most recent dangerous earthquake in Hungary was in 1985 and cost approximately USD1.3 million. An event exceeding a magnitude of 5.0 occurs nearly every year in the country, although the results thus far have been limited to damage to buildings (Dowlen, 2008a). However, according to the Georisk in the last five years the magnitude of the earthquakes was no more than 3.0 (Georisk.hu, 2009).

According to Datamonitor (2008) Hungary has successfully managed its environmental concerns and has developed strong environmental records among the industrialised countries concerning both energy and pollution. The Ministry of Environment and Water is responsible for the protection of the environment and water management. It has developed specific regulations following the European Union’s framework. The Hungarian Act on Environment ensures public access to

environmental information and also participation in decisions regarding the environment. Hungarian land is very rich in natural resources covering about 1.8 million hectares, more than 19% of its total land. Only one-fifth of the forest land is under conservation and 5% under strict protected regulations. Hungary has participated in many agreements for the protection of the environment such as Ramsar Convention for the protection of the wetland ecosystem.

The main problem that the country faces is the considerable amount of polluted water. For instance of the 876 natural and 150 artificial water bodies identified in Hungary, 579 of them conceal increasing risks from hazardous substances. The rivers are polluted from industrial and municipal wastewater even if the industrial sector implements anti-pollution measures. The main aim for Hungary is to reduce the GHG emissions by 6% by 2012 this is supported by becoming an active member of the Kyoto Protocol. The use of renewable energy covering 14% - 16% of demanded energy is planned by the government, a change resulting from environmental pollution and the hostile behaviour of humans. Other natural phenomena are windstorm and earthquakes though their frequency is not high both can have catastrophic results for the country. It is very difficult for any authority to recognise the exact percentage of the risk to natural disasters that their country is exposed to. Events that have happened because of climate change are very difficult to forecast, yet the authorities must be ready to face them in case they happen (Datamonitor, 2008d).

Czech Republic has become a member of a number of international treaties and agreements including the Antarctic-Environmental Protocol, the Antarctic Treaty, and the Kyoto Protocol, as well as initiatives covering biodiversity, climate change, desertification, endangered species, and environmental modification. Additionally, the country has incorporated most of the EU's environmental laws into its regulatory framework. During the communist years the country faced massive environmental degradation which was characterised by a complete absence of laws for the protection of the environment. The Czech Republic experienced air and water pollution in some areas of northwest Bohemia and in northern Moravia around Ostrava. This posed potential health risks to people in those areas. Moreover, acid rain had been damaging forests in the country, which it had to

urgently address. The government had made efforts to bring industry up to the EU code, which should improve the domestic pollution situation in the country. However the growing popularity of wind power in Czech Republic has resulted in a considerable decrease of carbon dioxide by 152,000 tons. The current challenge for the country is air quality of which the country currently trails other EU nations. The prevalence of dust in the air is one of the major causes of air pollution. The level of dust in the air exceeded the limits of 29% of the country's territory in 2006 and 35% in 2005. Consequently, around 62% and 66% of the Czech population were exposed to excessive dust pollution in 2005 and 2006.

The State Environmental Policy (SEP) was approved by the government in January 2001 and was updated and revised in March 2004. The environmental ministry was also entrusted with the responsibility of updating the policy in 2010, after a review of the goals that were achieved and tasks that remain unfinished. The significant features of the SEP are the protection of nature, landscape and biological diversity; sustainable use of natural resources; protection of waters and protection against floods; optimisation of material flows and waste management; reducing the damage to the environment from human activities; improving environmental standards for the quality of human life (Datamonitor, 2008f).

Additionally, the country is exposed to natural phenomena that human beings cannot prevent. The major natural perils that Czech suffers are windstorm, hail and flood. Flooding is common in summer, when the rainfall is at its highest or during the winter periods when caused by snowmelt. The most exposed areas to flood risk are the river valleys of Moravia and the southern, middle, and northern parts of Bohemia. In July 2007 almost every part of the country was exposed to severe flooding. The most recent flood disaster which cost 50% of the total economic loss of the year happened in 2002. For this reason the authorities are acutely aware of the flood risk and have invested considerably in loss prevention and particularly in upgrading flood defences in the major urban areas considered to be at risk. In January 2007 another catastrophe occurred by the storm Kyrill and affected Central Eastern Europe. There is also some limited regional earthquake exposure, but it is considered a much smaller risk than flood or storm (Dowlen, 2008b).

In Greece the main authority responsible for the implementation of parameters concerning environmental and natural sources is The Ministry of Environment, Physical Planning and Public Works. Greece faces many environmental challenges such as controlling air emissions from industries, meeting the demand for water, reducing effluents from agricultural and municipal sources, protecting land and coastal resources, and conserving biodiversity and terrestrial and marine ecosystems. Following EU legislation, the Greek government rapidly increased the implementation of environmental tools based on economic and social characteristics with the main purpose of developing environmental concern of the public in different sectors. Greece has ratified a number of international environmental treaties and the country has succeeded in enhancing its environmental standards and therefore still has a problem with environmental indicators. Its emissions of pollutant gases are among the highest in the EU and its level of waste management is among the lowest in the EU region. Greece accounts for 0.3% of global emissions, an average of 8.8 tons of CO₂ per person. Considerable effort has occurred to implement environmental regulations but the legislation still requires further development. The government also collaborates with agencies which are responsible for the environment, however there is no clarity regarding their total responsibility. It is necessary for the government to pay more attention to all the environmental aspects. Greece has signed the Kyoto Protocol and can benefit from the promotion and implementation of the Clean Development Mechanism (CDM). The major aim is the control of pollution which results from climate change (Datamonitor, 2008e).

Other significant risks are natural disasters. Serious earthquakes are less frequent but do occur and have caused the death of many people. However, Greece is the most seismically active country in Europe. Especially after the biggest earthquake in Athens in 1999, earthquake risk has increased largely due to evidence of its effect to people's lives, to firms and to private properties. The RMS estimates that economic losses equivalent to those of the 1999 Athens Earthquake may occur approximately once every 33 years (RMS, 2001). Also, Forest fires are common between the months of June and September. The summer of 2007 was a great tragedy for the Greek nation, with wild fires all over the country: 62 people died and dozens of villages were completely burned. A large segment of the entire

agricultural sector of the Greek economy was completely destroyed, particularly in Peloponnesus. Even Olympia, the sacred place of ancient Greek civilization and the birthplace of the Olympic Games was, and still is, in danger. Also during recent winters there were many places in Greece that suffered from flooding and many people were left homeless. Flights to Athens airport were affected from the floods of 2009 (USGS.gov, 2009c; Inthenews.co.uk, 2006). Table 6.28 summarises the environmental factors of each country.

Table 6.28 Key Environmental Points

Countries	Hungary	Czech Republic	Greece
Environmental Factors	<ul style="list-style-type: none"> • Natural phenomena (windstorm, hail, snowfall and earthquake) • Strong environmental Policy • Rich biodiversity • Increase in hazardous wastes • Pollution (CO₂ emission) 	<ul style="list-style-type: none"> • Natural phenomena (windstorm, hail and floods; limited exposure to earthquakes) • Pollution (CO₂ emission) • Fulfilment of international environmental commitment 	<ul style="list-style-type: none"> • Natural phenomena (windstorm, hail, snowfall and earthquake). • Strong environmental Policy based on EU guidelines. • Pollution (CO₂ emission)

Further information and a detailed profile of each company and country can be found in Appendix 6 provided in a CD.

6.7 Summary

This chapter is divided into two sections; the first provides information regarding market position, marketing strategies, supply chains and the development of risk management techniques for the selected companies. The second section provides information on the countries using the PESTLE analysis tool. The analysis identifies a number of risks that the three countries conceal in relation to political, economical, social, technological, legal and environmental factors. By considering the results from the case studies presented in this chapter twelve models were developed in the following chapter to show the different levels of risk in six important areas in the business environment that can affect the business consolidation and process.

Chapter 7 Evaluation of Risk Management

7.1 Introduction

The aim of this chapter is to evaluate the risks that are concealed in each of the selected countries using example fashion retailers to test the hypothesis set out in chapter 5, section 5.1.1. The four fashion retailers, Esprit, H&M, Mango and Zara were selected as case studies to identify the risks faced when expanding into emerging markets in different stages of development in relation to the differences and similarities in operations and financial indicators discussed in the previous chapter. The twelve models presented in this chapter were developed based on the impact and the frequency of the risks identified in chapter 6 by measuring the risk factors of Political, Economical, Social, Technological, Legal, Environmental and Supply Chain factors. The evaluation is presented according to market risk assessment using the above PESTLE factors and supply chain risk assessment which follows the models.

7.2 Modelling the Risk

The risks were measured by firstly considering their impact on the companies and then the likelihood of them happening according to the existing situations in each country. After studying the Risk Management framework published by the Institute of Risk Management (IRM) pages 33 and 34 tables 3.4 and 3.5 and COSO's framework page 38 table 3.7, a scale, shown in table 7.1, was devised to determine the measurements. IRM's and COSO's frameworks have many similarities but also differences in the way the two organisations measure the risk, however the risk management process is very similar. IRM has generalised the risk and has focused on risk management as a rapidly developed discipline which exists in all aspects of life and not only in corporations and public organisations while COSO has focused on enterprise risk. Table 7.1 is a generic model which was developed having as its main basis IRM's approach and keeping also as good example COSO's framework. According to IRM the risk assessment contains parameters such as consequences and probability. The measurements of these two parameters were used in the generic model, table 7.1 by translating 'consequences' as 'impact' and 'probability' as 'likelihood'. The 'impact'

measurement was divided into no impact, minor impact, serious impact and catastrophic and the 'likelihood' into rarely, sometimes, often, very often. The measurement of no impact and likelihood rarely, were added in case the risk identified does not have any influence on the companies survival. The resulting models, one for each company in each of the three countries, identify the different levels of risk concealed based on ONDD's countries risk assessment considering the entry methods used relative to the PESTLE analysis. None of the companies have given a measurement in their risk factors, not either a time scale (frequency) of an event to be happened. Esprit and Mango entered the three markets using the franchise entry method thus exposing the company immediately to lower risks as local entrepreneurs are responsible for the performance of the business, while Zara and H&M entered as wholly owned operations establishing subsidiaries.

Table 7.1 Scale of impact and likelihood

IMPACT	LIKELIHOOD
1. N/I = No Impact	1. R = Rarely
2. M/I = Minor Impact	2. S= Sometimes
3. S/I = Serious Impact	3. O=Often
4. C = Catastrophic	4. VO= Very Often

To develop the models a set of tables were constructed showing the risks that each company was exposed to by measuring the impact and the possibility of the event happening when operating in these countries in accordance with the scale above (table 7.1). The risk factor number was then determined by multiplying the impact and likelihood figures, which also appear in the tables expressed as ratios. The tables and the models are presented on the following pages (164 to 179) in relation to the four companies and are separated by title pages. The risks are easily identified on the models with the lower risk factors (on the left hand side) appearing within the green section of the background and higher risks extending across into the yellow and orange areas and into the red section where risks are at their highest, thus accentuating the urgency or impact of the risk.

For example by developing the Esprit's risk factors in the examined countries first of all its entry method was considered. Esprit has franchises in the examined countries which mean that it transfers the risk to third parties. The risks were analysed by using the PESTLE analysis tool adding to the end an additional risk which is the supply chain. The political, economical, social, technological, legal, environmental and supply chain risks were divided into sub-risks.

The political risk is divided into political unrest and terrorism. For Esprit the political unrest has minor impact while the likelihood to happen is serious. By multiplying these two parameters the risk factor comes up as 4, while for terrorism is 1 as in a case of terrorism there is no impact and this can happen rarely. According to the company's annual review terrorism is not considered as a risk.

Economical risk is divided into exchange rate, credit, interest, liquidity, sovereign, taxes-VAT. For Esprit the most serious risk is taxes/VAT which stands as a higher factor 6 followed by the exchange rate and interest risk at risk factor 2 and then liquidity and sovereign which are in lower level of 1.

Social risk is divided into market demand, qualified personnel, diseases and reputation. Market demand is the higher risk factor parameter (risk factor 4) - which Esprit is aware of, followed by the diseases (risk factor 3) which can also affect the firm but rarely can happened.

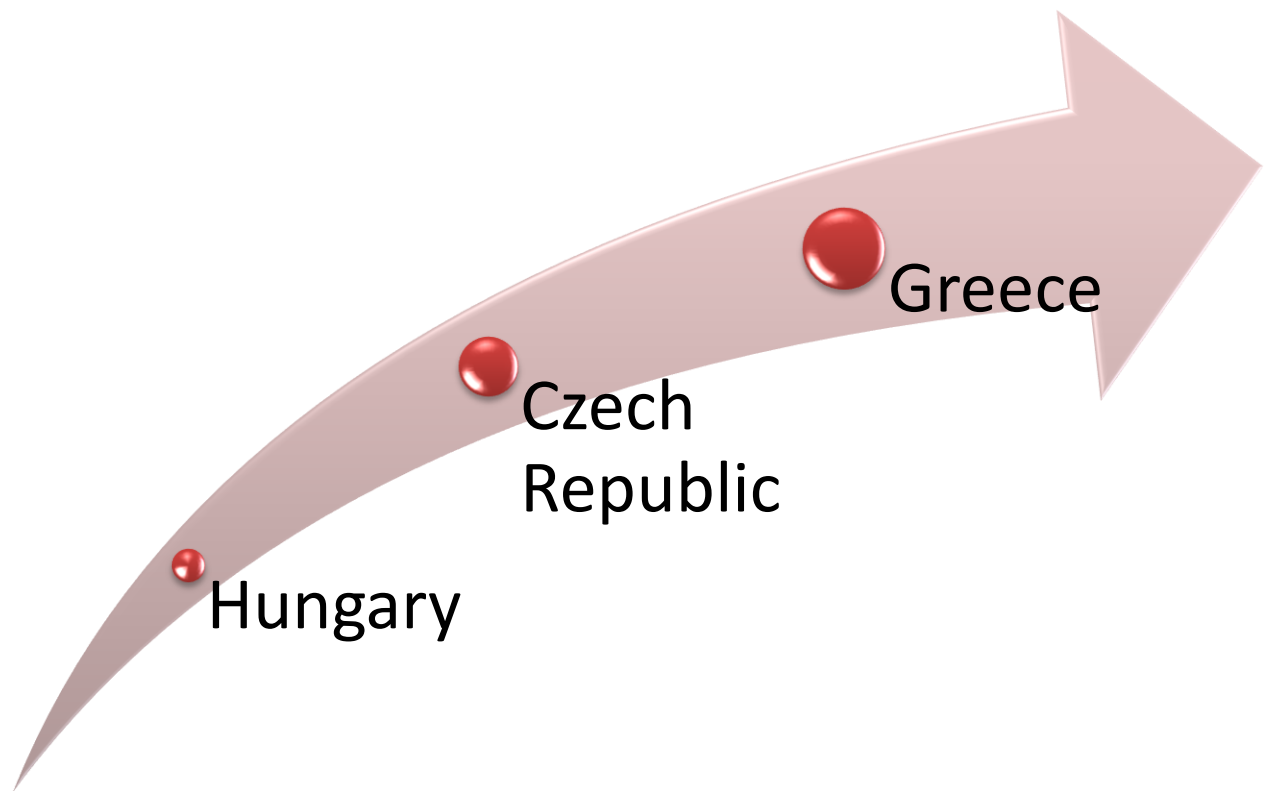
Technological risk contains IT and telecommunications. In today's demanding environment, technology plays superior role in the whole organisation and consolidation of a firm. Lack of technological innovation can have serious impact but the possibility of this happening is low as the majority of the entry countries have a technological infrastructure. For Esprit the risk factor is 3.

Legal risk is divided into legislation, regulations and intellectual property. Any change in the regulatory sector can affect seriously the whole presence of a company. The intellectual property, especially for a firm such as Esprit which has created a brand name, is also serious. For both of the sub-risks the risk factor is high enough standing at 6.

Environmental risk includes natural disasters and climate changes. Predicting the size, location, and timing of natural hazards is almost impossible. Hungary is prone to disruptive natural phenomena and climate changes as mentioned in chapter 6 section 6.6 table 6.25. Both of these parameters are relevant sometimes but climate changes do not affect the firm as much as the natural phenomena could do. The risk factor of natural disasters is allocated a rating of 6, unlike climate changes which is 2.

Finally, **supply chain risk** is divided into import and export barriers, logistics, relationship with partners or other suppliers and quality and safety of the products. The risk factor for import and export barriers is very low as Hungary is in the European Union which means free movement of products between the country members. Logistics has the higher factor 6 as any disruption in the logistical system and the whole distribution channel can affect seriously the whole function of the company. The same analysis was developed for all the examined companies operating in the examined countries.

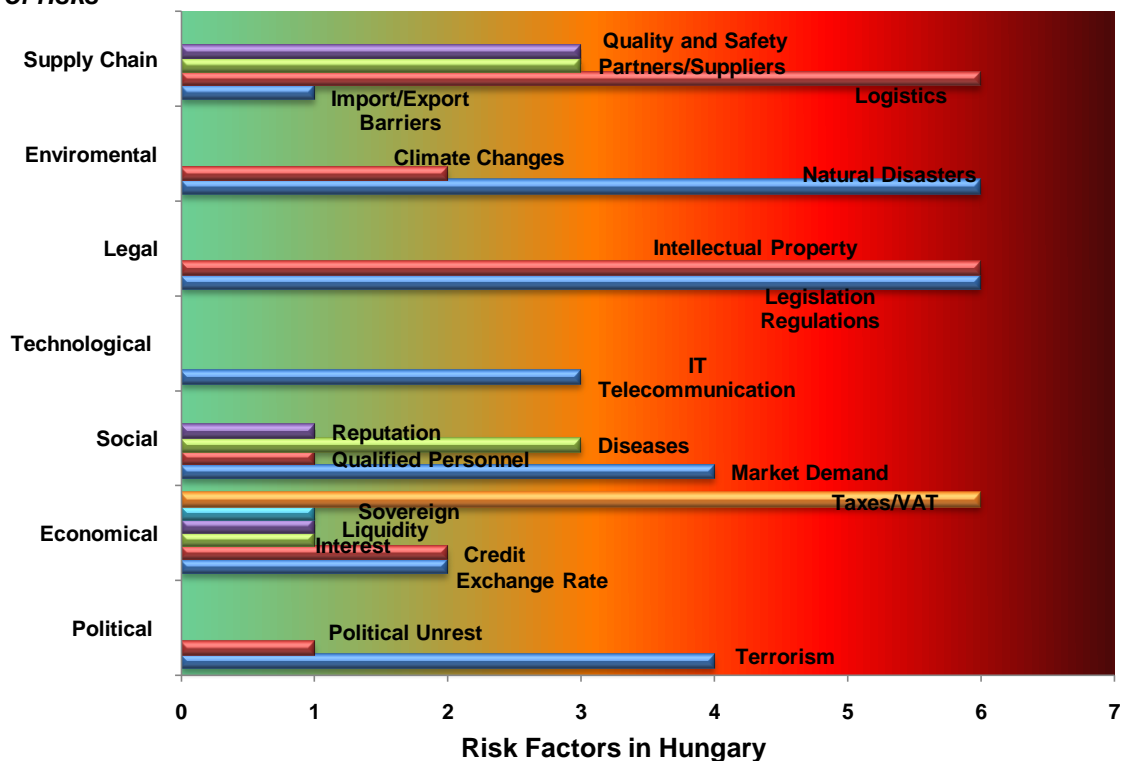
ESPRIT



Model 1. Esprit Risk Factors in Hungary Franchise

ESPRIT IN HUNGARY			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	M/I (2)	R (1)	2:1 (2)
Credit	M/I (2)	R (1)	2:1 (2)
Interest	N/I (1)	R (1)	1:1 (1)
Liquidity	N/I (1)	R (1)	1:1 (1)
Sovereign	N/I (1)	R (1)	1:1 (1)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1(3)
Legal			
Legislation/Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	S/I (3)	S (2)	3:2 (6)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

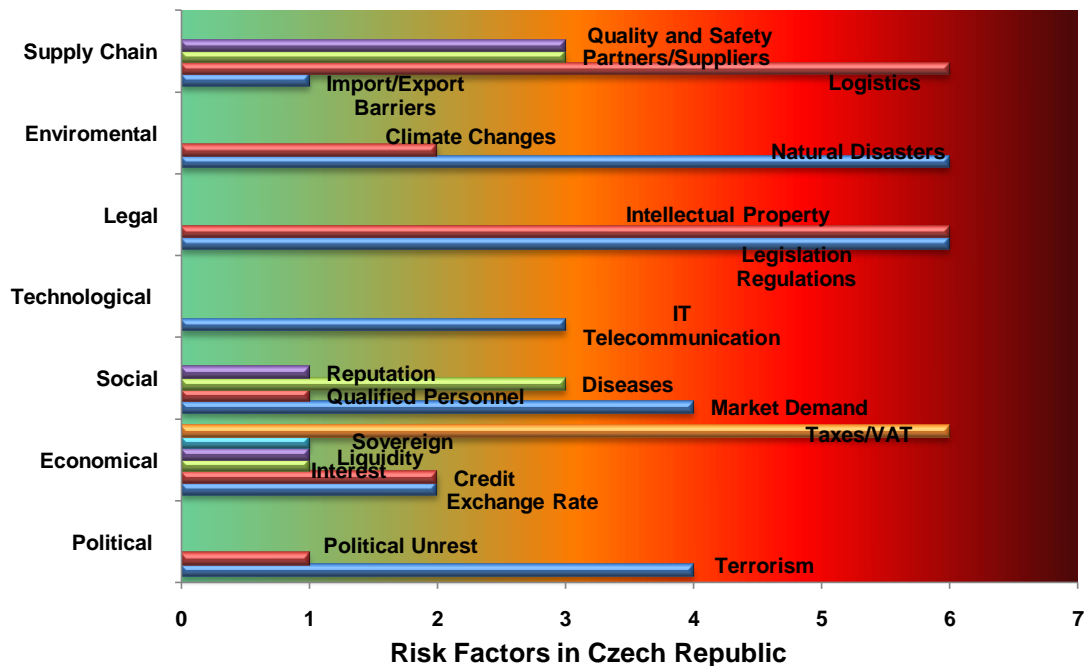
Type of risks



Model 2. Esprit Risk Factors in Czech Republic Franchise

ESPRIT IN CZECH REPUBLIC			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	M/I (2)	R (1)	2:1 (2)
Credit	M/I (2)	R (1)	2:1 (2)
Interest	N/I (1)	R (1)	1:1 (1)
Liquidity	N/I (1)	R (1)	1:1 (1)
Sovereign	N/I (1)	R (1)	1:1 (1)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	S/I (3)	S (2)	3:2 (6)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

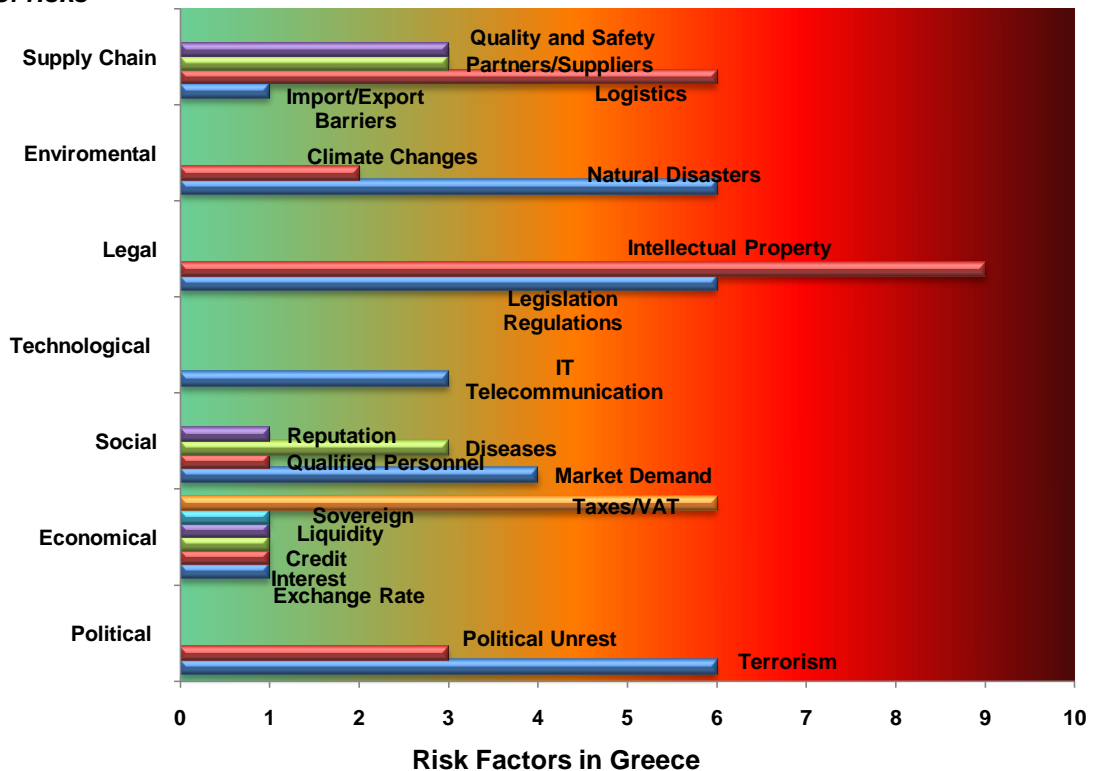
Type of risks

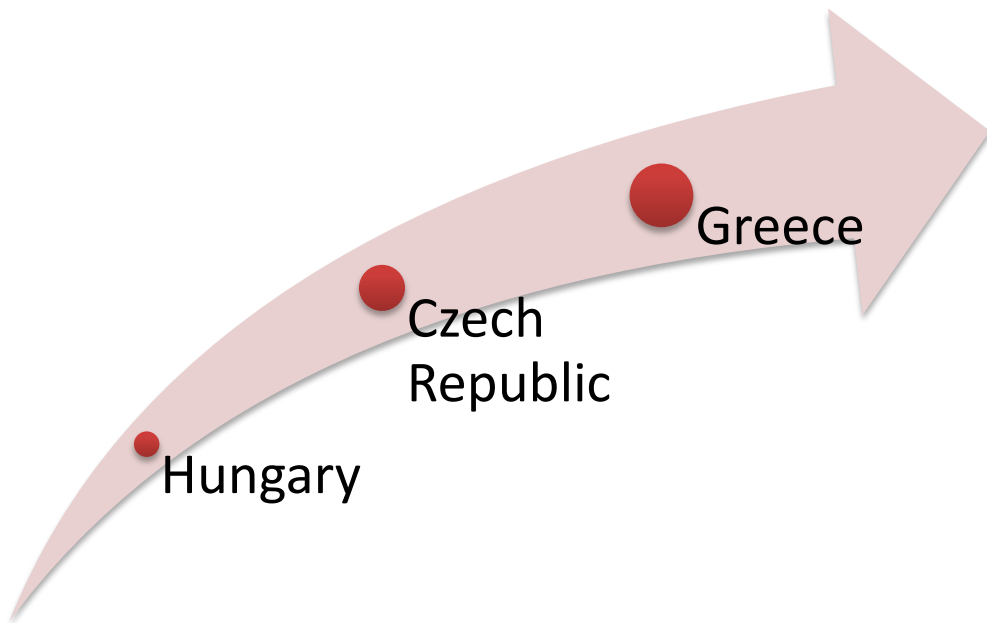


Model 3. Esprit Risk Factors in Greece Franchise

ESPRIT IN GREECE Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	O (3)	2:3 (6)
Terrorism	N/I (1)	O (3)	1:3 (3)
Economical			
Exchange rate	N/I (1)	R (1)	1:1 (1)
Credit	M/I (2)	R (1)	2:1 (2)
Interest	N/I (1)	R (1)	1:1 (1)
Liquidity	N/I (1)	R (1)	1:1 (1)
Sovereign	N/I (1)	R (1)	1:1 (1)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	S/I (3)	O (3)	3:3 (9)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

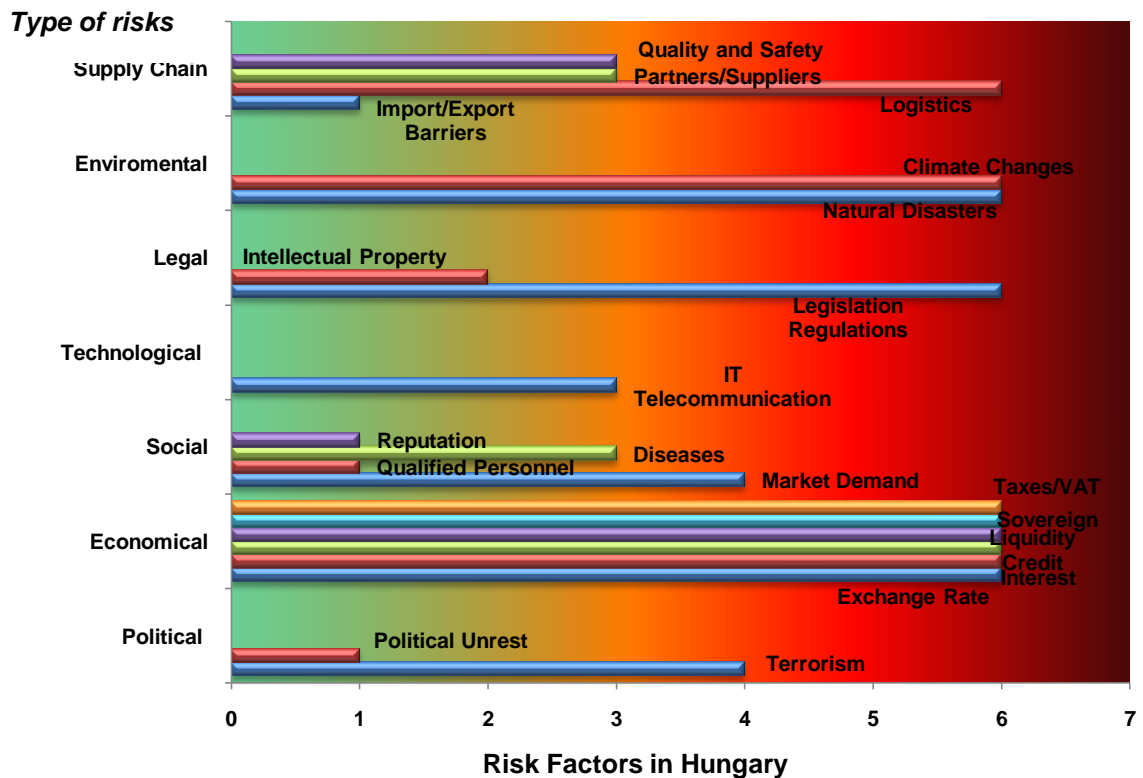
Type of risks





**Model 4. H&M Risk Factors in Hungary
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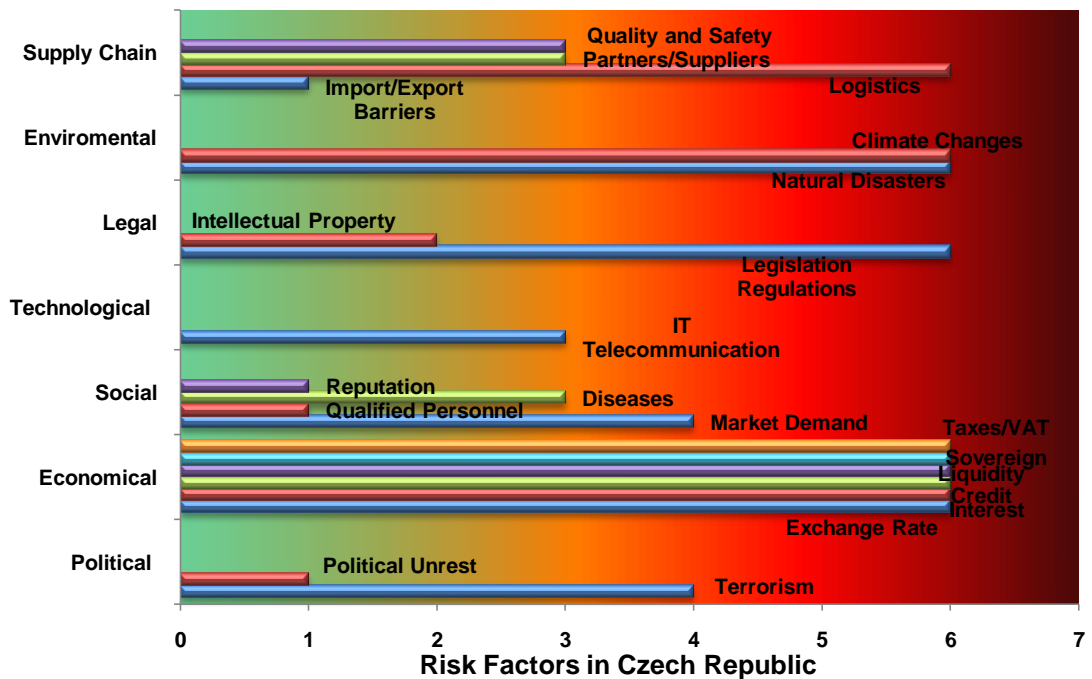
H&M IN HUNGARY Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	S/I (3)	S (2)	3:2 (6)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)



**Model 5. H&M Risk Factors in Czech Republic
Wholly Owned**

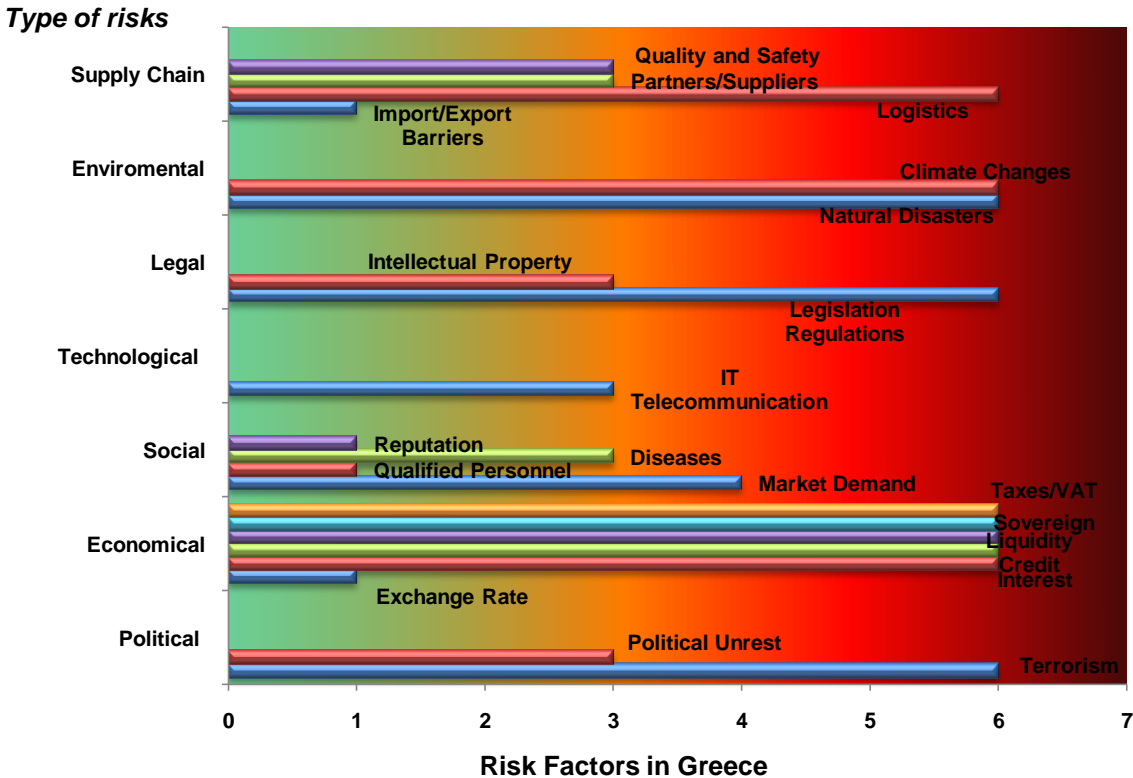
H&M IN CZECH REPUBLIC			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	S/I (3)	S (2)	3:2 (6)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

Type of risks

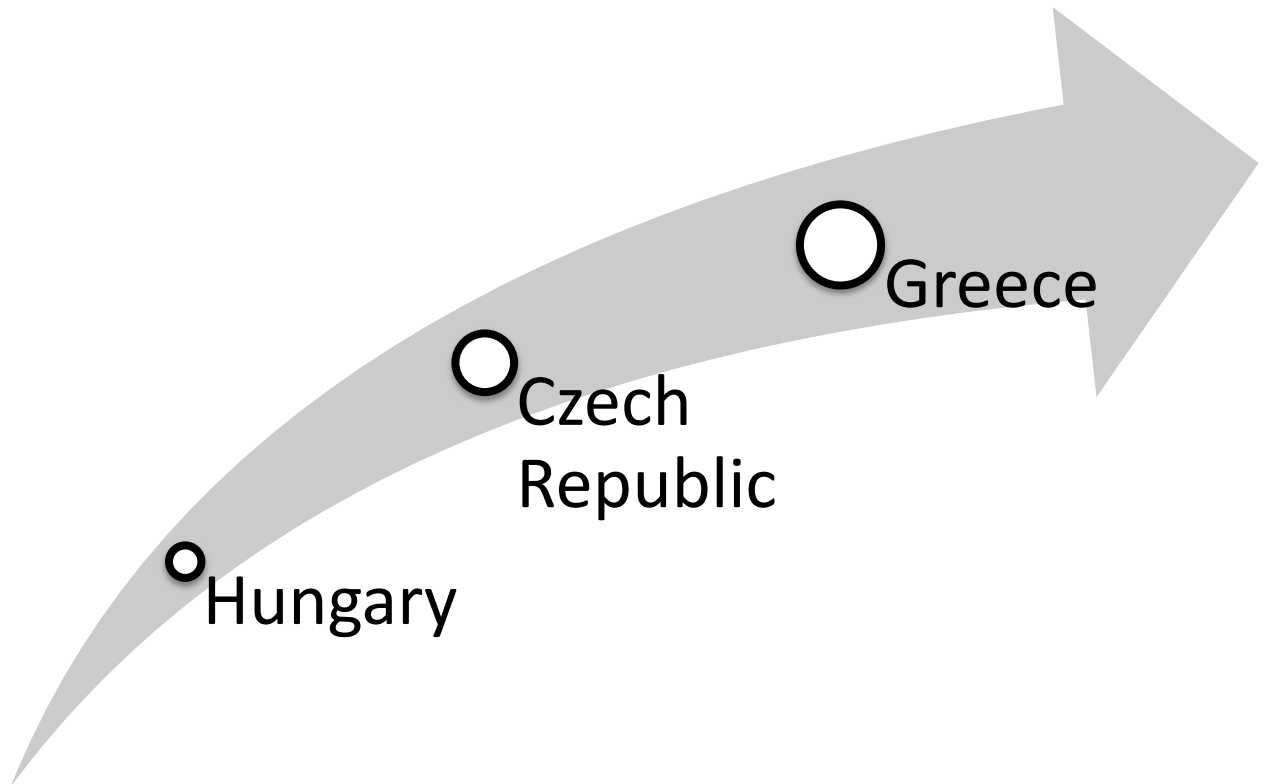


**Model 6. H&M Risk Factors in Greece
Wholly Owned**

H&M IN GREECE	Impact	Likelihood	Risk Factor
Risks			
Political			
Political Unrest	M/I (2)	O (3)	2:3 (6)
Terrorism	N/I (1)	O (3)	1:3 (3)
Economical			
Exchange rate	N/I (1)	R (1)	1:1 (1)
Credit	S/I (3)	S (2)	3:2 (6)
Interest	S/I (3)	S (2)	3:2 (6)
Liquidity	S/I (3)	S (2)	3:2 (6)
Sovereign	S/I (3)	S (2)	3:2 (6)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	O (3)	1:3 (3)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	S/I (3)	S (2)	3:2 (6)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)



MANGO



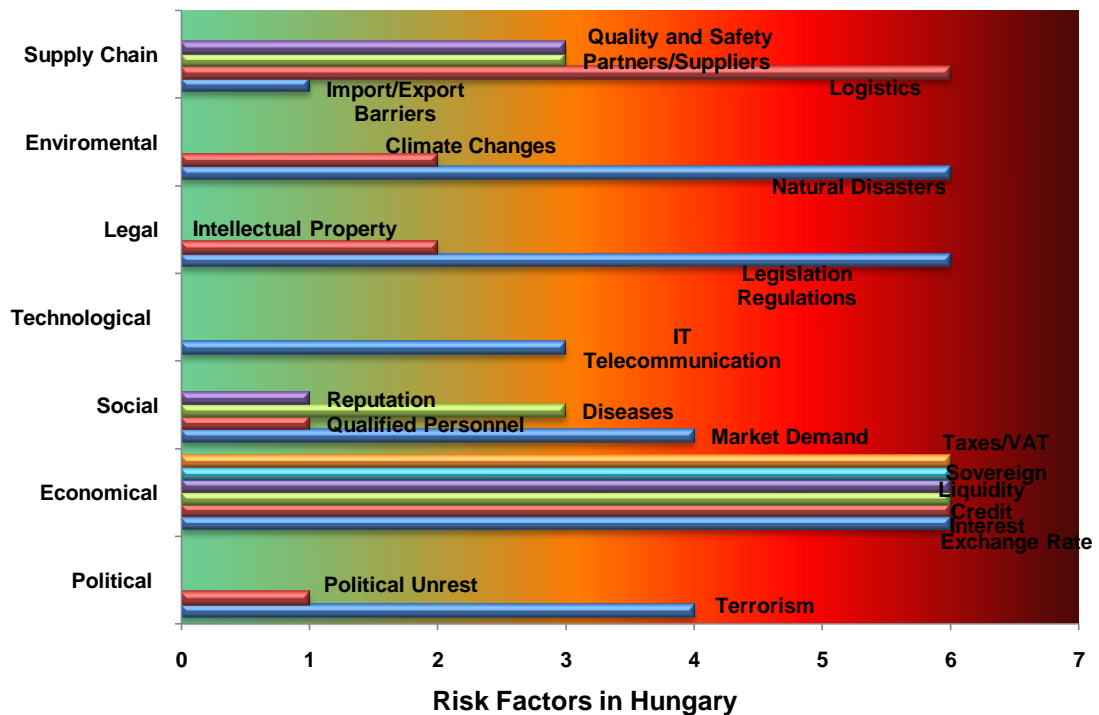
Model 7. Mango Risk Factors in Hungary

Franchise

MANGO IN HUNGARY

Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (3)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

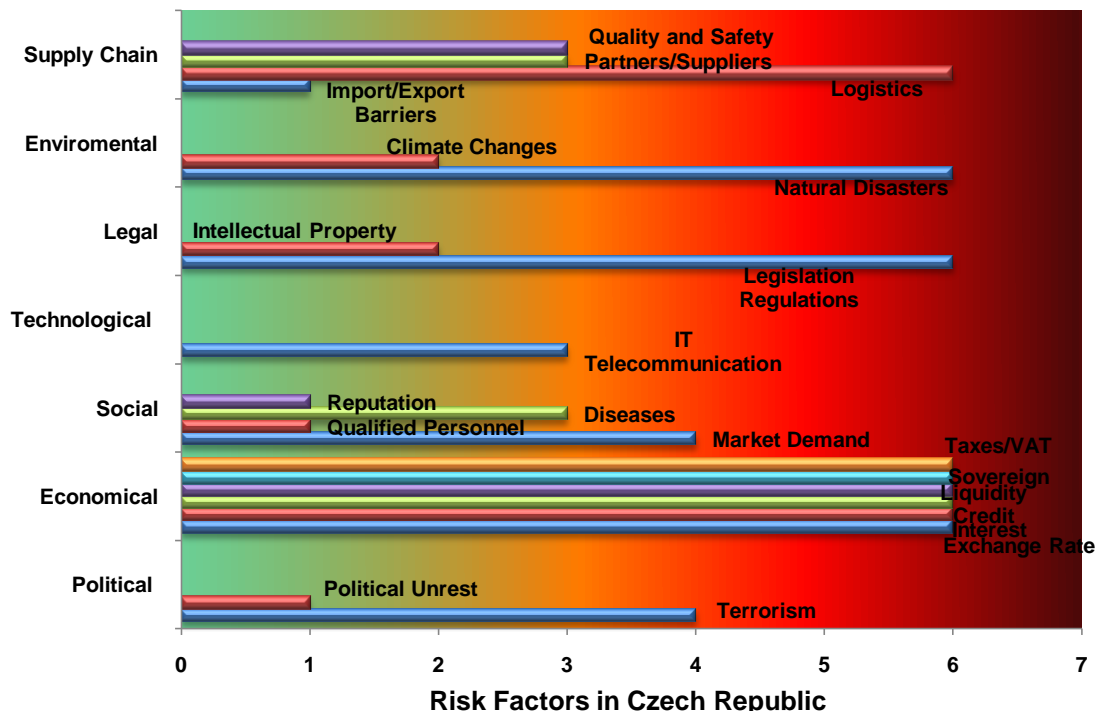
Type of risks



Model 8. Mango Risk Factors in Czech Republic Franchise

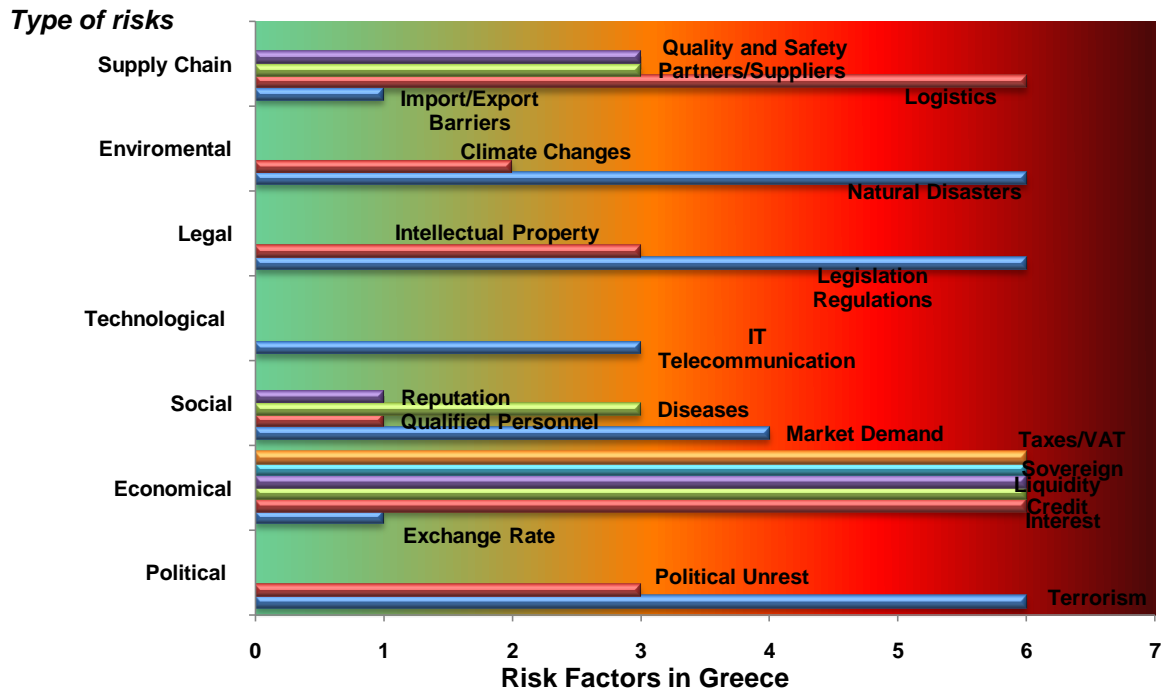
MANGO IN CZECH REPUBLIC			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (3)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

Type of risks

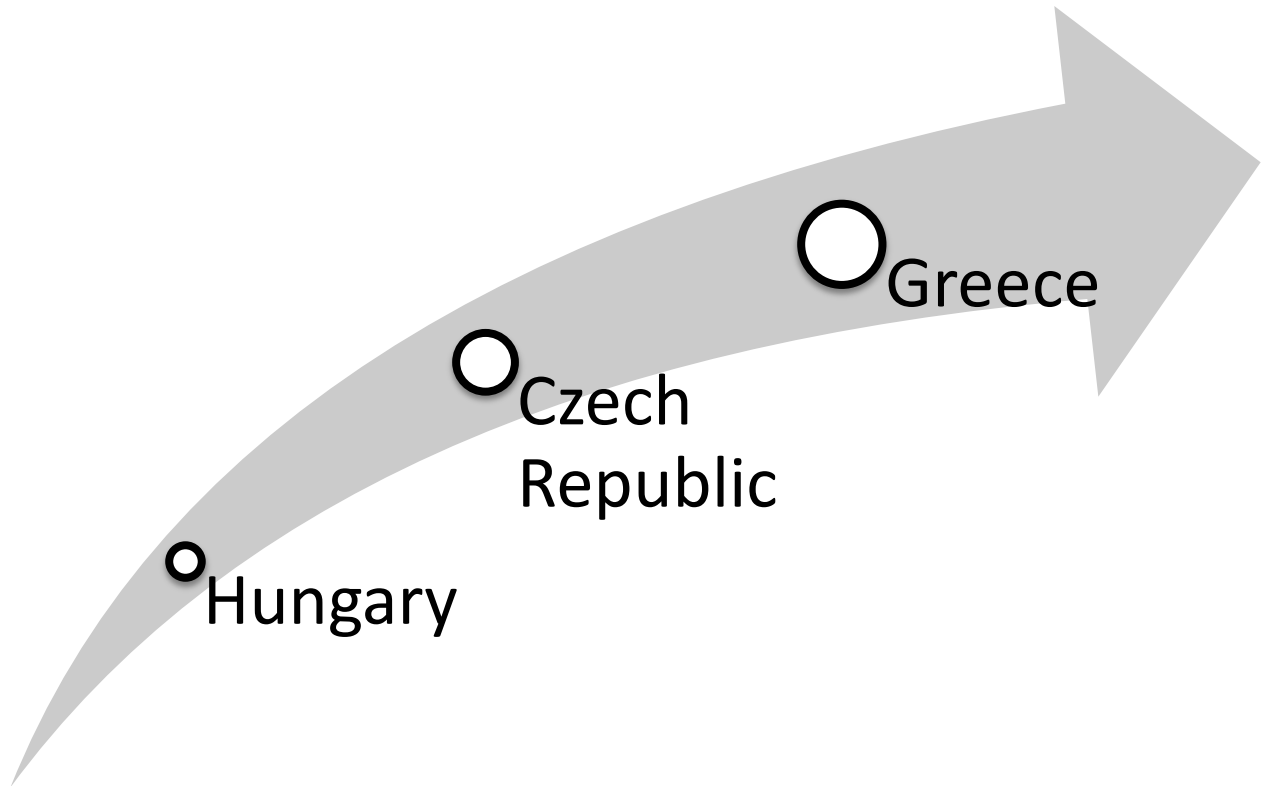


Model 9. Mango Risk Factors in Greece Franchise

MANGO IN GREECE			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	O (3)	2:3 (6)
Terrorism	N/I (1)	O (3)	1:3 (3)
Economical			
Exchange rate	N/I (1)	R (1)	1:1 (1)
Credit	S/I (3)	S (2)	3:2 (6)
Interest	S/I (3)	S (2)	3:2 (6)
Liquidity	S/I (3)	S (2)	3:2 (6)
Sovereign	S/I (3)	S (2)	3:2 (6)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	O (3)	1:3 (3)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (3)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)



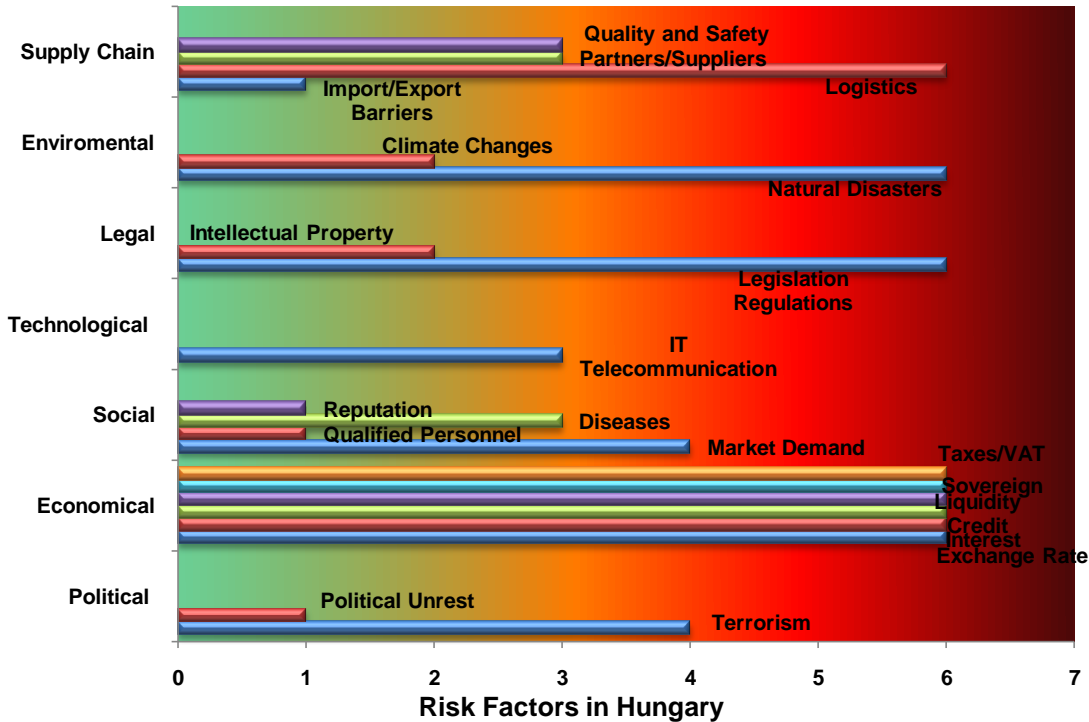
ZARA



**Model 10. Zara Risk Factors in Hungary
Wholly Owned**

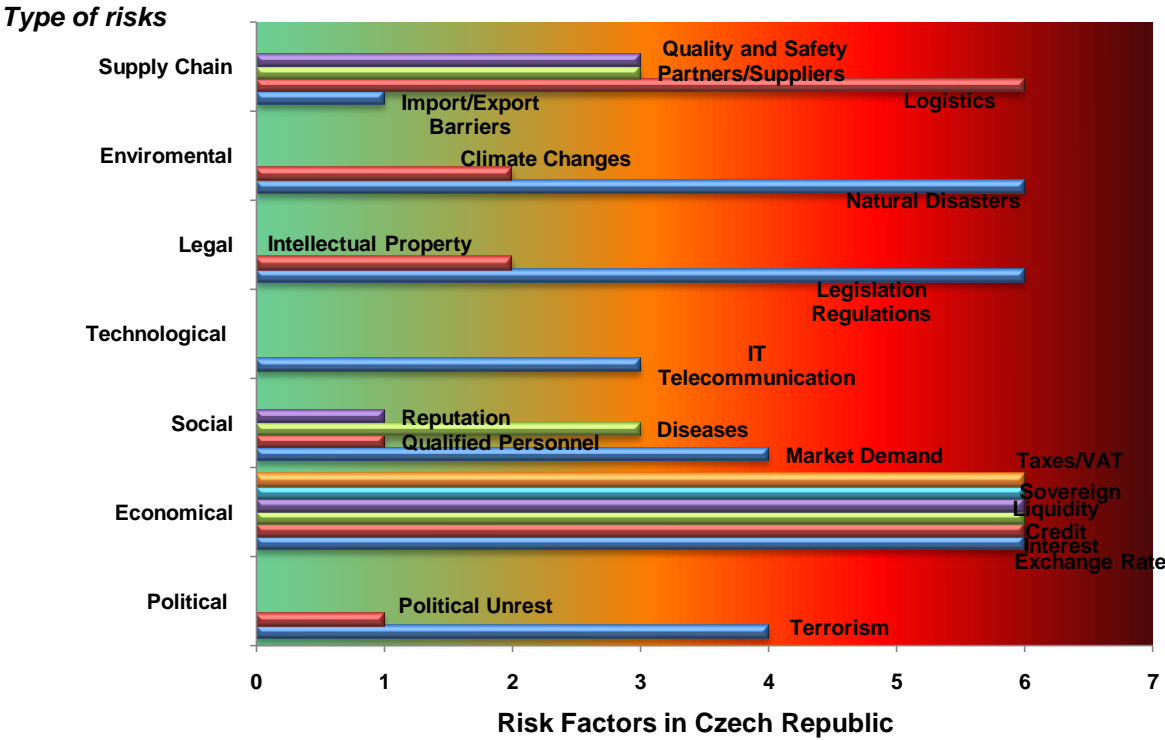
ZARA IN HUNGARY Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

Type of risks



**Model 11. Zara Risk Factors in Czech Republic
Wholly Owned**

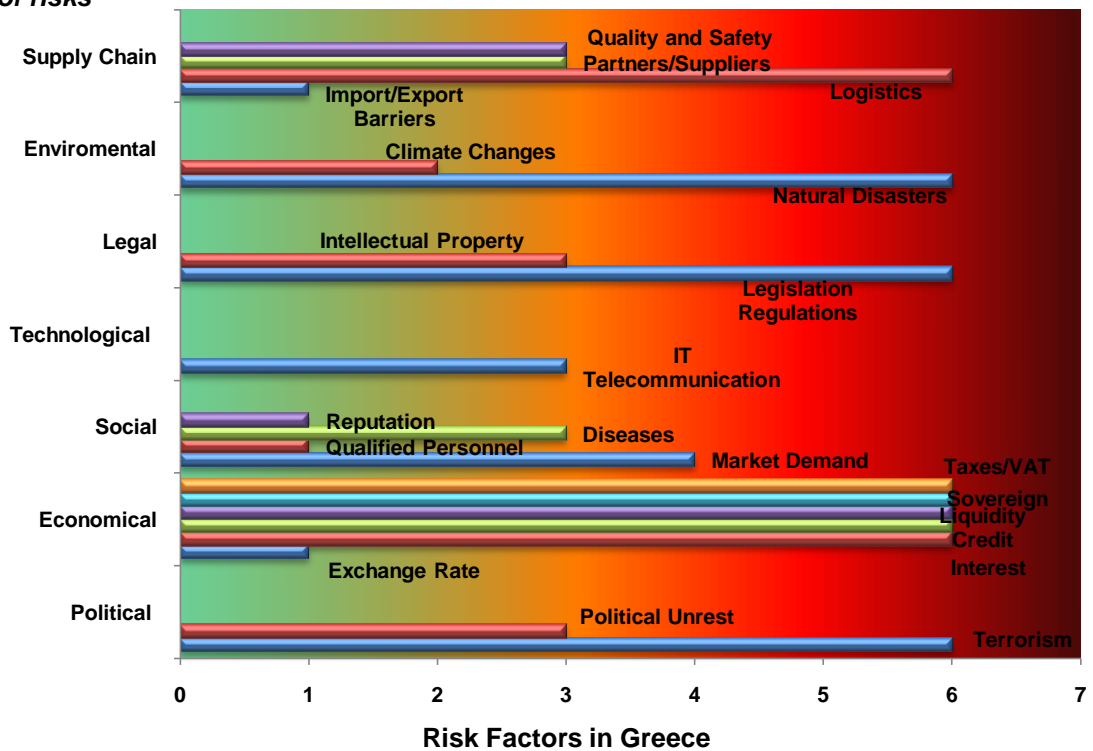
ZARA IN CZECH REPUBLIC			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	S (2)	2:2 (4)
Terrorism	N/I (1)	R (1)	1:1 (1)
Economical			
Exchange rate	S/I (3)	S(2)	3:2 (6)
Credit	S/I (3)	S(2)	3:2 (6)
Interest	S/I (3)	S(2)	3:2 (6)
Liquidity	S/I (3)	S(2)	3:2 (6)
Sovereign	S/I (3)	S(2)	3:2 (6)
Taxes /VAT	S/I (3)	S(2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	S (2)	1:2 (2)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)



Model 12. Zara Risk Factors in Greece Wholly Owned

ZARA IN GREECE			
Risks	Impact	Likelihood	Risk Factor
Political			
Political Unrest	M/I (2)	O (3)	2:3 (6)
Terrorism	N/I (1)	O (3)	1:3 (3)
Economical			
Exchange rate	N/I (1)	R (1)	1:1 (1)
Credit	S/I (3)	S (2)	3:2 (6)
Interest	S/I (3)	S (2)	3:2 (6)
Liquidity	S/I (3)	S (2)	3:2 (6)
Sovereign	S/I (3)	S (2)	3:2 (6)
Taxes /VAT	S/I (3)	S (2)	3:2 (6)
Social			
Market demand	M/I (2)	S (2)	2:2 (4)
Qualified personnel	N/I (1)	R (1)	1:1 (1)
Diseases	S/I (3)	R (1)	3:1 (3)
Reputation	N/I (1)	R (1)	1:1 (1)
Technological			
IT/Telecommunication	S/I (3)	R (1)	3:1 (3)
Legal			
Legislation/ Regulations	S/I (3)	S (2)	3:2 (6)
Intellectual Property	N/I (1)	O (3)	1:3 (3)
Environmental			
Natural Disasters	S/I (3)	S (2)	3:2 (6)
Climate Changes	N/I (1)	S (2)	1:2 (2)
Supply Chain			
Import or export barriers	N/I (1)	R (1)	1:1 (1)
Logistics	S/I (3)	S (2)	3:2 (6)
Partners/Suppliers	S/I (3)	R (1)	3:1 (3)
Quality and Safety	S/I (3)	R (1)	3:1 (3)

Type of risks



7.3 Evaluation

This section discusses the similarities and differences in the impact, likelihood and risk factor measurements given in the tables, first analysing the risk measurements for each company in the three countries in accordance with the PESTLE analysis tool (section 7.3.1 Market risk assessment) and then analysing the differences in the measurements for each of the four companies in each country in accordance to their preferred entry method and supply chain strategies (section 7.3.2 Supply chain risk assessment).

7.3.1 Market risk assessment

Comparing the risks in Hungary (models 1, 4, 7 and 10 on pages 165, 169, 173 and 177 respectively) it can be seen that the political factors, social factors and technological factors pose the same risk levels for all four fashion companies with terrorism, market demand and IT all at level 4 warranting close attention. While the economical factors are at a very high level of risk (6) for Mango, H&M and Zara, for Esprit the exchange rates, credit, interest rates, liquidity and sovereignty are much more favourable for business with lower risk factors of 1's and 2's, with the exception of taxes and VAT which is level 6 for all companies. Taxes can lower the overall gains of a company and also reduce the overall cost and expense impacts. V.A.T. (value added tax) is essentially a percentage of the company's earnings taken by the government. It increases prices and decreases the company's net income. All the companies are exposed to risks associated with the economy however Esprit does not have any borrowings or other financial liabilities while H&M and Zara use economies of scale in both funding and administrative expenses, thus being able to face a pricing press more effectively. The exchange rate also plays a significant role as the market in Hungary trades in the local currency even though it belongs to EU it has not yet joined the Eurozone. The legislation regulations in Hungary pose the same high level of risk (6) for all four of the companies though intellectual property risk levels are also at level 6 for Esprit and are much lower for H&M, Mango and Zara at level 2. Governmental regulations affect a business and it is necessary to be familiar with them for the smooth running of the business. The Esprit group had reported that for its business the counterfeit product can expose the business to high risk. This is

because Esprit has developed a brand name with retailing performance. Similarly, the country has a very high environmental risk factor for the companies with regards to natural disasters (6) and the same level of risk is determined for climate change for H&M, but a substantially lower level of risk (2) for climate change for the other three companies. H&M had reported that climate change can considerably affect sales as clothing follows seasonal changes, though it must be realized that this would be the same for any company.

In Czech Republic (models 2, 5, 8 and 11 on pages 166, 170, 174 and 178 respectively) the political factors are the same for all four companies which are also the same risk levels in Hungary with terrorism at level 4 and political unrest at a much lower level (1). The economical factors posed by Czech are all substantially high risk at level 6 with the exception of Esprit which has the same low level as in Hungary, , again due to the nature of the company. Esprit does not have any borrowings or other financial liabilities and always keeps sufficient amount of cash in case of any financial emergency, whereas H&M and Zara use economies of scale in both funding and administrative expenses. The problem with the exchange rate is still significant in Czech Republic as the market trades in Czech Koruna and not in Euro as the country belongs to the EU but not yet to the Eurozone. Similarly, the social factors and technological factors have the same levels of risk for all four companies, the values of which are identical to those in Hungary with market demand at level 4, thus requiring close scrutiny. The legislation regulations are of the same high risk level (6) in Czech for all four companies as in Hungary. However intellectual property risks differ between the companies with the lowest level at 2 for Mango and Zara, which is the same for these companies in Hungary, and a very high level 6 for Esprit and H&M. For Esprit this high risk factor is the same in Hungary due to its character as a luxury brand at affordable prices, but for H&M the risk factor for intellectual property was only level 2 in Hungary, which was also the same for Mango and Zara, this is due to none of the companies having reported on counterfeit products as they act as retailers with their own brand name. The environmental factors are the same for all companies with natural disasters at level 6 and climate change at level 2 except for H&M where the climate change factor is a very high level 6. This is the same in Hungary and is due to the impact seasonal changes have on sales.

In Greece (models 3, 6, 9 and 12 on pages 167, 171, 175 and 179) political factors are of a greater concern particularly the threat of terrorist attacks with a high risk factor of 6, two levels higher than Hungary and Czech for all four companies. The risk of political unrest is also greater in Greece than the other two countries but is still relatively low at 3. The economical factors for all four companies in Greece have similarities and differences. The taxes and VAT pose the same risks at a high level of 6 and exchange rate at level 1. However, while sovereignty, liquidity, interest rates and credit rates are all a high level of 6 for Mango, H&M and Zara, for Esprit these are all of a very low level 1 and level 2 for credit risk. This is because the company does not have any borrowings or other financial liabilities. The social factors are the same for all four companies in Greece with market demand at the highest factor level of 4 and the technological factor also the same for all four companies at level 3. Again the legislation regulations risk factor is a high 6, the same for Hungary and Czech, while intellectual property is at a moderate level 3 for all companies except for Esprit which is determined at an extremely high level of 9. This is incidentally the highest factor level for any of the PESTLE factors for any company in any of the three countries and is due to Greece currently having a weak intellectual law exposing greater risk for the reputation of brand names by not being able to control the movement of counterfeit products. Natural disasters risk factor is a high 6 for all companies in Greece and climate change again for H&M only is a high 6 compared to level 2 for the remaining companies.

7.3.2 Supply Chain Risk Assessment

As discussed in chapter 4, section 4.3.1 on page 55, the Institute of Risk Management defined risk as the combination of the probability of an event and its consequences. The four companies reported that considerable risk is concealed within their supply chains and for this reason each has developed specific strategies in order to ensure a smooth process. All four companies currently manufacture their products off-shore which in itself conceals risks. While it was found from the observations that the companies use the same strategies to promote their image in each of the three countries' markets, differences were found in their supply chain strategies however, as can be seen on the models the

relative overall risk levels are actually all the same, this can be accounted for as follows:

The supply chain risk was divided into four categories:

- a) Quality and safety of the goods to ensure customer satisfaction
- b) Relationships with partners and other suppliers which is also important for the smooth running process of the business
- c) Logistics systems which play a considerable role in catering for the market and customer requirements and
- d) Import and export barriers which do not occur within the EU as free movement of goods are allowed between countries belonging to the union.

According to the findings logistics has the higher risk factor at level 6. Any kind of disruption in a logistical system can affect quick response to market. The lowest risk factor element was found to be import and export barriers which do not exist for businesses operating within the European Union and therefore with accordance with the scale used shown in table 7.1 on page 161, no impact has a rating of 1 which was multiplied by a rare likelihood of happening, also rated 1 resulting in an overall risk factor of 1. The relationship between partners and suppliers and quality and safety stand at a moderate level of 3, as in accordance again with the scale (table 7.1), the impact was considered to be serious (level 3) but the likelihood of it happening being rare (level 1). In order to ensure the quality of their products all four companies have developed closed and long term relationships with their suppliers and partners which are discussed below.

Quality and safety are the most important elements within a supply chain. Harrison (2002) and Hines (2004) suggest that quality is the most visible aspect which can influence a customer's loyalty. Unavailable products, defects and late deliveries are all a manner of quality problems while safety is obviously related to meeting safety standards for instance not containing toxic chemicals or other harmful substances, etc. Laboratory tests are endorsed by all of the companies, these provide opportunities for product testing and inspection such as regulatory tests (feather and down testing, flammability testing, care and label instruction), performance testing (Dimensional stability to washing and/or dry cleaning, colour

fastness to light, crocking (rubbing), washing, bleaching, physical tests - strength, abrasion, pilling resistance, chemical tests) and Eco textile testing. Esprit's main objective is to offer the best quality in relation to affordable prices they achieve this through good design and a distinctive identity which can be accredited to the company's success using a large number of suppliers around the world giving them flexibility and adaptability to source quality at the best price. The company is a member of the Business Social Compliance Initiative which provides a common platform and monitoring system for members with various codes of conduct in different countries as previously discussed in chapter 6, section 6.4.1 on page 111. Also a, Sourcing Compliance Policy is written into Esprit's Buyer Agreement ensuring full integration with its business practices. For H&M price, quality and time together is an important aspect of their business consolidation strategy achieved through the use of two supply chain models discussion in chapter 6, section 6.5.1 on page 127. The first focuses primarily on cost which relies heavily on low labour costs, the consequences of which involve slow lead times due to the location of the manufacturers. To compensate, the company also uses a rapid reaction supply chain model which enables the quick production of garments in relation to trends and market demand. In total it has 800 independent suppliers which are selected under specific criteria ensuring long term collaboration. To help its suppliers understand and live up to the requirements of their Code of Conduct the company provides the opportunity for them to participate in workshops on international labour standards and how these are implemented. Mango has established a long-term collaboration with its suppliers having established ongoing communications, analysis and joint planning of all aspects of production and quality control, to ensure that all manufacturers and production workshops fully comply with labour and social standards. The main aim of the company is to respond to market immediately following almost the same strategy as its competitor Inditex though to design and distribute rather than participating in the production process. While the company has around suppliers around the world, each region specialises in only one type of clothing. Zara also has a number of laboratories in which their products are tested, a strategy built upon Inditex's aim to offer only products which are 'Clear to Wear and Safe to Wear' in line with their corporate strategy.

According to Ballou (1999) and Christopher (2005) **logistics** is the mission of getting the right product or service to the right place, at the right time, at the right cost in order to satisfy customers and increase the company's profits. Logistics can add value when inventory is correctly positioned to secure sales, sometimes is very costly but its strategic purpose is to gain competitive advantage in the marketplace. All for companies were found to have developed a logistic strategy to ensure the rational administration of the supply chain. As logistics incurs a serious level of impact in accordance with the scale in table 7.1, a rating of 3 was established. The likelihood was assessed as sometimes occurring and therefore rated 2, thus the overall risk factor for logistics is 6. Even though the same value was given on all models the reasoning for each company in each country differs as discussed below.

First of all as discussion in chapter 6, section 6.5.1/A on page 127, Esprit has focused on developing its IT and logistics system which is operated by third party companies who specialise in integrated logistical solutions. H&M uses the Offer Follow up System (OFS) previously discussed in chapter 6, section 6.5.1/B on page 129, this in conjunction with their two supply chain models puts a strong emphasis on logistics. Mango on the other hand, supplies franchisees under a deposit system using up-to-date technologies to classify and distribute huge numbers of garments hourly. This system is based on speed; information and technology as discussed in chapter 6, section 6.5.1/C on page 130, in accordance with market demand enabling Mango to develop an integrated supply chain which can ensure the exchange information with short lead times.

Zara's distribution model has been considered to be revolutionary for the clothing sector. Their vertically integrated computerised system has enabled them to reduce design to distribution to 10-15 days as discussed in chapter 6, section 6.5.1/D on page 131. In this system a team is responsible for ordering all of the appropriate materials from the Inditex buying centre in Beijing to be imported into Spain and booking non-specific production capacity with suppliers in order to act flexibly at the last moment. According to Inditex Annual Report and its website, the firm's Corporate Responsibility is based on three basic principles: *good faith* in relations with stakeholders and with society; continuous *dialogue* with

stakeholders and social organisations; and *transparency* in its business activities .This internal Code of Conduct is applied to all of the group's manufacturing, distribution and sales activities.

Finally as seen in the models, the **import and export barriers** risk factor stands at a low level 1 because all three countries examined are members of the EU. The union gives members the advantage of free movement of goods between other member countries without any barriers. As previously discussed in chapter 2 section 2.2 the elimination of barriers have boosted competition because there was a significant reduction in costs, thanks to improved exploitation by companies of economies of scale in production and business organisations, improved efficiency within companies reducing production costs as a result of pressures from more competitive markets and new strategies of competition.

The four companies have many similarities but also many differences and priorities. According to the criteria of their selection as case studies in chapter 5 section 5.2.2 they are high street fashion retailers in the clothing sector, with a similar target group or market, and follow expanding strategies with an international presence. The main difference is in the entry methods each company has adopted in order to approach the new markets. The entry method refers on the risk appetite of each company and its ability to face and sustain a certain amount of risk. The models in this chapter link the risks concealed in each country with the risks reported from the companies and give a risk factor in relation to the pestle elements (political, economical, social, technological, legal, environmental) with the addition of the supply chain factors. The decisions made by the companies regarding entry method appears to be a solution to facing and mitigating, or at least managing potential risks in each country.

Mango and Esprit have both adopted the wholly own strategy with franchising while Zara and H&M use only the wholly own approach with some exceptions in which they are conducting joint-venture businesses in countries where the legislation does not permit the wholly own method. Significantly the countries which belong to Europe's emerging markets, as shown in chapter 6, section 6.2 and 6.3, Mango and Esprit have developed franchise agreements. The advantage of this method is based on rapid expansion at low cost and low risk for the

franchisor. According to Mango's annual report the franchise system gives Mango the opportunity to expand its business rapidly by minimising the risk. The first step for approaching a new market such as Hungary, Czech Republic or Greece was through the franchise agreements to establish brand image. After ensuring market acceptance Mango began to open its own stores. Esprit concentrated on its own stores as a core strategy in high potential markets such as Germany, Benelux and France before penetrating other markets in Europe using partnership agreements. This method enabled Esprit to establish a global presence. The main difference between Mango and Esprit is that Esprit experienced strong growth in both the retail and the wholesale markets. On the other hand Zara and H&M use the wholly own entry method operating their own stores. The parent company is legally responsible for all store debts and activities which mean that profits and losses are treated as those of the parent company and shown on their accounts as opposed to individual stores being independently accountable. Both of the companies are engaged in the design, production and retailing of clothing, cosmetics and accessories with main purpose of quick response to the market through affordable fashion. The main characteristic is that both companies use economies of scale in both funding and administrative expenses in contrast with Mango and Esprit who's group size is much smaller which may result in an inability to face pricing pressures. For this reason the franchise agreement is considered to be the most cost effective expansion method as the risk is transferred directly to the franchisee.

It has been identified that the main supply chain risks which could disrupt the supply chain are logistics, followed by the relationships with suppliers and the quality and safety of the products. These risks are internal factors. . In order to secure a smooth process the product and information flow each company has developed specific strategies based on five basic components of supply chain management which have been identified from the literature review. External factors that could be faced are the import and export barriers of the supply chain and the pestle elements. All four companies were found to comply with local legislations and also by monitoring the climatologically deviations and collaborating with their suppliers closely are able to quickly satisfy customer

demand and develop garment ranges that follow change such as climate and fashion trends.

7.4 Summary

Emerging markets are nations with social or business activities in the process of rapid growth and industrialisation. Hungary, Czech Republic and Greece are countries which, in the last two decades have experienced considerable growth. By improving their political and economical situations, these countries have become competitive in attracting Foreign Direct Investment. A number of fashion retailers have begun to consolidate their business in new markets. Esprit, H&M, Mango and Zara are four such companies with that have similarities as they are acting internationally as well as differences especially in the way they approach each marketplace considering the possible risk and their ability to face it. By identifying the risk the companies have reported on and by analysing the political, economical, social, technological, legal and environmental factors (PESTLE analysis) twelve models were developed to show the different levels of risk the countries conceal for the four clothing retailers and also the effect on their supply chain.

Chapter 8 Conclusion and Recommendations

8.1 Introduction

The aim of this chapter is to consolidate the knowledge presented in the previous chapters and the findings drawn from the study. It presents a summary of the models developed in chapter 7 and shows the different risk factors for each of the fashion retailers in each of the three selected countries including recommendations for further research. Through the conclusions the meaning of logistics, supply chain and risk management is very much extended.

8.2 Research Conclusion

The aim of this study was to investigate and analyse risks concealed in emerging markets in central and eastern Europe and to evaluate ways of managing these risks (financial, operational, political, natural, procedural, technical and so forth) in order to understand how a fashion company is able to gain competitive advantage and establish its business in a country which often has complex regulations and difficult bureaucracies. The decision processes that fashion businesses go through in order to accept the risks in entering such markets is explored to identify the strategies that can produce effective risk management. After identifying the risk the next step was to evaluate the likelihood of the threat being realised and its likely impact.

The contribution of this research to knowledge concentrates on modelling the risks a fashion retailer faces when entering emergent European member states. This took into account the risks and how effective risk management can lead to competitive advantage. Three countries in central and Eastern Europe, Hungary, Czech Republic and Greece were selected to show different levels of development. Four apparel retailers, Esprit, H&M, Mango and Zara were chosen for the case studies as they all operated in the three specified countries and they all have a similar target market offering fashion and clothing products to end consumers. The risks in the three countries were analysed using the PESTLE analysis tool while from the companies perspectives the risks were reported based on financial, social, environmental and supply chain issues. PESTLE analysis is tools that can aid organisations making strategies by helping them understand the

external environment in which they operate now and will operate in the future. This tool was appropriate in order to identify and analyse the risks were concealed in the selected countries.

The analysis of the risks faced by apparel retailers in order to gain competitive advantage when entering in developed and developing countries in Europe and the evaluation of the risk management approaches used by fashion retailers when operating business in emerging European markets were presented in chapter 2 and 3. First of all, the literature review presented information on European integration and existence of emerging markets. It highlighted Europe as a largely deregulated market in which services, goods, capital and people among the member states move freely. Recognition was recently given to additions to the EU, among them Hungary and Czech Republic, which increased opportunities for western fashion retailers to expand their businesses. Economic developments, technological developments and ideological developments have a global impact, whether good, bad or indifferent. Furthermore, supply chain and logistics were put into context within the business environment through discussions of the strategies that organisations have developed to ensure a smooth flow of both information and products through the manufacturing processes to consumers.

According to the literature review, many companies are able to accept new ventures and risky acquisition while others prefer to run a steady course. That means that the risk management depends upon the nature of the company and its risk tolerance. For this reason companies which tend to expand their operations in the international arena according to their risk appetite decide the way in which they will approach the market and which entry method is suitable for them. For this reason this study evaluates the meaning of risk within the business environment and explores the tools that organisations have developed in order to manage the risk disruptions, specifically in emerging markets, according always with their risk appetite which is related to the total risk that an organisation is willing to take in order to achieve its strategic objectives.

The critical analysis of the communication links throughout the supply chain and their effect on competitive advantage in European emerging markets by analysing further the supply chain risks was developed in chapter 4. The different

communication means used throughout the supply chain, which are essential for the whole process of running a business, and ensuring lower cost and competitive advantage in the market place were also discussed. The evolution of internet opened up great opportunities to companies for increasing their competitiveness in the marketplace, ensuring prompt and accurate information flow to both partner companies and customers. The fashion companies were found to have well developed Business-to-Business models (information exchange between other partners or suppliers) and Business-to-Customer models (communication with customers informing them of new trends and offering online purchases). No matter what an 191ypothesized supports, the mission of logistics is to get the right product or service, to the right place, at the right time satisfying customers' desires and needs

Further more for the accomplishment of the objective which is focused in the qualitatively measurement of the risk factors of the different types of risks in different markets according to their impact and likelihood in each country and company a case study approach was used which included direct and virtual observations. Three countries in Eastern Europe were selected, which in accordance with the hypothesis, had different levels of development. Four fashion companies were selected all of which having international presence and a similar target market. The countries selected were Hungary, Czech Republic and Greece and the fashion companies were Esprit, H&M, Mango and Zara. Detailed profiles were developed for the countries enabling the identification and 191ypothes of risks. Similarly, detailed profiles of the companies enabled the risks reported in annual reports to be 191ypothe and the management of these risks to be understood according to their nature and risk appetite. Twelve models were developed to test the hypothesis and to show the different levels of risk for each company in each of the countries. Risks, uncertainties or disruptions that the companies had reported were then linked with the risks identified in the three countries' markets.

The evaluation of the risk factors in each set of companies and countries by creating a generic model showing the different level of risk was following after the identification of risks concealed in each country for each company. On the basis of

risks and uncertainties, each of the selected companies presented information regarding risk according to its nature and its risk appetite. The four selected apparel retailers experienced extensive international expansion. The main strategy for each is to approach any market to offer the latest fashion trends to consumers globally. Through their individual marketing strategies, supply chain and logistical systems, each had identified the disruptions or risks according to its own standards. The selected approach to enter a market plays a considerable role in how each company then faces possible risks and how to manage these and thus identify its own risk acceptance. As previously stated in the literature review, the entry method used by an international company depends upon the market position of the firm and also indicates the level of control the retailer will seek to exert over the foreign environment. Table 8.1 shows the expansion of the companies (during predominantly the last decade) through the number of stores, entry dates and entry methods and who owns the potential risks while operating in different markets.

Table 8.1 Companies Information Summary

Companies		Hungary	Czech Republic	Greece
Esprit	No of stores	11	9	13
	Date of 1 st entry	After 2000	After 2000	1998
	Entry Method	Franchisee	Franchisee	Franchisee
H&M	No of stores	8	14	10
	Date of 1 st entry	2005	2003	2007
	Entry Method	Risk ownership H&M	risk ownership H&M	risk ownership H&M
Mango	No of stores	7(Risk ownership Mango) 2(Franchisee)	4 (Risk ownership Mango) 2(Franchisee)	2(Risk ownership Mango) 10(Franchisee)
	Date of 1 st entry	1998	2001	1998
	Entry Method	Both	Both	Both
Zara	No of stores	3	5	41
	Date of 1 st entry	2006	2003	1993
	Entry Method	Risk ownership Zara	Risk ownership Zara	Risk ownership Zara

Esprit uses franchising in order to enter into each of the three countries, developing franchise partnerships. Mango uses the same method but through wholly owned stores. Franchising is a low cost and low risk expansion method the only disadvantage is recruiting the best franchisee with an appropriate financial foundation. H&M and Zara have approached new markets through wholly owned

stores. However there are some exceptions in the countries where the regulations do not allow this type of operation and therefore franchise agreements have been developed instead. Zara and H&M have their own subsidiary in each of the three countries. The risk is higher than using the franchise system as the parent company is taking all of the risks of the business operation in each country. It can be seen in table 8.1 that Zara was the first to open a store in the Greek market in 1993 followed by Esprit and Mango in 1998. H&M opened its first store in the Greek market in 2007. In Czech Republic and Hungary all of the retailers entered the market in the last decade (after 2000) except for Mango which opened its first store in Hungary in 1998. The different entry dates can be explained in accordance with the transition stages of each country and its readiness to attract Foreign Direct Investment.

According to Eurostat, European continent consists of states which can be hypothesized as those that belong to Eurozone and considered stable states (Germany, Greece, Cyprus, Slovenia, and Slovakia). Countries which belong to EU but not to the Eurozone are considered as transitional states (Czech Republic, Hungary, Lithuania, Latvia, Estonia, Bulgaria, Poland, Romania). Also, countries which are candidates for becoming members in EU (Croatia) and countries with low development processes (Belarus, Ukraine). Transitional countries are all those countries which transform their economy from a central-plan allocation mechanism to a market mechanism. Being a member of EU, these countries are able to share the same allocation mechanism and work under unified law. Table 8.2 shows the expansion of the companies within the different country states in Europe, as a representative example of their entry strategy and how they transfer the potential risk in order to be able to operate in different markets.

Table 8.2 Companies presence in different markets in Europe

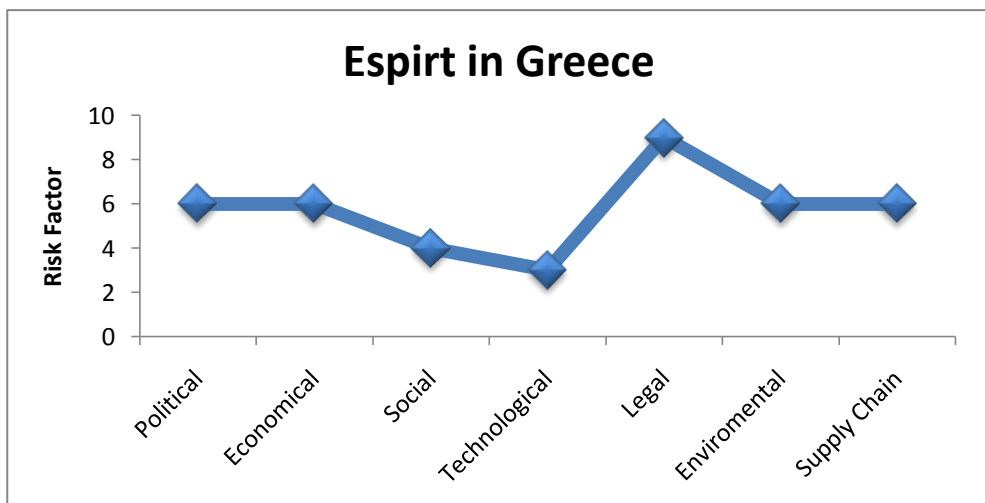
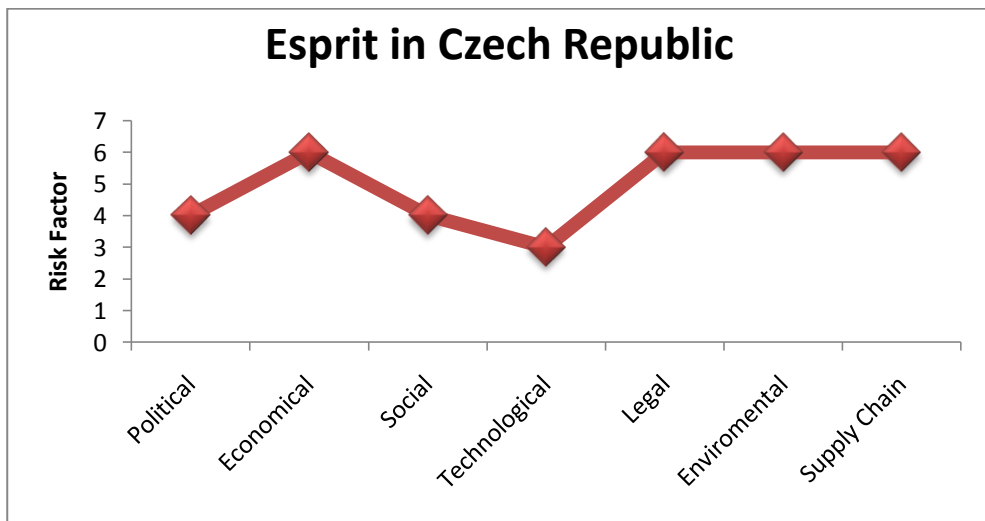
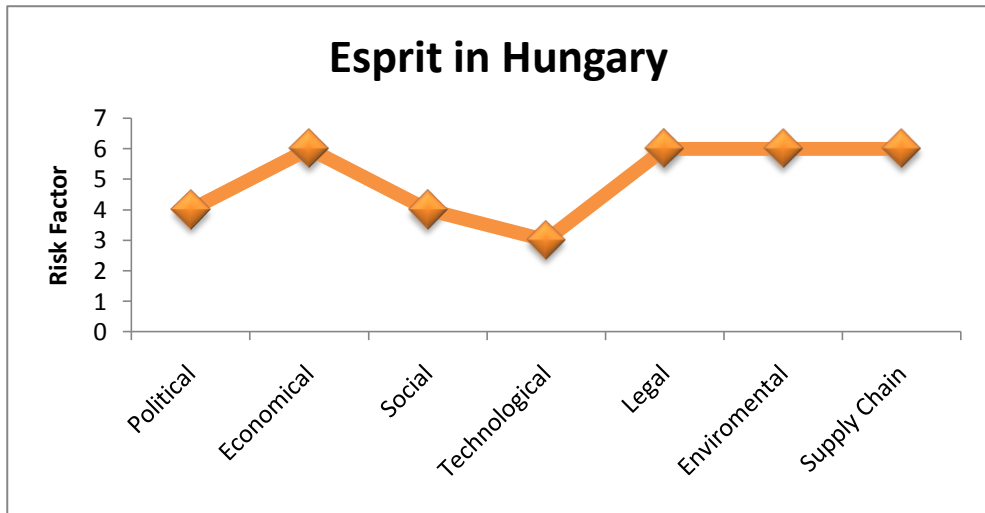
Countries	Companies				
		Esprit	H&M	Mango	Zara
Eurozone Countries	Germany	Y	Y	Y	Y
	Greece	Y	Y	Y	Y
	Slovakia	Y	Y	Y	Y
	Slovenia	Y	Y	Y	Y
	Cyprus	Y	N	Y	Y
Non Eurozone Countries	Czech Republic	Y	Y	Y	Y
	Hungary	Y	Y	Y	Y
	Lithuania	Y	N	Y	Y
	Latvia	Y	N	Y	Y
	Estonia	Y	N	Y	Y
	Bulgaria	Y	N	Y	N
	Poland	Y	Y	Y	Y
	Romania	Y	Y	Y	Y
Candidate Country	Croatia	Y	N	Y	Y
Other European Counties	Belarus	N	N	Y	N
	Ukraine	Y	N	Y	Y

Table 8.2 shows Mango and Esprit use the franchise agreement as their entry method to establish their businesses in the different levels of the markets thus they transfer the risk to local entrepreneurs. Zara uses the wholly owned approach and has entered into the Eurozone countries and non Eurozone countries except Bulgaria, in Croatia which is the main candidate for joining EU and also in Ukraine which is not considered as developing country. Zara is entering new markets progressively according to their performance and level of development. H&M started its expansion strategy in Central and Eastern Europe in the last decade (2000). Zara and H&M use the same entry method with the difference of Zara belonging to the large retail group Inditex which operates a number of fashion brands and has experienced great expansion from the beginning of the 1980's. The Group is currently operating in 68 countries with 3,691 stores worldwide in comparison to H&M which started its expansion at the end of the 1990's and has only 1,730 stores in 33 countries.

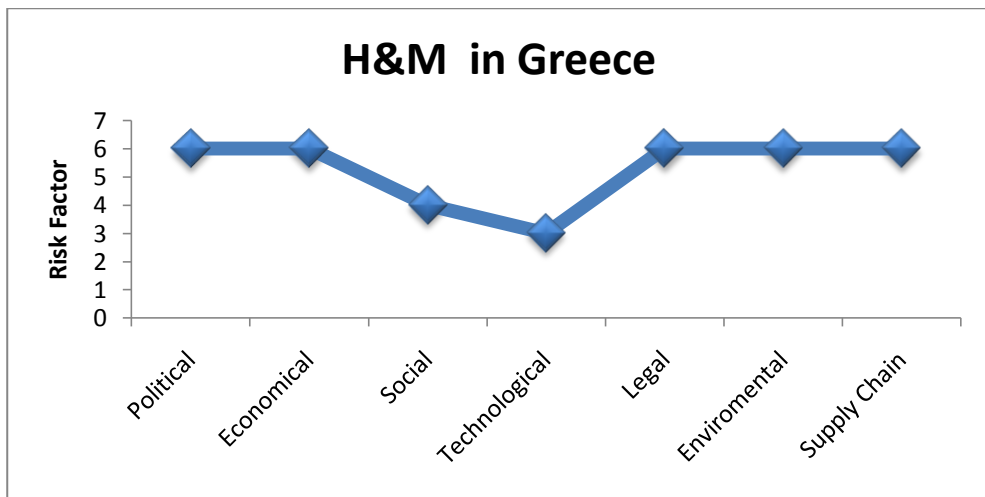
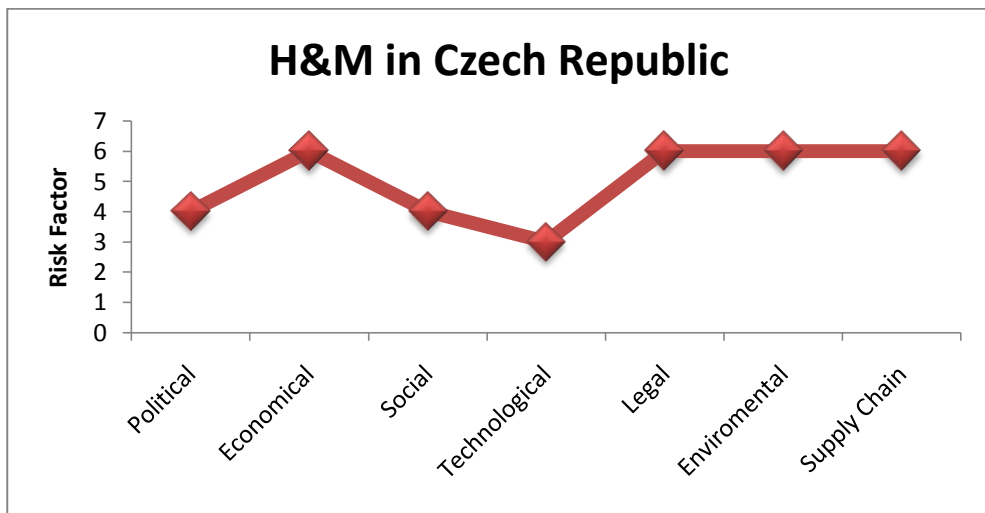
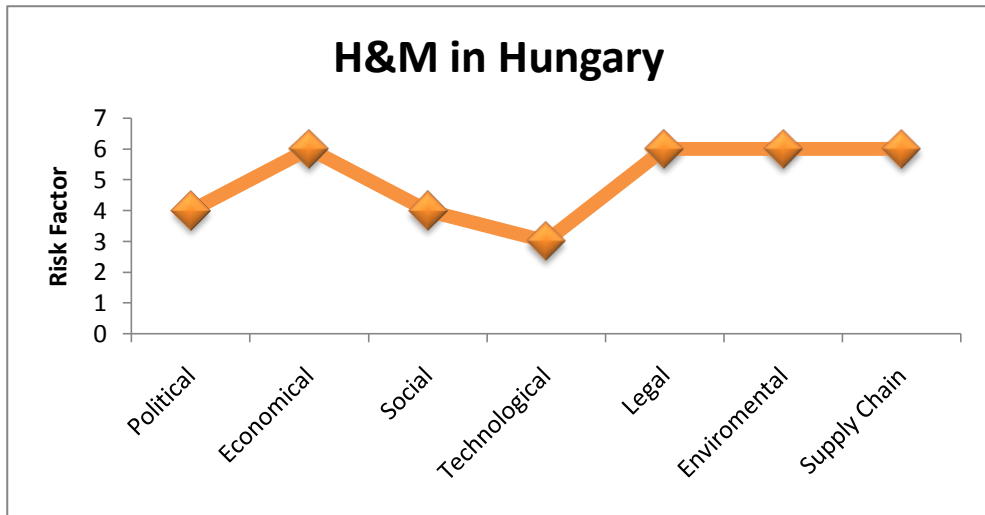
The literature review had considered risks in terms of credit risk, sovereign risk and market risk which includes interest rates, foreign exchange rate, commodity price and share price risk, liquidity risk, operational risk, accounting risk, country risk, political risk industry risk, environmental risk, legal risk, systematic risk and

reputational risk. Some of the risks are easy to consider and measure, particularly the ability to measure risk in developed markets is clearly more advanced than in emerging markets. In the company annual reports risks were considered in respect of financial, social, environmental and supply chain. There were many similarities in the reported risks however each company managed them differently based on their nature and risk appetite. Each had developed specific strategies in order to identify, describe, estimate, evaluate and face the risks. For Esprit, Zara and H&M the Board of Directors and for Mango the Board of Administration were found to be responsible for effective risk control. That means that none of the companies have any specific Risk Management team and their corporate governors are dealing with the identification of risks and their management. Only H&M was found to use the COSO framework for internal control over financial reporting as a basis. The following models represent the higher risk factor in each category for the companies in each of the countries to summarise the results from chapter 7.

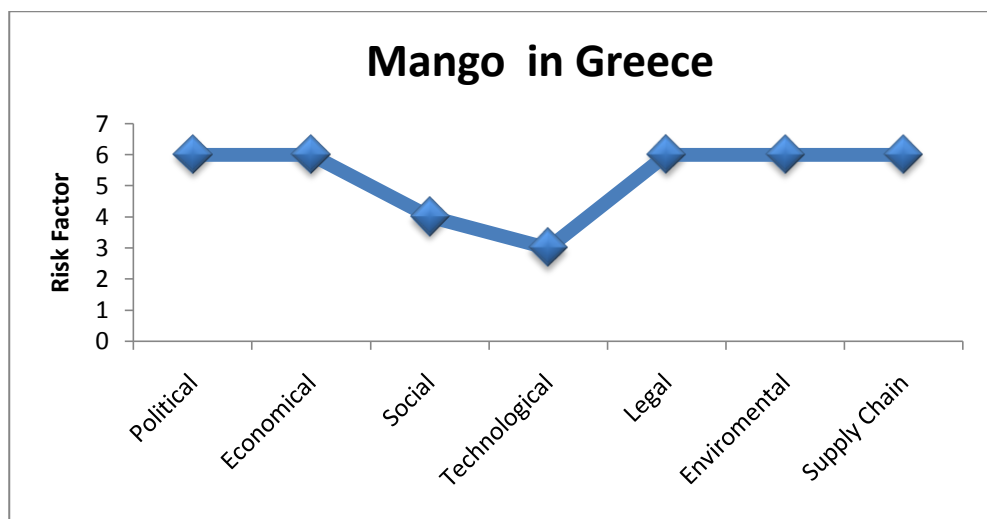
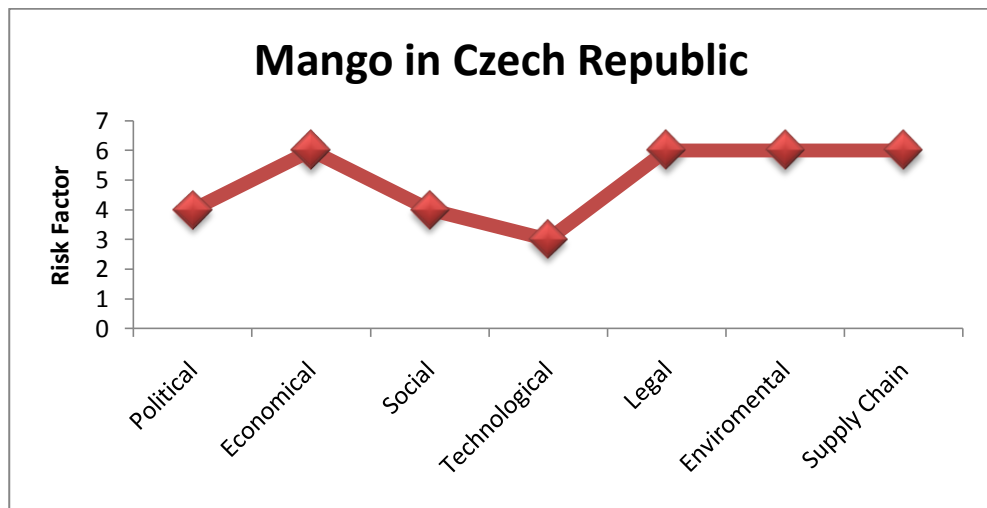
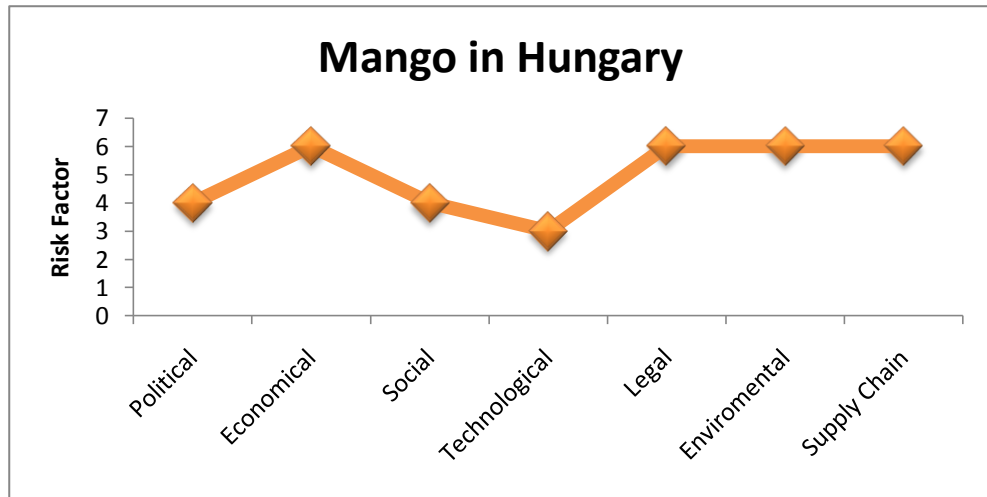
Summary Models 1. Esprit in Hungary, Czech Republic and Greece



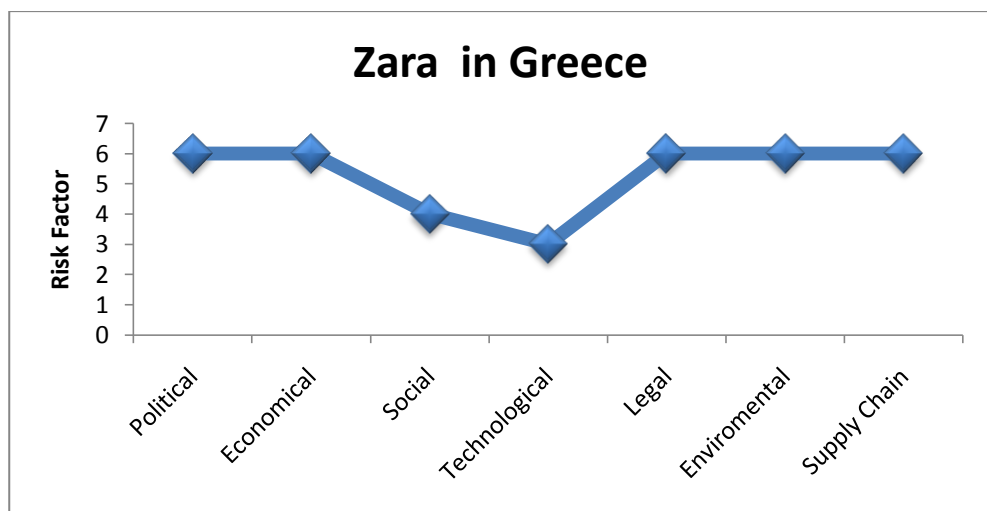
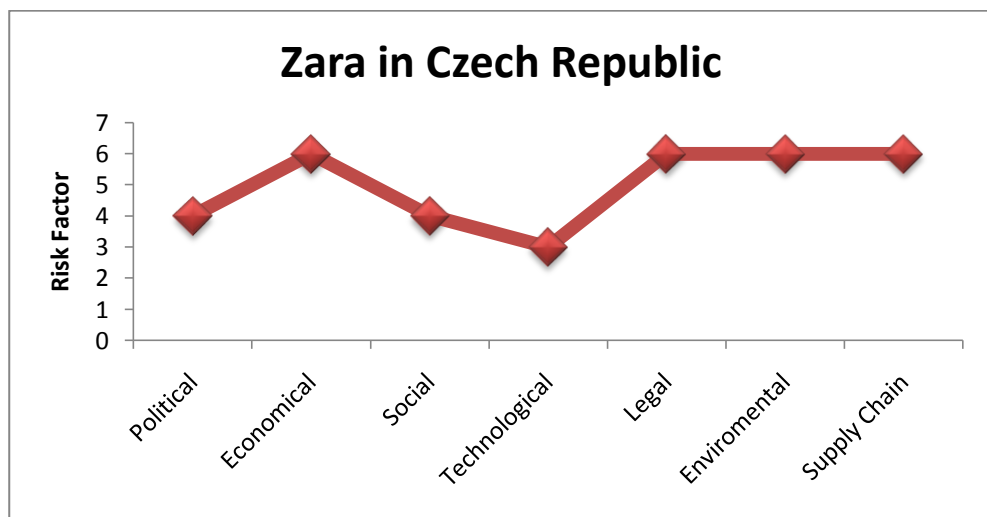
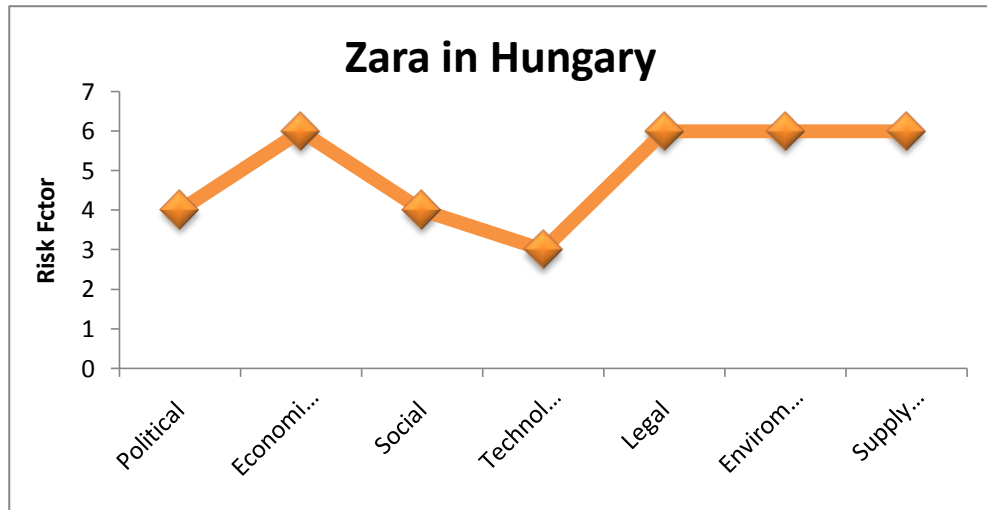
Summary Models 2. H&M in Hungary, Czech Republic and Greece



Summary Models 3. Mango in Hungary, Czech Republic and Greece



Summary Models 4. Zara in Hungary, Czech Republic and Greece



As it can be seen in the summary models the countries do not show significant differences in the examined risk areas. Through the initial literature review it was hypothesized that countries at different stages of becoming emerging markets would present different risks or different levels of risks for fashion apparel firms and was expected that developed countries such as Greece conceal lower risk for a firm to run its business in its territory. According to the results, Greece, even if it belongs to the developed countries of EU, presents a riskier character than Hungary and Czech Republic which are in the process of becoming developed. The political instability and the bureaucratic character of Greece's legislation have resulted in fashion companies having to consider greater risk than in Hungary and Czech Republic.

8.4 Recommendations for Further Research

The topic of risk management is unlimited and can be applied in different areas such as in retailing, other enterprises, the health system, insurance and education. This study was focused on risk management in the retailing sector and particularly in apparel retailing. Further research would be useful in order to comprehensively cover some additional fields on supply chain risk and communications within the supply chain. Also quantitative measurement of the risk and evaluation of risk management strategies, which this study does not include, would be beneficial. Some suggestions are rationalized below.

- Other countries

There are a number of emerging markets in the global environment which have attracted the interest of different firms from different backgrounds such as fashion retailers, restaurant chains and supermarkets. There is a consensus from the literature review that emerging markets include China, India, Mexico, Brazil, Chile much of Southeast Asia, countries in Eastern Europe, parts of Africa and Latin America. These countries have attracted great attention for personal and institutional investors as well as for international corporations. By identifying the risks concealed in emerging markets from different continents (Asia, America, Europe and Africa), the researcher will be able to compare the different level of risks in the different fields such as Political, Economical, Social, Technological,

Legal and Environmental basis as it has been done in this study. By identifying strengths and weaknesses in each country how friendly this country can be for attracting Foreign Direct Investment can then be explored giving the opportunity for companies to develop appropriate risk management strategies according to their 'risk appetite' for specific markets. On the other hand by focusing the research area in Europe, it would be interesting to investigate countries not considered to be emerging markets where a number of global brands have entered their territory. These countries include Poland, Latvia, Ukraine, Bulgaria and Lithuania.

- Other Companies

Further research could include other retailers from fashion sector, such as Monsoon, Mothercare, Dorothy Perkins, Miss Selfridges and Mexx. Also an investigation into more product specific brands such as Adidas, Puma, Nike for sports-wear; Diesel, Levis and Gap for denim Jeans and Hugos Bros and other couture firms such as Versage, Gucci, Armani and Prada. All of them have huge international reputations but represent different segments in the markets. As Sadgrove (2005) mentioned many companies are able to accept new ventures and risky acquisitions while others prefer to run a steady course. This means that the risk management depends upon the nature of the company and its risk tolerance. For this reason companies that tend to expand their operations in the international arena according to their risk appetite decide the way in which they will approach the market and which entry method is suitable for them. By investigating a number of companies from different levels according to the market segment they attract, risk can be identified according to their risk appetite and new risk management strategies may evolve. In addition, in being more specific the research can focus more on identifying supply chain risk and exploring supply chain risk management strategies which can ensure the smooth process of the business.

8.5 Summary

This chapter concludes the research giving a summary of the research process undertaken and provides summary models that simplify the information in the models presented in chapter 7. The summary models show the different levels of risks that the selected companies face in each of the three examined countries that can be used in the first instance to identify the factors of particular risk. The elements of these risks are then expanded upon in the models presented in chapter 7 to identify which specific areas require particular attention. Furthermore, further research recommendations were briefly described in recognition of the limitations of this study

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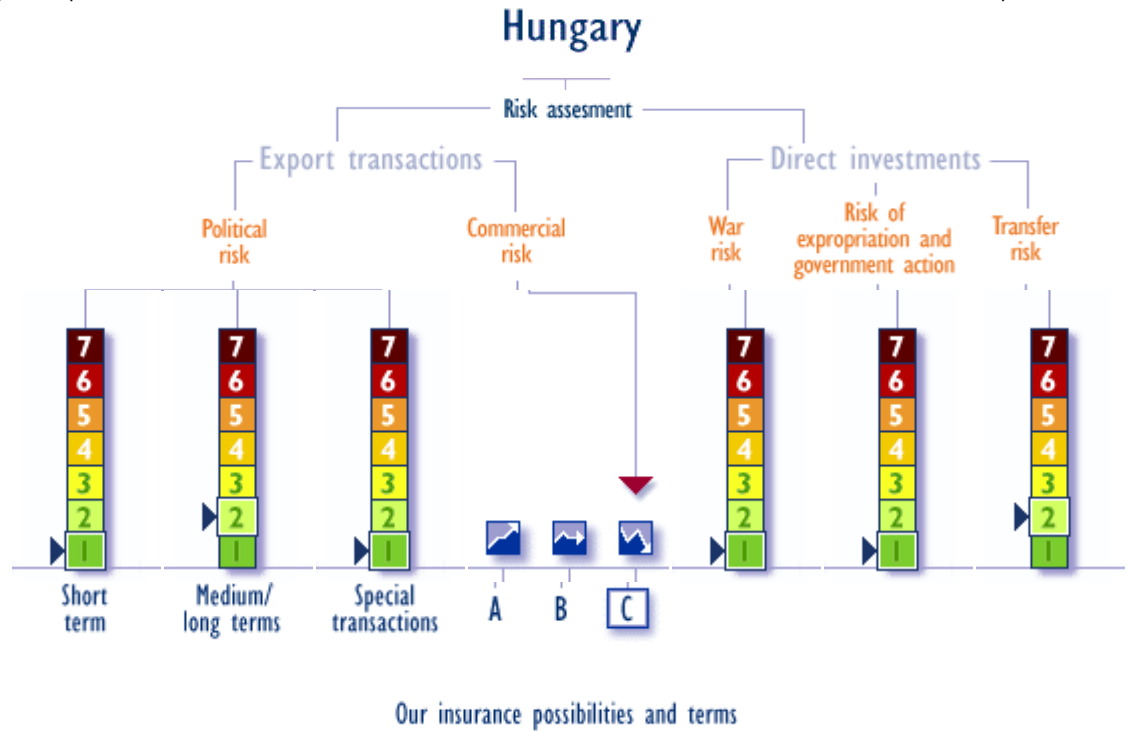
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Appendix 1 ONDD Risk Assessment for Hungary

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Last update: 09/24/2010



ONDD can cover **export transactions financed by both short-term credits and medium/long-term credits** against political and commercial risks on open account terms, i.e. without a bank guarantee being required.

	Short term and special transactions	Medium/long term and investments
Dueroire/Delcredere's ceilings for this country have been set at:	2250 mn EUR	2250 mn EUR
Availabilities under these ceilings to cover new transactions are:	normal	normal

In conformity with the **OECD Arrangement** the maximum reimbursement period for medium- and long-term transactions with this country has been set at 5 years (8.5 years on a case-by-case basis). Concessional financing is excluded.

ONDD insures **investments** in this country against 1) war risk, 2) the risk of expropriation and government action and 3) the transfer risk regarding payment of dividends or repatriation of capital. Those risks can be insured separately or in any combination possible. Each application is decided case by case on the basis of a detailed analysis.

Some indicators of the market's size

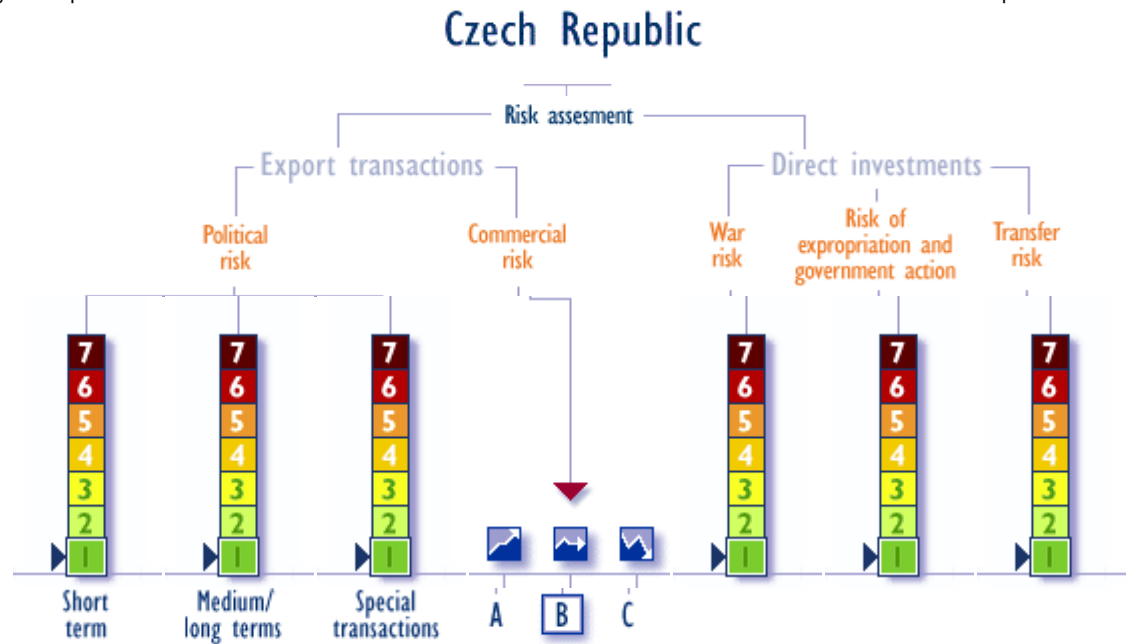
Population (in millions)	10
Imports of goods and services (in millions of USD)	126.041
GNP (in millions of USD)	130.114
Average real GDP growth (%)	3,6

Sources : IBRD, IMF, OBCE/BDBH

Appendix 2 ONDD Risk Assessment for Czech Republic

Copyrights - <http://www.ondd.be>

Last update: 09/24/2010



Our insurance possibilities and terms

ONDD can cover **export transactions financed by both short-term credits and medium/long-term credits** against political and commercial risks on open account terms, i.e. without a bank guarantee being required, and without any further particular conditions.

	Short term and special transactions	Medium/long term and investments
Dueroire/Delcredere's ceilings for this country have been set at:	2250 mn EUR	2250 mn EUR
Availabilities under these ceilings to cover new transactions are:	normal	normal

In conformity with the **OECD Arrangement** the maximum reimbursement period for medium- and long-term transactions with this country has been set at 5 years (8.5 years on a case-by-case basis). Concessional financing is excluded.

ONDD insures **investments** in this country against 1) war risk, 2) the risk of expropriation and government action and 3) the transfer risk regarding payment of dividends or repatriation of capital. Those risks can be insured separately or in any combination possible. Each application is decided case by case on the basis of a detailed analysis.

Some indicators of the market's size

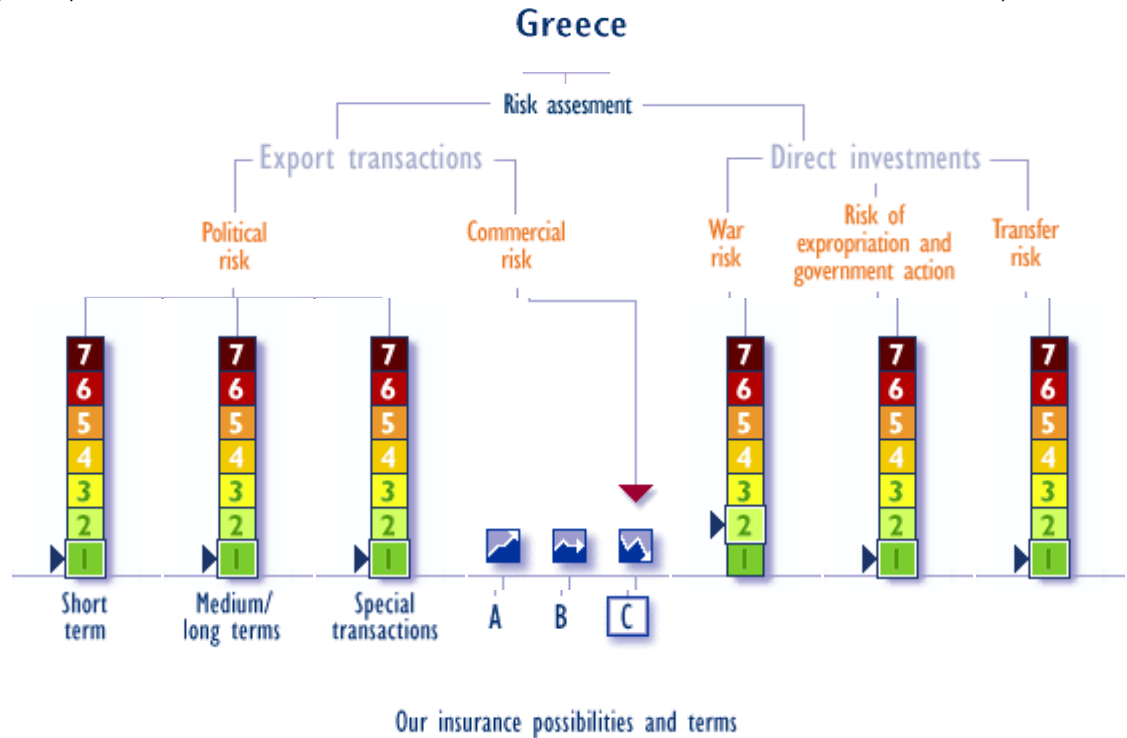
Population (in millions)	10,5
Imports of goods and services (in millions of USD)	156.708
GNP (in millions of USD)	181.547
Average real GDP growth (%)	4,6

Sources : IBRD, IMF, OBCE/BDBH

Appendix 3 ONDD Risk Assessment for Greece

Copyrights - <http://www.ondd.be>

Last update: 09/24/2010



Cover can be granted on open account terms, i.e. without a bank guarantee being required, and without further particular conditions.

	Short term and special transactions	Medium/long term and investments
Ducreire/Delcredere's ceilings for this country have been set at:	2050 mn EUR	2250 mn EUR
Availabilities under these ceilings to cover new transactions are:	normal	normal

In conformity with the **OECD Arrangement** the maximum reimbursement period for medium- and long-term transactions with this country has been set at 5 years (8.5 years on a case-by-case basis). Concessional financing is excluded.

ONDD insures **investments** in this country against 1) war risk, 2) the risk of expropriation and government action and 3) the transfer risk regarding payment of dividends or repatriation of capital. Those risks can be insured separately or in any combination possible. Each application is decided case by case on the basis of a detailed analysis.

Some indicators of the market's size

Population (in millions)	11,3
Imports of goods and services (in millions of USD)	119.112
GNP (in millions of USD)	323.055
Average real GDP growth (%)	4,2

Sources : IBRD, IMF, OBCE/BDBH

Appendix 4 Benchmarking Template

Benchmarking:
Athens-Prague- Budapest City Centre

GENERAL INFORMATION

ENTRY COUNTRY

	MANCHESTER (Pilot Study)	ATHENS Greece	PRAGUE Czech Republic	BUDABEST Hungary
ESPRIT				
H&M				
MANGO				
ZARA				

WAY - TYPE OF ENTRANCE

	FRANCHISE	WHOLLY OWNED	LICENCING	JOINT-VENTURE
ESPRIT				
H&M				
MANGO				
ZARA				

PLACE OF TRADING

	MALLS- SHOPPING CENTRES	HIGH STREET	SHOP-IN-SHOP
ESPRIT			
H&M			
MANGO			
ZARA			

LEADING INFORMATION

PRODUCTS

	ESPRIT	H&M	MANGO	ZARA
WOMEN				
<ul style="list-style-type: none"> • Workwear • Daywear • Going out/Occasion • Lingerie/Nightwear • Sportswear/Swimwear • Maternity • Plus size • Shoes • Accessories 				
MEN				
<ul style="list-style-type: none"> • Tailoring • Casualwear • Jeans Collection • Swimwear • Accessories • Nightwear & Underwear • Shoes & Boots 				

CHILDRENSWEAR
<ul style="list-style-type: none"> Newborn <ul style="list-style-type: none"> • Boys • Girls Girls <ul style="list-style-type: none"> • Younger Girls up to 3yrs • Older Girls 3yrs - 16yrs • Girls Shoes • Nightwear/Underwear • Sportswear/Swimwear • Accessories Boys <ul style="list-style-type: none"> • Younger Boys up to 3yrs • Older Boys 3yrs - 16yrs • Boys shoes • Accessories
TOYS
ELECTRICALS
HOMEWEAR
ACCESSORIES
FURNITURE
FURNITURE FOR BABIES
OTHER SERVICES

Promotion

	ESPRIT	H&M	MANGO	ZARA
ADVERTISMENT ON TV				
LOYALTY CARDS				
MAGAZINES				
BILLBOARDS				
BROCHURES-CATALOGUES				
MOTION PICTURES				
PERSONAL SALES				
NEWSLETTER EMAILS				

EXAMPLES OF PRICING

	ESPRIT	H&M	MANGO	ZARA
<u>WOMEN CLOTHING</u>				
BASIC BLACK PAIR OF TROUSERS				
DAY DRESS				
PAIR OF DENIM JEANS				
A BAG (NOT LEATHER)				
A PAIR OF EVENING SHOES				
EVERYDAY SKIRT				
<u>MEN CLOTHING</u>				
PAIR OF DENIM JEANS				
WHITE SHIRT				

POLO T -SHIRT	
WOOL CARDIGAN	
SMART JACKET	
A PAIR OF BLACK TROUSERS	
<u>CHILDREN</u> <u>CLOTHING</u>	
GIRLS 0-3 YEARS OLD DRESS	
T-SHIRT	
JEAN	
GIRLS 3-16 YEARS OLD DRESS	
A PAIR OF SHOES	
T-SHIRT	

JEAN	
BOYS 0-3 YEARS OLD SHIRT	
JEANS	
KNITWEAR	
T-SHIRT	
BOYS 3-16 YEARS OLD SHIRT	
JEANS	
KNITWEAR	
T-SHIRT	

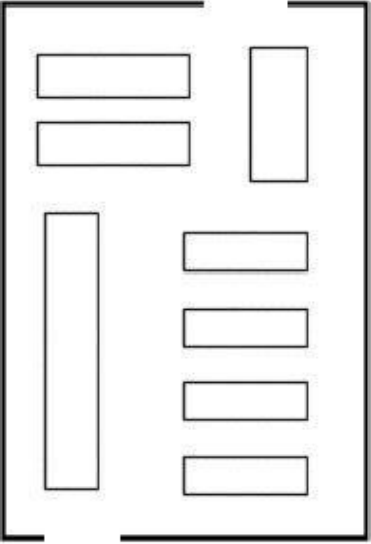
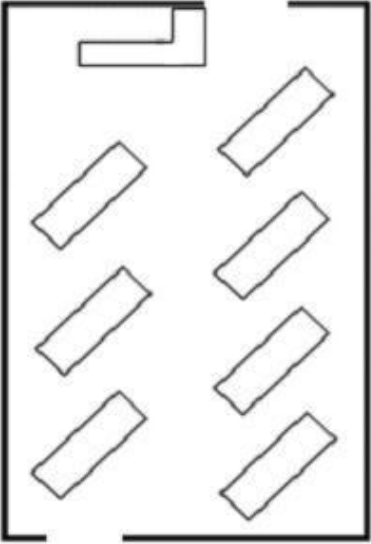
AVAILABLE CURRENCY

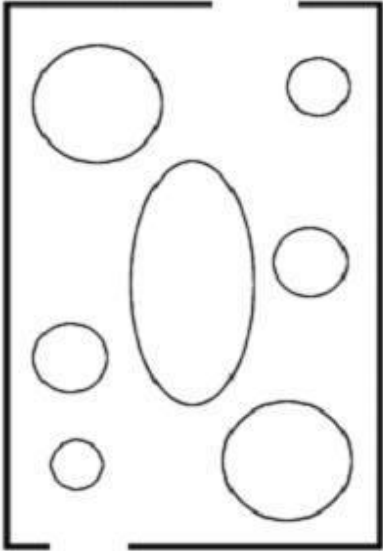
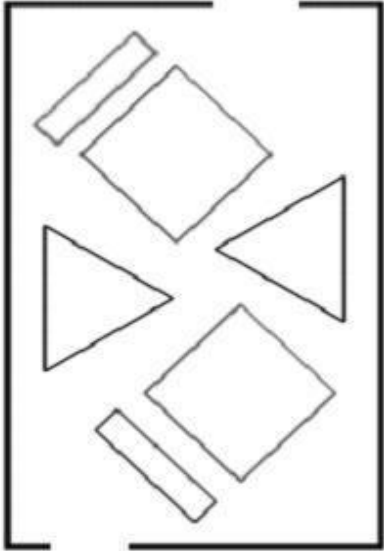
	ESPRIT	H&M	MANGO	ZARA
EURO (€)				
POUND (£)				
CZECH CROWN (CZK) - "koruna"				
FORINT (HUF)				
US DOLLARS \$				

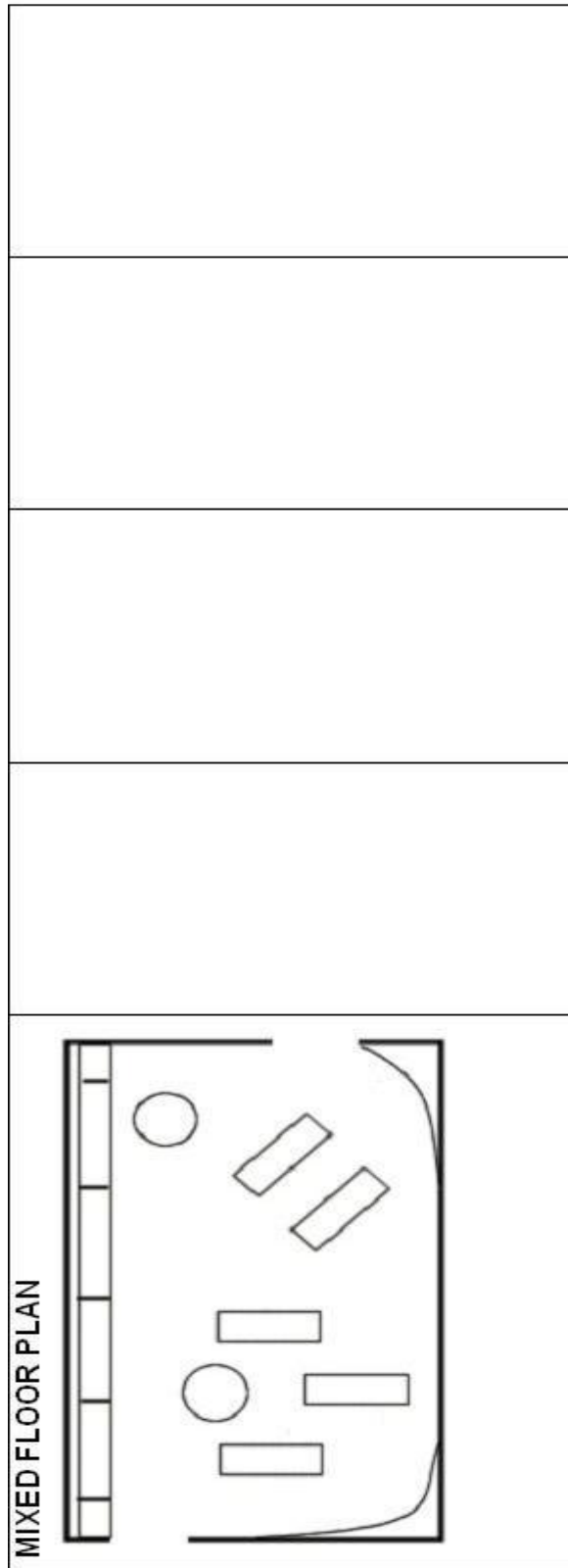
PAYMENT METHODS

	ESPRIT	H&M	MANGO	ZARA
CASH				
CREDIT/ DEBIT CARD				
CHEQUE				

STORE LAYOUT

<p>ENGLAND STRAIGHT FLOOR PLAN</p> 	<p>ESPRIT</p>	<p>H&M</p>	<p>MANGO</p>	<p>ZARA</p>
<p>DIAGONAL FLOOR PLAN</p> 				

<p>ANGULAR FLOOR PLAN</p> 	<p>GEOMETRIC FLOOR PLAN</p> 



MERCHANDISE PRESENTATION

ZARA

MANGO

H&M

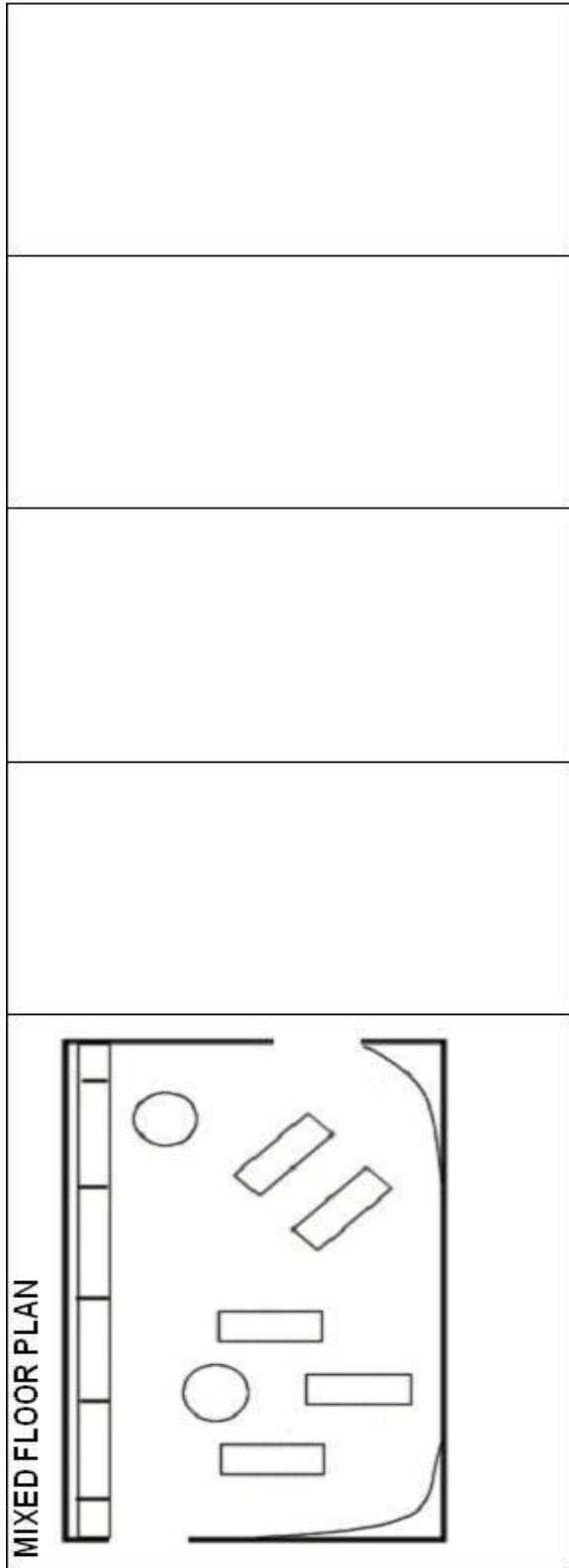
ESPRIT

SHELVING

HANGING

FOLDING

STACKING



MERCHANDISE PRESENTATION

ZARA

MANGO

H&M

ESPRIT

SHELVING

HANGING

FOLDING

STACKING

DUMPING

SIGNS-SIGNAGE

	ESPRIT	H&M	MANGO	ZARA
PROMOTIONAL				
LOCATION				
BRAND LOGO				
INFORMATION				

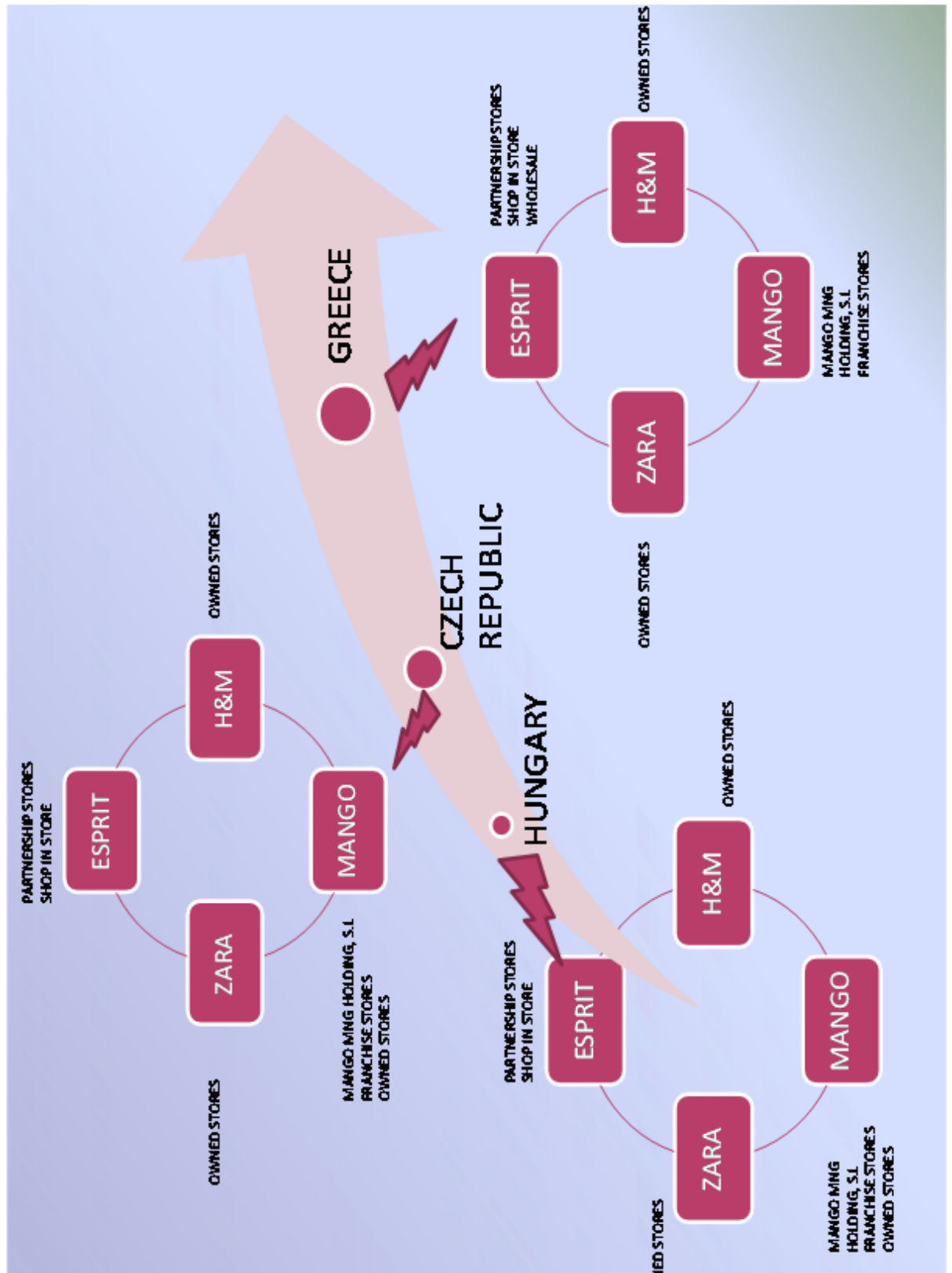
STORE WINDOWS

	ESPRIT	H&M	MANGO	ZARA
HIGH DEMAND ITEMS				
SEASONAL CHANGES				
SALES PROMOTION				
NEW ARRIVALS				

INSTORE ATMOSPHERE

	ESPRIT	H&M	MANGO	ZARA
LIGHTS				
• AMBIENT				
• ACCENT				
• TASK				
• DECORATIVE				
• OTHER				
MUSIC				
• INSTRUMENTAL				
• TRANCE				
• COUNTRY				
• HIP HOP				
• TECHNO				
• POP				
• LATIN				
CLEAN AND TIDY ENVIRONMENT				

Appendix 5 Mapping Countries and Companies



Appendix 6 CD Companies and Countries Profiles-Conferences Papers

