



Robert Kozielski

UNDERSTANDING
THE NEW BUSINESS
PARADIGM IN
EASTERN EUROPE

*Lessons on Building a
Successful Small Business*

Understanding the New Business Paradigm in Eastern Europe

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Small Business

By

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United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2017

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78714-121-6 (Print)

ISBN: 978-1-78714-120-9 (Online)

ISBN: 978-1-78714-304-3 (Epub)



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ISO 14001



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About the Author

Robert Kozielski, Fulbright Scholar (Willamette University, USA) and Associate Professor at the University of Łódź (Poland), is a leading authority on market strategies of enterprises, strategic analyses, and the evaluation of marketing actions' effectiveness in organizations. He is also the author of over 200 publications (books and articles) on market activities that have been published both in Poland and abroad, including *Determinants of Organization Success*, *How to Quickly Write a Professional Marketing Plan*, *Advertising and Competitive Capacity of Polish Enterprises* and *Marketing Metrics* (the first publication of its kind in the world concerning measurement processes and marketing indicators, ahead of such centers as, e.g., the Wharton Business School). He has presented papers, made presentations, and participated in numerous conferences and seminars in Poland and abroad.

Robert Kozielski is a member of the Committee of Organization and Management Sciences of the Polish Academy of Sciences, and he has delivered lectures and conducted training workshops at the University of Warsaw, the Warsaw School of Economics, Executive MBA courses organized by the University of Łódź, and the University of Maryland (USA), as well as the Executive MBA program organized by the University of Warsaw and the University of Illinois (USA). He has participated in scientific internships and research programs at the universities of Maryland (USA), Lund (Sweden), Edinburgh (Scotland), and Middlesex (Great Britain).

In 1999 he opened the first training-examination center in Poland – the Chartered Institute of Marketing (CIM). Since then, he has been cooperating with nearly 1,000 managers, supporting their efforts to obtain the prestigious diploma of The Chartered Institute of Marketing. In 2004, he set up Questus which is currently the largest accredited CIM center in Poland, and the only center that runs examination preparation programs all over the country. The Chartered Institute of Marketing has bestowed Kozielski with the “Chartered Marketer Award.”

During his 20-year training and consulting endeavor, he has cooperated with such companies as Unilever, Microsoft, Hewlett-Packard, Merck, Abbott, Danone, Johnson & Johnson, Bayer, and Teva. He has also worked on the board of the Redan Capital Group, and he has been a member of the supervisory boards of GK Redan SA, and CAM Media SA. Additionally, Kozielski is the co-founder of Questuspoint Ltd. that conducts research-consulting activities using information from secondary sources. He continues to be a devoted board member for the non-profit organization “Happy Kids Foundation” that builds family-like homes to care for children.

Introduction

Key Dilemma

How could it happen that a company whose name for years was synonymous with photography (Kodak) and was selling memories, declared bankruptcy after 121 years, when at one point in their history they had an 80% market share in the photo market, and a 90% share in the film market?

How did it happen that the unparalleled identity of American success in a new economy (Facebook), which accomplished something that nobody else was capable of in the history of global business (within eight years they gained one billion users), was not able to sweep away – as in the case of a few other markets – a local social networking website in Poland (nk.pl)?

How could one explain the fact that Kmart, which at the end of the 1970s was the leader in the discount retailing market in the United States with almost 2,000 outlets, with an average turnover of \$7.25 million per outlet, lost its position and was replaced by Walmart, which while growing by 25% a year, transformed the retailing sector?

What contributes to the fact that although there are a lot of online banks in the Polish banking market, it was mBank that became a synonym of the online banking category that outclassed rivals?

What are the reasons that a company founded in 2006 (TOMS) started to set new trends in the area of business models, and in combining social and financial aspects, while it is an organization (Dabbawala) in which 85% of its 5,000 workers are illiterate, and only 15% of its workers finished primary school, and which has been active for more than 130 years in India, achieves quality standards consistent with the best models in the world (Six Sigma, ISO – 1 error in 16 million transactions)?

Why do small businesses, in various parts of the world, from the giants (USA) to small markets, achieve success, while others at the same time experience failures? For instance, a company set up in a garage (Atlas) is a leader in construction adhesives and

mortars in Poland, and products of initially small family companies, Aflofarm (pharmaceutical market), or VOX (furniture, doors, floors), are deeply rooted in the Polish business landscape and effectively compete in foreign markets, although many of them have not yet reached their full potential?

What do sizeable, well-known brands (Facebook, Google, Starbucks, Apple, Toyota, etc.) have in common with less recognizable ones (mBank, Dabbawala, TOMS, VOX, Zappos, Cliff Bar, VOX, Aflofarm, etc.)? On the other hand, what do such projects as SecondLife, pets.com, Webvan, the Polish newspaper, *Nowy Dzień*, or the Heyah brand share?

What is the future for Abercrombie & Fitch, Snapchat, or Spotify, ventures which, on the one hand evoke fascination, but on the other hand raise doubts concerning their further development?

Are the rules of competition in the modern world the same as several dozen years ago? Do changes in business and the development of technology determine a need for modification of strategies of competition among companies? What is the essence of an organization's ability to build a relatively strong competitive advantage? Or, perhaps, as some claim, are we witnesses to changes in the business paradigm?

It is beyond doubt that we live at a fast pace. The world in which we are functioning is changing. New concepts and new methods of competition are emerging; mass individualization, virtual organizations, guerilla marketing, partnership marketing, behavioral economics, psychology of customer experiences on the one hand, and on the other – design thinking, value proposition, native advertising, emotional branding, crowdsourcing, gamification, neuromarketing, ethnographic research, semiotics, ambient media, product placement, audiobranding, lovemarks, and many other solutions. Both theorists and practitioners have been looking for ages for a golden formula that would let them create a recipe for success. The world whose genetic code includes a notion of change definitely does not make it easy.

The book, *Understanding the New Business Paradigm in Eastern Europe: Lessons on Building a Successful Small Business*, is an attempt to discuss the issue of to what extent a traditional paradigm of business does not match the new conditions of competition. It also takes a slightly different approach to building a company and achieving success into consideration. The idea of the book emerged in 2007, when the CEO of BRE Bank (a part of the Commerz Bank group, which is one of

the largest banks in Poland), Sławomir Lachowski, invited me to assist him in writing the story of mBank, a bank which, not only in Poland, is still considered a forerunner and founder of online banking. This is the bank that revolutionized the banking sector, and also became synonymous with innovative and non-standard thinking about competition in the era of the new economy. Since I had been monitoring the establishment and development of mBank as an external advisor from the very beginning, president Lachowski trusted that I would be able to adequately describe this remarkable venture, and pay tribute to its creators. These were the objectives and expectations of the CEO of BRE Bank.

What I had in mind was to find a formula for success – a formula that could be experienced by some CE companies, and useful for others. A formula that would not be limited to one type of organization or one market, nor would it have geographical borders. A formula that would have both universal and utilitarian characteristics, but at the same time would show cognitive, applicable, inspiring, and practical qualities. For two years we were looking for the proper format to describe the story. We spent hours convincing each other on our points of view. As a result, two books were created. The first one, written by Sławomir Lachowski, is entitled *Way of Innovation*. The second one is in your hands right now. I believe that the book you are holding will inspire readers to take a new look at organization and sources of success.

I have been working together with Polish companies and international corporations for more than 20 years, and I have been conducting research projects based on participant observations, organizational ethnographic research, analytical projects, and interviews with owners, founders, and chairs of companies that managed to achieve noticeable or even spectacular success in the last few decades. It stands to reason that there were companies active in Poland, and due to that factor it was possible for me to compare sources of success from well-known companies and brands to those operating in different conditions and different markets.

In addition, 20 years of academic, consulting, and business experience allowed me to take a wider perspective, while taking foreign markets into consideration. The book is predominantly based on the analysis of Polish firms which I had a chance to deal with as a person directly involved in management (Capital Group – Redan), as an advisor (mBank, VOX, Tubadzin, Aflofarm, Wiosna), or as an analyst (RMF FM, Kruk, Sphinx, Dr Irena Eris, Atlas, Monnari, onet.pl, Kolporter). A proposal of

a new paradigm was also established during training-consulting collaborations with international companies, such as Unilever, Abbott, Bayer, Danone, Microsoft, or Hewlett-Packard. Searching for elements that contributed to a company's success in the Polish market among the biggest companies in the world was a remarkable experience.

What can the reader expect while reading this book? First, my purpose was a complex analysis of changes that have been observed in contemporary business environments, as well as the identification of rules that govern them, and the consequences for an organization. Second, it is an attempt to point out weaknesses in the current approach to building an organization's success, and constraints that a traditional business paradigm carries.

The main part of the book is focused on describing four elements that constitute a new paradigm of business. Obviously, a paradigm, as such, is an intellectual proposal showing rules that govern a described phenomenon. Unlike a dogma, it can change, and it can become a basis for talks, discussions, or creative disputes. I sincerely hope that this book will serve as a good springboard to such discussions, and at the same time enable you to understand what, in these times of new technologies and dynamic market changes, contributes to a company's success regardless of sector, market specificity, or geographical borders. It will also allow us to confront the perspective of emerging or developing markets with those of developed economies. It should also enable the sources of success of well-known brands to be challenged, with the point of view of encompassing smaller firms that were created and competed in conditions other than American or Western European markets. Having greater knowledge about the causes and sources of business success among companies that compete in various business environments is especially important in the situation of globalizing markets or dynamic changes in markets. The four-leaf clover is an attempt to describe a useful model of building the success and development of the organization, which has been proven in different markets.

1

Change in Business Paradigm

1.1. Breakthrough Changes or Constant Evolution?

Change is an inevitable element of contemporary life: private, public, and business. Numerous publications, seminars, and lectures begin with a definition of “the other” world, “new” market, or “transformed” customer. Do we really live in new times? Does the world of our parents and grandparents really belong to the past? Will the world of our children differ from the one we live in? In order to find answers to these questions we should look back and attempt to describe what has been happening in recent years. The first decade of the 21st century is already behind us.

Not long ago we were all excited about the millennium bug, and now it is perceived as history. What happened in that period of time? It was the time of acceleration, with massive changes and vast transformations. The events that took place during the last decade would have filled a lifetime of events in the past.

We have faced at least three serious economic crises (2001, 2003, 2008), and some claim that we are on the brink of another one. Products that hit the market, such as the iPod and iPhone, are products that many people nowadays cannot imagine living without. We need to keep in mind that the iPhone only entered the Polish market nine years ago (2007). Thirteen years ago Skype had its debut, and today it is being used by nearly 700 million customers. In 2004 Facebook was born. Today it is used by more than a billion people, and it had the most spectacular debut on

the American stock market, as well as having films made about its founders. It was the time when a lot of brands achieved commercial success; however, many of them now face serious problems or are predicted to be withdrawing slowly from the market (American Webvan or pets.com, and Monnari or Heyah brands in Poland).

At the turn of the first and second decades of the 21st century, the world population exceeded seven billion people. As some tend to claim, the top 10 most wanted jobs in 2010 did not exist in 2004. A weekly issue of the “New York Times” contains more information than a person living in the 18th century was able to acquire during their entire lifetime. Furthermore, the amount of technological information doubles every two years. For students who start technical studies at universities and colleges, it means that what they learn in their first year will be obsolete by the time they are in their third year. It is predicted that by the mid-21st century a new computer will have been invented that has capabilities beyond the mathematical skills of the whole human race,¹ and it will cost less than \$1,000. An airline needed nearly 70 years to gain 50 million customers, but Facebook did it in two years. Within the last dozen years the time needed to create new products has shortened by nearly half – from 42 to 24 months on average.² Does it mean we are living in a new world? In a world where there are new rules beyond a traditional paradigm? With different rules of business?

1.2. A Traditional Business Paradigm

Enemies wish of their adversaries that they may live in interesting times. This statement refers to history; however, it can be also applied to business. As is commonly stated, we live in the age of short-term discontinuities caused by new, radical technologies and ideas.³ On one hand, changeability in the business environment, permanent uncertainty, and constant change in conditions for competition create market opportunities, but on the other hand, they lead to circumstances in which obtaining above-average business results is a serious challenge. Moreover, in such circumstances,

¹Fisch, McLeod, and Brenna.

²Cooper (2011).

³Przerażony kameleon – eseje o przyszłości zarządzania (2005, p. 6).

the chances for success of new business ventures considerably increase, and the chances for success through applying traditional, classic, well-established methods fall. Albert Einstein said that insanity is doing the same thing over and over again, and expecting different results. A traditional business paradigm resembles that situation.

Good examples in recent years are the stories of Microsoft and Nokia. Both companies try to cope with difficult times through finding mutual synergies. Nokia, which at its peak had about a 40% market share in the global mobile market, can only survive now thanks to money from Microsoft. As Nokia President (Stephen Elop) said: “Nokia had wasted time in the last decade, missed trends and lagged behind.” This is his diagnosis of Nokia’s problems. Conversely, it was one of many global corporations that were going through a bad spell. As is commonly considered, the problem of Microsoft consists in overlooking the revolution of mobile devices and joining it too late, whereas Apple and Google won their laurels – including cash – due to a successful launch of smartphones and tablets. The fact that Satya Nadella gives up a plan in which Microsoft was supposed to be a company producing equipment, the project strongly supported by his predecessor, Steve Ballmer, is a hidden criticism of the way the company was managed for the last decade.⁴

Sławomir Lachowski, the founder of mBank and modern online banking in Poland, claims that the new economy forces us to leave traditional solutions toward a paradigm in which a product, price, promotion, and distribution are replaced by customer, choice, convenience, and communication.⁵

It would be difficult to disagree with this approach. However, it seems that a change refers not only to these four spheres, but to the whole organization. It concerns the philosophy of running a company, corporate culture, strategic thinking, or operations. Success belongs to organizations that manage to notice and appreciate undergoing changes faster, and resign from a traditional approach to market activities and functioning of the organization. Those who believe that what worked in recent years should still bring benefits, lose. Those who stick to a traditional way of conducting the market game, although the world has

⁴Microsoft’s latest financial results explain mass dismissals, onet.pl, downloaded from <http://biznes.onet.pl/ostatnie-wyniki-finansowe-microsoftu-wyjasniaja-ma,18491,5649061,news-detaj>

⁵Lachowski (2010, p. 28).