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# CONTENTS

<i>Л.В. Кулик,</i> <i>зав.кафедрой иностранных языков ЭФ МГУ, доц., к.ф.н.</i> Межвузовская студенческая научно-практическая конференция МГУ «Неустойчивая мировая экономика и растущие риски» (Unbalanced Global Economy and Rising Risks).....	3
<i>Agafonova Liudmila (Агафонова Людмила)</i> Eradicating poverty through profit: Is there a market for multinational companies at the bottom of the pyramid? .....	8
<i>Alekseev Sergey (Алексеев Сергей)</i> Social responsibility of Islamic banks.....	13
<i>Ataeva Maya (Атаева Мая)</i> Tour operating: what is behind the brand? .....	18
<i>Badalyan Marina (Бадалян Марина)</i> Modern approaches to Corporate Social Responsibility (CSR) and the perspectives of its development.....	22
<i>Bahtigaraeva Asiya (Бахтигараева Асия), Triger Victoria</i> <i>(Тригер Виктория), Sadugova Natavan (Садыгова Натаван)</i> Islamic economy in the modern world .....	28
<i>Bakalenko Andrey (Бакаленко Андрей)</i> Corporate Social Responsibility in Sweden: learning from the best.....	34
<i>Balycheva Yulia (Балычева Юлия)</i> The dynamics of the innovation process: Russia and Europe .....	40
<i>Bochkova Alexandra (Бочкова Александра)</i> Growing interdependence in Central and Latin Americas .....	46
<i>Bondaletov Vsevolod, Vlasova Ksenia</i> <i>(Бондалетов Всеволод, Власова Ксения)</i> Stable currency in the age of the unstable economy.....	51
<i>Dunaeva Svetlana (Дунаева Светлана)</i> The role of government in innovation-driven economy .....	56



<i>Dyadina Marina (Дядина Марина)</i> Great expectations: law, employment contracts, and labor market performance .....	61
<i>Edelkina Anastasia (Еделькина Анастасия)</i> The global challenge: a new international reserve currency .....	65
<i>Egorova Yana (Егорова Яна)</i> The Future of Banking Industry: Mobile channels implementation shakes the foundations .....	71
<i>Ekazheva Tanzila (Экажева Танзила)</i> Risk management in small business .....	76
<i>Gusarov Igor (Гусаров Игорь)</i> Innovation in Russia in comparison to other BRICS countries.....	82
<i>Karustina Aleksandra (Капустина Александра)</i> Luxury issues: a comparative study of Russian and global consumption .....	86
<i>Khazanov Alexey (Хазанов Алексей)</i> Business and education — social partnership: Russian and global experience. Comparative analysis .....	91
<i>Kostikova Svetlana (Костикова Светлана)</i> Branding in banking .....	97
<i>Legostaeva Kseniya (Легостаева Ксения)</i> Russia and the European Union: mutual interest in cooperation in unbalanced global economy .....	101
<i>Matviets Liudmila (Матвиец Людмила)</i> Designing a new crisis resistant super model .....	105
<i>Morosova Anna (Морозова Анна)</i> Regulation of foreign exchange rate in the Russian economy .....	111
<i>Oita Alina Melania (Ойта Алина Мелания)</i> Innovative strategies for the cultural tourism development in the small historical towns of Russia and Italy .....	117
<i>Rakhalov Alexander (Пахалов Александр)</i> Regional investment climate assessment based on business perception .....	124
<i>Petrenova Ekaterina (Петренива Екатерина)</i> Russian market of mergers and acquisitions .....	129
<i>Petrova Yana (Петрова Яна)</i> Future of the Eurozone: will the euro continue its existence as a unified currency? .....	137
<i>Ryazhskikh Tatiana (Рязжских Татьяна)</i> Risk management in banking .....	143
<i>Shautin Sergey (Шаутин Сергей)</i> Barriers for Corporate Social Responsibility Programmes in innovative companies.....	147

<i>Shinkarenko Tatyana (Шинкаренко Татьяна)</i> Modern Russia in the process of economic globalization.....	153
<i>Shved Evgeniya (Швед Евгения)</i> «Green» jobs as a new trend in decent work: problems of implementation .....	158
<i>Skvortsova Karolina (Скворцова Каролина)</i> Peculiarities of family business in Germany .....	163
<i>Solovova Liudmila (Скворцова Людмила)</i> CSR-driven innovation.....	167
<i>Sosnova Ekaterina (Соснова Екатерина)</i> The impact of Russia's WTO accession on financial sector.....	171
<i>Suchkova Olga (Сучкова Ольга)</i> The EU's fiscal consolidation's role after recession .....	177
<i>Sushko Sofya (Сушко Софья)</i> Game theory: modelling of economic decision-making process .....	181
<i>Taranovskaya Polina (Тарановская Полина)</i> Adoption of FATF recommendations as an effective instrument for foreign capital attraction in Russia.....	186
<i>Tsushko Vadym (Цушко Вадим)</i> Business associations: a source of "Social Capital" or "Redistributive Coalitions"? .....	189
<i>Turinova Olga (Туринова Ольга)</i> Social Responsibility of Business: shift in the set of values. Diachronic and cross-cultural analyses .....	196
<i>Veselitskaya Natalia (Веселитская Наталия)</i> Collaboration between universities and industry for the development of intellectual resources in Russia .....	203
<i>Vlasenko Ekaterina (Власенко Екатерина)</i> The pillars of luxury brand marketing .....	207
<i>Vorobyeva Julia (Воробьева Юлия)</i> Inconsistent 'ERA-GLONASS' .....	211
<i>Yashuang Ding (Яшуан Дин)</i> Chinese economic model .....	215
<i>Zinina Daniela (Зинина Даниэла)</i> The analysis of international rating system and its usage in logistics efficiency measurement in Russia .....	220



## **Eradicating poverty through profit: is there a market for multinational companies at the bottom of the pyramid?**

### **Abstract**

*Nowadays companies realize that increase profits is not the only one responsibility of business, they try to eliminate poverty. Prahalad states that improving lives of people is not only a noble endeavor, but also a lucrative one. It is proved in this work that by selling more goods to the poor MNCs can neither make big fortune no eradicate poverty. But there is a strategy that really works, – innovations in price-quality trade-off and focus on the poor as producers.*

**Key words:** Social Responsibility, Bottom of the Pyramid, Eradicate Poverty, MNCs

Improving the lives of the billions of people at the  
bottom of the economic pyramid is a noble endeavor.  
It can also be a lucrative one.

*C. K. Prahalad and A. Hammond*

A traditional economic view on corporate social responsibility, expressed by Milton Friedman (USA), says that there is only one responsibility of business – to increase its profits, and it is the government who must deal with social and environmental issues [2]. But nowadays, due to globalization, companies cannot rely on standard economic theory, especially in developing countries. In many of them the economic and legal frameworks are not sufficient or even missed. Therefore companies have to decide themselves these sensitive issues, - like human rights, ecological problems and poverty. CSR (Corporate Social Responsibility) often becomes a business case for the companies, because it really helps to build good reputation in product, labour and financial markets and can be a measure of risk management. CSR improves the company image significantly and brings a positive contribution to society. But can social responsibility be a new source of profit to a company? Can a business, based primarily on helping others, be profitable?

C. K. Prahalad (India), a Hindu economist, says yes, it definitely can be. He made a breakthrough and caused a lot of discussions in economic sphere at the beginning of 21-st century by publishing his revolutionary research about the fortune at the bottom of the economic pyramid.

The term 'Bottom of the Pyramid' was developed by C. K. Prahalad himself and first used in his book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Bottom of the Pyramid is an economic term referring to the largest but the poorest socio-economic group constituting more than 2.5 billion people that live on less than \$2.50 a day.

In favor of his theory Prahalad states that there are more than 4 billion people with per capita income below \$2 per day at PPP (Purchasing Power Parity) rates. It is a huge non-oversaturated market [8, 4].

‘Markets at the bottom of the economic pyramid are fundamentally new sources of growth for multinationals. And because these markets are in the earliest stages, growth can be extremely rapid’ – said Prahalad [9, 6].

He insists that serving the poorest people is very profitable, and this is a real opportunity for corporations. The BOP is a new source of revenue growth, because of economies of scale. This trading can give an access to innovations, otherwise it is difficult to adapt to the BOP market. And it is also good from ethical and social side. MNCs can eliminate poverty and improve living conditions of the poorest people in the world. So it seems to be a win-win situation for both players – for a business and for a society.

But some economists do not believe in efficiency of this theory, especially that the BOP can be a crucial source of profit for MNCs. They have good arguments to prove their point of view.

First of all, Prahalad over-estimates the number of the poorest people. The World Bank states their number was 2.7 billion people in 2001 that is 1.5 times less than in Prahalad’s book [The World Bank, 2005]. The BOP market is huge in terms of numbers of consumers, but small monetarily. The market size is \$1.2 trillion at PPP in 2002. Prahalad claims that it is \$13 trillion!

The BOP market is unlikely to be very profitable, especially for MNCs. Large companies usually make a profit by using economies of scale. But in the BOP market it will not work, because distribution and marketing costs will be too high (the poor are geographically dispersed). And one more problem arises here - small size of each transaction.

There are some successful examples in Prahalad’s book of how companies help the poorest people just by marketing for them. But the BOP is not designed for every company, because it has to adopt a new strategy which differs much from their core business environment.

Prahalad states that the poor often buy ‘luxury’ items [9, 5], but it is just impossible as they are spending about 80% of their income on food, clothing and fuel [3]. There is no more money left for luxuries.

Companies which follow the BOP theory usually fail, because they overestimate the purchasing power of the poor and set prices too high. All examples of business in Prahalad’s book which make a profit are small-sized or local ones, but not MNCs. MNCs have already realized that there is no fortune at the BOP or they have no competitive advantages there, so they are even not trying to penetrate this market. This theory may be a good option for companies which want to provide non-economic benefits for society. Small-sized companies can make a profit, but not MNCs. Let’s look at the opportunity of profiting for the poor. Will providing them with more goods really help, as Prahalad says?

The poor are not very rational in their purchasing. A. Banerjee and E. Duflo (India) state that the poor ‘could easily save more without getting less nutrition by spending less on alcohol, tobacco, and food items such as sugar, spice and tea’ [1]. The poor usually make bad choice. For example, there is a story of Hasan, a rickshaw puller [7, 19]. He spends \$0.20 per day on tobacco. But he cannot afford to buy eggs for his 3 children because he has no money for them. If he didn’t



buy tobacco, each of his children could eat an egg a day (nutrition food) and be healthier. The poor are not really 'value conscious consumers' and this is a big problem.

Let's consider another example. A. Hammond and C. K. Prahalad (India) tell a story of a poor woman who is proud because she can use a fashion product, a skin cream marketed by Unilever. Prahalad states that the poor woman 'has a choice and feels empowered because of an affordable consumer product formulated for her needs'. But to really empower the woman we should make her not so poor, more educated, and financially independent and it is not enough just to sell her a fashion cream. According to the CSR principles a company needs social and cultural changes that eliminate the prejudices which are the reason why she is buying this lightening cream. Otherwise, it seems that Unilever helps to sustain these prejudices to make a big profit on it. It looks morally problematic [6].

Getting to consume more will not solve the problem of poverty. Because the real challenge is that the poor just cannot afford to consume more. So helpfulness of providing more goods to the poor, stated by Prahalad, seems to be unrealistic.

Does it mean that MNCs cannot eradicate poverty at the BOP, without losing a big part of profit? No, there is a sophisticated way to help the poor – to raise their income by

- lower prices of the goods that the poor buy;
- higher income that they earn.

There are 3 ways to decrease prices [7, 22–23]

- 1) decline profits;
- 2) cut costs without reducing quality;
- 3) cut costs by reducing quality.

Of course, companies will not decline profits, so the only way is to cut costs. The BOP theory claims that we should cut costs without reducing quality. But in reality the cost-quality reducing works well. For example, Nirma in India. This is a cheap washing powder and not of high quality. But the price is one third lower than competitors' price. So, the poor like inexpensive goods, this is because they cannot afford high quality products. Company Nirma is very successful. This is a win-win situation. Selling inexpensive, low-quality goods does not hurt the poor.

Costs can be reduced without lowering quality only by technological improvement. But it will not work well for the products, which are really needed by the poor (food, clothing, fuel).

Prahalad says that pay-per-use strategy also reduces costs. It means that companies should sell small packages of their product, because the poor are insecure in their future revenues and are not going to buy long-lasting big packages. But in some cases like jam or milk powder, larger packages are better selling than small ones. Also it can decrease overall consumption and a company should keep costs lower compared to big packages. Therefore it makes no economic sense.

So how can socially responsible companies help the poor without exploiting them?

First, a company should not evaluate the poor as rational consumers and should help them with selective consumption. It's important to assure that the products sold to the poor are safe and of decent quality, and they offer decent value.



Second, a company should evaluate the poor as producers. It means to raise the income of the poor by buying from them, rather than selling to them. It should be mentioned that the BOP theory is focused on the poor only as on consumers. One of the examples of efficient markets is Amul, a large dairy cooperative in India [4, 20-21]. Amul collects milk from 2 million farmers and sells more value added products, like butter, milk powder, cheese, ice cream to middle and high income group. It is good example, because Amul is owned by the poor, buys from the poor and sells to the top of the pyramid.

Third, economic growth is the best way to eradicate poverty.

Fourth, it is necessary to create opportunities for employment with reasonable wages. Rather than lending \$200 to 500 women to buy a sewing machine and to start a microenterprise, it is better to lend \$100,000 to an entrepreneur with business acumen and help her to set a business employing 500 people [4, 24].

Fifth, try to increase productivity to increase wages.

And finally one of the most important options, which should accompany any of previous ones, is the governmental support. MNCs can solve the problems of poverty and increase income, if the government helps with public safety, basic education, public health, and infrastructure.

So, companies are trying to be socially responsible nowadays, especially when they are dealing with developing countries. Prahalad attracts our attention to the huge market at the bottom of the economic pyramid. His theory has some good points, but he made a big mistake trying to persuade MNCs to trade at the BOP. As we know large companies are using economies of scale, so for them it is not recommended to go to the poor.

Small private companies should try to market to the poor, using Prahalad's theory, but their profit still will be modest. The best opportunity exists for those creative companies which can reduce the price by changing price-quality trade – off in the way the poor will accept it.

The private sector can help by focusing on the poor as producers, investing in upgrading their skills and productivity and creating more jobs. A good decision will be investing in education – human capital. From the consumers point of view education can help to make better choices and spend their limited resources properly.

And it is very important to have the support of government, because without it companies cannot change a situation dramatically. The government should follow a policy to eradicate poverty.

Then we can start to talk about not just the fortune at the bottom but also the fortune for the bottom of the pyramid.

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## **Social responsibility of Islamic banks**

### **Abstract**

*The article describes the differences between Islamic banks and their Conventional counterparts: different approaches to dealing with depositors, borrowers and investments. The paper proves that “Islamic” schemes of banking are more socially responsible than “conventional” schemes. The main aim of the research is to highlight the controversy and ambivalence of CRS in the Islamic banks. The article is for students of economics and for everybody who is interested in unusual ways of doing business.*

**Key words:** Islamic banking, Conventional banks, interest-free banking, return on current accounts, profit and loss sharing (PLS)

### **1. Introduction**

The problem of social responsibility in business has always been very important, especially in the banking sector. Nowadays, after the global crisis of 2008, banks are being blamed for many sins: they collect money of the rich clients and pay them a fixed interest “for doing nothing” [5]. On the other hand, banks provide consumers, entrepreneurs and corporations with credits and demand their money plus fixed interest payments back regardless the success of a venture. During the last economic Recession, the banking sector was accused of blowing financial bubbles and thus undermining the real sector of the economy, rising unemployment rate and bringing down the welfare of the society [5]. Sometimes banks are involved in money-laundering activities [6] and thus encourage criminal and illegal businesses.

In the middle of the XXth century, the concept of Islamic banking appeared. [7] Islamic banking is not only the marketing strategy, the way to attract people who practice Islam to the bank or the way to split the target audience into several consumer groups. The main difference between an Islamic bank and a “Conventional” bank lies in social responsibility: the clients of Islamic bank do not face unfair principles mentioned above.

As to cultural and ethical foundations, Islamic banking idea is based on Islam’s holy books, Quran and Sunnah. According to Islam, a person is not the owner of any kind of wealth. All wealth belongs to its creator, the God, and people are temporary users of it. Therefore, every rich person should use his/her wealth in a proper way: not to waste, not to use as a means of destruction; money has to work and help other people.

### **2. Islamic banking concept**

#### *2.1. Dealing with the depositors*

Focusing on economic foundations of Islamic banking, which means the prohibition of interest, the creditor has to share risks with his debtor in order to



make the process more honest, and Islamic banks offer interest-free banking. By contrast, Conventional banks are blamed for paying fixed interest to depositors for doing nothing.

In Islamic banks there are two types of accounts. Current accounts in Islamic banks give no fixed return to depositors. They are a safekeeping arrangement between the depositors and the bank, which allow the depositors to withdraw their money at any time and permits the bank to use their money. Instead of fixed return, a bank pays a return depending on the bank's profitability during the period, and extra payments are not guaranteed. It's more like a mutual fund rather than a bank. The only exception is inflation rate: in case of inflation, Islamic bank pays interest in order to maintain the real amount of money on the account invariable. Moreover, Islamic banks don't usually grant overdrafts.

Another type of accounts in Islamic banks are investment accounts, which are fixed-term. A bank invests money from this type of accounts in long-term projects. Theoretically, the rate of return may be negative, if the bank makes a loss, and the capital of depositors isn't guaranteed. It seems to be more social responsible: if you want some extra money, you have to work harder or to take a risk.

There is a tendency to think that besides ethical aspects, this mechanism is more responsible from the economic point of view. During the crisis, the profitability of banks' investments is reducing while Conventional bank has to pay fixed interest on deposits. Combining with the depositors' desire to withdraw their money from accounts, the situation may be dangerous for Conventional bank. But the Islamic bank will not face such a situation: its responsibility is limited by the amount of deposits on current accounts and inflation rate. Therefore, Islamic bank has more opportunities to survive during the crisis.

## *2.2. Dealing with borrowers and investments*

In dealing with loans to individuals, the difference between Conventional and Islamic banks is not so significant. While Conventional banks provide individuals with money and demand interest for the loan, Islamic banks purchase a house, a flat or a car for their clients. A person returns money to the bank during a particular period; instead of interest payments, individuals pay rent payments for using the property of a bank. In fact, it is the same for an individual to what type bank to apply for a loan, Conventional or Islamic ones. The only difference is in the bank's attitude to the borrowers: if a borrower faces some difficulties with returning the debt, an Islamic bank is more likely to restructure than a Conventional bank. Usually Islamic banks have special discount programmes during religious holidays, and the borrowers have an opportunity to decrease their debts [1].

In addition it must be noted that, this approach is more convenient for the bank: the collateral of a loan is the bank's property. Therefore, in case of bankruptcy of a debtor, the bank doesn't have to sue in order to obtain the collateral.

In terms of CSR, the most important is to clarify the banks' ways of investing. For Islamic banks there is a strict prohibition to invest in tobacco, alcohol production and distribution, in weapons and pork. The first three commodities in

the list are generally accepted to be socially dangerous. Therefore, if it were more Islamic banks, the impact of tobacco, alcohol and weapons to the society would be lower.

Another prohibition for Islamic banks are investments in gambling and stock trading (which are almost always the same thing), especially in short sales. During the last financial crisis Islamic banks didn't have any derivatives in their portfolios, thus their losses were minimal. We share the opinion that Islamic banks are more socially responsible, because they cannot be blamed in blowing financial bubbles and therefore neglecting the real sector of the economy.

Conventional banks are also criticized for the way they deal with legal persons and entrepreneurs: they ask for fixed interest without sharing the risks. Islamic banks are more socially responsible: there are several ways to deal with legal persons, and none of them use fixed interest.

The first way of crediting enterprises is called "Mudaraba" [2]. The bank provides an entrepreneur with money, and they share profits. If there is no profit, an entrepreneur does not lose anything, but does not obtain anything from the deal either. Bank will lose money, but not the entrepreneur.

The second way of lending is called "Musharaka" [2]. In fact, it isn't a bank deal, it's a partnership. A bank and an entrepreneur both invest money to the project. They define all points of a project: their shares in a business, the responsibility of each party. The bank isn't only the source of money to the entrepreneur; they work for the project together. In this case, Islamic bank performs like an investment company, but not like a Conventional bank, and it makes things more honest. The bank owns a share in a business, and this long-term investment brings to the bank much more than just collecting interest on loan. It's also more socially responsible: the bank helps the enterprise not only with a capital, but with other factors of production, which increase the probability of success of the project that is important for many people, not just for the bank and the firm.

The third way of dealing with legal persons is "Murabaha" [3]. It concerns financing trade operations. The concept here is the same as with dealing with individuals. Instead of giving money to an entrepreneur for buying goods and asking him for the loan repayment plus interest, an Islamic bank buys goods itself. Then, the bank resells them to the entrepreneur with a price markup. The financial results of the operation are the same in both types of banks, in Conventional and in Islamic ones. The difference is in responsibility: risks belong to an Islamic bank and a Conventional bank's borrower.

A Conventional bank receives interest for just giving money, and an Islamic bank receives markup for sharing the risks, which is more socially responsible. Moreover, in "Islamic" scheme the collateral is the property of the bank that decreases legal costs in case of bankruptcy of a borrower.

Islamic banking has analogs in all the most important operations of their Conventional counterparts. For example, leasing in Conventional banks and "idzhar" in Islamic banks; interest-free loan for social projects in Conventional banks and "Kard-al-Hasan" in Islamic banks [3].



### 3. Financial responsibility

In terms of financial responsibility the most important point under consideration is the bank's losses – the depositors can sue the bank. If the court decides that the money in an unprofitable deal or the failure of a project was caused by a mistake of the bank, the bank will be legally forced to return money back to the depositors. It is much more honest in a comparison to a Conventional bank: the bank's management is responsible for their decisions.

If the bank was guilty, it would have a negative influence on its reputation, and fewer people would bring their money to that bank. There is a cut-throat competition between the banks, and Islamic banking gives an obvious opportunity to the depositors to compare the effectiveness of banks' management via comparing the rate of return and the amount of failed investment projects [4]. Moreover, the amount of lost projects and the rate of return are an early warning for the clients if the bank is going to be a bankrupt. In order to understand the financial position of a Conventional bank, a person should be good in accounting and auditing, but a depositor does not have to be a professional economist and analyst to compare the position of Islamic banks. This kind of selection will bring low-efficient banks out of the market and prevent huge losses of the society in case of bankruptcy.

Turning to the background of Islamic banking as a market institution, it appeared in 1950s. Oil embargo of 1970s had lead to the skyrocketing growth of oil prices. A giant inflow of money came to Islamic oil-exporters and caused the rapid development of Islamic banking. The first Islamic bank in Europe, "Islamic bank of Britain", was established in London in 2002 [5]. A lot of Conventional banks such as HSBC and "Сociйтй Гйнйrale" started to launch Islamic financial products. The last world economic crisis was a tremendous time for Islamic banks: while their Conventional counterparts had to declare huge losses or even a crash, balance sheets of Islamic banks had improved dramatically. Nowadays the Islamic banking practice has the same problems as Conventional banks: fraud with financial reporting, exaggerated top management bonuses, money laundering [8].

### Conclusion

From the above mentioned analysis it becomes clear that, to some extent Islamic banking is more socially responsible than the Conventional ones, but both of them still have organizational problems. Islamic banks use more honest and less risky mechanisms that allow them to be more stable. Which of these two types of banks is better will be clear in the future. The future business cycle analysis will clarify the potential of the two basic counterpat.

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## **Tour operating: what is behind the brand?**

### **Abstract**

*There are thousands of destinations and attractions, hundreds of travel agencies, dozens of tour operators, all fighting to get the consumer's attention. What separates one tour operator from another in this competitive world is a strong and clearly articulated brand position, which is a meaningful and sustainable point of differentiation. The article focuses on the basic aspects of branding in tour operating. The analysis covers the role of branding in the process of choosing an appropriate tourist company, reveals the problems in tourism branding in Russia and finally presents some of the effective solutions.*

**Key words:** world famous brand, top travel agent, tour operator, added value, tangible advantage

Russia is one of the most attractive global tourism destinations. There are quite a lot of advantages of developing tourism industry here. The countries which are the leaders of tourism industry use branding as an essential tool of marketing. Branding is also one of the most important parts of creating a better tourist image of the country. There are various branding strategies which can be successfully used in Russia. But quite a lot of problems must be solved in order to realize the tasks. Our aim is to make our destinations the products of global tourist attractiveness.

The most world famous brand in tourism is the company “Thomas Cook & Son”. The company was founded by an Englishman Thomas Cook, who created one of the most profitable businesses – tourism. Turning to retrospect, we see that it all started prosaically: Cook declared a war to drinking and smoking in the first tour. This historical moment could be considered as the day of tourism birth. It happened, on 5 of July in 1841. About 570 friends of sobriety occupied nine open wagons which were very uncomfortable: they had to travel standing up with the risk to experience the changeable weather [1].

Today the travel company Thomas Cook has topped the “Travel Agents and Tour Operators” category yet again and is celebrating being named one of the UK’s leading brands. Package holidays with Thomas Cook currently cover a huge range of global destinations. Spain holiday deals to Algarve holiday offers and its service is proving as popular as ever as the much-loved superbrand is again named number one in the Travel Agents and Tour Operators category in the prestigious 2012 Consumer Superbrands list [3].

The influential Superbrands ranking, now in its thirteenth year, has long been a strong barometer of brand strength in the UK, as it is voted for by an independent survey of more than 2,000 British consumers.

As the top travel agent and tour operator among the superbrands for the fifth year on the trot, Thomas Cook has been recognised by the British public as a brand that represents reliability, quality and distinction. The world’s best-known



name in travel was placed at number 101 of the top 500. Three other tour operator brands in the top 500 were Thomson Holidays (ranked 208), Virgin Holidays (332), and Kuoni (478).

Thomas Cook UK & Ireland [5] currently takes passengers to a variety of destinations, from far-flung countries such as the Dominican Republic and the USA, to those a little closer to home, offering deals like Portugal package holidays and great Greek getaways. It is currently the second largest leisure travel group in the UK and boasts some of the world's favourite travel brands, including Airtours, Club 18-30, Cruise Thomas Cook, Direct Holidays and Neilson.

What makes the brand so appealing and interesting to customers? Is it a tribute to its heritage, positive attitude and loyalty of regular customers to the brand or a place as a trusted brand in the minds of people buying it?

To be number one among competitors the company should establish the finest reputation in its field. It should offer customers excellence and quality, significant emotional and tangible advantages over other brands, which, consciously or sub-consciously, customers want and recognise.

We know that well-known brands offer something exceptionally new and exciting; a fresh flow of ideas that will bring renewed direction and dynamics to our business.

Let us examine the factors influencing the choice of tourist companies by the tourists and the role of branding in this process. When the client has a desire to explore the world, get some new experience, change the surrounding or just relax with his family and friends, he will start investigating the travel agencies' offers. They would like to know the time of travel, the people to travel with; the level of services in a tourist destination and, of course, the price of the future tour package.

The simplest and most common ways of searching for information are as follows:

- to browse on the Internet;
- to look through the travellogues;
- to find out your friends' choices and advice.

When the tourist has made up his mind when and where to travel, he starts analyzing the price and the service providers in order to know their advantages and disadvantages. The following factors can be beneficial:

- The design of the website;
- The appropriate style of their product presentation;
- Availability of detailed information;
- Special offers;
- Brand name.

A brand name is your *added value*. People are ready to pay more for the brand because it is a guarantee of the quality of your services.

After this short analysis we can conclude that branding is paid very little attention to. Sometimes people can hear the travel advertisements on the radio, watch them on TV, and find them in travellogues and glossy magazines. But it is not enough. They could hardly remember the names of the travel companies they used because of their brand name. If we stop people in the streets to ask how many names they could recall from tourism, we believe they will not remember more than 4–5. That is the current situation with branding in the tourism business.



Among the most successful and trusted tourist brands is the name of the travel agent “Kuda.ru” [6]. The name of the logo in dark blue and orange colors is associated with the southern sea and hot sun. Today it is one of the agencies in Russia with clear position and a good name because they are legally protected, it is difficult to repeat their name, they have some reasonable price regulations, and it does not even require much creative effort for its promotion.

Now let us look at the most recognizable brands in the hotel business in Russia and take the Hilton brand as an example [7]. The hotel chain Hilton is owned by Hilton Hotels Corporation, which owns more than 500 hotels worldwide. Totally, Hilton Worldwide network includes more than 3,600 hotels with 600,000 rooms in 82 countries around the world. This Corporation owns 10 different brands. Waldorf – Astoria and Conrad are considered to be a segment of luxury. Brand Hilton is mostly 5 star hotels and Doubletree Hilton. – 4 star hotels. – The medium segment of the market-oriented Hilton is Garden Inn. Finally, the budget group is Hampton Hilton [8].

The first hotel chain in Russia was opened in Perm in 2008. In the next three years Hilton plans to increase the number of hotels in our country to 16. Russia remains a key destination for business development. Now we have only 3 Hotels of this chain – Hilton Moscow Leningradskaya in Moscow, Hilton Garden Inn in Perm and the Doubletree by Hilton in Novosibirsk. Hilton hotels will be opened in the coming years in Kazan, Krasnodar, Omsk, Astrakhan, Yaroslavl, Moscow and Perm by the year 2014.

Having analyzed the practice of the brand companies appearance and function in the tourism industry in Russia we are ready to formulate the main problems these companies face. Firstly, in comparison with western practice new tourist services in Russia are being implemented more quickly, that's why there are serious mistakes, which are explained by an unstable, rapidly changing economic situation. Secondly, the larger part of tourism business is oriented on getting «quick money».

Very serious problems concern the lack of professional research, expert assessments and development in tourism in general and in the brand companies in particular. The quality of tourist services offered in Russia under the name of well- known brands does not always meet the international quality standards of the brand.

As a result of tourism branding analysis both in Russia and abroad we came to the following conclusion:

1. Brand is a trade mark that includes the name and the visual image given by the manufacturer to his product, branding and differentiation from similar products of competitors.
2. The main purpose of branding is the formation of consumers' positive associations caused by the brand.
3. Russian tourist companies do not pay essential attention to the relevant branding.

It's necessary to study and analyze the strengths and weak sides of the brand, we should consider the threats and opportunities, which are very important in terms of tough competition in the Russian tourist market.

On the bases of these conclusions we have developed the following suggestions and recommendations:

1. All efforts of the top managers and designers of the brand company should be directed to the development and promotion of the brand.
2. The institutions of professional tourism education should train specialists for the tourism industry with such significant qualities as professionalism, creativity, readiness to develop the brand, concepts, themes, etc.
3. The top designers should develop and promote new national brands.

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## **Modern approaches to Corporate Social Responsibility (CSR) and the perspectives of its development**

### **Abstract**

*Today the CSR concept is becoming more and more popular, but there is still no accepted understanding of CSR. Some researchers consider CSR as a promising direction for development, beneficial for both business and society. However, the opponents do not support positive CSR influence. The author of the article attempts to reveal CSR characteristics, its prospects and benefits for business and society.*

*Arguments “for” the CSR concept could urge the company management to find in its policy a place for social initiatives. The article may be useful for management, representatives of business communities.*

**Key words:** Corporate social responsibility (CSR), CSR concept, CSR criticism, CSR development.

**CSR concept.** The idea of CSR appeared at the end of XIX – at the beginning of XX century, as a confidence of many American politicians and entrepreneurs that private businesses should contribute to public wealth. But such policies were first implemented only after the Great Depression of the 1930s. The only aim of entrepreneurs became just to keep their businesses, for the working class – to retain their jobs. Later CEOs of many Western companies began to think about the difficulty to attract the attention of a potential consumer by the quality of the goods and their functionality. People are aware that a company is concerned about the environment, the company’s staff and public wealth, and thus participates in charitable events, ect.

Therefore, this kind of CSR policy, which is common now, appeared several decades ago, when it was clear that obligations of profit-making organization towards society must not be restricted only by the desire of getting profits and compliance with the law [1]. In the 1980s social audits appeared. The CSR concept became more popular only in the middle of the 1990s, when anti-corporate attitudes prevailed. A number of authoritative periodicals publish articles about unethical behaviour of companies (for instance, child labour). The burst of indignation fell on the beginning of XXI century with the appearance of Naomi Klein’s book “No logo”, which tells us about examples of irresponsible behaviour of large corporations [2]. In response to criticism, CEOs of such organizations began to mention CSR in their reports, speeches and advertising campaigns, define the goals, which people expect of them, and promise their achievement.

Many famous researchers (Philip Kotler, Henry Mintzberg, Archie Carroll, Andrew Crane, Dirk Matten e.c.) paid attention to CSR. They gave their points of view of CSR implementation, advantages and disadvantages of CSR policies.



Let us give some examples of CSR definitions formulated by different authors. Charity organization “Christianaid” defines CSR as completely free-will intention of the corporation to favour the self-control’s development instead of national or international regulation [3]. Philip Kotler thinks that CSR is a free organizational choice for rising of the level of local community’s well-being with the support of appropriate methods of business operation and assignment of corporate resources”[4]. Chris Mardsen (Amnesty International Business Group) thinks that the CSR defines business management due to regard for all negative and positive consequences “its operation in ecological, economic and social areas” [3]. In Gro Harlem Brundtland’s opinion “Social responsibility is the responsibility of an organization for influence of its decisions and activities through transparent and ethic behaviour harmonized with sustained development and public wealth; takes into consideration stakeholder’s expectations; harmonized with international norms; included in all parts of organization” [5].

There is no accepted understanding of CSR among organization’s researchers. There is only a common term: CSR is free-will organization’s obligations to improve public wealth beyond the law limits.

Researchers reveal different characteristics of CSR. For example, Philip Kotler supports the idea that due to the promotion of socially important problems, charity and corporate social marketing, socially responsible methods of doing business, CSR could be really beneficial (reputation improvement, more attractiveness for all organization’s stakeholders ect.) [4].

A. Crane and D. Matten emphasize that businesses need to take into account their real dependence on the society. Violation of ethical rights might involve uncomplimentary publications in media and as a result – doubtful reputation of an organization. Ethical requirements of all stakeholders are constantly changing, therefore, their compliance with organization are becoming more and more difficult. Business ethics favours clearer understanding and assessment of these requirements, that afterwards could well affect compliance with strong requirements of stakeholders [6].

A. Carroll thinks that a socially-responsible organization must aspire to being profitable, operating ethically and abide by law [7]. He sorts out four types of social obligations: economic, legal (operating in the network of principles of law), ethical principles (operating in compliance with all norms and standards considered by society as fair) and philanthropic (for example, taking part in charitable campaigns).

H. Mintzberg explains socially responsible behaviour of organizations as informed selfishness (do right, or be caught in hell), theory of well-founded investment (CSR is made well-founded investment by pressure groups) and non-interference (if we are defeated, others will come, therefore, we could not allow any interference of others) [8].

In addition let us sort out the following common characteristics of CSR:

*Voluntary approach.* It is supposed, that business comprehends its responsibility for internal and external environment of an organization, and spends a part of its profits on social needs voluntarily. Companies take in response their real dependence on society.

CSR is a profitable investment. By the implementation of CSR policy, companies increase their profits, consolidate their position on the market, acquire a good reputation.

Companies, complying with ethical principles, ensure their existence on the market in the long term, as opposed to those which neglect these norms. CSR helps an organization to follow ethical standards and ensure compliance with strong requirements of the organization's stakeholders.

Analysis of CSR enables us to sort out the types of CSR: internal and external [5]. Internal CSR concentrates on personnel development: industrial safety, stability of the salary, extra medical and social insurance, advanced training courses, assistance in complicated situations. For external CSR – it is sponsorship, corporate charity, programmes of environmental protection, cooperation with local communities and government, assistance in crisis situations, quality production.

**The CSR criticism and the prospects of the CSR development.** Some researchers are not really sure in the purely positive influence of CSR [9]. Liberal economists do not see in CSR a market approach to organization management. In Milton Friedman's opinion, organizations ought to earn money, not to save the planet, and let them not to confuse these different tasks [10]. Economists of the Austrian school and the school of Chicago consider CSR conceptions as artificial inventions, emphasizing the idea that the "invisible hand" rules the market and only this "invisible hand" could overcome social problems. Some public organizations such as "Christian aid", "Greenpeace" criticize CSR idea for its only aspiration of organizations to securing them against uncomplimentary references about their operation on society's part. Corporate social programmes are no more than cheap commercials, dissimilar from real responsibility as a sincere desire to help other people [9]. The World Bank marks that a real implementation of CSR strategies in practice in many companies has perfunctory and fragmentary character [11].

In Philip Kotler's and Nancy Lee's opinions, CSR could be beneficial for the society and surely an organization conformed to the next conditions:

- A company must choose the orientation of socially responsible operation, which is logically fitted in its strategy and does not contradict its values and style of business operations.
- A company assigns the resources for socially responsible projects.
- A company reckons, how to measure efficiency of socially responsible initiatives.

There are laws in every country that businesses must follow. More and more companies tend to think, that the best mechanism of corporation involvement in responsibility is government regulation. Analyzing the perspectives of the CSR development, "Christian aid" doubts that CSR will develop without government [11].

A. Pendlton also highlights the necessity of government regulation of CSR. He points out that some companies take on social responsibility only when they need it. Thus we need to enforce the law [12]. In the future companies will have to comply with international principles and protect the rights of those who are affected by their activity.