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Э.Н.Меркулова

УЧИМСЯ ОБСУЖДАТЬ АНГЛИЙСКУЮ СТАТЬЮ

Учебно-методическое пособие
для развития навыков чтения и говорения

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Рецензенты:
Клепикова Татьяна Альбертовна,
доктор филологических наук,
доцент кафедры английского языка и перевода,
Санкт-Петербургского государственного экономического университета
Панкратова Елена Николаевна,
кандидат педагогических наук, доцент кафедры «Иностранные языки»
НГТУ им. Р.Е.Алексеева

Настоящее учебно-методическое пособие предназначено для студентов, изучающих английский язык для делового общения (Business English), чей уровень владения английским языком соответствует уровню B2 и выше. Материалом для обучения чтению послужили тексты из качественных деловых британских изданий, подобранные по 15 темам, наиболее часто встречающихся в современных учебниках для обучения деловому английскому языку. Целью пособия является организация самостоятельной и аудиторной работы студентов старшей ступени обучения над чтением как отдельным видом речевой деятельности. В пособии представлены задания для отработки всех видов чтения, поэтому оно может быть использовано для подготовки к сдаче экзамена на международные сертификаты (прежде всего BEC Higher и BEC Vantage). При составлении учебных заданий учитывался принцип комплексного обучения видам речевой деятельности. Согласно этому принципу чтение рассматривается как цель и средство обучения иностранному языку, поэтому учебные задания пособия одновременно с обучением чтению предусматривают развитие навыков говорения и письма, за счет выполнения специально для этих целей разработанных заданий.

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ОГЛАВЛЕНИЕ

ALLIANCES

DISCUSION

Companies engage in strategic alliances because they believe that it'll enable them to share resources, thus creating synergies for a faster growth and diversification of their investment portfolios. But statistics show that a large part of alliances do not prove to be financially successful, for they don't succeed in increasing shareholder value or creating wealth for all involved. What are the most typical reasons for alliances to end in failure? In what case are alliances likely to be a success? What makes a joint venture different from a merger or a takeover? What recent mergers or takeovers have you read about? Were they a success?

TASKS for the article "Listen. It's GE's secret for a successful marriage."

1. Look up the pronunciation of the following words in the dictionary, please!

Exodus - исход	Paramount - огромный
Mediocrity -посредственность	Homogenize – делать однородным
Preordained - предопределенный	Non-negotiable – не поддающийся переговорам
Disproportionate -непропорциональный	Compliance – уступка, согласие
Swallow – глотать	Steamrollering – прохождение катком, выравнивание
Excepted - исключенный	
Explicitly – явно, на поверхности	Replicate – повторять, воспроизводить

2. Give the Russian equivalents for the following expressions

Be fraught with, be immune to, failure rate, be on the go, pose (distinctive) challenges, deviate from (the plan), be on the watch for (deals), be a means not an end, get through the filter.

3. Read the text for the first time. What problems does the author tackle in the article?

4. Which of the numbered paragraphs

- draws a conclusion on successful deal making;
- gives statistics on mergers and acquisitions, describes the consequences of unsuccessful mergers for the parties involved and stresses the complex nature of the phenomenon;
- gives examples of companies that are successful acquirers;
- states that GE has no universal recipe for its successful acquisitions;
- informs us that it is an accepted practice for GE to deviate from the initial plan if the situation requires it;
- explains under what circumstances a merger is likely to take place;
- explains how GE tackles the problem of adjustment (several aspects in different paragraphs);
- defines the hallmarks of their business philosophy.

-

5. Answer the following questions, please!

- Why are there more mergers that ended in failures than the ones that resulted in increased shareholder value?
- Who are “serial acquirers”?
- What merger of GE ended in failure?
- What is the procedure for carrying out mergers?
- What is the underlying principle that helps to choose a deal?
- When do egos collide? What allows GE to deal with the problem of power struggle and collision of interests effectively?
- Do they set it their goal in GE to make acquired companies accept their corporate culture and adapt their work procedures?
- In what way was the acquisition of Amersham International unusual?
- What do they mean by “reframing growth expectations”?
- Does the title reflect the contents of the article? Why did the author resort to the use of metaphor?
-

6. Prepare your own introduction and conclusion and retell the text using Ex.3 as an outline for your retelling.

LISTEN.

IT'S GE'S SECRET FOR A SUCCESSFUL MARRIAGE

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Last year, companies engaged in $ 1.9 trillion worth of mergers and acquisitions. Most of them –perhaps two thirds – will destroy or fail to create value, provoking the exodus of customers and employees and ruining the very things that prompted the companies to buy. Like much I management, just because mergers are obvious and common doesn’t mean they are easy. On the contrary, they are fraught with difficulty – which is why success is rare.

However, merger mediocrity is not preordained. Of the successful ones, a disproportionate number are performed by a few serial acquirers that seem to be immune to the failure rate applying to others. Cisco, for example, consistently swallows eight or 10 substantial companies a year. But perhaps the champion buyer is GE, which in its 20011 annual report identified £8.5bn of industrial acquisitions for 20013 - a not unusual amount for the £65bn giant.

How and why do GE's mergers (the abortive Honeywell bid that ended Jack Welch's career always excepted) succeed? Perhaps surprisingly for such a driven company, there's no standard formula, according to Roman Oryschuk, president and chief executive of GE Capital Solutions' equipment financing arm. Equipment financing, with £5bn in assets and 1,500 employees, currently has six active integrations on the go around the world, each posing distinctive challenges.

As always with GE, there is a plan, with numbers, and leaders in both the acquired company and the business unit who help push integration forward even before the deal is closed. But much, says Oryschuk, is about 'judgment and thought', and if deviating from the plan will benefit the end result, then so be it.

This is because, for GE, deals are explicitly a means, not an end. The end is long-term organic growth. Although the group is constantly on the watch for deals, only those that add something in terms of strategy, products, geographic spread or talent get through the filter. It follows that, in any merger, retaining acquired customers is paramount - and that also means looking after the people who have won the customers in the first place. 'Customers do business with people; they're the bond,' says Oryschuk.

Also unexpected is that, despite GE's famously tough and focused ways, the aim is not to homogenise the companies it takes over. It is true that, early on, the managers acquired in the takeover are exposed to GE's non-negotiable group compliance and HR processes, as well as its legendary financials. But 'we buy companies because they have something we don't,' insists Oryschuk. 'A successful acquisition is when both sides adjust and learn.'

Ukrainian by birth, Canadian by upbringing, and once an 'acquired manager' himself, Oryschuk is well placed to know that blending two strong cultures is a matter of sensitivity and balance, not corporate steamrollering. Listening is as important as talking, he says. 'You mustn't overwhelm people: too fast is as bad as too slow.'

In some cases - as with the acquisition of the UK's Amersham International in healthcare - it is the acquired company that absorbs the GE entity, rather than the other way around. In these 'reverse integrations', as the more experienced buyer, GE has the additional challenge of 'training the integrators to integrate us'.

Part of the adjustment process is reframing growth expectations. GE always wants to be number one or two in its markets, and by quickly drawing acquisitions into the group's annual 'growth playbook' - a vision of where the business should be going and how to get there - managers gain practical understanding of the new opportunities that being part of one of the best-managed large firms in the world gives them.

(10)All this leads to some unexpected conclusions. Listening, balance, judgment, sensitivity, reflection, empowerment: these would probably not be the first words you might associate with a tough cookie like GE. Indeed, in the age of private equity, where the answer to all problems is reduced to finance, they are pretty unfashionable management concepts generally.

(11) Yet it's a powerful reminder of some of management's home truths. To the disappointment of those seeking short-cuts to successful dealmaking, the conclusions to be drawn from GE are - there are no conclusions. Successful deal-making is indivisible from good management, full stop. You can't replicate GE's process for accomplishing mergers any more than you can replicate Toyota's production system, because you aren't GE or Toyota. If you know what the deal is for

and what success is, and conduct it with the same respect, values and principles that you bring to all the other things you successfully do, you'll do successful mergers. To paraphrase and reverse Tolstoy: unsuccessful companies are all alike. Every successful company is successful in its own way.

TASKS for the article «How to. . . survive and thrive from a merger and acquisition»

1. Read the 10 pieces of advice on how make a merger work and the sentences which summarize them. Match the numbers to the letters.

- (1)Each merger or acquisition should be looked upon as a chance to boost your career.
- (2)Company culture can be their valuable asset and after the merger it should be treated like that.
- (3)It's necessary to have a vision of the newly formed company before the merger has taken place.
- (4)It's necessary to enlist the help of outside consultants while making decisions concerning the key personnel of the newly formed company.
- (5)Some systems of the acquired company may retain some of their autonomy if the brand identity is at stake.
- (6)It's not right trying speed up the process of integration at any cost.
- (7)Under no circumstances can profit be neglected.
- It's important for people to understand what is going on in the company.
- (8)Avoid downsizing at the initial stage of integration whenever possible.
- (9)It always works to use a positive approach and expect a friendly welcome on the part of the acquired company.

2. Select 5 the most useful from your point of view pieces of advice, rank them in order of importance and comment on your choice.

3. Enact a conversation between the CEO of the newly formed company and a business consultant who is giving the CEO useful pieces of advice on integration and warns him/her about the possible pitfalls.

HOW TO. . . SURVIVE AND THRIVE FROM A MERGER AND ACQUISITION

In troubled economic times, many companies restructure - what impact does this have on company culture and careers?

Microsoft's takeover of Yahoo! brought two company cultures together. Duncan Angwin, Associate Professor of Strategic Management at Warwick Business

School, advocates undertaking a cultural assessment of both companies, looking at everything from how decisions are made to how they compete.

(a)Develop a personal strategy

Whether you're on the acquisitive or buyout side, the upheaval of an M&A is a good time to reassess your own career. Often the senior team moves on, creating vacancies higher up, according to Mike Owtram, a partner at Kiddy & Partners, a business psychology firm. “There are opportunities to get involved in more aspects of the business or take more responsibility than in the past,” he said.

(b)Beware culture clash

Creating a corporate identity is very difficult, Mr Owtram said. “For years people talk about themselves as a ‘company X' person.”

Consider how much of the company's value is tied to culture, Elisa Hukins, global leader in cultural integration for Mercer's M&A team, said. “If you are buying a competitor to grow the brand, then you want to bring them inside your way of doing things. But if it is a complementary business and their culture adds to what they do, you are likely to destroy the value.”

(c)Understand the new business

While due diligence is a standard procedure, most companies fail to do an audit after the transaction has gone through. “What have you actually bought? There are always skeletons,” Professor Angwin said.

“A danger with deals going through so quickly is that people are saying ‘we'll bring them together then figure it out later'. It's going to have long-term effects on the value of the organisation,” Ms Hukins said.

(d)Identify key people

“Failing to retain and reward the right people is a key reason why mergers fail,” Nick Collett, a senior lecturer on financial management at Manchester Business School, said. The right people may not be the most senior. Mr Owtram said: “It might be someone who knows the computer systems, has technical expertise or knowledge of customers.”

According to Dr Collett: “Don't presume that your team are the correct people to run the new business. Hold interview panels chaired by an external consultant.”

(e)Merge where necessary

Removing all trace of a company can result in identity loss, Ms Hukins said. With HSBC's takeover of Midland Bank in 1992, it made sense to leave the brand untouched. “Customers weren't confused and staff didn't realise they'd been taken over,” Professor Angwin said. Integrating systems, such as customer databases or staff payrolls, however, may be critical.

(f)Act at the right speed

The common philosophy is to look for early wins to report back to shareholders, Dr Collett said. Mr Owtram added: “There's a case for doing what you're going to do quickly and then giving people time to adjust.”

Most companies underestimate the time and challenges involved integrating businesses, Professor Angwin said.

(g)Don't be inward looking

A common fault is to focus on how the merger is playing out internally and neglect the customer. But you've got to remember you have competition. “Keep your eye on the commercial football,” Professor Angwin said. “It's a good time for a product launch or advertising campaign.”

(h)Communicate effectively

Mr Owtram: “People appreciate clarity - if you can't give them a decision, then tell them what the process is.” Use senior leaders to spell out change as well as engaging with people on a one-to-one basis. And beware of “conquering heroes syndrome”, the attitude “we bought you so we know best”, Professor Angwin said. “You immediately get people's backs up.”

(i)Integrate strategically

Many employees will be reassessing their own careers. Where redundancies are necessary, ask them to stay on to help with the integration, Professor Angwin said. “The employees who remain are very aware of the way you acted.” The cost of integration needs to be factored in from the start. Ms Hukins said: “We often hear people say: ‘We spent all the money on the deal, we don't have any more to spend on getting people aligned.' That gets alarm bells ringing.”

(j)State the positives

“Focus on the ways in which the new situation can benefit the existing business,” Dr Collett said. Very few companies realise that those in the business they are buying may welcome a new owner. “They might have been starved of funds. If morale is weak, demonstrate you are coming with help, not a hatchet.”

TASKS for the article “Ex-Topshop brand director takes over Whistles”.

Read the words and their definitions below:

High street (B.E.) = main street (Am.E.) – the most important shopping and business street in town.

Upmarket – being or using goods produced to meet the demand of higher social groups.

Fair trade – trade in which fair prices are paid to producers in developing countries.

Oxfam – one of the best-known charity organizations in the UK, whose aim is to help people in poorer countries, for example by providing training in farming methods or operating educational programmes, and also by providing medicine at times of serious shortage. Oxfam gets some of its money by selling goods in its own shops, which are known as Oxfam shops. These shops are especially known for selling used clothes, books etc, but they also sell new products, such as Christmas cards and useful or decorative articles produced in the countries where Oxfam works.

2. Read the text quickly to find out how the people mentioned in the article are related to the companies:

People: Jane Shepherdson, Keith Wilks, Jo Farrelly, Karen Fenn, Gunnar Sigurdsson, Lucille Lewin

Companies: Topshop, Whistles, Philip Green, Mosaic Fashions, Drapers, Glitnir Bank, Baugur, Oxfam

3. Read the text one more time and be ready to answer the questions:

- What is Jane Shepherdson's professional background?
- Who did she invite to manage the newly formed company?
- How were the shares of the company distributed among the investors and the management team?
- What makes the investors set high expectations for the new venture?

4. Prepare a short resume of the article. Think carefully about how to start and finish the resume.

EX-TOPSHOP BRAND DIRECTOR TAKES OVER WHISTLES

Jane Shepherdson, former Topshop brand director, has teamed up with Baugur, the Icelandic investor, to acquire upmarket chain Whistles in her long-awaited high street comeback.

Shepherdson, who left Topshop suddenly in October 20011, will become chief executive of Whistles as part of the deal. She is to be joined by Keith Wilks and Jo Farrelly, who both worked with her at Philip Green's retail chain, as finance and marketing directors respectively. Karen Fenn, who took over from Shepherdson as Topshop brand director, is also thought to be joining the team.

The deal will see Whistles **spun out of** *(turn a subsidiary into a new and separate company)* its parent group Mosaic Fashions, which also owns Oasis and Karen Millen, through an acquisition by a newly formed company.

It is understood Shepherdson and her management team will own a 20% stake in Whistles. Baugur, the ultimate owner of Mosaic, is thought to be keeping a stake of around 49%, and Glitnir Bank, one of Iceland's leading financial institutions, is also an investor.

Baugur did not disclose the financial terms of the deal, but Whistles is thought to be worth between £15m and £20m.

Shepherdson said: "This is a very exciting venture. I am thrilled to be taking over such an established British brand with enormous potential."

The former Topshop brand director is widely credited with the turnaround of the chain from a slightly cheap and tacky business to one of the most edgy and creative retailers in the UK high street.

Drapers, the industry's trade magazine, once voted her UK fashion's most powerful woman, and in December 20011, she was awarded an MBE for her services to the British fashion industry.

But her time at Topshop ended abruptly at the end of 20011, shortly after Green signed a multimillion pound deal with supermodel Kate Moss to design her own range for the chain.

There was speculation that Shepherdson left after a run-in with Green over the deal, but they have both denied her departure had anything to do with Moss's appointment.

Since then, she has advised fair trade clothing brand People Tree, and helped Oxfam start developing its ethical fashion business. A number of retail investors are thought to have tried to **woo** *(try to gain the love of a woman; seek the support of)* her during this time, so her appointment at the head of Whistles is a **coup** *(an unexpected and notably successful act)* for Baugur.

Gunnar Sigurdsson, chief executive of Baugur, said: "Whistles is a fantastic brand with a great potential and with the talent and experience that Jane and her team bring, we have no doubt that they will take advantage of the solid foundation that has already been built and drive Whistles to new heights."

Whistles was created by Lucille Lewin in the 1976, and was acquired by Mosaic Fashions in 2004. It currently has over 40 stores across the UK, with another 40 **concessions** *(the right to use land or other property for a specified purpose – a commercial operation set up within the premises of a larger concern)* in department stores.

PROJECTS

DISCUSSION

A project is seen by specialists as following a cycle consisting of four distinct phases – initiate, plan, execute and close. Within each phase is a set of tasks that have to be completed to budget and by the deadline set. To run a successful project very often means turning to innovative ways, exploiting new ideas and taking risks, because if it doesn't succeed the company could be brought down. What is a project ? What involves managing a project successfully? What do we call people in charge of a project? What do project managers need in order to complete the work on time and on budget? What are the 4 phases of a project life cycle? Which of the project phases do you consider to be the most important? What biggest projects of the century do you know?

TASKS for the article "Starship enterprise: the next generation."

(A fleet of privately financed spaceships is emerging. It heralds a new business in space travel)

1. Read the title and the subtitle. Have you heard about the project to start commercial space flights? Do you think it might turn out to be a profitable

business? Why? Do you think it was difficult to raise capital for the project? What other problems could the people involved in the project be faced with?

2. Read the text and explain the expressions in bold type.

3. Read the text and answer the questions:

- What was Scaled Composites famous for?
- How did the space craft reach space? How did it land?
- Who commissioned the first spaceship?
- What did Mr. Allen need the spaceship for?
- Whose ides was it to use the craft for commercial space travel? Is the market an untapped one?
- What did you learn about Blue Origin Company? Who are its competitors in the market?
- What important milestone has Virgin Galactic passed?
- What are the prototypes of SpaceShipOne and White Knight?
- What are the advantages of building a plane and a rocket instead of one single rocket?
- What are Virgin Galactic's long term plans?
- What are the sceptics' arguments against the next generation of spacecraft?
- What are the signs that business considers the new project to be quite promising?

4. Prepare a story about the commercial space flights project which could be told to someone who has never heard anything about it.

5. Enact a conversation between two venture capitalists who are considering a possibility of making an investment into one of the companies involved in the project.

STARSHIP ENTERPRISE: THE NEXT GENERATION

A fleet of privately financed spaceships is emerging. It heralds a new business in space travel

THE way Will Whitehorn tells it, the story began in 2003 in Mojave, California, on a visit to Scaled Composites, a company with a reputation for designing and building futuristic and sometimes wacky-looking *(funny or amusing in a slightly odd or peculiar way)* aircraft. Mr Whitehorn is one of the top brass *(people in authority)* in Sir Richard Branson's Virgin Group; and Virgin Atlantic, Sir Richard's airline, was sponsoring ***Global Flyer***, a Scaled Composites creation, on a non-stop voyage around the world. On his way out of the factory Mr Whitehorn saw something unusual and asked what it was. Burt Rutan, head of Scaled Composites, told him it was a spaceship. He was building it for another customer, but he couldn't say any more.

Mr Rutan's customer turned out to be Paul Allen, one of the founders of Microsoft. When *SpaceShipOne*, as the craft was called, reached space for the second time, on October 4th 2004, it won the $10m Ansari X Prize. The craft was taken to high altitude by *White Knight*, a more-or-less conventional aircraft, and then dropped, whereupon its engines ignited to shoot it 100km (60 miles) above the planet, and thus officially into space. After a short flight it re-entered the Earth's atmosphere and glided down to land on a conventional runway. Manned space travel thus moved from the realm of governments to private enterprise.

However, Mr Allen was interested only in proving that the spaceship technology would work, not in exploiting it commercially himself. That left Mr Rutan with a very cool spaceship on his hands, but no way of making money from it. Mr Whitehorn and Sir Richard were intrigued. Virgin Galactic, a company in the Virgin stable and which was headed by Mr Whitehorn, decided to license the technology for *SpaceShipOne* and *White Knight*. Virgin Galactic said it wanted to offer commercial sub-orbital flights to paying passengers by the end of the decade.

Virgin Galactic has since accumulated a number of commercial rivals in the space-tourism market. One of them is Jeff Bezos, the founder of Amazon.com, who is building a competing sub-orbital spaceship at a ranch in Texas. His space company, Blue Origin, is so secretive that it will not even answer questions about its logo.

But Virgin Galactic has passed an important milestone. At an event held at the American Museum of Natural History in New York, on January 23rd, the company unveiled the design of its new generation of vehicles, and said that the first examples had almost been finished at Mr Rutan's factory. *White Knight Two* is due to begin test flights towards the middle of 20013, but may roll out of the hangar in the next few weeks. Test flights of *SpaceShipTwo* itself could start towards the end of the year.

Fly me to the moon

The combination of a carrier aircraft and a spaceship to get into space is akin to building a two-stage rocket. Air-launched rockets have a long history. *SpaceShipOne* and *White Knight* were, in essence, vastly improved and much cheaper versions of the X-15 rocket plane that set speed and altitude records in the early 1960s and the B-52 bomber that carried the rocket plane under its wing. But pure rockets, such as the ones that lift the space shuttle, won out because **the Space Race between America and Russia emphasised speed over cost**, and rockets were proven technology, having already been developed as intercontinental ballistic missiles. However, they consume a huge amount of power as they claw their way up through the Earth's thick atmosphere. By contrast a rocket lifted by a plane with wings before being launched can be made much smaller and lighter. The plane itself is light because its engines breathe air. It thus needs to carry less fuel than a rocket, and no chemical oxidant to burn that fuel, as a rocket would. Each craft—plane and rocket—can therefore be optimised for its own job, which is easier than designing a single vehicle that has to make lots of compromises to do both.

Who knows if the moon's a balloon?

In the longer term Virgin Galactic's system could also be used to launch hypersonic vehicles, which could dash from one side of the world to the other in a few hours. In 2010 and 2011 *White Knight* test-launched the American government's experimental X-37 hypersonic plane. America's space agency, NASA, has signed an agreement with Virgin that covers co-operation on the planes. The company is also said to be discussing a third, more powerful generation of spaceships, designed to make longer sub-orbital journeys rather than just poking their noses into space in the way that *White Knight Two* will.

Mr Whitehorn and Mr Rutan have made no secret of their desire to see later generations of carrier aircraft and rocketry that can put people into orbit. Some within the industry are sceptical that Mr Rutan can develop such vehicles, which will have to travel many times faster than a sub-orbital plane and must have tougher heat-shielding in order to survive harsher re-entry. Nevertheless, business is taking an increasing interest in the possibilities and last year Northrop Grumman, a big aerospace and defence contractor, increased its 40% stake in Scaled Composites to 100%. Mr Rutan expects Scaled Composites to build 40-50 launch aircraft. He thinks that at least 15 will be used for space tourism, with the rest used for satellites and other payloads.

As the new generation of craft emerges, so will new ideas about their capabilities and potential. With some $70m already spent and another $130m still to come, Mr Attenborough says that **Virgin Galactic expects to break even in 2015**. Reducing the price of a trip into space to attract more customers is also part of the plan, as is exploiting every possible form of additional income, such as selling media rights.

Finding new markets for its carrier ship will help Virgin Galactic make money faster. Mr Whitehorn believes that wider use of the vehicle will ultimately come with lifting payloads and satellites into space. Although the customers for such launches are not yet putting down their deposits, the progress to commercial space flight—complete with a business plan and a profit goal—is nonetheless remarkable. There are surely easier and safer ways for businessmen like Sir Richard, Mr Bezos and others to make money. Then again, **commercialising space is a venture for the unconventional.**

TASKS for the article “The Complex Task of simplicity”

1. Read the text quickly to be able to explain what kind of project the article describes.

2. Read the article one more time and answer questions at the end of each paragraph.

3. In a short paragraph summarise what the article tells us about how Philips is going to boost its revenues.

THE COMPLEX TASK OF SIMPLICITY

Inside an empty former electronics factory in the Dutch town of Eindhoven, hundreds of Philips employees sit around endless rows of tables. Split into small groups, staffers of the Amsterdam-based firm--maker of everything from lightbulbs and toothbrushes to TVs and X-ray machines--get to work. "We're not always an easy company to deal with," says Theo van Deursen, boss of Philips' lighting division. From a platform in the center of the vast space--still latticed with girders *(балка, перекладина)* and pipes, its walls temporarily lined with giant TV screens--Van Deursen lays down a challenge. "We have to find ways to make the company more simple," he says. "And we can all play a role in this." *(Why are there big TV screen on the factory walls? What problem do the employees of the factory have to solve?*

And he means everyone. On that same day in mid-November, Europe's biggest consumer-electronics company invited all of its 125,000 workers worldwide to stop work and instead think about simplifying it. (The brightest ideas would be shared company-wide.) Dubbed (окрестить, дать прозвище) “Simplicity Day” it is also part of longer-term work in progress. Over the past few years, Philips has struggled to assemble the right collection of businesses and the structure with which to run them. The company has shed (ронять, терять) unwieldy chunks of an overweight, underperforming portfolio. In a classic make-or-buy decision, Philips dumped its chips and electronics components units - too capital intensive and too cyclical. Now it is narrowing its focus to consumer technology, lighting and health care. "There's a lot to be done," Van Deursen told his Philips staff in Eindhoven. "Are you ready for it?" (What structural changes is the company undergoing? What has already been done?)

Many are about to find out. On Jan. 1, Philips unleashed its latest simplification: a leaner company structure that cuts its divisions from five to three. The sleek new shape, Philips hopes, will help boost its profit margin, before tax, interest and other charges, from last year's 7.7% to beyond 10% by 2010. That would add some $900 million to those earnings based on last year's sales of $39 billion. Preoccupied with its overhaul in recent years, "we haven't been growing to our potential," admits Gerard Kleisterlee, 61, Philips' CEO since 2001. Reversing that, he says, means "making the company more agile." (What is the aim of the latest simplification?)

Agile was not an adjective normally associated with Philips. Sprawling, complex or plodding seemed an apt description. "They'd sell something I didn't even know they had," says Scott Geels, analyst at Sanford C. Bernstein in London. "And I wasn't the only one." **Kleisterlee took a carving knife to Philips' abstruse portfolio**. The semiconductor business--where even his own father labored--as well as other component businesses got the chop. "In the economic reality of today, you have to make a choice," Kleisterlee says. "We focus on the brand; we focus on marketing; we focus on downstream. We are very, very close to our customer." (Explain the meaning of the sentence in bold type. What business did they have to get rid of? Why?)

And while it rewired its electronics business, Philips expanded in health care and lighting. The gradual switch to greener lighting and the rising sums being spent on health care for aging populations offered Philips the prospect of steadier growth. **Flush with cash from selling unwanted units, Philips has splashed more than $7 billion on lighting and health-care companies**, from Genlyte, a U.S. commercial lighting-fixtures firm it bought in November for $2.7 billion--the biggest buy it ever completed--to Lifeline, a Massachusetts-based provider of home medical-alert systems. (Explain the meaning of the sentence in bold type.)

Having reduced the company to three core interests, Kleisterlee had a second big challenge: devising an operating structure to suit. "One of the important steps we still needed to take was to organize ourselves around markets," he says. "So we said, 'We're going to organize from the outside in.'" It's a huge decision. Organize however you like: around product lines, manufacturing, markets, geography, customers, etc. But get it wrong, and your company will wobble in the wrong orbit for years. (What is the second big challenge?)

One big result of Kleisterlee's decision is that two separate divisions supplying retailers--DVD players were churned out by the Consumer Electronics (CE) business, for instance, and electric razors were sold by the Domestic Appliances and Personal Care unit--have been joined into a single Consumer Lifestyle business. Similarly, the Medical Systems division, which developed imaging equipment for hospitals, moved in with another health-care business, one that offered semiprofessional services, like Lifeline, for the home. The combined division is called Healthcare. (What structural changes have already taken place?)

Another way the firm thinks it can stand out: extending treatment to the home, where the brand is well known. For instance, heart patients can be monitored from their living rooms using Philips' new Motiva device, which checks vital signs via a broadband link to a hospital. If something is out of whack, a nurse will intervene; a regular checkup might uncover the problem too late. (How can medical treatment be extended to the home?)

Growth in home health care may not offset issues in the far larger professional segment, though. U.S. regulations have slashed Medicare payments for imaging services performed outside hospitals. That has pared lucrative sales of new imaging machines in the U.S.--Philips' largest health-care market--as much as 10% last year, according to research by JPMorgan. Still, "Philips probably has the most defensive exposure to the nonhospital imaging market" compared with rivals Siemens and GE, according to Citigroup. (Has the reduction of Medicare payments opened new opportunities for Philips or, on the contrary, it is an obstacle for doing business in the market?)

A couple of years spent beefing up its lighting division is causing Philips no such pain. With revenues touching $9 billion in 2007, the company leads the global market--illuminating offices and airports, streets and sports arenas. And with a slew of acquisitions in advanced light-emitting diode (LED) know-how, Philips is "'light' years ahead" of the competition, says JPMorgan analyst Andreas Willi. (What is the situation like in the lighting division?)

In this simplified, consumer-focused Philips, the idea is that advances in lighting technology can migrate quickly to other parts of the company. At the Catharina Hospital in Eindhoven, heart patients visiting Philips' Ambient Experience catheterization lab can choose from a range of lighting themes, projected onto ceiling screens, to help **them** relax. And in Philips' new Aurea TV, the shades of light in whatever you're watching are mirrored by lights inside the frame around the screen, luring the viewer in. (Who does “them” refer to?)

If only attracting attention to consumer electronics were that simple. Fact is, for Philips to hit its ambitious growth targets, the company must take on the trickier challenges inherent in the new consumer-lifestyle business--like defining the category. **"This notion of the consumer-electronics company**," Kleisterlee says**, is "of the past**." **These days, state of mind and body are increasingly what matters**, Philips reckons. And both will influence shoppers' behavior to a greater degree. So for lifestyle, read products "that cater for those consumers interested in health and well-being." Take your alarm clock, for one. Instead of a loud buzzer jolting you out of bed, Philips wants to sell you a wake-up light that mimics a sunrise in slowly coaxing you out of slumber. Consumer lifestyle means going beyond "just a company that does flat-screen TVs," Kleisterlee says. (Explain the meaning of the sentences in bold type.)

Philips says it will differentiate its products through lifestyle-driven innovation. On that score, it's enjoying greater success. In 2006, 53% of group sales came from products launched in the previous three years. That's more than double the level of 2003. Last March, for instance, Philips--in partnership with Swarovski--launched the Active Crystals line, turning high-tech devices like memory sticks into high fashion. New items like that have helped triple sales at Philips' accessories unit in the past three years. "I've said many times, consumer electronics should be a lifestyle business; it should be a fashion business," says Rudy Provoost, the former CEO of Consumer Electronics who is set to run the lighting division starting in April. **"There's too much electronics in consumer electronics and not enough consumer**." (Paraphrase the last sentence of the paragraph. How are they going to differentiate their products in the saturated market of consumer electronics goods?)

TEAMWORKING

DISCUSSION

Teamwork is one of the fundamentals of the world of work. The ability or inability of a group of people to accomplish common goals determines the company’s success or failure in the market, thus making teambuilding of paramount importance. Why is teambuilding important in business? How are professionalism and efficiency often measured? What enables successful teams to accomplish their objectives? Why is it important to arrange meetings properly? In what case can we say that a meeting is a success? What are the varied roles needed within an effective team? What does the chair-person/ facilitator do within a team? What possible reasons for holding meetings can you name? What types of alternative meetings do you know? In what situations and for which purposes can they be best used? What happens if meetings haven't been properly organized? Are team building/molding activities a necessity? Can teams be built of their own accord? How do you feel about such team building activities as bungee jumping, paintballing, etc? What other activities can help to mould a team? What can management do if team morale is low? Does team building involve individual members being positive and putting the team's interests ahead of their own? What other qualities should team members possess? Are you a team player? What can you contribute to teamwork?

TASKS for the article "On a hard drive to create team spirit".

1. Give the Russian equivalents for the following: be renowned for, commitment to, make a difference, defuse a high pressure culture, take a different approach, day in and day out, let s/b down, down-to-earth manner.

2. Read the text quickly to find out what teambuilding activities are mentioned in the text.

3. Read the text for the second time and be ready to answer the questions:

- Why does Bill Watkins keep reminding his employees that life is short?
- How do the employees spend their time during the outing?
- Why does the CEO believe that the expensive outings are worth every penny spent on them?
- What management methods had his predecessor used?
- How did his experience as an Army medic help the CEO decide what kind of staff motivation to use in his work as a manager?
- What stages of Mr.Watkins' professional growth are mentioned in the story?
- What is characteristic of a start-up culture?
- What does the CEO mean by "bringing a start-up culture to big business?"
- How successful is the company in comparison with its competitors?
- Would you like to work under a boss like Bill Watkins? Why/why not?

4. Use the following props as an outline for your resume. Don't forget to prepare an introduction and a conclusion!

Bill Watkins's career in business and facts of biography that formed his attitude to corporate culture and teambuilding.

Teambuilding techniques employed at the company.

Company performance in comparison with other companies in the industry and the role of corporate culture in achieving such results.

ON A HARD DRIVE TO CREATE TEAM SPIRIT

Bill Watkins, the straight-talking chief executive of Seagate Technology, is renowned for his speeches to employees, reminding them they are going to die soon.

The blunt message is meant to check their commitment to the world's biggest maker of hard-disk storage drives. Mr Watkins, 55, believes it shakes out the employees who would rather spend the rest of their days doing something else.

"I say: 'You're gonna die, so is this what you want to do?' I'm a great believer that people who are doing what they want and are excited about it make the best workers."

His "pep talk"*(lively, encouraging)* comes during an annual outing for 250 Seagate staff in the wilds of New Zealand. Those invited to Eco Seagate spend four days learning skills such as abseiling *(descending a near-vertical surface using a rope coiled round the body and fixed at a higher point)*, white-water *(fast shallow stretch of water in a river)* rafting and mountain bike riding before competing in a gruelling *(extremely tiring and demanding)* race as a member of a five-person "tribe".

The participants are drawn from all levels and regions of the 55,000-strong company. They take part in team-building exercises where the strong help the weak. There are also inspirational talks – this year from the late Sir Edmund Hillary's son, Peter, and a woman astronaut as well as from Mr Watkins himself.

"About half the time I lose a person on my team because life's too short and I care more about them finding what they want from life than working for Seagate. Every year we lose people and I haven't done Eco Seagate right if someone doesn't quit."

While some have questioned whether the $2m (£1m, €1.4m) team-building exercise can make a difference in such a large company, Mr Watkins feels it has brought people together and improved the culture.

"It's not about us holding hands and singing "Kumbaya", it's about being the best storage solution company in the world and accepting no less, and our culture's got to help us do that. When I sit in a room with people, I can tell who's been to Eco Seagate."

Sitting in a room with Mr Watkins is to witness a fidget *(mental or physical restlessness)* of fearsome proportions. He twists in his chair, rattles his spectacles on the desk, makes chopping, stirring and punching actions with his hands and punctuates his shoot-from-the-hip comments with laughter.

He occupies a corner office in Seagate's headquarters at the top of the aptly named Disc Drive in Scotts Valley, California. There are calming vistas *(a pleasing view)* of the surrounding forests and mountains from his windows and models of sailboats on display – quite a contrast to the threatening grenade that Tom Mitchell, an ex-Marine and former chief operating officer, kept on his desk to intimidate employees.

Mr Watkins says he and Stephen Luczo, his predecessor as chief executive, had worked at defusing a high-pressure culture where “people were able to run their kingdoms and there was a lot of screaming and yelling”.

He recalls how a senior executive once gave him advice on how to improve falling yields *(agricultural or industrial product)* for Seagate’s complex hardware. “He said: ‘Here’s how you get yields up. You go on the floor, you bring everybody to the middle and you say: ‘If you don’t get your yields up, I’m going to fire you all.’ And you come back the next day and you’re going to have good yields.’”

He took a different approach. “There should be no motivation by fear. Yields go up by methodical engineering improvements.”

More important, he says his experience as a former Army medic taught him that teamwork that includes emotional bonds is the biggest motivator – another justification for Eco Seagate.

“When I was in the army, one of the things that amazed me was that people didn’t want to die for their country or their god and they absolutely wouldn’t die for money. But they would put their life on the line day in and day out so as not to let down the platoon or their fellow soldier.”

Mr Watkins did not have any early ambitions to join the hard-drive business. The son of an itinerant *(traveling from place to place)* oilman, he was born in Venezuela, before his family moved to Alberta and then Texas, where he grew up and graduated from the University of Texas with a degree in political science.

He moved out to Silicon Valley in 1979 “because of a girl. I spent one week and that didn’t work out.”

A new job with a microfilm start-up did work out. It was followed by one with a floppy-disk start-up, which went public, and subsequently a thin-film media start-up. He then joined Conner, a hard-drive company, which was taken over by Seagate in 1996. He became head of disk-drive operations in 1997, chief operating officer in 1998, president of the company in 2000 and chief executive in 2004.

With his down-to-earth manner and ultra-casual blue jeans dress code, he is something of a throwback to Al Shugart, who founded Seagate in 1979. Mr Shugart favoured Hawaiian shirts, smoked, worked without a secretary and made coffee for his co-workers.

But Seagate today is a much bigger company, shipping hard drives in the hundreds of millions. Its second quarter results this month showed that revenues had grown 14 per cent since last year to $3.4bn. Its global market share was 35 per cent, up from 21 per cent in 2000. Its nearest rival, Western Digital, also of the US, has a share in the low 20s.

Mr Watkins says his factories cannot make enough of the latest terabyte computer disk drives - holding 1,000GB of data - and his business is benefiting from the inclusion of hard drives in a growing number of consumer electronics products, such as digital video recorders.

His own beach house in nearby Santa Cruz is a model for future digital homes. He has six terabytes of storage holding movies, music, photos and security camera pictures that can be called up on screens all over the house.

The chief executive sees a strong future for digital storage, and for Seagate under the brand of leadership he has established, with a management team that has worked together for more than a decade.

“I grew up in the Valley and a lot of times passion and being excited about your job and being aggressive and wanting to drive for outstanding results translated as having to be a total asshole to everybody,” he says.

“I don’t believe that. You can be nice, you can be motivational, you can get emotional, but you don’t have to be disrespectful. You don’t have to be an asshole, and that’s what it’s all about.”

Drop the formalities: bringing a start-up culture to big business

Bill Watkins believes that large companies should create a culture similar to the one he enjoyed in the four Silicon Valley start-ups he worked at before joining Seagate.

”What I loved about start-ups is that there were no titles, you were just a bunch of guys and girls, trying to get it done, everybody does everything, you’re totally focused on one thing and you try to accomplish that,” he says.

”What happens then is that you get scale, you have to create organisational structure to handle that. Now you’re no longer Bill Watkins, you’re the VP of sales and marketing or whatever and you start limiting your roles. Worse case, you become very ’silo-istic’.

”So my answer to that was every time I got into a company that scaled very large, I would go back to a small company again where I felt comfortable.”

He broke this cycle at Conner Peripherals: ”I got talked out of [leaving] by a guy who said: ’Why don’t you try to make a big company work that way?’

”So it got me intrigued and I stayed . . and that’s where I thought culture comes in. It’s my way of bringing back that relationship - that we’re just people.”

TASKS for the article “ Cheap and cheerful ways of motivating”

1. Read the text quickly and note the motivation techniques and teambuilding activities mentioned in the text. Explain the meaning of the words and expressions in bold type.

2. Read the text for the second time to be able to answer the questions:

- Do you agree that “money is not the key to motivating staff”?
- Explain how the company points scheme installed by Suzy Glaskie works, please. Do you think that “friendly competition” helps to establish team spirit?
- Why does Suzy Glaskie prefer café meetings?
- What were the benefits obtained from attending the 2-day personality and profiling course?
- Why can changing jobs with your colleagues be beneficial according to Nick Gray?
- Why does Nick Gray practice walking meetings with his staff?
- What does it mean: “to motivate staff by empowering them”?

- Which of the teambuilding activities mentioned in the text contributes to creating team spirit most? What makes you think so?

3. Four people express their opinion on how to create efficient teams, on how to motivate a group of people to work well together to accomplish a common goal. Summarize their opinions under the following:

Brian Brown, the author of "Motivating your Staff for Better Performance" does not believe that material incentives work when it comes to creating an effective team. It's his firm belief that …

Suzy Glaskie is of the opinion that friendly competition can work wonders, because…

Nick Gray believes in training and swapping jobs –

Both, Suzy Glaskie and Nick Gray are in favour of alternative types of meeting:

Jacqui Van Loen, who works as a business adviser is sure that one can mould a team of committed team players by empowering them, which means …

4. Use task 3 to prepare a resume of the article.

CHEAP AND CHEERFUL WAYS OF MOTIVATING

Recognising small, daily achievements by staff can lift morale and produce better results than cash incentives

IF you run a small business and will be handing out chocolate rather than cheques this Christmas, you need not worry. Money is not the key to motivating staff.

Brian Brown, author of Motivating Your Staff For Better Performance, said that small businesses should never make the mistake of thinking that people can only be motivated by money.

"This is like comparing good garden compost with chemical fertilizer – one will nourish and sustain growth, while the other will poison from the top down."

So how do you motivate staff beyond short-term, **monetary incentives**? Brown believes a large part comes down to being **an inspirational leader**.

It is vital for a small business to have a strong ethos *(the characteristic sprit of a culture)* that staff and clients can buy into. This requires the person leading the company to create a vision for it.

Suzy Glaskie, founder and managing director of the marketing communications firm Peppermint PR in Cheshire, has installed a company points scheme as a way of motivating staff. When employees have gained three "Pepp points" they can choose between a manicure, a bottle of wine or a free Costa coffee every day for a week.

Glaskie has tried to remain vague about her criteria for handing out points – hard work and being **a considerate colleague** are rewarded. As the points are written up on a board in the middle of the office, the system is more about public recognition than simply enjoying the prizes.

“It introduces a sense of friendly competition along with motivating people to go that extra mile, for themselves and for the team,” she said.

When holding a review, or discussing a problem, Glaskie takes individual staff members to a local café. “It’s less confrontational than calling a meeting in the office. People are at ease and tend to open up more easily. We end up having a far better meeting than we would in a more formal environment.”

She believes that the key to instilling *(gradually but firmly establish in someone’s mind)* a company ethos is to spend time with her staff. Part of that is always knowing what is going on in their lives, on a professional and personal level.

“It’s crucial to get to know people’s hopes, ambitions and insecurities so you can help them to progress in the way that’s best for them. People don’t just imbibe *(absorb ideas/knowledge)* your passions *(intense enthusiasm for something)* unless they get to know you and vice versa.”

Nick Gray, managing director of the creative retail marketing agency Live and Breathe in central London, motivates his staff in several ways.

On a formal level, Gray enrolled himself and his 10 employees on a two-day Myers Briggs personality and profiling course. He believes the course **was worth every penny** as it enabled the staff to “get to know each other, understand each other, work better together and, ultimately, work for our clients better”.

They have also done courses on presentation and public speaking – providing an opportunity for the company to identify individuals’ strengths and weaknesses.

Gray encourages **job swaps** too, whether for an entire project or just half an hour, believing that this “helps staff to understand each other’s responsibilities along with grasping the limitations of a particular role”.

On a more informal level, the firm organises several trips for staff each year. Being in the creative sector, these often involve a visit to an art gallery.

Gray said that one of the most effective ways of getting to know his staff has also been the simplest. “Once a week when I pop out to get a sandwich, I invite someone to come with me,” he said. “This provides an opportunity for dialogue outside the office environment. It’s a casual but effective way of getting to know someone.”

The outcome of Gray’s efforts has been a closely-knit, competent team with **high levels of staff retention.** Some of his employees have been with Live and Breathe for 15 years, and the entire company attended his wedding last year.

Jacqui Van Loen, a business adviser with Insight Management, believes that you motivate staff by empowering them. She said: “When you ask people about a time they have been most excited at work, have worked their hardest and enjoyed it the most, you will find it is when they took responsibility for a project, and in doing so felt they accomplished something for themselves and for those they worked with.

“Managers need to ask themselves, are they creating an environment where employees can take responsibility, be creative and take risks without being afraid?”

She said that thanking staff is key to showing their contribution has been recognised. In fact Van Loen said that a personal thank you, together with an explanation of what the employee achieved, is the most effective way to encourage staff. She believes this form of recognition will always be more effective than a cash reward because motivation is "intrinsic not extrinsic. It's about recognising that people are not machines – motivation comes from within".

If all this sounds overwhelming, there is a great deal of help available. Several agencies provide leadership coaching and business consultancy. On average, six one-and-a-half-hour sessions with an adviser cost about £4,000. If this is beyond your budget, the Management Standards Centre and The Investors in People websites offer free advice on leadership. Likewise, the Department for Business, Enterprise and Regulatory Reform (formerly the Department of Trade and Industry) has created an interactive assessment tool, Inspired Leadership, which helps you to **hone your strengths and skills as a leader**. Finally, motivation may not be about the Christmas bonus, but it is definitely about an all-year-round Christmas spirit. A recent survey by the Department for Business, Enterprise and Regulatory Reform, in which 5,000 people in a variety of workplaces were asked what inspired them to follow someone, revealed that 93% wanted to see their manager create a feeling of fun, energy and excitement.

TASKS for the article "Doing well by being rather nice."

1. Read the article paragraph by paragraph and explain the expressions in bold type.

2. Answer the questions after each paragraph.

3. Prepare a resume of the article.

DOING WELL BY BEING RATHER NICE

Jim Goodnight of SAS is reaping the benefits of treating his employees well

THE ritual of handing out free M&Ms every Wednesday began accidentally, when an assistant collecting supplies accepted a big bag of the chocolate sweets as a substitute from a local grocer who had run short of change. Yet, recalls Jim Goodnight, the co-founder and boss of SAS, probably the world's biggest privately owned software-maker, **the M&Ms have come to symbolise the famously employee-friendly culture** that he has cultivated at his firm—a culture that seems more valuable with each passing day. *(How did the tradition to treat employees with sweets appear at SAS?)*

Every aspect of life on the large, leafy SAS campus in Cary, North Carolina, is designed **to bring the best out of employees by treating them well.** Most SAS employees have their own offices, for example, **with the exception of one sales team which wanted to be open-plan**, though Mr Goodnight does not expect that experiment to last for long. "You are so much more productive in your own office than when you are being distracted by the people either side," he says—a belief formed when he worked in an open office on the *Apollo* space project. Offices mean bare walls to fill, so he started to buy art to adorn *(decorate)* them; the SAS campus now boasts 5,000 pieces. It also has plenty of outdoor sculpture. *(What is Jim*

Goodnight's attitude to open layout offices? What lies behind the idea to decorate company premises with pieces of art?)

Mr Goodnight co-founded SAS (it rhymes with "lass") in 1976 on the campus of North Carolina State University, where he was a faculty member, and where he hated having to pay every time he wanted a cup of coffee. So on the SAS campus, snacks are free and the cafés are subsidised. When Google's human-resources people visited SAS to get ideas for the Googleplex, **they found much worth copying**—though the internet giant has gone one step further with food, which is free to staff. Mr Goodnight considers that unwise, for tax reasons: "I keep telling Larry and Sergey you shouldn't give away food—the IRS will come in." *(What are his reasons against giving away food along with free snacks and coffee?)*

The SAS **campus also offers magnificent sports facilities**, subsidised child-care and early schooling, and **the jewel in the crown**, its own primary health-care centre, free to staff. The latter is increasingly being studied by other firms as they struggle to contain the growth of health-care costs (though few firms have the luxury of a large campus on which to build such a facility). SAS estimates that this has reduced its health bills by around $2.5m a year, about one-third of what it would have to pay in the market. It also has a long-term "wellness" programme, supported by two nutritionists and a "lifestyle education" scheme, which is expected **to yield further cost savings**. Already, the average SAS worker is off sick for only 2.5 days a year. *(What benefits did the health-care centre bring to the company and the employees?)*

The only popular employee benefit that SAS does not offer is **a stock-option package**, usually **mandatory** in the software industry. That is because it is a privately owned company. It flirted with going public during the dotcom bubble, but decided against the idea—a decision that Mr Goodnight does not regret in the slightest. "We don't have to deal with Sarbanes-Oxley or minority shareholders suing us every time we turn around, or 25-year-old Wall Street analysts telling us how to run our business," he says enthusiastically. "There are lots of advantages.*"(What advantages does the CEO find in the fact that his company is a privately owned company? For what reasons do companies usually go public?)*

Not surprisingly, employees tend to stick around, which means SAS has to be careful whom it recruits and severe in dealing with mistakes: a philosophy that Mr Goodnight calls "Hire hard, manage open, fire hard." The tall Southerner may be soft-spoken, but he is no softy. The purpose of treating his employees well is to succeed in business. The average rate of **staff turnover** at SAS is around 4% a year, compared with around 20% in the software industry as a whole. A few years ago a business-school professor calculated that this alone saved SAS $85m a year in recruitment and training costs. *(Explain what the CEO means by saying: "Hire hard, manage open, fire hard." Comment on this principle of running a company.)*

Mr Goodnight points out that it is not just the benefits that keep people at SAS—"it's the challenge of the work". SAS is a leader in the field of "business intelligence", which helps companies use data to understand their own businesses. It has continually increased its annual revenue, to around $1.9 billion in 2006, has always been profitable and has never borrowed a penny. Its success has made Mr Goodnight, now 64, the richest man in North Carolina, with a net worth of around $9 billion. SAS's products are used to perform analysis in data-intensive industries such as insurance, health care, banking and retailing. As other software has become increasingly commoditised, business intelligence has become a hot field. It has attracted the attention of giants such as SAP and IBM, both of which have recently acquired business-intelligence firms. (SAP bought Business Objects for $7 billion, and IBM paid $5 billion for Cognos.) *(What other incentives apart from financial ones make SAS a dream employer?)*

The philanthropic Mr Goodnight is also interested in working out how to apply computers in education, through the school he has built next to the campus. “This is the most technology-savvy generation of children we have ever had, yet when they go to school, they have to leave this technology behind and watch a teacher at the blackboard,” he says. Not at the Cary Academy, however, where each pupil has a tablet computer. “They love it—it is the way ahead,” says Mr Goodnight, who will no doubt end up adding many of those “savvy” pupils to his workforce. Provided, that is, that the industry's big beasts do not get the better of him. His philosophy of “managing for creativity”, Mr Goodnight reckons, will keep SAS in front. But the real test for his approach will come if the going gets tough. *(Why does the company support the school? What are the company’s prospects for the future?)*

INFORMATION/SECURITY

DISCUSSION

Modern technologies give businesses people unlimited opportunities for monitoring information about every single aspect of their businesses – suppliers, customers, what is happening in the factories, supply and demand, and so on. The use of IT technologies makes businesses more competitive, but at the same time they make them vulnerable, because information is a valuable resource which can be lost or stolen. Why has the amount of information increased so dramatically in recent years? Do you think it will continue to increase like this? How has it changed the way that people live? How do we communicate information to each other? How do you deal with excessive amounts of information? How have digital technologies changed modern businesses? Why is information a key resource for modern businesses? What is a real-time enterprise? What are the main benefits of a real-time enterprise? Do you think that having a lot of info makes it easier for managers to do their jobs? Does information management have a direct impact on company efficiency? In what form does information flow between different parts of a business’ information system? What allows this information to be gathered, processed, exchanged and stored? Why is it important to analyse developments in your business in real time? What common problems do all info systems face nowadays? What is lack of security fraught with? Do you think intranets are a good idea, or do they just contribute to excessive amounts of information and security risks? How will the business of the future be affected by the development of IT? What are some of the risks if business becomes more and more computerized? What is the difference between "business intelligence" and "industrial espionage"? What are the sources of business intelligence? What forms can industrial espionage take? How can competitors obtain info from employees? How can companies protect their info systems? What is the best way to make staff more aware of security risks? What would you do if you suspected that your colleague has given away confidential information? How does living in a time of unprecedented electronic surveillance when every movement and transaction can be monitored affect a person's life?

TASKS for the article "Information Overlord."

(The public wakes up to the surveillance society)

1. Read the title and the subtitle of the article. Do you remember the expression "information overload"? What does the word "overlord" mean? What do you expect the article to be about?

2. Read the article and answer the questions

- What facts are listed by the author as the ones that make Britain a surveillance society?
- What reform does the government want to introduce?
- How does the government justify the necessity of the reform?
- What are privacy campaigners' counter arguments?
- What are the practical reasons to worry about?
- Why is it pointless to argue about pros and cons of becoming a "surveillance society"?

3. Prepare a resume of the article.

INFORMATION OVERLORD

The public wakes up to the surveillance society

VISITORS to Britain often remark on the proliferation of closed-circuit television cameras, as well as on the fact that Britons, by and large, accept them without qualms *(a feeling of doubt or unease)*. A similar indifference greets the warnings of Britain's few civil-liberties campaigners that it is the development of extensive government and commercial databases—less visible, and so less noticeable—that is truly worrying. Britain leads the world here, too. Its police-run DNA database is the biggest anywhere; the government has plans to track and monitor all 11.7m children in the country; and a scheme for a £5.4 billion system of national-identity cards is under way.

Over the past few days, however, the issue has achieved an unusual prominence. On January 15th the government said it was thinking of reforming "overzealous" data-protection rules to allow ministries to share information about citizens more freely. The idea provoked a storm of hostile coverage, with accusations of sinister "super-databases" and "snooping".

At first sight, it is hard to see what the fuss is about. The government points out that it is not proposing to collect any more data than it already does, merely to circulate existing information more freely. It dismisses talk of a new database as nonsense, and argues that making its officials better informed will improve its ability to govern—allowing them to inform people of benefits to which they did not know they were entitled, for instance. Data-sharing might make it easier for citizens to interact with the state as well. John Hutton, the secretary for work and pensions, tells the story of one family that had to make 44 phone calls to inform officialdom of a death. Sharing information would reduce that number.

Such explanations cut little ice with privacy campaigners. They argue that Mr Hutton's example of the bereaved family is spurious, since most information about dead people is not protected anyway: civil servants had no reason not to pass on the original message. “This government is using incompetence as a justification for extending its powers,” says Gareth Crossman of Liberty, a civil-rights group. He thinks the true motive is to let civil servants trawl speculatively through various official databases looking for discrepancies that might identify benefit cheats or tax dodgers. Others cite the government's patchy record on civil liberties in general (detention of terrorist suspects without trial, the criminalising of nuisance behaviour and keeping DNA samples from suspects who have not even been charged with a crime, for example) as reason enough to suspect sinister motives.

There are practical reasons to worry as well. Whatever the government says, linking lots of small databases is functionally similar to creating a central, master database. Besides, efficiency is not always a good thing: a system that shares information efficiently will propagate errors with the same effectiveness.

Some civil libertarians see hostility to the latest proposals as evidence that the public may, at last, be starting to wake up. They point to polls suggesting that support for the identity-card scheme is falling too. The government's current demeanour is noticeably humble, with promises to consult “citizens' panels” (ie, focus groups) before any change is made and assurances on national radio that talk of a “Big Brother state” is alarmist.

Others worry that public interest in the matter comes too late. In November last year Richard Thomas, the information regulator, remarked that arguing about the pros and cons of becoming a “surveillance society” was pointless; Britons were living in one already.

TASKS for the article “Lost in the post.”

(Prepare for governments to lose plenty of personal information about you)

1. Read the title and the subtitle of the article. What kind of information about their citizens is available to governments? Under what circumstances can the information be lost? How can it be abused? Read the article, and choose the adjective that best describes the writer’s tone.

A aggressive B sarcastic C concerned D tentative E insinuating

2. Read the article and answer the questions:

- What aroused the British politicians' surprise?
- How could this information be abused by identity thieves?
- What other cases of huge personal data losses are mentioned in the article?
- What simple measures of personal data protection are mentioned in the article? Why aren't identity thieves interested in stealing someone's individual data any more?
- What are the two things to remember about computer security?
- What pieces of advice are given in the article?
- How could regulation improve Britain's security system?

3. Increased use of the internet in recent years means that more information about individuals, companies and organizations can be collected and stored than ever before. Some argue that the collection of so much data can help with efficiency, improve customer service, deal more effectively with criminals and terrorists, etc. However, others question what use the information will be put to, especially if wrong people get hold of the information. What are the advantages of digitization and generally living in the internet society for companies and individuals? What are the disadvantages and threats? Do the advantages outweigh the disadvantages? Discuss it with your group mates.

LOST IN THE POST

Prepare for governments to lose plenty of personal information about you

IT TAKES a lot to produce gasps of astonishment from British politicians. But that was what greeted Alistair Darling, the chancellor of the exchequer, when he told parliament on November 20th that two computer discs containing the personal details of 25m British individuals and 7m families had gone missing. The discs were being sent by internal mail between two government departments; they included names, addresses, bank-account details, dates of birth and names of spouses and children. The fate of the discs is unknown, but they contain just the sort of information sought after by identity thieves, who could use it to procure fake documents, commit fraud and empty bank accounts.

This is the latest in a series of such losses. HMRC, the tax-and-customs department which sent the discs, lost a laptop containing personal data on 400 people in September, and last month it lost another disk in the post, containing pension records for 15,000 people. But this week's fiasco is on an entirely different scale. It ranks alongside the theft of data on 26.5m people stolen from the home of an employee of the Department of Veterans Affairs in America in 2006, and the loss by Bank of America in 2005 of tapes containing information on 1m American government employees. And there have been dozens of smaller cases around the world in which personal data have been lost by, or stolen from, credit-card companies, online retailers, government departments and banks.

Fear of identity fraud means that many people now routinely shred receipts and sensitive documents before binning them. But identity thieves rarely waste time looking in dustbins any more. There is no point bothering to steal one person's details, when records can be had in their thousands and millions from leaky computer systems. Large databases have become central to the operation of governments, health systems, banks and other large companies. And despite the howls from libertarians, nobody really wants to turn back the clock and revert to paper records. What can be done?

As always with computer security, there are two things to remember. First, that security depends on a combination of technology and policy; and second, that no system is ever totally secure. It is safer to assume that there will be breaches, and work out how to minimise the damage. That means storing, and moving around, as little data as possible; anonymising records and linking to personal details stored in a separate database; and using encryption to protect data in transit. None of this was done by the HMRC. It was asked to supply anonymised data to the National Audit Office, but provided reams of unencrypted personal information instead.

Regulation has a role to play, too. Many European countries and 35 American states have rules that require companies and government departments to disclose breaches of information security to anyone affected. In many cases they are also legally liable for any loss. This gives them an incentive to store as little data as possible and to look after it properly. Britain, alas, has some of the most toothless data-protection rules in the developed world: the government recently rejected a plan to make reporting of breaches compulsory. According to one estimate, setting up new bank accounts for everyone affected by this week's leak could cost £300m ($600m).

TECHNOLOGY

DISCUSION

What technical devices and kitchen appliances make our lives easier and save our time? What innovations have changed forever the way we work and view the world? What is nanotechnology? What opportunities does it offer? In what field has our lifestyle been changed most dramatically? What is a saturated market? Is consumer electronics market a saturated one? In what ways are consumer electronics products changing our lives? Where can telecommunications companies find new untapped markets in order to boost their falling revenues?

TASKS for the article "Of internet cafés and power cuts."

(Emerging economies are better at adopting new technologies than at putting them into widespread use)

1. Read the title and the subtitle of the article and try to predict what the article is going to be about. What might be the obstacles for putting new technologies into widespread use?

2. Read the text pausing at the expressions in bold type and explain their meaning.

3. Answer the following questions:

- What achievements of emerging economies have been mentioned in the article?
- What examples of incompetence are given there?
- Why did the project of $100 worth laptop for poorer countries fail?
- How is technological progress in emerging economies measured?
- Why is technology defined as "fundamental to economic advance"?
- What conclusion did GEP report make about the use of modern technology in emerging economies?
- What is the difference between the development of technical progress in Eastern Europe and Latin America?
- How do the authors account for the slow pace of development in Latin America?
- What factors hold back the development of new technologies in emerging economies? (Name 2 major reasons.)
- What explains the patchiness in countries' technological achievement overall?
- What part does education play in the development of new technologies?
- How do the major sources of financing R&D vary from region to region?
- How would you define the author's tone in the final paragraph?

4. Render the contents of the article following the outline:

- The situation with new technologies in emerging economies
- The findings of the Global Economic Prospects report
- Development of technical progress depending on the region
- Obstacles in the way of technological progress in emerging economies

5. Prepare a talk on the topic: Although the telecommunications markets of developed economies have become saturated and competition increased dramatically, the untapped markets of emerging economies are not as easy as they may seem at first sight.

OF INTERNET CAFÉS AND POWER CUTS

Emerging economies are better at adopting new technologies than at putting them into widespread use

WITHIN a few months China will overtake America as the country with the world's largest number of internet users. Even when you factor in *(include s/t as a* *relevant element when making a decision)* China's size and its astonishing rate of GDP growth, this will be a remarkable achievement for what remains a poor economy. For the past three years China has also been the world's largest exporter of information and communications technology (ICT). It already has the same number of mobile-phone users (500m) as the whole of Europe.

China is by no means the only emerging economy in which new technology is being eagerly embraced. In frenetic *(fast and energetic)* Mumbai, everyone seems to be jabbering *(talking rapidly and excitedly)* non-stop on their mobile phones: according to India's telecoms regulator, half of all urban dwellers have mobile- or fixed-telephone subscriptions and the number is growing by 8m a month. The India of internet cafés and internet tycoons produces more engineering graduates than America, makes software for racing cars and jet engines and is one of the top four pharmaceutical producers in the world. In a different manifestation of technological progress, the country's largest private enterprise, Tata, recently unveiled the “one lakh car”; priced at the equivalent of $2,500, it is the world's cheapest. Meanwhile, in Africa, people who live in mud huts use mobile phones to pay bills or to check fish prices and find the best market for their catch.

Yet this picture of emerging-market technarcadia *(ideal techno paradise)* is belied *(fail to give a true notion)* by parallel accounts of misery and incompetence. Last year ants ate the hard drive of a photographer in Thailand. Last week internet usage from Cairo to Kolkata was disrupted after something—probably an earthquake—sliced through two undersea cables. Personal computers have spread slowly in most emerging economies: three-quarters of low-income countries have fewer than 15 PCs per 1,000 people—and **many of those computers are gathering dust.**

And the feting *(celebration)* of prominent technology projects in emerging economies is sometimes premature. Nicholas Negroponte, of the Massachusetts Institute of Technology, has long been championing a $100 laptop computer, presented with most fanfare at the World Economic Forum in Davos two years ago. **The laptop was supposed to sweep through poor countries, scattering knowledge and connectivity all around.** But the project is behind schedule, the computer does not work properly and one prominent backer, Intel, a chipmaker, has pulled out.

So how well are emerging economies using new technology, really? Hitherto, judgments have had to be based largely on anecdotes. Now the World Bank has supplemented the snapshot evidence with more comprehensive measures.

Take-off to tomorrow, and to yesterday

The bank has drawn up indices based on the usual array *(display, range)* of numbers: computers and mobile phones per head, patents and scientific papers published; imports of high-tech and capital goods. In addition, it uses things such as the number of hours of electricity per day and airline take-offs to capture the absorption of 19th- and 20th-century technologies. It tops this off with measures of educational standards and financial structure, which show whether technology companies can get qualified workers and enough capital. The results, laid out last month in the bank's annual *Global Economic Prospects* report, measure technological progress in its broadest sense: as the spread of ideas, techniques and new forms of business organisation.

Technology so defined is fundamental to economic advance. Without it, growth would be limited to the contributions of increases in the size of the labour force and the capital stock. With it, labour and capital can be used and combined far more effectively. So it is good news that the bank finds that **the use of modern technology in emerging economies is coming on in leaps and bounds.**

Between the early 1990s and the early 2000s, the index that summarises the indicators rose by 160% in poor countries (with incomes per person of less than about \$900 a year at current exchange rates) and by 100% in middle-income ones (\$900-11,000). The index went up by only 77% in industrialised countries (with average incomes above \$11,000), where technology was more advanced to start with. Poor and middle-income nations, the bank concludes, are catching up with the West.

The main channels through which technology is diffused *(spread)* in emerging economies are foreign trade (buying equipment and new ideas directly); foreign investment (having foreign firms bring them to you); and emigrants in the West, who **keep families and firms in their countries of origin abreast of new ideas**. All are going great guns *(proceed forcefully, vigorously or successfully)*.

Fast or forget it

But this view—essentially, that technological diffusion is a problem that will take care of itself—may be too sanguine *(cheerfully optimistic)*. The evidence from successful emerging markets is that if they absorb a new technology they usually do so fairly quickly. The corollary *(a proposition that follows from one already proved)* is that **if a technology is not diffused promptly, it may at best be diffused only slowly and incompletely.**

Judging by the World Bank's index, that is what seems to be happening in some places. As a general rule, technological achievement rises fastest in poor and middle-income countries and then levels off as these countries approach Western living standards. But now compare Latin America and Europe. Eastern Europe is following the path taken by America and Western Europe a few years before. But in Latin America the slope flattens at lower levels than elsewhere.

The region has less installed bandwidth and fewer broadband subscribers than poorer East Asia, and not many more internet users or PCs. High-tech exports account for less than 7% of the total in Argentina and Colombia, against one-third in East Asia. In Chile and Brazil less than 2% of the business workforce is in ICT. This relative technophobia probably reflects years of inward-looking economic policies, import substitution and disappointing education systems. Here, slow technological dispersal may not be just the result of a time lag. It may be evidence of more fundamental problems.

Broadly, two sets of obstacles stand in the way of technological progress in emerging economies. The first is their technological inheritance. Most advances are based on the labours of previous generations: you need electricity to run computers and reliable communications for modern health care, for instance. So countries that failed to adopt old technologies are at a disadvantage when it comes to new ones. Mobile phones, which require no wires, are a prominent exception.

The adoption of older technologies varies widely among countries at apparently similar stages of development. Soviet central planners loved to build electricity lines everywhere; the result is that ex-communist countries enjoy near-universal access to electricity (an extremely rare example of a beneficial legacy from communism). Latin American countries had no such background and as a result consume only about half as much electricity per person as eastern Europe and central Asia.

This partly explains the patchiness in countries' technological achievements overall. Call centres in Kenya, for example, pay more than ten times as much per unit of bandwidth as do rivals in India, because India's fibre-optic cable system is far better and cheaper. So sometimes you cannot leapfrog *surpass or overtake a competitor or obstacle to move into a leading position)* . As countries get richer, older technology constraints do not always fall away. It depends in part on how governments organise basic infrastructure like transport and communications.

The other set of problems has to do with the intangible things that affect a country's capacity to absorb technology: education; R&D; financial systems; the quality of government. In general, developing countries' educational levels have soared in the past decade or so. Middle-income countries have achieved universal primary-school enrolment and poor countries have increased the number of children completing primary school dramatically. Even so, illiteracy still bedevils *(cause continual trouble to)* some middle-income countries and many poor ones.

A similar pattern can be seen with R&D. Emerging economies spend less on R&D than rich ones: rich countries spend 2.3% of GDP on R&D, East Asians 1.4%, and Latin America 0.6%. Also important, though, is who spends the money; and this also varies considerably. East Asia's pattern is similar to the West's: companies spend most of the money and do most of the research. In Eastern Europe and Latin America, by contrast, the government is the largest source of finance, and in Latin America universities do the largest share of the work. Sometimes government-supported research is fine: it triggered South Korea's technology boom in the 1980s. But in general, companies tend to be the most efficient and effective promoters of technology (mobile phones are a case in point).

And in rich countries, high-tech-firms get money from banks, stock markets and venture capitalists in ways that emerging-market entrepreneurs can only dream of. Here, and in government policy towards technology firms—meaning everything from trade openness to product standards—there has been little catch-up with the West. In Kenya, flower-growing counts as a technology-improving activity because it requires fertilisers, irrigation, greenhouses and just-in-time delivery. **The damage wrought by political chaos is a reminder that technology is far more fragile in poor countries than in the West.**

Yet it would be wrong to be gloomy about the technological outlook of emerging economies. The channels of technology transfer have widened enormously over the past ten years. Technological literacy has risen, especially among the young.

But all this has helped emerging economies mainly in the first stage: absorption. The second stage—diffusion—has so far proved much more testing.

TASKS for the article "Alternative reality."

(China will soon boast more internet users than any other country. But usage patterns inside China are different from those elsewhere)

1. Read the title and the subtitle of the article. Do you have any idea why internet is developing so rapidly in China? Why should usage patterns be different there? How do they differ? Look at the words and expressions from the article – they may turn out to be useful:

in large part, restrict access to content that might cause political problems, sensitive material, be in its infancy, an unwieldy (громоздкий, неуклюжий) government-controlled payment system, be a flop, pent- up (сдерживаемый) demand for entertainment, stem the flow of pirated foreign media, be accused of copyright violation, rule in favour of, provide links to pirated music files, subscribers, buy ringtones, download, multiplayer games, tight constraints on the provision of s/t. **Do they reveal the problems tackled in the article?**

2. Read the article quickly and answer the questions from task 1.

3. Read the article for the second time to be able to answer the detailed questions:

- What is so unusual about the recent statistics?
- What is the prerequisite for the Chinese internet users' continuous growth?
- What historic background determined the uniqueness of the Chinese usage pattern?
- What is the pattern like?
- For what purposes is the internet most frequently used in China?
- What is the Chinese government's attitude to on line piracy?
- What are the most profitable on line business sectors now?

4. Prepare a resume of the article.

ALTERNATIVE REALITY

China will soon boast more internet users than any other country. But usage patterns inside China are different from those elsewhere

ONE of the more striking end-of-year statistics pumped out recently by the Chinese government was an update on the number of internet users in the country, which had reached 210m. It is a staggering figure, up by more than 50% on the previous year and more than three times the number for India, the emerging Asian giant with which China is most often compared. Within a few months, according to Morgan Stanley, an investment bank, China will have more internet users than America, the current leader. And because the proportion of the population using the internet is so low, at just 16%, rapid growth is likely to continue for some time.

That such a big, increasingly wealthy and technologically adept country has embraced the internet is no surprise, but it has done so in a very different way from other countries. That is in large part the result of the government's historically repressive approach towards information and entertainment. News is censored, television is controlled by the state, and bookshops and cinemas, shuttered during the Cultural Revolution, are still scarce.

The internet itself is also tightly controlled. Access to many foreign websites (such as Wikipedia) is restricted, and Google's Chinese site filters its results to exclude politically sensitive material. New rules governing online video came into force this week. Electronic retailing is in its infancy, thanks to an unwieldy government-controlled payment system, so most shopping is still done in person. The attempt by eBay, the world's leading online auction site, to enter the Chinese market was a flop. Alibaba, a site often described as the eBay of China, is in fact more an electronic yellow pages, helping buyers find sellers, than an online auction room.

The Chinese way

Yet it is all these limitations, paradoxically, that make the internet so popular in China. In the West online activities have transformed existing businesses and created new ones; in China, by contrast, the internet fills gaps and provides what is unavailable elsewhere, particularly for young people. More than 70% of Chinese internet users are under 30, precisely the opposite of America, and there is enormous pent-up demand for entertainment, amusement and social interaction, says Richard Ji, an analyst at Morgan Stanley. Rich rewards await those entrepreneurial internet companies able to meet that demand and establish themselves in the market: operating margins for leading internet firms are 28% in China, compared with 15% in America. And internet companies' share prices have shot up, with their collective market capitalisation nearly doubling every year since 2003 to reach over $50 billion today.

So what is the internet used for in China? Its most obvious use is to distribute free pirated films, television shows and music. Even though China's censors do an excellent job of restricting access to content that might cause political problems, they are strangely unable to stem the flow of pirated foreign media. On December 30th an appeals court in Beijing ruled in favour of Baidu, China's leading search engine, which had been accused by the world's big record companies of copyright violation by providing links to pirated music files. Even so, piracy is starting to worry the government, not least because the availability of free foreign content is holding back the development of the domestic media industry. But for the time being, the free-for-all continues.

When it comes to making money online, the biggest market involves the delivery of mobile-internet content to mobile phones. With over half a billion mobile-phone users, China has more subscribers than America, Japan, Germany and Britain combined, and more than half of them use their phones to buy ringtones, jokes and pictures from mobile-internet portals such as KongZhong and Tom Online. Each download costs a few cents, most of which goes to the portal, but the mobile operators then make money as subscribers send jokes and pictures to each other. It all sounds trivial, but a few cents here and there multiplied by hundreds of millions of users soon add up. The ringtone from a hit song, “Mice Love Rice”, generated over $10m in sales in 2005, for example.

Another big field is online multiplayer games, which have become so popular that the government has started to worry about their impact on adults' productivity and children's education. Import restrictions and fear of piracy mean that the big foreign console-makers—Sony, Nintendo and Microsoft—have not made much headway in China. Instead, a different model has emerged, based around PC games played online. Generally the game itself is given away, so piracy is not a problem, but players pay a subscription to play, and may also buy in-game add-ons such as accessories for their characters. Big providers such as NetEase and Shanda have millions of customers for games such as “Fantasy Westward Journey”, a cartoon game for children, and “World of Legend”, for teenagers and adults.

Although there are tight constraints on the provision of hard news, internet sites such as Sina and Sohu provide a steady supply of gossip, features, dabs of propaganda and slightly salacious stories and photos, and are constantly testing the boundaries of what is permissible. Video of America's professional basketball league and English football games is also popular, and can be packaged with streaming advertisements, another emerging business in China.

The most dynamic area, and the hardest for outsiders to understand, is that of online communities, many of which are run by a company named Tencent. Its site offers an instant-messaging service and a MySpace-like social networking site, among other things. In each case the basic services are free, but users pay for add-ons (such as new backgrounds for their home-pages or more storage space). Often, says Mr Ji, the members of these communities are people who, because of the single-child policy, have no siblings and are searching for virtual friendships. For them and for many users in China, the internet is not truly a worldwide web: it is only as wide as China. But China's internet community is evidently a world unto itself.

ADVERTISING

DISCUSSION

Modern business is inconceivable without advertising. The success or failure of a product very often entirely depends on how effectively or ineffectively its benefits were communicated to consumers. How may a product or service’s benefits be advertised? Why do companies continually have to look for new and innovative ways of advertising? How many adverts do you see every day? Where are they placed? Which three media do you think are used most in advertising? Why are more and more people rejecting traditional sales messages? Who is “a sophisticated consumer”? Why have some forms of advertising become ineffective? What is the cause of the big changes taking place in the advertising industry today? What are the best ways of targeting the audience effectively? Do companies usually create their own advertising campaigns themselves or do they use the services of advertising agencies? Is the internet a popular means of advertising? What are the weaknesses of the internet as an advertising medium? What are the most cost effective means of advertising, from your point of view? Have you heard about the “word of mouth” means of advertising? Is advertising always effective? What proportion of the money spent on advertising may be wasted, from your point of view? How can cost effectiveness of an advertising campaign be measured? What examples of product placement in films, video games or on TV can you think of? Is this an effective form of advertising? What are your most/least favourite adverts? Can you think of any advert that you find distasteful or unethical? Should it be banned? Give your reasons. Which current adverts do you think are the most creative? Should advertisements for the global brands be made in the country where the goods are sold? How is the advertising industry regulated in Russia? What sorts of products or services can’t be advertised? What changes in the advertising industry can you predict for the future?

TASKS for the article “Working the crowd.”

(Online advertising: New business models let communities of internet users control how their personal information is bought and sold)

1. Read the title and the subtitle of the article. What do you expect the article to be about? Read the text quickly in order to find out how consumers benefit from this form of advertising.

2. Read the text carefully and answer the following questions:

- What does “long tail” marketing sell?
- How does Google collect valuable information about its users?
- Are Google users paid in return for the information they provide about themselves?
- On what principle is Seith Goldstein”s enterprise based?
- What technical device allows internet users to collect and sell information about themselves? Do they get a fixed pay for the information?
- In what market do Attention Trust, Agloco and Gesturebank operate?
- In what way is Boxbe different from the previously mentioned companies? In what ways are they quite similar?
- How does Threadless communicate with their customers? Is it a typical example of fruitful cooperation of a business with its customers? Is it likely to get further development?

3. Prepare a one minute talk on the topic: “Advertisers should pay their target audiences for the attention they get from them.”

WORKING THE CROWD

Online advertising: New business models let communities of internet users control how their personal information is bought and sold

WIKINOMICS? Crowdsourcing? Mass collaboration? “Long tail” marketing? Nobody is quite sure what to call it, but lots of people are interested in the way the internet makes it possible for people to organise themselves according to their preferences and habits into tiny niches, access to which can then be bought and sold.

This is unquestionably a huge market—it is, after all, what Google does. Users of the internet giant's search engine and e-mail service provide information about their interests in the form of search terms and e-mail messages. Google is then able to gather up the handful of people who express an interest in an obscure term and provide advertisers with a way to reach them. In effect, Google users trade personal information in return for free use of Google's online services.

But some people think this is a bad deal. They think the personal information is worth far more than the services that Google and others offer in return. Seth Goldstein, a serial entrepreneur based in San Francisco, believes that the personal information contained in users' click trails, online chats and transactions is something they ought to take hold of and sell themselves, generating direct payback. “Attention is a valuable resource, and we're getting to the point where it can be parsed *(analysed)* in real time,” he says. So he has co-founded a new venture called AttentionTrust.

Its approach is to turn the tables on Google and other big aggregators of personal information. Instead, users amass their own traffic patterns and preferences using a piece of “plug-in” software that runs inside a web browser. The resulting profile can then be deposited in an online vault *(storage room)*, where interested parties can pay to see it. Prices can be structured on a sliding scale, depending on whether an advertiser or company wants to contact individuals or analyse demographic slices—graduates of the same age from the same university who share an interest, for example.

This type of grassroots self-marketing is also the idea behind GestureBank, another anonymised data-aggregation tool started by Steve Gillmor, an American technology commentator. Users will be able to make “a hell of a lot of money,” Mr Gillmor predicts, by deciding which aspects of their behavioural data go into a central pool. He imagines such services will initially take hold among bloggers, who love analysing how many readers they have, who they are, and how their readership compares with that of other bloggers. Before long, he hopes, advertisers will follow with their chequebooks.

Yet another example, established by a group of Stanford graduates, is Agloco. “Advertisers, search providers and online retailers are paying billions to reach you while you surf,” says its website. “How much of that money are you getting? You deserve a piece of the action.” Like AttentionTrust, Agloco is based on a browser plug-in that tracks users' online activity and then uses this information to allow advertisers to target people with specific interests. Agloco promises to return 90% of ad revenue, sales commissions and other income to its users. In a further twist, those who recruit other users get a cut of the revenue, too. Akshay Mavani of Agloco says the firm is on target to sign up 10m users by July.

A related approach sets out to address the problem of junk e-mail. Rather than using blacklists and filters to stop unwanted messages reaching their in-boxes, why not charge advertisers for permission to send promotional messages? That is the philosophy behind Boxbe, a start-up based in San Francisco that recently secured funding from Draper Fisher Jurvetson, a renowned venture-capital firm, for its “negotiated e-mail delivery” service. It works rather like an automatic tollbooth between the internet and your in-box, deciding which traffic to let through, and how much to charge.

Boxbe suggests that users set a price of $0.15-0.25 per message to allow companies to contact them. (The start-up takes a 25% cut.) Users fill out a personal profile and the idea is that Boxbe will be able to sign up enough users to offer a critical mass to advertisers, who will then pay to send messages to the users most likely to be interested in them. Advertisers can target messages more easily and users receive fewer irrelevant e-mails. They also get paid. An average user could make over $100 a year, reckons Thede Loder, Boxbe's founder. “It's like picking up a quarter from the sidewalk. Even rich people do it, and it adds up,” he says. The idea for Boxbe grew out of his graduate research into the economics of communications, and of spam in particular.

All of these models enable online groups of users to organise themselves into niches and charge advertisers for access to them. But sometimes the transactions can take place within the groups themselves. That is how eBay works: it brings together people so that they can buy and sell things, with the online-auction giant taking a cut of each transaction. Once again, new bottom-up models are emerging that do similar things.

A good example is Threadless, an online T-shirt firm based in Chicago. It sees itself as a community in which members can upload T-shirt art, vote for the most promising designs and order them. The company has about half a million registered users and receives 600 submissions for new T-shirts a week. Each week's winning design wins a $2,000 prize, and several thousand people end up ordering it. As the community grows, so the size of the prize, which initially started at $50, will continue to grow too, says Jeffrey Kalmikoff of Threadless. The firm is considering rewarding the thousands of members who vote each week as well, because they provide valuable insights into market trends that help the company with research and planning. This model could work in any industry, Mr Kalmikoff believes. “I am convinced Detroit could use it for designing cars,” he says.

But big firms seem to be reluctant to share control, and rewards, with the masses. Two researchers at Microsoft, for instance, created a stir recently with a scientific paper describing a scheme in which owners of portable music-players could share songs wirelessly with strangers, earning a small commission if such sharing prompted others to buy the music for themselves. Music fans could thus become promoters and micro-resellers for their favourite artists.

Rumour had it that this scheme would be included in Microsoft's Zune music-player, but it was not (though the Zune does allow person-to-person sharing within limits). Nor does Microsoft allow the researchers to elaborate on their vision for a “long tail” alive with the sound of music and money.

TASKS for the article “Visual pollution.”

1. Make sure that you know the following useful vocabulary:

Pass an ordinance – вынести постановление муниципалитета
Ban s/t - запретить
Impose (severe) restrictions/ a complete ban/ strict limits – наложить полный запрет/строгие ограничения
Comply with rules – подчиняться правилам
Give s/b an incentive – давать стимул
Be in favour of (good regulation and strong enforcement) – поддерживать (законы и их жесткое претворение в жизнь)
Proliferation of s/t – распространение, быстрое увеличение
Regardless of - невзирая на

2. Read the text and answer the following questions:

- What is the conflict between Clear Channel and the City Council about?
- Why are the company representatives sure of their victory?
- Are there any precedents when outdoor advertising has been banned from the city streets?
- How does the “Clean City” law regulate advertising in the city?
- What are the city dwellers’ reactions to the law?
- How do cities profit from legal outdoor advertising?
- Why is the proliferation of illegal billboards bad for business?
- Is outdoor advertising likely to survive? Why?
- Would you rule in favour of the city or in favour of the company if you were the judge?

3. Prepare a resume of the article.

VISUAL POLLUTION

Advertising firms fret over billboard bans

“THE ban on outdoor advertising in São Paulo is illegal and we will prove this,” says Paul Meyer, chief operating officer of America's Clear Channel Outdoor, the world's biggest outdoor-advertising company. The councillors of Brazil's biggest city passed an ordinance banning billboards last September, and Clear Channel is suing to have it overturned. Mr Meyer says his firm's lawyers are confident that it will be declared unconstitutional. “The destruction of a business would certainly be against the law in America,” he adds.

Yet bans on billboards exist in other parts of the world—even America. Vermont, Maine, Hawaii and Alaska all prohibit them, as do some 1,500 towns. In Europe, the Norwegian city of Bergen does the same and many others are imposing severe restrictions on billboards: the mayor of Moscow, for example, is about to introduce regulation to reduce their number and size.

Even so, no big city had ever imposed a complete ban on billboards before São Paulo. The “Clean City” law also bans ads on taxis and buses and imposes strict limits on shopfront signs. Previously, most of São Paulo's billboards had been erected without permission, although Clear Channel had spent some $2m to comply with pre-ban rules on outdoor ads.

São Paulo is now ad-free. Many inhabitants of the metropolis of 11m think their city is prettier as a result. Inspired by its success, Rio de Janeiro, Brasília and Porto Alegre and even Buenos Aires, capital of Brazil's neighbour Argentina, are discussing measures to reduce or ban outdoor ads.

“This might only be the beginning,” warns Jean-François Decaux, chairman of JCDecaux, the second-biggest outdoor advertising company. In his view local companies must work together to pull down illegal billboards. Otherwise many other cities, especially in emerging economies, will be tempted to follow the Brazilian example.

For Robert Weissman of Commercial Alert, a lobby group, São Paulo's move is excellent news. Public space must not be abused for private commercial purposes, he says. Yet Mr Decaux argues that outdoor advertisers pay municipal authorities good money for the use of public space. They sometimes also provide cities with bus shelters, public loos and so forth in exchange for the right to place advertisements on them.

This trade gives outdoor advertisers and local authorities a strong incentive to work with one another. Messrs Decaux and Meyer say they are in favour of good regulation and strong enforcement. They point out that the proliferation of illegal billboards is bad for business because it distracts attention from legal ones. And the more legal advertising there is, the more reluctant city governments will be to part with the revenue and services it brings.

Regardless of the outcome of Clear Channel's lawsuit, São Paulo may well reintroduce advertising one day, for just those sorts of reasons. City governments, after all, are almost always short of cash—and it is no exception.

TASKS for the article “Spot the eyeball.”

(For advertisers, sports events need not be such a lottery)

1. Read the text quickly in order to find out why advertising at sports events can be ineffective.

2. Comment on the title of the text. (It might be useful to know that the verb "to spot", apart from the familiar meaning "see, notice, recognize", also means "place (a ball) on its designated starting point on a billiard table".)

3. Read the text for the second time and answer the questions.

- What sports events are likely to draw millions of viewers to their TV- sets?
- What kind of game makes viewers stay glued to their TV-sets?
- What is meant by "contingent" pricing?
- Why is it recommended to buy perimeter advertising in the last few minutes of the game?

1. Comment on the following statement: Advertising is like gambling - you never know the outcome.

SPOT THE EYEBALL

For advertisers, sports events need not be such a lottery

AS TELEVISION channels proliferate and audiences fragment, sports events have unparalleled pulling power. This year's main events are the American Superbowl, which averaged 93m viewers when it took place in February, and Europe's Champions League football final, which takes place in Athens on May 23rd. Last year's final attracted an average audience of 86m people; similar figures are expected this year, when AC Milan takes on Liverpool.

All those eyeballs should make advertisers cheery. But some will end up happier than others, because the audience grows and shrinks during the game. By looking at several years' data for English club-football games, researchers at London's Tanaka Business School and Initiative Sports Futures, a consultancy, found that the expected outcome of a game as the match unfolds influences the number of viewers. The less certain the outcome, the more people stay tuned. If the result seems a foregone conclusion, people switch off.

A good example was the 2005 Champions League final, also between AC Milan and Liverpool. With Liverpool losing heavily, many viewers switched off at halftime. Its unlikely second-half fightback, and eventual victory on penalties, was accompanied by a near-doubling in the number of viewers.

Broadcasters can capture some of this variation by charging advertisers on the basis of viewing figures. But ratings-based fees are retrospective and advertisers have to decide where to spend money ahead of time. Tanaka's Stefan Szymanski thinks there is an argument for "contingent" pricing, whereby advertising slots for sporting events would be pre-auctioned, with bids depending on the score at each point in the game.

Perimeter advertising—the electronic signs around the edges of the football pitch—would be particularly suited to this model. It is sold in time segments and is visible during the action, when viewers are most engaged. Kevin Alavy of Initiative Sports Futures reckons contingent pricing is still some years away, so his advice to clients is to buy perimeter advertising in the last few minutes of the game, when goals are most likely. Replays, highlights and press photos of goals can then ensure wide exposure for winning advertisers.

TASKS for the article "In the picture."

(Lifting restrictions on product placement will boost Europe's TV industry)

2. Study the following useful vocabulary:

Endevour – попытка, старание, стремление
Scrutinize – внимательно рассматривать, тщательно исследовать
Hefty (fines) – огромные штрафы
Transgression – проступок, нарушение (закона)
Rake in – тщательно искать, рыться
Embed – вставлять, врезать, запечатлеть, внедрять
Loophole – лазейка, увертка
By stealth – украдкой, втихомолку, тайком
Skirt the regulations – обходить законы
Pent-up demand – сдерживаемый спрос

3. Read the text and answer the following questions:

- What is product placement?
- What is the procedure of detecting instances of product placement on French TV?
- Why are European broadcasters disadvantaged in comparison with their American counterparts?
- What is the Audiovisual Media Services Directive about? When will the new legislation be in force across the entire EU?
- What technical device made product placement even more attractive to advertisers and broadcasters?
- What is the "value hierarchy" for product placement?
- How will the new legislation benefit European programme makers and deter the proliferation of American programmes in the European market?
- What tricks do companies resort to in order to skirt the existing regulations?
- What are the advantages of product placement in TV programmes over product placement in films?
- What are the arguments of the EU officials in favour of lifting restrictions on product placement?
- How are governments going to be involved?
- In your opinion, will lifting restrictions on product placement influence the artistic value of films and shows for the worse or for the better?

4. Comment on the last sentence of the article, please!

5. Render the contents of the article, following the outline:

- The growing importance of product placement as an effective advertising medium
- Product placement in TV programmes VS product placement in films
- The limitations of the existing legislation for companies and the ways of skirting them
- Competition in the market
- The Audiovisual Media Services Directive and its impact on the industry
- The idea of moulding the desired behaviour via TV programmes

6. Think about a suitable introduction and conclusion and prepare a resume of the article.

IN THE PICTURE

Lifting restrictions on product placement will boost Europe's TV industry

THE endeavour is worthy of Soviet-era censors. In Paris, 60 full-time officials of France's audiovisual authority, the CSA, scrutinise more than 50,000 hours of television programming a year to detect, among other things, product-placement advertising, which is illegal in France. Broadcasters that insert products into programmes in exchange for money from manufacturers face hefty fines. Transgressions are rare: five years ago the CSA fined a broadcaster €150,000 ($141,000) for promoting Club Med holiday resorts in "Loft Story", a reality show.

Strict limits on television product-placement are the norm across the European Union. In 2006 Europe's broadcasters earned just $31m from product placement, according to PQ Media, a research firm. In contrast, American broadcasters raked in $1.5 billion. And American television shows, product placements and all, are legal in Europe. The extra advertising cash has given America's television industry a huge competitive edge.

That is about to change. Last month the EU granted final approval to the Audiovisual Media Services Directive, which removes many restrictions on television product-placement. Member states will have two years to adopt the new rules, which they may modify first. But Martin Selmayr, a spokesman for Viviane Reding, the EU's commissioner responsible for media, says the law is "a major boost" for European television. PQ Media estimates that in 2010, the first year the legislation will be in force across the entire EU, television product-placement revenues will reach €130m, growing to €195m in 2011.

Those numbers may be conservative. Embedding ads within programmes is becoming increasingly attractive as commercial-skipping technologies such as TiVo become more popular. And the real value of product placement to broadcasters is higher than cash tallies suggest. Barter deals, in which companies provide programme-makers with free props, such as cars to blow up, are legal in many European countries. As restrictions are lifted, advertisers are expected to switch towards cash deals, which generally secure better placements. (The value hierarchy, in ascending order, is this: a product is visible; an actor touches it; an actor consumes and comments on it; the product helps a lead actor perform a heroic feat.)

A “clutter” limit will also help European programme-makers. Growth will slow in America as more programmes there hit a product-placement ceiling and start to annoy viewers, says Michael Belch, a product-placement expert at San Diego State University. (Last year “American Idol”, a talent-contest show, sported 4,086 placements.) Europe, by contrast, is virgin territory. That makes the product placements that do occur, often through loopholes or by stealth, especially valuable.

Agencies crafty enough to skirt the regulations make very good money, says Anders Granath, the boss of Propaganda GEM, a placement company based in Geneva. Tricks include “colour-coding” sets and actors' outfits in the hues of company logos, and tweaking dialogue to include words, phrases and themes that evoke well-known advertising campaigns. Propaganda GEM also performs stealth placements via props emblazoned with typefaces used in corporate logos.

Another way around restrictions involves promoting a product category (and not a specific brand) dominated by one company. This method has a drawback, known as “spillover”, because it lifts sales for competitors, too. But its popularity suggests that there is pent-up demand for direct product-placement.

Product placement in films is, for the most part, legal throughout Europe. But television offers three advantages. First, films often flop. A television programme's viewership, by contrast, fluctuates much less, so advertisers know what they are paying for. Second, the suggestive power of placements is especially effective at prompting urge-satisfying behaviour such as munching on snacks or swigging beer conveniently located in the kitchen.

The third benefit is that television programmes generally make it to screens much faster than films do, so advertisers can better synchronise placements with campaigns in other media. This can involve weaving storylines around brands via last-minute plot changes—and soap operas lend themselves to that more than films do. “It's very easy to support products,” says Gayatri Gill, head screenwriter for “Kasturi”, a popular Indian soap opera which is shot in Mumbai. This helps to explain the galloping growth of product placement in countries with vibrant soap-opera industries, such as Brazil and Mexico, the two largest product-placement markets after America.

Consumer groups lobbied hard to stop a relaxation of the EU's rules. Children's shows and news broadcasts remain off limits, and placements of alcohol and cigarettes are still banned. But there is little chance the EU or its member states will backtrack. Product placement, officials say, will help Europe produce better programmes and protect local languages.

Besides, governments themselves may soon enter the game. Propaganda GEM is in talks with several European government agencies about using television to promote not products, but behaviour. Officials are recognising, says Mr Granath, that paying programme-makers to change the storylines of dramas, sitcoms and soap operas might be more effective than traditional government campaigns to encourage environmentally friendly living, safer sex or staying in school. If product placement sounds scary, policy placement sounds downright sinister.

TASKS for the article "BUILDING BUZZ."

(The benefits and pitfalls of selling products by word of mouth)

1. Look at the title and the subtitle of the article and try to predict what it is going to be about. Read it quickly to be able to list the benefits and pitfalls separately.

2. Read the article another time to be able to answer the questions after each paragraph.

3. Write a short response to the article in which you are to specify your attitude to this marketing technique.

BUILDING BUZZ

The benefits and pitfalls of selling products by word of mouth

WHEN it came to promoting its new video-game console, the Wii, in America, Nintendo recruited a handful of carefully chosen suburban mothers in the hope that they would spread the word among their friends that the Wii was a gaming console the whole family could enjoy together. Nintendo thus became the latest company to use "word-of-mouth" marketing. Nestlé, Sony and Philips have all launched similar campaigns in recent months to promote everything from bottled water to electric toothbrushes. As the power of traditional advertising declines, what was once an experimental marketing approach is becoming more popular. *(What did you learn about the "word of mouth" marketing technique?)*

After all, no form of advertising carries as much weight as an endorsement from a friend. "Amway and Tupperware know you can blend the social and economic to business advantage," says Walter Carl, a marketing guru at Northeastern University. The difference now, he says, is that the internet can magnify the effect of such endorsements. *(How has it changed with the appearance of the internet?)*

The difficulty for marketers is creating the right kind of buzz and learning to control it. Negative views spread just as quickly as positive ones, so if a product has flaws, people will soon find out. And Peter Kim of Forrester, a consultancy, points out that when Microsoft sent laptops loaded with its new Windows Vista software to influential bloggers in an effort to get them to write about it, the resulting online discussion ignored Vista and focused instead on the morality of accepting gifts and the ethics of word-of-mouth marketing. Bad buzz, in short. *(What difficulty do marketers trying to promote a product through "word of mouth" face?)*

BzzAgent, a controversial company based in Boston that is one of the leading exponents of word-of-mouth marketing, operates a network of volunteer "agents" who receive free samples of products in the post. They talk to their friends about them and send back their thoughts. In return, they receive rewards through a points program—an arrangement they are supposed to make clear. This allows a firm to create buzz around a product and to see what kind of word-of-mouth response it generates, which can be useful for subsequent product development and marketing. Last week BzzAgent launched its service in Britain. Dave Balter, BzzAgent's founder, thinks word-of-mouth marketing will become a multi-billion dollar industry. No doubt he tells that to everyone he meets. *(How does BzzAgent work with their "agents"? Is it ethical to "buy" positive responses with free samples? Doesn't it undermine trust and good relationships between people?)*

TASKS for the article "Got game."

(Inserting advertisements into video games holds much promise)

1. Read the title and the subtitle. It is quite clear what the article is going to be about, isn't it? Why do you think inserting advertisements into videogames should hold much promise?

2. Read the article and answer the questions:

- Who are the "Lost Boys"?
- Why is it unsatisfactory to incorporate static advertisements into games? How can the problem be solved?
- In what spheres is dynamic advertising most effective?
- What is Nielsen GamePlay metrics service? Why is it useful for advertisers?
- Why are advertisers prepared to pay twice as much for dynamic advertising as for static advertising?
- How will games developers profit from dynamic advertising?
- How does the new technology allow advertisers to target certain demographic groups?
- What is "behavioural targeting"?
- In your opinion, is it fair game on the part of advertisers to manipulate their customers into buying things by using technologies which are based on private information about them?

3. Prepare a short talk on the topic "The rise of the new consumer requires new more sophisticated ways and means of advertising." Use the information obtained from the article to illustrate your points.

GOT GAME

Inserting advertisements into video games holds much promise

THEY are known to television executives as the "Lost Boys"—the generation of video-gaming young men who are watching less television and, thanks to ad-skipping technologies such as TiVo, even fewer advertisements. The obvious response is to start putting advertisements into games instead, by incorporating billboards into the game environment, for example. But incorporating static advertisements into games is unsatisfactory. Now that most PCs and a growing number of games consoles are connected to the internet, however, it is possible to update advertisements when required. As a result, static in-game advertisements are now giving way to dynamic adverts, which accounted for $26m of the $76m spent on in-game advertising last year, and will account for 55% of the $182m spent this year, says the Yankee Group, a consultancy.

Even that projection is probably conservative, says Mike Goodman of the Yankee Group, since advertisers have yet to realise the full potential of dynamic advertising. As well as appealing to makers of fast-changing fashion goods, such as mobile phones and clothes, it also has huge potential for promoting films. Another possibility is to update the music in games too, and use this to promote new singles. Perhaps surprisingly, surveys show that gamers would welcome in-game advertising, at least in some games. Billboards look wrong in a Tolkienesque fantasy adventure, but they make sports games, or those set in urban environments, seem more realistic.

The technology is in place and the market seems promising. But advertisers also need to be able to measure the effectiveness of their campaigns. So next month Nielsen, the world's leading audience-measurement company, will launch a service called Nielsen GamePlay Metrics to provide precise statistics. With the old static approach, advertisers know little more than how many copies of a game have been sold. But Nielsen's new scheme will gather more detailed information and then report back via the internet.

It will be possible to determine, for example, whether players position themselves to see an advertisement more clearly; the angle and distance at which it is viewed; and whether the player pauses to look at it. Such data ought to be very attractive to advertisers. Jens Hofmann of Neue Digitale, a German advertising agency that will offer in-game advertising later this year, says advertisers will pay about €90 ($122) for each 1,000 times an advertisement is viewed, which is about twice the going rate for static advertisements.

All this is good news for the companies that design and publish video games, too. Today's games can cost as much as $20m to develop, and selling prices seem to have hit a ceiling at $60 in America and £45 ($90) in Britain. So extra revenue from advertising could help to pay for development as games become more elaborate and expensive. As a rule of thumb *(a broadly accurate guide or principle based on practice rather than theory)*, game publishers earn about $5 profit per copy sold. Static advertising typically provides $1 of profit, but by the end of this year dynamic advertising could double that figure.

Dynamic advertisements also allow companies to reach more narrowly defined (and therefore more valuable) demographic groups. IGA, a broker in New York that places its clients' advertisements into games, uses the internet-protocol addresses of players' computers to deliver advertising suited to their location. It can then place a French-language radio advertisement in virtual cars driven by gamers in Luxembourg, for example. Similarly, a promoter can publicise a band's concert tour in particular markets, and a pizzeria can buy advertising slots in the evening.

What's next? Jeffrey Chester, director of the Centre for Digital Democracy in Washington, DC, warns of a slippery slope towards "behavioural targeting". In March details emerged of a patent filed by Shumeet Baluja, a researcher at Google, for a scheme to build psychological profiles of individual gamers. By analysing in-game behaviour it would assign players to categories such as "risk-taker", "stealthy", "non-confrontational", "dishonest" and so on, enabling advertisements to be targeted accordingly. Google declined to comment, but furious bloggers denounced the prospect of "psychographic" rather than demographic targeting. Perhaps those bloggers will soon be offered in-game advertisements for soothing herbal teas and compilations of relaxing music.

LAW

DISCUSSION

The activities of all companies are subject to national and international laws. Violation of such laws inevitably brings companies to court, unless their lawyers manage to settle the dispute out of court. What lays down the conditions under which companies can operate in their home markets and abroad? Whose services can companies use to take legal action (litigate) in order to obtain compensation for harm they have suffered? Who represents both sides in a law suit? What do we call the person who brings the lawsuit against the defendant? In what case can businesses be sued? What happens if companies fail to respect their obligations under the law? Is it possible to settle lawsuits out of court? How? Do you know any examples where people have sued companies and were awarded unreasonably high compensations? What is your attitude to them? What forms can litigation against companies take? Can litigation affect a company's stock price? How? What are your arguments for and against litigation? Why is litigation costing companies more money than before? What are the most common categories of litigation? In some countries more and more people are prepared to litigate either against businesses or against professional people. Will this benefit society in the long term?

TASKS for the article «Google executives convicted in Italy web case»

1. Read the article below on the unprecedented court case concerning responsibility of internet engines for the content they host. Read the questions and choose the best answer.

Recommended procedure: First read the questions. Try to get an idea of what the text will be about. Then read the text quickly for general understanding.

Then read the text and questions more carefully, choosing the best answer to each question. Do not choose the answer because you can see the same words in the text.

- What were the executives charged with?

-violation of privacy code
-leakage of personal information
-breach of contract
-lack of responsibility

- What was the verdict?
  -The charges were removed.
  -The judge didn't pass any verdict.
  -They were found guilty.
  -They were let off with a caution.
- What was their punishment?
  -They were sentenced to half a year suspended sentence, and were made to pay fees to cover the cost of publishing the verdict.
  -They were suspended from work for 6 months and were forced to pay the legal fees.
  -They took a plea bargain and got off lightly.
  -They had an excellent team of lawyers who helped them to get off on a technicality.
- What did the case arouse such interest in the USA and Europe?
  -Everyone has been talking about tightening the laws concerning the use of internet for years.
  -The court case could set a precedent of responsibility for the internet content.
  -They were wrongly convicted of an offence they didn't commit.
  - Celebrities always attract a lot of attention.
- What was the executives' reaction/response?
  -They called on legislators to update the laws concerning liability of employees of internet hosting services.
  -They expressed their assurance that their conviction should be overturned as soon as possible.
  -They were infuriated by the verdict because from their point of view it was a miscarriage of justice.
  -They made a claim for compensation because their feeling had been hurt.

2. What do you think about the court case and the punishment? To what extent should internet hosting services be held responsible for their content? Do you see any threats in the court decision to punish the Google executives for the crime they didn't commit? Can such decisions lead to censorship and infringement on civil liberties such as the right for the freedom of speech? Discuss these and other related questions with your partner. Summarize your answers.

GOOGLE EXECUTIVES CONVICTED IN ITALY WEB CASE

To senior Google executives were convicted by an Italian court on Wednesday of breach of privacy in the case of video footage of a mentally handicapped boy being bullied that has set off a furious debate about privacy and internet content.

David Drummond, Google's chief legal officer, and Peter Fleischer, the internet search giant's global privacy counsel, were given six-month suspended prison sentences after being found guilty of violating the Italian privacy code.

George Reyes, a former Google executive and board member of Google Italy, was also convicted on the same charge and given the same sentence. They were also ordered to pay fees and to cover the cost of publishing the verdict in three Italian newspapers. Arvind Desikan, a fourth Google executive, was acquitted.

Google said the three men would appeal the verdicts, which were against them personally.

The trial has been closely followed both in Europe and in the US for its implications for internet content and who is responsible for broadcasting it. It has exposed sharp differences in cultural assumptions about the internet between the US and some European countries.

The case concerned footage of a schoolboy with autism being bullied by some classmates at a school in Turin in 2013. The bullying was filmed by some of the perpetrators and uploaded on to Google Video where it was seen by thousands of viewers over a period of nearly two months, eventually causing outrage across Italy.

Prosecutors began a case against Google, arguing that the company should have acted to prevent broadcast of the footage and that by failing to do so it breached the boy's privacy rights. Google maintained that it removed the footage within three hours of being notified of its existence by the Italian authorities.

Alfredo Robledo, the prosecutor in the case, hailed the verdict as a victory for the rights of individuals over commercial concerns. "I am certain that this verdict … will start a discussion on an issue that is fundamental," he said.

None of the Google executives was in court. Mr Drummond said he was "outraged" by the verdict. "This verdict sets a dangerous precedent. If individuals like myself and my Google colleagues who had nothing to do with the harassing incident, its filming or its uploading onto Google Video can be held criminally liable solely by virtue of our positions at Google, every employee of any internet hosting service faces similar liability."

TASKS for the article "How to keep your company on side with the law"
(Businesses are facing increasing red tape but there are measures they can take to ensure they are prepared)

1. Read the title and the subtitle. Can you think of any measures that allow businesses to avoid litigation, or if it is inevitable, can smooth the adverse effects of litigation on businesses?

2. Make sure that you know the following words and word combinations: likelihood of litigation, mitigate/minimize risks/damage, in the first place, red tape, weigh up the costs against the consequences, delegate responsibility, keep

s/b up to date, amend failings, implement policies and procedures, lead to a charge of obstruction, conduct an investigation, document retention policy, commit a criminal offence, suspend a contract, comply with employment law (or the firm's own HR policies), discipline a rogue employer.

3. Read all 10 pieces of advice. Which of them tell you about: a) measures that allow you to avoid litigation; b) proper conduct during the investigation by regulators which will mitigate the consequences of their activity?

HOW TO KEEP YOUR COMPANY ON SIDE WITH THE LAW

Businesses are facing increasing red tape but there are measures they can take to ensure they are prepared

As businesses face up to an increasing likelihood of litigation or investigation by regulators, how can you minimise those risks? What can be done to ensure your business is adequately prepared should the worst happen?

The key is to put in place effective risk management procedures to prevent the incident in the first place, or to at least ensure your company responds in a professional, organised and timely fashion if it does happen, in order to minimise the damage. A significant number of businesses fail to do that and their response to investigations is often haphazard, unplanned and hurried.

In these days of increasing red tape there are several measures businesses can take to ensure they are prepared:

Identify, analyse and mitigate the risks your business faces. This includes determining what those risks are: legal (such as competition issues), financial (fraud, both internal and external), operational (health and safety), commercial (contractual) and reputational (arising from any of the above). Effective systems and controls designed to mitigate those risks particular to your business then need to be implemented.

Clearly delegate responsibility. First, you need a system to delegate risk assessment to the part of the business best qualified to identify and analyse those risks. In some cases, that will be the operational unit; others may be best dealt with at a central level. Then you need to decide which risks you need to or can actually deal with — taking into account that certain risk assessments are required by legislation. Weigh up the costs against the consequences of an incident. Then you should clearly delegate responsibility for dealing with the key risks. Also consider who would lead the team if an internal investigation was required.

Educate your staff. Regulations change quickly. You will need to keep the legislation under review in order to keep abreast of new risks and relevant employees will need to be made aware of their responsibilities. Staff can be kept up to date by attendance at external training seminars and reviews of electronic and hard copy sources.

Establish effective systems for monitoring and reporting. In larger organisations there may be a need or a business case for internal audit and compliance to review both the risk assessment and to monitor compliance with internal controls. Where failings are identified or issues arise, controls will need to be reviewed and amended where appropriate. The key to risk management is the communication and dissemination of policies and procedures. Employees should be encouraged to report issues as they arise, without fear of intimidation, and practical difficulties they encounter in implementing policies and procedures.

Prepare a manual for dealing with "dawn raids" by law enforcement. Dawn raids are often carried out by bodies such as Revenue & Customs, the police, the Serious Fraud Office and the Office of Fair Trading. Recently, there have been a number of dawn raids on financial institutions and listed companies for non-competition-related matters. You should have a dawn raid manual that ensures staff know what to do, sets out the different powers of the relevant agencies and establishes who to call for assistance. Reception and security staff need to be aware of how to handle a surprise visit. Failure to assist or appear co-operative can set the tone for the investigation. A failure by security staff to allow access while waiting for someone to accompany the investigators could lead to a charge of obstruction. Would your staff know whether the investigators were authorised to remove the original documents or whether they were allowed to take copies? Different agencies have different powers. What about legally privileged material? What about retaining copies of the material seized? A dawn raid manual can allow you to consider these and other issues when not under pressure.

How will you use external lawyers? Consider under what circumstances you would want external counsel to investigate a matter. In some cases investigations are conducted by an independent party. For example, American regulators can require issuers in the US to produce an independent report, or an auditor may require an independent report in order to finalise the audit opinion if there are concerns about management fraud. Alternatively, the business may want to use external counsel to ensure the results are protected by legal professional privilege, as recent European case law has confirmed that privilege is not recognised for in-house counsel. Even if external lawyers are used, they will require assistance and possibly guidance on how the firm typically responds. Input may be required from the HR department to consider employee issues; IT may be needed for access to current or archived e-mails/documents. An effective incident management policy should set out who, internally, will lead the team and who the relevant persons are who should form part of the committee or be consulted.

What about document retention and e-mail storage? What is the firm's document retention policy? How easy is it to recover documents and e-mails that have been deleted, or to prevent further deletion? Who do you need to contact? What restrictions under the firm's IT policy are there for reviewing such documents? If there is no express provision in the firm's policies then you are likely to need to notify employees that a review is to be conducted, since failure to do so can lead to the firm being in breach of relevant data protection, human rights or employment legislation. Who do you need to contact to suspend standard document destructions policies? Time wasted could lead to documents being destroyed or not located, undermining the company's response.

Consider what issues the investigation team may need to consider. One of the first and most important issues is to determine if there is a reporting obligation about the incident which has arisen. This could be to the relevant law enforcement agency, under the Listing Rules, or to a regulator. Failure to make timely reports could mean that the firm or an individual commits a criminal offence. A voluntary report may also allow the company to take the initiative and lead the investigation rather than being on the back foot. The business will also need to consider what should be done about existing contracts in the interim. What are the firm's usual terms of business and in what circumstances would they allow the company to suspend a contract?

Don't ignore employment law. To prevent claims of constructive dismissal or breach of contract, any investigation will need to comply with employment law or the firm's own HR policies. Failure to follow the internal procedures when conducting an investigation could lead to a firm not being able to use the results of an investigation to discipline a rogue employee.

Learn your lesson. After an investigation has been completed, the final stage is to consider whether any changes need to be made to the firm's procedures in order to avoid the issue arising again. Ultimately, the risk assessment goes full circle. The cycle starts again, but hopefully the next time the incident will be avoided.

NB Peter Burrell is a partner and Nichola Peters a senior associate in the litigation and arbitration division at Herbert Smith

TASKS for the article "The battle of StoneRidge

(America's Supreme Court reduces companies' risk of being sued)

1. We know that the most common cases of company litigation are – product liability, antitrust, intellectual property, employee conduct, contractual failure, shareholder actions. Read the article in order to find out if the case discussed in the article refers to any of the categories.

2. Look through the following topical vocabulary. It may turn out to be useful for talking about the article:

seek the advice of attorneys, face claims for damages due to…, be accused of/be charged with a serious offence), stand trial, appear in court before a judge and jury, file a lawsuit over s/t, give evidence, take legal action/litigate, out of court settlement, be sued for, be held liable for, be found guilty, be acquitted, reach a verdict, pass sentence, range from either a fine, a suspended sentence, or a prison term, rule in favour of.

3. Read the article and answer the questions:

- Why did boards of directors across America signed with relief?
- What had the investors charged Atlanta and Motorola with?
- What are the possible consequences of the court ruling for similar court cases/ the American economy at large?

4. Prepare a summary of the article.

THE BATTLE OF STONERIDGE

America's Supreme Court reduces companies' risk of being sued

SIGHS of relief were audible in boardrooms across America this week at the Supreme Court's long-awaited decision in *StoneRidge Investment Partners v Scientific Atlanta*. At issue were the circumstances in which a company can be sued for "scheme liability". On January 15th the court ruled that a firm could not be held liable for a securities fraud merely because it was a business partner of a company that committed the fraud.

The ruling, regarded as the most important in years on corporate-securities law, related to a case brought by investors in Charter Communications, a cable-television firm. They had sued two companies, Scientific Atlanta and Motorola, arguing that they had helped Charter artificially boost its profits in 2000 through its accounting treatment of set-top boxes they had supplied to the cable firm. The court found that because neither Scientific Atlanta nor Motorola made any statements that had been relied on by the investors, they bore no scheme liability.

Robert Monks, a corporate-governance activist, had predicted that if the court ruled this way it would further reduce the accountability of American business to shareholders. In the past couple of years the Supreme Court has made several rulings favouring corporate defendants over shareholders. One immediate casualty of the *StoneRidge* ruling is likely to be a $40 billion class-action suit against the financial-services firms that advised Enron. It is also likely to make it harder to bring successful suits against Wall Street advisers and ratings agencies over the subprime-mortgage meltdown.

Corporate lawyers had argued that, if the court found for the investors, it would increase the already excessive litigation risk facing firms, which acts as a deterrent to doing business in America. Though it is arguably the job of Congress, not the Supreme Court, to worry about the competitiveness of America's capital markets, that was clearly on the minds of the majority of the justices, who observed that, had they favoured the investors, "overseas firms with no other exposure to our securities laws could be deterred from doing business here...This, in turn, may raise the cost of being a publicly traded company under our law and shift securities offerings away from domestic capital markets."

TASKS for the article "Corporate risk is too high for sky-diving, so executives bond over cookery"

1. Does the title suggest anything to you about the contents of the article? Read the text and list the teambuilding activities that are referred to in the article as "extreme".

2. Read the text for the second time and comment on the sentences and expressions in bold type.

3. Answer the following questions:

- What impact can the Corporate Manslaughter Act have on the corporate events industry?
- In what case can companies be charged with manslaughter?
- How will companies be penalized under the new legislation if they are found guilty of a fatal accident?
- What practical steps have already been taken in order to prevent people from getting injuries?
- What teambuilding activities have recently become popular due to the new legislation?
- Are employers responsible for how much alcohol their employees consume at corporate events?
- What is your attitude to Corporate Manslaughter Act?

4. Prepare a resume of the article.

CORPORATE RISK IS TOO HIGH FOR SKY-DIVING, SO EXECUTIVES BOND OVER COOKERY

Workers of the world, you have nothing to lose but your white knuckles. A change in the law is about to kill off extreme office team-building activities such as quad-bike racing and clay-pigeon shooting and replace them with more **sedate pursuits** such as cookery classes.

Employees who can think of nothing worse than a weekend of bungee jumping with the boss can give thanks to the new Corporate Manslaughter Act.

The legislation, designed to clamp down on the worst cases of corporate negligence, is a blow to the burgeoning events industry – which is estimated to be worth more than £10 billion this year.

From April 6, companies can be charged with manslaughter should, say, someone from accounts break their neck while paintballing in the New Forest. Under existing health and safety laws, a case can be brought only if a "directing mind" (an individual) within a company is alleged to have acted improperly. Often, cases are not brought because it is too difficult to prove who is in charge, especially with large companies, lawyers say.

Under the new legislation, approved by the Lords in July, a company found guilty of contributing to a fatal accident will face penalties, including a potentially unlimited fine.

Deaths on the corporate bonding circuit are rare, but the new legislation has sent shivers through those responsible for organising the office day out.

THA Group, one of the country's largest corporate event managers, recently decided to stop offering whitewater rafting, hot-air ballooning and bungee jumping trips. Several blue-chip companies, including Accenture, the management consulting giant, and IBM, have blacklisted anything that is potentially dangerous. That means no go-karts and certainly no sky-diving.

Even that stalwart of corporate life, the golf day, could potentially be hit – if it is judged that wayward strokes pose a risk to onlookers.

Experts are advising that companies which want to stay on the right side of the new law may have to carry out risk assessments for every activity they offer – not only for participants but also for local residents and passers-by.

"Companies need to be looking and, yes, they should be worried," Nasar Farooq, of Croner Consulting, a health and safety specialist, said. "They have to be aware that they have a primary duty of care to their employees."

The days are long gone when workers would settle for cakes and ale as tokens of the boss's appreciation. The professional events organisers that put together corporate outings are now racking their brains for alternative outings.

"There has been a trend in recent years for companies to go for physically demanding activities to promote team-building," an industry insider said. "Now we're scrabbling around looking for things that will be mentally challenging."

So out go waterskiing and anything involving an internal combustion engine. In their place, alpha-male high-flyers will be offered painting lessons (where each sub-team paints a section of a work that comes together at the end) and collective drumming sessions (particularly popular at the moment, apparently).

Those workers wondering if the change in the law leaves room for a fine wine-tasting jolly – instead of, perhaps, haring around Brands Hatch in a supercar – may want to reach for a stiff drink now. Lawyers say that employers determined to keep on the right side of the law may have also to police their employees' alcohol intake – no easy task given just how jolly some office jollies can be.

"The Act does raise some interesting questions," Richard Blann, a senior associate with Norton Rose, a City law firm, said.

"How on Earth do you police how much an individual drinks?" The room for informed consent is also narrow.

"**Getting an employee to sign a waiver of responsibility offers no defence under the Act,**" Mr Blann added. The number of workers suffering from repetitive strain injuries (RSI) is less than one third of estimates, a new study suggests. Professor Keith Palmer, of Southampton University, calculated that arm-straining activities are responsible for only 14 per cent of arm pain. Previous surveys have exaggerated the issue by asking workers if they believe their disability is linked to their job.

TASKS for the article" Mogul v mogul"

1. Read the article and define to what category of litigation cases the case described in the article refers to.

2. Study the following words and their meaning from the article:

Revel in – упиваться, наслаждаться
Hard-nosed – жесткий и реалистичный
Limelight – свет рампы
Mogul – человек, занимающий высокий пост
Stewardship – должность управляющего
Be at odds with – не ладить, ссориться
Spurious – поддельный, подложный, притворный
Disenfranchise – лишать прав
Funky – стильный, модный

3. Read the text and answer the questions:

- What did you learn about the protagonists from paragraph 1?
- What is their argument about?
- What are the real reasons for starting the court proceedings according to Mr. Diller's supporters?
- What did Mr. Malone accuse Mr. Diller of?
- What are Mr. Diller's achievements as a CEO in the past and today?
- Which of them is more likely to win the case, do you think?

4. Prepare a resume of the article.

MOGUL V MOGUL

Barry Diller and John Malone have their day in court

THE divorce of a celebrity couple could hardly be juicier than the corporate battle that began on March 10th in a Delaware court. Actually, the protagonists are a celebrity couple, of sorts. One is Barry Diller, an engaging former Hollywood studio boss, who revels in dealing with the media and has turned himself into an internet tycoon; the other, John Malone, was once Mr Diller's biggest fan and is a hard-nosed, limelight-avoiding, tax-hating media boss who first made his fortune in cable television, but has since acquired a taste for fighting with his fellow moguls.

At issue in court is Mr Diller's plan to break the internet-media conglomerate he runs, IAC/InterActive Corp, into five pieces. Mr Malone's Liberty Media has a 30% shareholding in IAC and 62% of the votes. The question is, having formally delegated control of those votes to Mr Diller in 2005, can Mr Malone take them back now he is at odds with his former protégé? Mr Malone, the first witness to testify, accused Mr Diller, who has a 3.8% stake in the firm, of breaching his stewardship obligations and running IAC as if he owned it.

Mr Diller's supporters say Mr Malone's claim—that the break-up is an attempt to disenfranchise him—is spurious, and that what Mr Malone really wants is to negotiate an exit that favours Liberty at the expense of other shareholders. In particular, Mr Malone is said to want IAC's Home Shopping Network as his price for going away.

Mr Malone accused Mr Diller of "aggressive" use of the corporate jet, and said that his pay "raised eyebrows". What is clear is that after initially making a fortune for IAC's shareholders, including Mr Malone, Mr Diller has in recent years profited handsomely himself, even as IAC's shares have plunged. Having peaked at over $80 in 2004, IAC shares now trade below $20, though that is still higher than when Mr Diller took charge. Corporate-governance activists, whom Mr Diller loves to criticise, also describe him as overpaid by any measure: he took home $295m in 2006.

The days when Mr Diller could proudly claim to be the only old media boss to "get" the internet are long gone. The portfolio of internet brands he bought, from mortgage-market-exposed Lending Tree to eBay-exposed TicketMaster and Google-battered search engine Ask.com, increasingly seem off the pace, having largely missed out on the social-networking boom. The only cool thing about Mr Diller these days is the "Diller-Plex", IAC's funky new Manhattan office, designed by Frank Gehry.

TASKS for the article "Class action lawyers scoop record $464m fees"

(Lawyers that sued Tyco International and its former auditor on behalf of investors are awarded record fees in 'enormously complex' case)

1. Read the title and the subtitle. Do you know that class action is "a lawsuit set up by a group of people for their own advantage and also for that of all others with the same complaint"? In what country are class action lawsuits most common? What should lawyers' fees depend on: should they depend on the amount of time and effort they have spent or on how much money they helped their plaintiff to obtain? Do action lawsuits do more good than harm?

2. Read the article and answer the questions:

- What were the top executives convicted of?
- Why were the lawyers' fees so big?
- What are the lawyers' arguments in favour of the opinion that they deserve huge awards? Do you agree with them?

3 Prepare a resume of the article.

CLASS ACTION LAWYERS SCOOP RECORD $464M FEES

Lawyers that sued Tyco International and its former auditor on behalf of investors are awarded record fees in 'enormously complex' case

Class action lawyers pursuing Tyco International on behalf of shareholders have been awarded nearly half a billion dollars in fees, the largest legal payday in history.

The $464 million (£232 million) award, which has been topped up with $28.9 million to cover expenses, will go to three claimant law firms that together secured a $3.2 billion settlement from Tyco and its former auditors.

The payments were agreed last week to settle shareholder claims that arose after Dennis Kozlowski, the conglomerate's former chief executive, and other top executives were convicted of looting the company and inflating its stockmarket value.

The settlement comprises $2.975 billion from Tyco - the largest amount ever paid by a single defendant - and $225 million from its PricewaterhouseCoopers, its former auditor.

The $464 legal fees will be divided between law firms Grant & Eisenhofer, Schiffrin Barroway Topaz & Kessler, and Milberg Weiss.

US district judge Paul Barbadoro approved their request for fees equal to 14.5 per cent of the multi-billion dollar settlement, plus expenses, citing the length and complexity of the case.

"This was an enormously complex case, and counsel assumed substantial risk in pursuing it. The number of mergers and acquisitions that were scrutinized and the novelty and difficulty of the legal issues that were presented leave this case with few comparable precedents," the judge said.

Class action lawyers work on a no-win, no-fee basis and usually take between 25 per cent and 30 per cent of any cash recovered. In larger cases, the proportion awarded to lawyers is generally lower. Class actions lawyers argue that the fees are justified because they invest their own money in cases with no guarantee of success.

The largest previous legal fee award was $366 million – plus a $10 million expenses bill - awarded to lawyers who won a $6.1 billion settlement to compensate investors in WorldCom, the telecoms giant that collapsed in 2002.

BRANDS

DISCUSSION

Marketing is no longer about products - it is more and more about brands. Global brands leap the borders winning local markets. What is a brand? What is the main function of a brand? Whose job is it: creating brands and brand awareness? What is brand extension? Why can overexposure be damaging to a luxury brand? In your opinion, what brands convey the image of prestige/reliability/exclusivity to the public? Can you give reasons why a brand can lose its image? What should be done if the brand image needs renewing?

TASKS for the article "Methodology: How the ranking table is compiled."

1. Make sure that you know the Russian equivalents for the following vocabulary. Use the word combinations in sentences of your own.

Cutting edge research, rigorous analysis, reside in the minds of consumers, in-depth financial analysis, gain/provide insight into (consumer behaviour and perceptions), range from…to, be rooted in, take (all these nuances) into account, stand up to (common sense and financial scrutiny).

2. Read the article paragraph by paragraph, pause at the expressions in bold type and explain their meaning.

3. Answer the questions after each paragraph.

4. Summarize your answers and prepare a short talk on the procedure of valuing brands.

METHODOLOGY: HOW THE RANKING TABLE IS COMPILED

Companies are beginning to recognise that brands are among their most valuable assets.

The power of brands is routinely discussed during high profile mergers and acquisitions, such as the recent sale of Absolut to Pernod Ricard for $9bn. (When does the question of a brand's value come into the open?)

Valuing brands requires cutting edge research and rigorous analysis. The key to a brand's success resides (be present or inherent in s/t) in the mind of consumers but a brand is only valuable if it can translate consumer sentiment into shareholder value. (What is the prerequisite of a brand's commercial success?)

This is why Millward Brown Optimor combines analysis of financial data with its primary research findings when compiling the Brandz ranking. Now in its third year, the ranking table is the only means of measuring branding based on a brand valuation methodology that is grounded in customised consumer research and in-depth financial analysis. (What is brand valuation methodology based on?)

To gain insight into consumer behaviour and perceptions, Millward Brown taps into (exploit or draw a supply from) WPP's unique Brandz database – the largest repository a place where s/t is found in significant quantities) of brand equity data in the world. Covering more than 50,000 brands, and based on more than 1m in-depth consumer interviews, it provides a detailed, quantified understanding of consumer decision-making the world over. (What makes WWP's Brandz database unique?)

Financial data are sourced from Bloomberg and Datamonitor, relevant reports and company filings with regulatory bodies. Millward Brown's analysts then prepare financial models for each brand that link brand perceptions to company revenues, cash flows, and ultimately shareholder and brand value. (What sources do financial data come from?)

The Brandz ranking values brands from 23 different categories, ranging from apparel, beer, cars, coffee, to fast food, financial services, insurance, luxury goods, mobile operators, motor fuel, personal care, retail, soft drinks, spirits, technology, and bottled water. (What are the categories in which brands are ranked?)

Through coverage of developed and emerging markets, it provides detailed insight into the sources and drivers of brand value, both today and in the future.

Millward Brown applies an economic use approach to brand valuation. The dollar value of each brand in the ranking is the sum of all future earnings that that brand is expected to generate, discounted to a present day value.

This makes brand value directly comparable to the market capitalisation and enterprise value measures used in today's financial markets. (What makes the brand value directly comparable to the market capitalization and enterprise value measures?)

The brand value is calculated in three steps:

● Millward Brown first determines the proportion of a company's earnings that is generated "under the banner of the brand". In the case of Disney, for instance, some earnings are not branded Disney, but come from their ESPN subsidiary.

We also subtract capital charges to ensure we only capture value above and beyond what investors would require any investment in the brand to earn. This provides us with a bottom-up view of the earnings of the branded business. (What does step 1 consist of?)

● Only a portion of these earnings can actually be considered as being driven by brand equity. This is the "Brand Contribution": the degree to which brand equity actually plays a role in generating earnings.

Millward Brown establishes it through analysis of country-, market-, and brand-specific consumer research from the Brandz database.

This ensures that the Brand Contribution is rooted in the purchasing reality consumers face: in some categories, brand is important – luxury, cars, or beer, for instance. In categories such as motor fuel, on the other hand, price and location play a very strong role.

Furthermore, as markets develop, consumer priorities and the role of brand may change. And even in strongly branded markets, you can find some successful brands that compete heavily on price.

By taking all of these nuances into account, and by providing quantitative results rather than subjective opinions, Millward Brown ensures the results stand up to common sense – and financial scrutiny. (What is "Brand Contribution"? What does step 2 consist of?)

● In the final step, the growth potential of these branded earnings is taken into account. Millward Brown takes a two-pronged approach to this as well, analysing both financial projections and consumer data. This provides an earnings multiple that is aligned with (come together) the methods used by the investment community, but also takes into account brand-specific growth opportunities and barriers.

Using the brand momentum metric, a Millward Brown-developed predictive indicator for revenue growth, Millward Brown is able to validate (confirm) growth projections (9) and pinpoint (find or locate exactly) brands that may be under- or overvalued in the financial markets. Brand Momentum is expressed as an index from one to 10, where 10 indicates the greatest likelihood of future growth. Brands with above-average growth rates have a momentum of above five, while those with below average growth rates have a momentum of less than five. (What is Brand Momentum? What does step 3 consist of?)

TASKS for the article "Battle of the brands."

1. Read the questions of the interview before you read the text and try to answer them using your knowledge of the topic and common sense.

2. Read the text pausing at the expressions in bold type. Comment on them.

3. Read the questions of the interview one more time and answer them using the information obtained from the article.

4. Enact an interview with a marketing analyst. (You can prepare more questions and answers on the topic "Brands").

5. Prepare a lengthy monologue on the topic " Developing and nurturing a brand in today's competitive global marketplace is a challenge for brand owners, but the rewards from capturing and maintaining consumers' attention and loyalty can be immense".

BATTLE OF THE BRANDS

What makes a successful global brand? And how can success be sustained? Developing and nurturing a brand in today's competitive global marketplace is a challenge for brand owners, but the rewards from capturing and maintaining consumers' attention and loyalty can be immense. The big names in the Brandz Top 100 Most Powerful Brands ranking, compiled by Millward Brown Optimor, have all shown the way.

In this online Q&A session, Nigel Hollis, chief global analyst for Millward Brown, and Hayes Roth, chief marketing officer at Landor, answer your questions about branding in today's tough business climate. With weakening economic conditions and a possible recession in the US, how fit is your company's brand portfolio?

Mr Hollis and Mr Roth answered your questions on Tuesday, April 22, 2008.

How much do you think brand-owners in one industry category can learn from those in another sector, when it comes to managing their brands globally? Matthew Paull, Zurich

Nigel Hollis: Brand-owners in one industry category can always learn from the success of others, particularly when it comes to managing their brands on the global stage.

Most global brands today were well-established in their countries of origin when their **owners sought to take advantage of developing markets abroad**. Their ultimate success was dearly won, **the result of considerable trial and error**. In today's competitive global marketplace, however, companies cannot afford to stumble as they enter new markets. They need to hit the ground running *(inf. Proceed at a fast pace with enthusiasm)*.

While the specifics of brand success differ from category to category, the principles are the same – to become successful across countries and cultures a brand must be prepared to innovate and adapt to satisfy local needs and desires. Really understanding local needs and culture is a critical first step to doing so.

Hayes Roth: Thankfully – speaking as a professional branding consultant – virtually all of our clients believe there is value to be gained from experience outside their own industry. They look to firms like Landor to bring them "best practice" knowledge from diverse categories to ensure they don't get trapped in an institutional box, simply following the marketing and branding conventions of their particular category.

This has been the distinct achievement of global leaders such as Accenture, Blackberry, BP and GE who have built their brand value and significantly impacted their segments by applying sophisticated brand strategies and marketing tactics once thought the exclusive domain of consumer goods.

Successful corporate leaders have learned that well-grounded branding principles transcend categories; it's not just parroting what worked last year for their nearest competitor, it's about "what will change the game entirely to our advantage?"

When do you think we will see the emergence of brands from India on the world stage?

Daniel Butt, Melbourne

Hayes Roth: Both Indian and Chinese corporate leaders are now searching hard for the answer to this critical question in their respective countries. For India, the Tata Group is becoming better recognized globally and its recent purchase of the world-class Jaguar and Land Rover brands may well help it **achieve global brand stature in its own right**. Note, however, that this approach has been only modestly successful for China's Lenovo in its purchase of the IBM "Thinkpad" brand earlier this decade.

Building a pure-bred Indian consumer brand into a global powerhouse will be a serious challenge for some years to come, I believe, but if any organization – or family – can do it, my money is on the Tata's!

Do you think that for a global brand to be successful it must move to the places where it is most appreciated, for instance, to the emerging and frontier markets?

Viktor O. Lodenyov, Ukraine

Hayes Roth: It is always very tempting to look at as yet untapped markets and contemplate charging in with a big, established global brand. From a pure marketing communications standpoint it's relatively easy – create some ads and maybe online buzz in the native language and flood the market. The limiting factor, of course, is inevitably distribution.

It is one thing to announce one's product and quite another to make it available, particularly in new markets where distribution channels, supply chain infrastructure, cultural sensitivities and quality control all have to be created and/or cobbled together.

So entering new markets, no matter how big your brand may be in the rest of the world, must always be meticulously planned and executed. And even then, many fail.

Nigel Hollis: There is little doubt that people in emerging markets are still more open to brands, particularly ”Western” brands than are consumers in developed markets.

Our Brandz data suggests consumers in the US or UK are less likely to believe it is important to get the best brand and more likely to focus on getting the best price.

The challenge to many ”Western” brands trying to launch in emerging markets, however, is to solve the value equation. In other words, to get the right balance between product features and price – just because people want to buy your brand does not mean that they can afford it!

Nokia, Proctor & Gamble and Coca-Cola have all had to solve the value equation in order to be successful in the BRICs [Brazil, Russia, India and China].

In the report, it says that Tide and Ariel had the same branding characteristics as a luxury brand. How can a washing powder inspire the same emotions as an expensive designer-watch? Anonymous, London

Hayes Roth: In its more than 60 year existence, Tide (and its compatriot, Ariel) have redefined their category many times over. To accomplish this remarkable feat, **both brands have managed to transcend their everyday wash care category to become iconic franchises that connect emotionally with their constituents (5).**

Each is a premium product in what is often labeled a commodity; each commands higher pricing while still dominating sales; and each has spawned a broad family of related products that build upon their core promise and deepen the value of the brand.

No luxury brand – and one could make a plausible argument that a diamond is every bit a commodity as soap, though probably not to my wife – could ask for a better customer relationship than that!

Nigel Hollis: Tide and Ariel have a similar degree of emotional involvement to some of the luxury brands but they create that bond in a different way. They are not aspirational brands but they are ones that people trust and believe will work better than others.

There are many case studies and theories which detail best practice management of a global corporate brand. However many of the companies I work with in (acquistion-driven) FMCG industries often rely on a network of sub-brands, many of which they are trying to develop globally. How do the challenges and potential solutions which face these brands based on single products (e.g. beer brands) differ from those of the corporate entities that own them? Ieuan Owen, London

Hayes Roth: If I understand the question correctly, this is about the challenges of portfolio branding on a global scale. Well managed brand portfolios are, of course, a strong hedge against competitive threats across regions, allowing corporations to manage to the specific tastes and needs of highly selective audiences.

Large, single branded global products and retailers (eg. Starbucks) have the advantage of focus, where they can concentrate on making their core brand fit regional tastes. But **they are vulnerable to any erosion that happens to that single brand and must stay true to its promise wherever it is marketed**. The strength of a strong brand portfolio is its flexibility to extend, refine, trim and introduce new brands irrespective – usually – of the corporate brand.

Nigel Hollis: First of all, beer is a tough category to extend beyond a brand's home country. The brands like Heineken and Guinness are the unusual ones not the norm.

What is the relationship of the corporate brand to the product brand? We cannot assume that it is positive. The answer will have all sorts of ramifications *(a complex consequence of an action or event)* for the brand and the corporate share price.

How can you establish a strong brand as an Internet startup without spending a major amount on marketing campaigns? John Jensen, Antwerp

Nigel Hollis: It depends on how newsworthy your product or service offering is! Look at Google. News spread fast because people found it worked well and recommended it to friends, that's how I found out about it.

The same would be true of MySpace or Facebook. But, then, of course, word of mouth only gets you so far. You have to keep innovating to keep the news fresh.

Hayes Roth: Starbucks is the legendary story of a world-class brand that never spent money on traditional marketing – until very recently, anyway. The internet arguably makes this easier still since it is, by definition, "global" from the start.

How one makes the brand known and accessible becomes the key issue, which on the Internet has its own set of new rules, opportunities and, yes, costs.

Why are some brands able to successfully extend beyond their original product market to other product markets? An example would be the Dove brand, which extended from a soap brand to shampoo and other hair and skin products. Could a brand like this extend further into dish washing liquids, for example?Fernando Soares, Portugal

Nigel Hollis: Brands like Dove have a set of core attributes with which they are closely associated. When these are appropriate to the new category then it helps the brand gain acceptance. As always, however, the product needs to live up to expectations and offer some form of advantage over the incumbents

I would be somewhat doubtful about Dove extending into dish washing liquids simply because the category is less associated with skin care. It might detract from the core franchise.

Hayes Roth: Dove actually tried this for several years, trading on its "cosmetic cleansing cream" position in the dish soap category **but ultimately abandoned the product as too far of a stretch**.

Given their rise in this year's ranking, do you think Chinese brands will dominate the top ten? Anon, Hong Kong

Hayes Roth: First, to some extent the Chinese brands carry a somewhat unfair advantage given the sheer size of their market. China Mobile is, to date, not a brand that's especially well known or understood outside of Asia and the global financial markets, yet its customer base and pervasive strength in its market makes them an impressive leader in terms of brand value.

What Chinese brands must do to break into global recognition is essentially what the pioneering Japanese brands did in the 1960's, eg. Sony, Toyota, Panasonic. They established a cultural reputation for reliability and innovation that helped lift perceptions of all products Japanese. China is determined to achieve this same goal, only on faster timing.

My guess is Haier will be the first and possibly one of their car brands if they can define a global benefit associated with ”Made in China” that doesn't mean ”cheap and perhaps carelessly made”. Remember that the Japanese very successfully overcame the same obstacle so it can, and I firmly believe will be done in the next 10 years.

What effect does shelf placement have on sales of a branded product in a supermarket? Laura Martin, London

Nigel Hollis: Shelf placement can have a massive effect on the sales of a branded product. Even if someone enters the aisle intending to buy a specific brand it needs to be easily visible. If they don't see it they may well choose an alternative. The challenge for other brands not in the person's consideration set is to disrupt their routine by getting visible placement at the end-aisle or elsewhere.

Hayes Roth: No shelf placement, no sale. It's obviously critically important. However, no “brand,” no shelf placement! There are exceptions, of course – a new product can buy its way onto a retail shelf – but this will only work so long as there is customer pull-through in the end and that **depends upon the power of the brand and its ability to communicate a differentiating, relevant promise .**

Do global brands beat local? Which is it better to be? Fred, Boston

Nigel Hollis: The answer is it all depends!

Local brands have the home field advantage because they are embedded in the local culture. People grow up with them and feel nostalgic about them. Often they have logistical and price advantages over global brands.

On the other hand, global brands can leverage their scale to develop strong relationships with consumers. To be successful they need to solve the value equation I referred to earlier, ensure good distribution – often no easy thing in emerging markets – advertise and promote their brand aggressively to gain market share and then get as close to the local culture as possible.

Hayes Roth: That's a bit like asking whether it's better to be young or old. Depends on who you ask and how you define ”old”! A strong, local brand – and there are many everywhere – can match and hold its own against a big global brand so long as it sticks to the basics and delivers its uniquely localized, and therefore highly relevant promise to its key customers. That said, if a major global brand wishes to focus its considerable resources in pounding down a local player, it's a tough game ahead for the local.

The only way to win that contest is to know your customers better and deliver your brand promise with exceptional care and follow-through while using the most cost effective local marketing resources – and local knowledge – you can. Not everyone wants a Starbucks in their neighborhood, so it is not a given that the big guys always win.

TASKS for the article "Enthusiastic guardian of a 'national treasure'."

1. Read the article quickly to find out who and why is referred to as the "enthusiastic guardian of a national treasure".

2. Read the expressions in bold type and explain what they mean.

3. Answer the questions

- How are YSL and Gucci Group related to each other? How can the company performance be characterized?
- What is Ms. Hermann's professional background?
- On what principle does she build her relationships with the sesigners?
- On what condition did she agree to take up the job?
- In what way is YSL different from other brands owned by Gucci Group?
- What guarantees a product's long life span according to Ms. Hermann?
- What are her business decisions based on?
- How did they try to attract customers to their brand and make them buy things?
- How does she profit from cooperating with department stores and journalists?
- What gaps in their offering has she discovered?
- What did she mean by saying "It is the consumer rather than the clothes that is the key to developing the business".

4. Prepare a resume of the article.

ENTHUSIASTIC GUARDIAN OF A 'NATIONAL TREASURE'

Valerie Hermann, chief executive of Yves Saint Laurent, has brought light to the venerable French fashion house.

Since Ms Hermann's appointment less than three years ago, the label's creative director Stefano Pilati has prised open the dark store spaces created by his predecessor, Tom Ford. And **YSL is emerging, too, from a black hole on the balance sheet of its parent Gucci Group**. After 10 years of losses, **YSL is starting to see a glimmer of sunlight at the end of the tunnel** .

“We still have so much work to do – we need to be stronger, quicker. There are gaps to be filled in our offering,” says Ms Hermann, with characteristic sparky enthusiasm.

The company has yet to break even but YSL is one of Gucci Group’s fastest-growing brands, according to the annual report of the parent company PPR, released in March. Losses have halved, from €70m in the year Ms Hermann arrived, to €31m ($48m).

That this has been achieved is testament to Ms Hermann’s commercial understanding of the fashion house as well as her ability to manage creative personalities.

This blend of skills comes from her experience as director of ready-to-wear at Christian Dior and as president of John Galliano, where she worked closely with the eponymous *(eponym- a person after whom s/t is named)* designer on his own brand as well as at Dior .

“Respect is crucial,” she says. “I know I am not a creative person, **and I know there is a balance that needs to be struck between creativity and reality**. But I would never change things behind a designer’s back. When I need products, I ask for them with figures. Figures never lie. When I have doubts, I go back to the figures. You have to be honest about the needs of the market, the needs of the stores. Designers are not stupid.”

Such pragmatism is typical of Ms Hermann. “We knew [making a profit] wouldn’t happen overnight,” remarks the 44-year-old executive. “One of the things I asked before I took this job was about **the commitment of the shareholder,** because if that wasn’t there on a long-term basis I would not have come. But it is clear from the level of investment in the new [luxury] store concept . . . that the group is very clear about the importance of this brand.”

Arguably **this was thrust on Gucci Group (5)**, whether it liked it or not. It was Tom Ford and Domenico De Sole who bought YSL in 1999, just after PPR had bought Gucci Group. But unlike the rest of the Gucci brands, such as Alexander McQueen, Stella McCartney, Balenciaga, and Bottega Veneta, YSL is, Ms Hermann says, widely regarded as a “French national treasure” – and no company wants to be seen as abandoning a national treasure. Every store closure is closely scrutinised internally and externally. (This may help to explain why there have only been two, in Brussels and Manhasset.)

However, she insists that the real power in fashion lies not with the French public or press but with the consumer. “If you only do products that make a nice photo shoot or get journalists excited, the products have a short life span.

“At the end of the day you need the customers, and I’m always watching the products with that in mind.”

Some say Ms Hermann has a good feel for YSL’s market because she represents its ideal customer: she is small and slim, with a chignon. She wears her YSL wardrobe well and many regard her as the fashion house’s best advertisement. If this high-powered executive, who is also a mother of three, looks so good in the product, wouldn’t it work well in the lives of all women like her?

Ms Hermann, however, **is quick to deny she is a designer's muse**. Her business sense derives not from personal experience but from research. "It's important to be rooted and look outside at what is happening," says Ms Hermann. "Stefano will show me something and say: 'Do you like it?' But the real question is: 'Can we sell it well in line with your vision?'"

Indeed, while Ms Hermann can appear theatrically enthusiastic, her number-crunching, systematic approach to the product and market analysis reveal her credentials as a graduate of HEC, the elite French business school. The school is also the alma mater of her major shareholder, François-Henri Pinault, chief executive of PPR. (Mr Pinault and Ms Hermann were in fact classmates.)

Much of her retail and merchandising strategy **is grounded in grassroots investigations**. "When I began, people would say to me, 'Oh, YSL, it's such a great brand'," says Ms Hermann. "Then I would say: 'OK, what have you bought? Do you want to wear it? Do you want to have that bag? That pair of shoes?' The answer was always embarrassing. You need the image, but you also need to make people want to buy."

One of Ms Hermann's initiatives was to entice*(attract by offering pleasure or advantage)* people to buy YSL products by building up its accessory collection. "Before, we had one bag – the Mombasa [a horn-handled bag designed by Tom Ford] – but that was it. So with Stefano, we did the Muse [a half-moon-shaped leather bag that has won a wide celebrity and professional following]."

On the foundations of the Muse bag, Ms Hermann has built a veritable empire of bags, including the Downtown, the Tribute and the Uptown, and accessories now represent the majority of YSL's sales. She is also trying to attract clients who are less trend-driven with the Edition 24 range, a group of staple *(main, important)*YSL pieces such as safari jackets, silk tunics and perfectly cut trousers that are introduced annually and priced slightly below the runway line (*used for fashion shows)*.

"I am in constant contact with the department stores, because they have a huge advantage – they have lots of brands, they see what sells – and I spend a lot of time on the store floor watching the customers and how they behave," says Ms Hermann. "They tell me what is still missing from our offering. Every season I sit down with Saks, Lane Crawford, Harrod's, and we talk about sell-through, what was slow, what the trends are. I also like to meet journalists after they give us bad reviews. I think you can learn things."

One of the lessons Ms Hermann has drawn from her market research is that "we need more day dresses. People work in dresses. We have suits and coats. So now we have something to build on."

She is also keen to create cheaper products for overseas markets, for example launching the Ymail bag in Japan last year. The patent leather envelope-shaped clutch, with the address of YSL's Paris headquarters scripted in gold on its front, is priced at an entry-level €280 (compared with a Downtown in ostrich-skin at €4,700).

Ms Hermann explains that her strategy was "to combat the fact that with the exchange rate our prices are normally very high, and because we knew this is a market that likes small leather goods, and that was a gap in our offering."

It is the consumer rather than the clothes that is the key to developing the business: “To work in fashion, it’s important that you like the products, but it’s even better to like people,” Ms Hermann says. “Really, this is all about social behaviour. That’s the most important thing to understand.”

TASKS for the article “Profile: Nivea puts on a trendy face.”

1. Give the Russian equivalents for the following:

By a long chalk, the personal care sector, the near flawless performance, be buoyed by a series of successful launches, tubs of skin cream, the ability to develop an entire portfolio of products, refresh a brand via innovation and extention, stand for s/t, revamp a brand image, evoke a feeling of s/t.

2. Read the text and answer the following questions:

- How has the company performed? What contributed to its success?
- What is the brand’s success based on?
- How was the relatively old fashioned brand turned into a trendy one?
- In what sector of the Chinese market are Nivea’s products most in demand?
- How was Nivea brand image revamped in 1924? What was its aim? Was it achieved?

PROFILE: NIVEA PUTS ON A TRENDY FACE

Nivea’s 68 per cent rise in brand value was the strongest by a long chalk *(by far)* in the personal care sector, and was the ninth biggest increase overall this year.

The near-flawless performance was buoyed by a series of successful launches, supported by strong advertising campaigns.

Nivea may be best known for its blue and white tubs of skin cream, but its success as a brand, says Anna Chen, associate director of Millward Brown Optimor, comes from its ability to develop an entire portfolio of products for men and women across different countries.

All carry the blue and white logo, ensuring that the brand is still recognised by consumers.

“It’s a great example of refreshing a brand via innovation and extension,” says Mr Walshe, “and it has done that by just making the brand stand for something. Where it was relatively old-fashioned, not dowdy *(unfashionable and dull in appearance)* as such, it has now become quite trendy.”

The Millward Brown Optimor team highlighted the brand’s strong performance last year in China, where sales for Nivea Visage and Nivea for Men rose by 50 and 80 per cent respectively, helped by new product launches.

Nivea products were introduced in China in the 1930s, and Nivea for Men is the biggest-selling product in the Chinese men’s face care market.

Nivea, developed and still owned by German-based Beiersdorf, was launched in 1911 and appeared originally in a yellow tin with a fanciful decoration of green tendrils that reflected Art Nouveau, a popular artistic trend of the period.

In 1924, Beiersdorf revamped the Nivea brand image, introducing the more modern blue and white packaging to evoke a more natural and fresh feeling.

Ms Chen notes that, according to recent market research in different countries, many consumers believe that Nivea was a local brand, illustrating the way that consumers have embraced it.

INVESTMENT

DISCUSSION

The Glossary of terms "From A to Z" of the Economist magazine defines Investment as follows: "Putting money to work, in the hope of making even more money. Investment takes two main forms: direct spending on buildings, machinery and so forth, and indirect spending on financial securities, such as bonds and shares."

Traditionally, economic theory says that a country's total investment must equal its total savings. But this has never been true in the short run and, as a result of globalization, may never be even in the long run, as countries with low savings can attract investment from overseas and foreign savers lacking opportunities at home can invest abroad.

The more of its GDP a country invests, the faster its economy should grow. This is why governments try so hard to increase total investment, for instance, using tax breaks and subsidies, or direct spending on infrastructure. However, recent evidence suggests that the best way to encourage private-sector investment is to pursue stable macroeconomic policies, with low inflation, low interest rates and low rates of taxation. Curiously, economic studies have not found evidence that higher levels of investment lead to higher rates of GDP growth. One explanation for this is that the circumstances and manner in which money is invested count at least as much as the total sums invested. "It isn't how much you do, it's the way that you do it."

Do you think this definition is precise and complete? How do you understand the last sentence of the definition? Have you or anybody you know ever bought shares? Which companies' shares? Has your investment been successful? Who are entrepreneurs? How do they make their living? Where does money for a new business come from? Who are business angels? How can profits and dividends for shareholders be increased? What are the responsibilities of professional fund managers? What are ethical investments? What successful investors do you know? Why don't companies sometimes abandon projects on which they are losing money? Why is it irrational to invest only in your own country? How can wrong decisions affect stock market investors' future decisions? If you inherited 100000$, how would you invest it? What are the pros and cons of investments such as art, antiques, rare books, wine? Which of them present highest/lowest risk? If you wanted to set up a new ethical investment fund, what tasks would you come up with first?

TASKS for the article "How to understand the financial pages"

1. Study the following words and their definitions. Try to find their Russian equivalents.

In the pipeline – in the process of being developed
Reputable (companies) – having a good reputation
Bargain – a thing bought or offered for sale for a lower piece than normal
Ratio – the quantitative relation between 2 amounts showing the number of times one value contains or is contained within the other
Profit margin – the amount by which revenue from sales exceeds costs in a business
Toss up – move or cause to move up
Knock down – reduce the price of an article
Prophecy – a prediction
Incur (costs) – become subject to s/t unpleasant
Surplus (of cash) – an excess of income or assets over expenditure or liabilities in a given period
Buck (the loss-making trend) – oppose or resist
Quote – give someone an estimated price; give a company a listing on a stock exchange
Earnings – money or income earned
Adverse – harmful, unfavourable
Arrears – payments and debts that are outstanding and due
Redeem – repay a stock at the maturity date
Balance sheet – a written statement of the assets, liabilities, and capital of a business
Levy (a tax) – impose
Gullible – easily persuaded to believe s/t; credulous
Rip someone off – cheat, steal

2. The article below contains definitions of terms that are important to know to private investors. Read the vocabulary entries and class them into the following categories.

Types of Equities	Types of Companies	Types of Investors	Types of Stockbrokers	Business Models, Theories, Systems	Processes	Outstanding Investors	Other

3. Chose 3 or 4 terms and be ready to explain them to someone who doesn't know what they mean.

4. Enact a conversation between a British financial consultant and a Russian student of economics who often has to read articles on the subject in English and who can't find some frequently occurring terms in the dictionary.

HOW TO UNDERSTAND THE FINANCIAL PAGES

Equities are important to the private investor. Here are some important aspects and definitions:

Bellwether stocks

A US term for blue chip stocks.

Biotechnology companies

Biotechnology companies are a high-risk investment. Fewer than 10 per cent of their products reach clinical development. If a company has a number of products in its pipeline, some with a large market, the failure risk is lower. Once production has leapt early hurdles, the success rate improves.

Blue chips

This is a generic term for large, reputable companies that lead the market and are traded in large quantities by institutional investors. In the UK, the 100 companies included in the FTSE-100 index are so described.

Traditionally, blue chips have been regarded as safe investments, although they can sometimes be volatile, particularly in the high-tech sector. Blue chip stocks generally pay dividends and are regarded favourably by investors.

Bottom fishing

Bottom fishing is the search for bargain stocks whose prices have fallen so low that they now represent good value, even if the company's short-term prospects are not great.

Bottom up

The bottom-up investor focuses as a priority on the fundamentals of individual companies first and only secondarily on industry and economic trends. US fund manager Peter Lynch famously works this way. The opposite approach is top down.

Buffett, Warren

Warren Buffett is chairman of US insurance group Berkshire Hathaway, and is said to be worth over US $30 billion from his investing. He is mainly a value investor, and was heavily influenced by Benjamin Graham.

He invests in long established companies with a strong franchise, and the ability to generate earnings. He considers such ratios as return on equity, profit margin and gearing. He looks for a company to have an intrinsic value of 25 per cent or more above its market capitalisation.

As a long-term investor, Buffett sees himself as an owner in his chosen companies and is concerned with how they succeed as a business. He does not much consider market conditions, timing, or stock supply and demand.

Bulls and bears

The terms 'bull' and 'bear' describe how investors expect the stock market to perform. Bulls are optimistic about the stock market or individual stocks, and bears are pessimistic. The terms may have arisen because bulls toss people up, while bears knock them down. The consensus market view will be reflected in trading activity and to a large extent becomes a self-fulfilling prophecy.

Burn rate

The burn rate, also known as the ‘cash burn rate’, is the speed at which a company uses up cash. The term is often, but not exclusively, applied to biotechnology companies.

Business-to-business

This describes a business model where the company provides goods or services for another company rather than for a consumer. In the case of internet companies, this business model exploits the internet’s order-taking and service facilities without using a middleman, and is considered to have high potential.

Business-to-consumer

This describes a business model where the company provides goods or services directly to the public. Within e-commerce, it is the least proven model. This type of internet company must buy items from producers and store them, and so it pays middlemen for inventory space and for extra administration. Market leaders such as Amazon, the online bookseller, are best placed to survive.

Buyback

This is when a company buys back its own shares from the shareholders. The move might be seen as positive for investors in that it will reduce the number of shares in issue and so increase the earnings per share. It is also a way for investors to sell their shares without incurring such costs as broker’s fees that would apply if they sold in the open market. But a buyback is only possible when a company has a surplus of cash, and it may suggest that it has nothing better to do with it.

Cockroach theory

The cockroach theory is that, if bullish or bearish news arises, further developments will reinforce the message. The underlying premise is that cockroaches come not singly but in groups.

Consumer-to-consumer

This is the business model for companies that match one consumer with another. In the case of internet companies, it is considered to have high potential because it takes in revenue but does not hold inventory.

As a consumer-to-consumer business, US-based online auctioneer eBay has been profitable since it went public in the autumn of 1998, bucking the loss-making trend of most quoted internet companies in their early years.

Cyclical companies

Shares in cyclical companies rise and fall quickly with economic conditions. House builders, resource companies, or paper and car manufacturers are in this category. For example, when the economy is strong, house builders will benefit from the accompanying housing boom, but in weaker economic conditions, demand for housing can go down. Resource companies often do well in spring and summer but not at Christmas.

EPIC code

This is a three or four letter symbol for individual stocks. To obtain a price quote from your online broker, you may be asked to key in the EPIC code on its website. Most brokers will offer a search facility to enable you to look up the EPIC code if you do not know it by entering the company name.

Ex-dividend Day

Ex-dividend Day is the date on which a UK company pays a dividend. As the date approaches, the share price will rise slightly in anticipation of the payout. When the dividend has been distributed the shares become ex-dividend, and the price will slip back a little.

Eyeballs

This refers to the number of visits a website. In the dot com boom of 1999 and early 2000, technology analysts measured eyeballs for internet companies. But, as experience has shown, frequency of visits to a website is not always correlated with revenue.

Graham, Benjamin

Benjamin Graham was a US-based mathematician and classics enthusiast who first developed the concept of value investing in the 1920s. He said that a value investor should select shares as if buying the entire underlying company. Among other criteria, the company should have small gearing and a low P/E ratio, and the dividend yield should be at least two thirds of the company's AAA bond yield.

He also specified that the company should have a market capitalisation of two thirds or less of its quick assets (current assets, excluding stock, less current liabilities). After it has risen to 100 per cent of these, the investor should sell the shares.

The criteria set by Graham are tougher now than in his day and, in a bull market, often impossible. He explains his methods in detail in his classic books, The Intelligent Investor and Investment Analysis.

Greater fool theory

This theory suggests that, if you overpay for a stock during a speculative bubble, the price will rise still further because a greater fool will pay more. The downside of the theory is that the fools eventually stop buying and the share price plummets as everybody rushes for the exit.

Growth investing

The strategy is to buy stocks that are growing fast, either before, or soon after, the market has recognised their potential. A selling strategy is also important.

The March 2000 crash in high-tech stocks drew attention to the risks of buying stocks with a high turnover and no earnings, or not much of either.

Some fund managers select stocks on the principle of GARP -- growth at reasonable price -- which combines growth and value. A useful ratio for this is PEG. Two great growth investors are Peter Lynch and T J Rowe Price.

High yield investing

The strategy is to buy and hold high yield stocks. The yield is the net dividend as a percentage of the share price. High yield investors buy stocks that have fallen out of favour, reflected in a yield that has risen proportionately to a decline in the share price. The market is likely to have overreacted and the shares could recover, making a capital gain. Until that happens, the yield should be handsome.

The risk is that a low stock price may not indicate value. The share price may fall still lower, particularly if the company's problems are long-term. This has happened at various times with blue chip companies such as Marks & Spencer, Shell, and British Telecom, although companies of this strength and size tend to recover.

If a stock plummets in value, it is not much compensation to have a high yield, although high yield investors have learnt to take a longer view. High yield investment methods such as the O'Higgins system involve periodically selling dud stocks in your portfolio, as well as reinvesting dividends.

Infrastructure companies

Infrastructure companies provide the internet sector with services ranging from software to web design. They have more reliable revenues than other internet companies and so had a better survival rate following the March 2000 collapse of high-tech companies.

International equities

Trading in international equities from the UK became easier after exchange controls were abolished in 1979. You can now trade US or continental European equities through many UK brokers, in some cases as cheaply as trading UK stocks. To invest elsewhere in the world, you may need to use local brokers, which could create hurdles.

If you trade shares in emerging markets such as China, Poland, Turkey or Russia, the risks are high but so are the potential rewards. There may be liquidity or settlement issues. To spread the risk of investing outside the UK, you can buy unit trusts including in emerging markets.

If you invest in companies listed as American Depositary Receipts (ADRs) in New York or Global Depositary Receipts in London, the risks are less. The reassurance factor is that the company will have been required to meet international standards of transparency, accounting and other aspects of corporate governance. It is likely to be a large company.

However, the 2004 decline of US-quoted Russian oil giant Yukos, listed in the form of ADRs on the New York Stock Exchange, shows that very real risk remains. Yukos was regarded as the model Westernised Russian stock until it was hit with fraud claims.

January effect

This is the relative out-performance of stocks in January. Over decades, it has manifested itself in UK and US markets.

Lynch, Peter

Peter Lynch is a master growth investor, who managed Fidelity's Magellan Fund in the US for 13 years. He has a bottom up investment strategy. He has focused on companies with both high earnings growth and a winning business formula. The business model is more important than the strength of management. Lynch has invested for the long term, selling only on stagnation of growth.

A typical Lynch-style investment might be in a company with earnings that have temporarily declined, and a share price lower than net asset value, but with an improving financial status. Companies with slow or average earnings growth and cyclical companies are to be avoided.

Momentum investing

The momentum investor focuses on timing, aiming to take advantage of upward or downward trends in the share price. The theory is that the stock price will continue to head in the same direction once it has started to move because of the momentum behind it, driven by the presence of a large number of investors in the market who will buy a stock that is moving up.

The buying trigger may be a change in analysts' forecasts, or in relative market strength. Momentum addicts will continue to buy as long as everybody else does but will sell when the turnover slackens. The trick is to do the same.

A key component is volume of shares traded. If a share goes higher and higher on declining volume, it is a bit like Tom and Jerry running poised for that precious second after they have run over the cliff and before they fall, as a fund manager put it to me.

O'Higgins system

The O'Higgins system is the best known of the high yield investing methods. Michael O'Higgins, a fund manager based in Albany, New York, popularised the system, which is based on investing in selected large blue chip stocks in the Dow Jones Industrial Index in the US.

To apply the system, open a cheap, execution-only account with a stockbroker. Invest in either the 10 highest yielding stocks in the Dow Jones, or in the five of these with the lowest closing prices. Hold qualifying stocks for the long term, reviewing your portfolio once a year, replacing stocks only if new ones qualify. Reinvest all dividends.

The system has a track record. In 1973--91, the five highest yielders with the lowest share prices in the Dow Jones outperformed that index for 15 out of the 19 years. Since then, the system has worked less well.

Online content companies

These companies specialise in collecting and producing online content. The business model is not yet properly proven. People who will pay for newspapers or TV will not always pay for similar material on the web. The online content companies may rely more on advertising and user list rentals than subscriptions. Many are loss-making. Yahoo!, the US internet search engine, is a frequently cited exception.

Ordinary shares

To own ordinary shares in a company is to have a stake in it. The shareholders are entitled to vote at annual general meetings.

Pari passu

When new shares in a company carry equal rights to those of its shares issued earlier, they are pari passu. It means of equal rank.

Penny shares

Penny shares are low priced. There is no defining price boundary but, in the UK, penny shares are seen as costing up to about 50p or £1.00, depending on your view, and in the US, perhaps up to US $5.00. They tend to be shares with a small market capitalisation.

There is often one main market maker in a penny stock, and others may follow its lead. The spread tends to be wide and investors can deal only in limited sizes, perhaps 5,000 or 2,000 shares. If investors try to sell many shares, the market maker may drop the bid price significantly as a deterrent.

A penny stock moves mainly on news and rumours. If the market gets hooked, the share price may soar higher than fundamentals justify. If company or market news is adverse, the share price may fall sharply. But the company is more likely to get taken over than go bust. Because they are so speculative, penny stocks should occupy only up to 15 per cent of an investor's equity portfolio. Even then, it is safer to spread the risk over several penny shares, including growth and recovery situations.

Successful penny share investors tend to pick their own stocks. Avoid the specialist penny dealers. They try to offload shares in dubious or troubled companies that they have bought up cheap. Stockbrokers interested in small companies can give advice, but at this end of the market it can be geared towards generating commission.

Preference shares

Preference shares carry a fixed dividend which is paid before dividends are paid to holders of ordinary shares. They have priority over ordinary shares if the company has gone into liquidation. They own part of the company but have no voting rights.

There are various types of preference share. Cumulative preference shares accumulate dividend arrears and carry them forward, but non-cumulative shares receive dividends only if the company pays them. Convertible preference shares may be switched after a fixed term into ordinary shares, and redeemable shares pay the investor the nominal value of the shares on a specified date. Zero coupon preference shares pay no dividend.

Price, T Rowe

T Rowe Price was one of the great US fund managers in the 1930s to the 1950s. He was a growth investor with a top down investment strategy. After choosing a suitable sector, Price sought companies with a competitive advantage, including strong management and patents and sound research. He favoured a rising earnings per share, a high and a rising profit margin, and a sound balance sheet.

Price would sell stocks in a bear market or if growth prospects had subsided. Should a stock that he owned rise to a higher price than he would be willing to pay for it, Price would sell 25 per cent. If the stock rose still higher, he sold more.

Real option pricing

Real option pricing is a technique of valuing a share based on the underlying company's potential reaction to a range of scenarios. In the run up to the March 2000 stock market decline, real option pricing was often used to value high-tech stocks. It gave too many over-optimistic recommendations based on unreliable information fed into the models.

Real time prices

Real time prices are valid at the time of publication. They are available free of charge through some online brokers and through Teletext (www.teletext.co.uk).

Recovery stocks

These are out-of-favour stocks that show potential for returning to, or in the direction of, former glories. It could happen if the underlying company becomes a takeover target.

Stamp duty

Stamp duty is a tax that the UK government levies at 0.5 per cent every time that you buy shares. It is also payable on property. It is a constant gripe that UK stamp duty is more expensive than in continental Europe. Stamp duty does not apply on purchases of North American or most European stocks. You will also avoid it if you trade contracts for difference or place spread bets.

Stock screeners

Stock screeners enable investors to set valuation perimeters such as for the P/E ratio or dividend yield, and to view a list of stocks that fit.

Stockbroker

Stockbrokers buy or sell shares for investors. They vary in their approach, but the more personal the service, regardless of how good it is, the more you are likely to be charged for it. Stockbrokers are advisory, execution-only or discretionary. There are also the boiler rooms. Let us take a look at each:

Advisory

Advisory stockbrokers advise clients on which stocks to buy or sell, and when. Some specialise in certain types of stock, and levels of expertise vary enormously.

Online

The execution-only broker does not advise on which shares to buy but simply executes orders. By this limitation on its services, it reduces staff and other costs and passes the savings on to the customer. Execution-only services are provided both online and by telephone, and charges are typically a fraction of those associated with using an advisory or discretionary broker.

The cheapest online broking service offers a facility for you to buy or sell shares by e-mail. The firm will accumulate trades, and then place bulk orders. This is for occasional investors. The disadvantage is that you could be hit by price volatility between when you placed your order and when it was executed.

The browser-based broker provides a faster service. It offers investors a facility for executing a trade themselves via the internet. They may deal at a price shown on screen through a connection with the London Stock Exchange.

The active trader broker provides software with a facility for fast trade execution, and will not ask for order confirmation, as some browser-based brokers do. Clients of brokers that operate primarily online may find that, if trading becomes busy, long telephone waiting times can occur.

Discretionary

Discretionary brokers take full charge of an investor's portfolio, and to make this worthwhile, it needs to be substantial. They make buying and selling decisions on the investor's behalf for a fee. There may also be a trading commission, which gives the broker an incentive to review the portfolio, but it should not be so high as to encourage overtrading. The charges overall are lower than on unit trusts.

There are some good discretionary brokers and some bad ones. Following the March 2000 stock market decline, bad discretionary fund management produced unfortunate results. Even in early 2005, many discretionary portfolios invest 80 per cent of funds into equities, which are a high risk asset class, for retired clients who need defensive portfolios.

Some discretionary brokers overtrade portfolios. If the fund is completing 40--50 trades a year, this is the level at which the broker often receives commission.

Investors should never leave everything to the broker, but should ask questions and request frequent statements.

Boiler rooms

Boiler rooms push dubious or non-existent shares or other investments on gullible members of the public by telephone and the internet. Even if the shares do exist, they are likely to be subject to restrictions which make it impossible for the purchaser subsequently to sell them. These outfits now operate mostly from outside the UK.

Clients of the boiler rooms will often lose all their money, and they have little recourse. Investors in firms unauthorised by the Financial Services Authority have no access to the Financial Services Compensation Scheme or, for making a complaint, to the Financial Ombudsman Service. Some jurisdictions make no effort to stop local businesses ripping off clients based outside the country.

Even when the investor has lost money on shares the game may not be over. An operation may cold-call the investor and offer to attempt to recover the cash invested in return for an upfront fee. In reality, it may be linked with the original fraudster, and the recovery operation a fraud.

The FSA publishes on its website (www.fsa.gov.uk) a warning list of unauthorised firms selling financial products into the UK, but it tends to be incomplete. The FSA consumer helpline receives 100 calls a month from the public about boiler rooms.

In the summer of 2004, the FSA conducted a survey of 105 victims who had called the helpline. It found that 87 per cent of them were male, 44 per cent were aged 35--55, and 42 per cent were over 55 years old. About 41 per cent of the callers had been investing for over 10 years, which, according to the FSA, dispelled the myth that it is only the novice investor who becomes a victim of investment scams.

Ten bagger

A ten bagger is a stock whose price rises tenfold. The word derives from baseball terminology. US fund manager Peter Lynch first applied it to stocks.

Top down

The top-down investor focuses on economic and industry trends first, and the fundamentals of a company last. The opposite approach is bottom up.

Value investing

Value investing is buying stocks at below fundamental value and selling when they become expensive.

Tasks for the article “The 20 Golden Rules of Investment”

1. What pieces of advice could you give to someone who is considering making investment? Discuss them with your group mates.

2. Read the article quickly to see if it contains the pieces of advice you have mentioned in your discussion.

3. Chose several pieces of advice to your liking and comment on them.

4. Enact a conversation between a novice investor and an experienced one.

THE 20 GOLDEN RULES OF INVESTMENT

Investing your own money is a complicated and potentially dangerous business. One slip in the tricky world of stocks and shares can prove very costly. So Times Money offers a guide on how to survive and profit in the investment jungle.

Buy low; sell high.

Don’t chase performance. If you like a stock or fund, buy on the dips.

Run your winners. In other words let your profits roll up and don't be in too much of a hurry to kiss goodbye to your best-performing investments.

Cut your losses before they become excessive.

Never get too attached to a share or a fund. As the late Sir John Harvey Jones once said: “You sometimes have to kill your favourite children.”

In general, think long-term. As Warren Buffett, the great US investor once said: “Never buy a stock unless you would be happy with it if the stock exchange closed down for the next 10 years.”

But don’t let that stop you reviewing your portfolio regularly. You need to check that your portfolio is properly balanced.

Reinvest your dividends. The power of compounding your reinvested share or fund dividends makes a massive difference to your overall return.

Don’t put all your eggs in one basket. If you had had all your money in tech stocks in March 2000 you would probably have had about 90 per cent of the value of your portfolio wiped out over the next couple of years.

Although it makes sense to hold shares for the long term you don’t necessarily want to hold them forever. In the end shares are for buying and selling not for buying and forgetting about.

To that end make sure you spend as much time thinking about selling shares as you do about buying them. Most investors neglect this vital discipline.

Make sensible use of tax-privileged investment vehicles such as pensions and Individual Savings Accounts but never let the tax tail wag the investment dog.

If you don’t understand how a particular investment works it’s probably not a good idea to put money into it.

Don’t be afraid to ask the ‘what if’ question. In the late 1990s many investors bought supposedly ‘low risk’ savings products linked to the performance of the stock market. Few asked what would happen if the stock market fell off a cliff, as it did from 2000 onwards, slashing the value of the so-called ‘precipice bonds’.

Be flexible and don't back yourself into a corner. If you bought a stock for 500p and it's now languising at 50p, don't stubbornly hold on to it indefinitely in the misguided belief that it's bound to recover to 500p - it may never do so.

Don't be afraid to go against the crowd - some of the most successful investors have been contrarian investors.

Never be influenced by 'special offers' such as the discounts sometimes advertised by fund groups for purchasing funds within a specific time. It's much better to buy the right fund than to get a few pounds knocked off the purchase price of the wrong fund.

Ignore all stock market 'tips', whether offered in the workplace or at the nineteenth hole of the local golf course. Remember the old stock market adage that "where there's a tip there's a tap".

Never get too carried away by investment euphoria, whether for stocks and shares or bricks and mortar - nothing goes up for ever.

Remember that if something looks too good to be true - it probably is.

TASKS for the article "Judge and jury: freeze on credit condemns start-ups to despair"

1. Read the text quickly. What problems does the article raise?

2. Read the text for the second time to be able to answer the questions.

- What is the government's small firms loan guarantee scheme about?
- Does the scheme work?
- Under what pretext can banks refuse a loan?
- What options does a small business owner have if he has been refused by a bank?
- What does the government's package of measures to help small businesses consist of?
- What does Federation of Small Businesses blame the new generation of bank managers for?
- Why don't entrepreneurs go to their banks for more loans?

3. The article tells us about three entrepreneurs who have been failed by their banks. What are their stories?

4. Enact a conversation between the three entrepreneurs who have met to discuss their current situation and possibly to find solutions.

JUDGE AND JURY: FREEZE ON CREDIT CONDEMNS START-UPS TO DESPAIR

Late last year, Dot Net Solutions, a small business in Windsor, applied for a £100,000 loan at Barclays bank through the government's small firms loan guarantee scheme. It was turned down, as it had been when the firm applied to NatWest, Lloyds TSB and RBS before it.

Under the scheme, designed to help lending to young firms, the government would have guaranteed three-quarters of the loan, leaving just £25,000 at risk.

Dan Scarfe, who set up the firm with his brother four years ago, said: "The bank said it had refused the loan because we couldn't offer any security for the 25% not covered by the government. They are just not interested in taking any more risk ... there is no one you can appeal to. The banks are judge and jury."

Lloyds has also cut lending against invoices at Dot Net, hurting cash flow.

For many small firms, the contraction (сокращение) in lending in the fourth quarter disclosed by the Bank of England yesterday, despite the government urging banks to keep the taps open, was not a surprise.

Another entrepreneur, who runs a golfing holiday business, said he faced disaster after being turned down for a £200,000 loan through the government scheme. The businessman, who asked not to be named, has run the company for six years, and started it with £50,000 from remortgaging his house. Turnover has hit £1m, but last year, as the pound sank in value against the euro, he lost £150,000. He approached his bank, Barclays, for the loan in November. "They wrote to me and said the government scheme was not allowed to cover existing debt. We are a young company and can't absorb those losses."

He fears that without the loan, his balance sheet will not be robust enough to qualify for an Abta bond, leaving consumers unprotected and ruining the firm. He also complained at the rise in interest rates on the firm's £37,000 overdraft facility. Three years ago, it was 4.5% above the base rate but has risen to 11% above the base rate, only recently dropping down again to 9%. His interest bill in the most recent quarter was £1,100. He has since widened his search and made contact with both Lloyds and NatWest, as well as approaching business "angels".

In November's pre-budget report, the government announced a package of measures for small businesses, including a £1bn finance scheme for otherwise solid companies struggling to raise working capital in the credit squeeze. Alistair Darling also said that seven UK banks had applied for £1bn of £4bn made available by the European Investment Bank for loans to smaller firms. It is also making £50m available as equity investments in small firms.

But each of the small firm owners complained that there was scant detail available about any of the schemes.

At the time of the pre-budget report, the Guardian interviewed Stephen Peters, who had opened two bike shops in the summer and was worrying how he would pay the bills. The situation has since got worse, after a poor Christmas. He is looking to raise £80,000 to help cash flow and absorb some of the losses he has taken as the market has slumped, in the hope of reaching the spring, when he hopes business will start to improve.

"Things have deteriorated," he said. "You can't get any kind of money for a retail business. We are in the part of the market that is strategically well placed ... but the banks are just not interested."

His problems have been made worse by suppliers now refusing credit. "The banks are upping the ante, they want guarantees of fixed assets, houses - they won't take any kind of risk." He has been given an overdraft of just £2,000. He raised an original £25,000 from HSBC with a personal guarantee but without the additional £80,000 loan, he will have to close the business, he said.

HSBC announced a £1bn fund last month to invest in small firms in Britain but Peters' bank said lending criteria had not changed. "It is all rhetoric ... I am not very hopeful," he said.

The Federation of Small Businesses partly blamed a generation of bank branch managers who had never been through a downturn and, out of fear, were bringing down the shutters. It said many businesses feared going to their bank for further cash, in case it raised alarms and only made matters worse.

TASKS for the article "How to invest ethically"

1. How do you understand the term "ethical investment"? Read the text and be ready to formulate a concise definition of ethical investment.

2. Read the text another time and be ready to answer the detailed questions.

- How does the author account for the increased number of ethical investments in the past decade?
- How do investors know that the company that they want to invest in is a socially responsible company?
- What are "dark green funds"?
- What activities are considered to be unethical?
- What activities contribute to a company's responsible image?
- In what way is engagement strategy different from positive screening?
- What is the most serious handicap of all ethical funds? How can this handicap be overcome?
- How can an investor choose an ethical fund?

3. Prepare a resume of the article.

HOW TO INVEST ETHICALLY

Follow our guide to combining profits and principles

Growing concerns about global warming and other environmental issues are prompting more and more people to put their money into ethical investments. Ten years ago the amount that investors put into ethical funds was only £1.5 billion. But by 2007 the annual figure is estimated to have grown to more than £7 billion.

Ethical investment, also known as socially responsible investment (SRI), covers a multitude of different strategies. The main three are negative screening, positive screening and engagement.

Negative Screening

Funds that use negative screening, known as dark green funds, weed out companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to unsavoury regimes and testing of products on animals.

Positive screening

Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

Engagement

These funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care about the environmental impact of their operations or pressing companies to offer better treatment of their workers.

Jupiter is one of the fund groups that specialises in engagement and has a whole department devoted to the practice. F&C also has a large team involved in engagement and some of its funds operate what may seem a rather confusing combination of negative screening and engagement.

Impact on performance

One of the objections to investing in ethical funds with a screening process is that this results in ethical fund managers having a smaller pool of stocks from which to fish.

In the case of a dark green fund, such as F&C Stewardship Income, the manager is left with about half the stocks in the FTSE all-share index to choose from.

Some experts reckon that, over a long period of time, this restriction is bound to be a real drag on potential performance.

However, the F&C fund has performed very well in recent years, showing that a talented manager's stockpicking skills can sometimes overcome the handicap of having a narrower range from which to select.

Sometimes the ethical restraints actually work in the manager's favour. For example, the exclusion of gambling stocks from ethical portfolios meant that ethical funds were largely shielded from the debacle that overtook online betting stocks in 2006.

In contrast, the ban on tobacco stocks has hurt ethical managers because tobacco has proved one of the best-performing sectors over the past five years.

How to pick an ethical fund

Investors could approach one of the small number of independent financial advisers (IFAs) that specialise in ethical investment. IFA Promotion will offer help with finding a suitable IFA.

Alternatively, investors could go to the Ethical Investment Research Service (Eiris) or the UK Social Investment Forum (UKSIF) for more information about ethical investment.

Although building an individual portfolio of ethical shares is something that should normally be done only with the help of an adviser, investors may, as a matter of interest, wish to look at a company's ethical ratings on sites such as ethicalconsumer.org or check out a company's corporate social responsibility.

TASKS for the article "Can you still be ethical and make a profit?"

1. Read the article to be able to answer the question which is posed by the title of the article.

2. Read the article another time to be able to answer the more detailed questions below:

- When was the first ethical fund founded?
- How could investors' attitude to this fund be characterized?
- How has the attitude changed since then?
- Into how many categories can all ethical funds be divided?
- What types of activity are considered to be unethical?
- What is negative screening?
- What does positive screening mean?
- What does direct engagement stand for?
- What kind of companies are viewed as anomalies?
- What are the arguments of financial advisers for and against ethical funds?
- What do the performance figures show?
- What is the main principle, lying behind ethical investment?
- Do ethical investors have any other options apart from ethical funds?
- What does A. Elliott think of ethical investment?

3. Explain and comment on these 2 quotations from the article:

"When you're competing against the best in the business, you want a full set of clubs in the bag."

"Fund groups would be better off acknowledging in their marketing that profits and principles don't always go hand in hand and that if you want to follow your principles you may have to sacrifice some of your profits."

4. Tell your partner why you would/wouldn't like to be an ethical investor? Substantiate your opinion, please.

CAN YOU STILL BE ETHICAL AND MAKE A PROFIT?

Investments — we look at a market that has been hit hard in the recent downturn

Ethical investing has flourished since it was introduced to investors almost 25 years ago to the day.

When the Stewardship Growth Fund, the oldest in the sector, was launched on June 1, 1984, it was considered a very “niche” product. Sceptics nicknamed it the Brazil fund because you had to be nuts to invest in it.

But times have changed. There are now no fewer than 53 ethical funds to choose from in the UK and they account for more than £4 billion of investors’ money. Of equal importance, says Jason Hollands, of F&C, which manages Stewardship Growth, these funds have raised the profile of ethical issues.

He says: “Back in 1984 many companies would have been nonplussed if you had asked them how big their carbon footprint was. Today an increasing number are not only keenly aware of it, but are working actively to reduce it.”

Ethical funds can broadly be divided into three categories, says Mark Robertson, of Eiris, an ethical research organisation. The first, and most common, consists of funds that employ negative screening. This is the main approach adopted by Stewardship Growth and involves an independent committee made up of outside experts weeding out all stocks regarded as unethical before managers can decide where to invest.

Each fund group tends to have a slightly different definition of what is unethical but typically it will include stocks involved in gambling, tobacco, alcohol and arms manufacturing. It could also include activities that harm the environment, involvement with unsavoury regimes and testing of products on animals.

While most of the older ethical funds adopted negative screening, and were sometimes referred to as the “anti-sin” funds, many of the newer funds use positive screening. This means they favour companies that are engaged in activities such as renewable energy, waste recycling or green technology. Other initiatives that would be viewed positively include efforts to reduce a company’s carbon footprint or making valuable medicines available at a much reduced price to poorer countries.

A third approach is direct engagement. Here a fund takes a stake in a company and then uses it as a lever to press for changes in the way that the company operates. For example, a fund might try to persuade an oil and gas company to improve its record on pollution or persuade an employer to offer better conditions to its workforce. Among the groups that employ this approach are Jupiter and Henderson, while F&C uses an element of all three methods in its ethical funds.

Inevitably screening processes, especially negative screening, can throw up anomalies. Mr Hollands says: “We periodically debate whether Tesco is an ethically acceptable stock. On the one hand it sells Fairtrade products and is working hard to reduce its carbon footprint. On the other, it has come in for criticism for being tough on its suppliers.”

One inescapable consequence of screening is that it reduces the pool of stocks available to the ethical fund manager. In the case of Stewardship Growth the impact is considerable. Mr Hollands says: “We can invest in only two of the top ten FTSE stocks and 39 of the top 100.”

Some fund commentators, such as Mark Dampier, of Hargreaves Lansown, the independent financial adviser, argue that these constraints act as a drag on performance because ethical managers are effectively operating with one hand tied behind their back. Proponents of ethical funds, meanwhile, argue that stock screening can work in their favour. They say that the exclusion of online gambling stocks and pharmaceuticals has helped ethical funds to avoid some of the worst-performing sectors in recent years.

So what do the performance figures show? Broadly that, over the long term, ethical funds have struggled to keep pace with their non-ethical rivals. Ethical funds tend to perform well in bursts and these bursts, such as the one in 2006, tend to coincide with strong performance by mid-cap stocks, in which ethical funds are heavily concentrated.

But these bursts are not sustained. Figures from *Investment Life & Pensions Moneyfacts* magazine show that, of the 17 ethical funds with a five-year track record, only two have produced an above-average performance, while over ten years the figure is five out of 12. The best performance came from Aegon’s Ethical Equity Fund, which came 27th out of 252 funds in the UK all companies sector over five years and 29th out of 165 over ten years.

Mr Dampier says: “Over the 25 years since Stewardship Growth’s launch, it stands 28th out of the 43 funds in its sector. Its return of 666 per cent compares with a return of 3,901 per cent from Fidelity Special Situations Fund, the top performer.

“Some ethical fund managers do well despite their limited pool of eligible stocks but they struggle consistently to beat the best unconstrained fund managers. When you’re competing against the best in the business, you want a full set of clubs in the bag.”

However, Mr. Hollands says: “The point about ethical funds is that some people do not want to invest in things like armaments or tobacco at any price. Many have strong religious beliefs and although they want their investments to perform well their principles come ahead of their desire for profits.”

Mr Dampier adds: “I fully respect ethical investors’ point of view. I just think fund groups would be better off acknowledging in their marketing that profits and principles don’t always go hand in hand and that if you want to follow your principles you may have to sacrifice some of your profits.”

For those who consider stock market investment a shade too risky, there are organisations, such as Triodos Bank, that offer an alternative route for the ethical investor. Triodos offers the chance to put money into one of several targeted savings accounts, including the Earth Saver and the Organic Saver. The rates of interest are very modest — some accounts pay less than 0.1 per cent — but savers have the satisfaction of knowing that their money is being channelled into socially responsible projects.

Case study

‘I’m in this for the long term’

Alistair Elliott, above, is a committed ethical investor.

Mr Elliott, 50, a civil servant from Brighton, has been putting money into the Stewardship Income Fund for more than five years and now has more than £6,000 invested. He also has some money in Standard Life’s UK Ethical Equity Fund.

He says: “I like the idea that my money is doing some good and not supporting activities such as armaments or gambling. At the same time I do regard it as an investment. In recent months the fund has given me something of a roller coaster ride, but I am investing for the long term and expect to make a reasonable profit over time.”

ENERGY

DISCUSSION

The world’s dependency on fossil fuels is one of the most burning political, economic and environmental issues of the 21 century. What do you know about the global oil reserves? What are fossil fuels? What do energy companies do? What can drive up oil prices? What makes companies and governments develop alternative or renewable energies? What is creating pollution and causing global warming? What do you know about the Kyoto Agreement? Has Russia signed up to it? Do you think it is a good idea? What can people do to reduce the amount of energy that they use? Why is it of utmost importance to have objective estimates of petroleum reserves? Which groups have a vested interest in exaggerating oil reserves? Why? How would a shrinking oil supply affect energy companies/ consumers/ economies of developed/ developing countries? What would be the most/least serious consequences of a diminishing supply of petroleum? How do you think people will be affected by developments in the energy industry over the next 10 to 20 years? What are the possible scenarios for the future of the energy sector? What types of energy do you know? What is renewable energy? What are the advantages and disadvantages of renewable energies? What do most renewable energies rely on? What renewable energies don’t depend on the sun? What are the main users of energy? Can nuclear energy be a solution to the problem of fossil fuels depletion? Would you mind living next to a nuclear power station? Have you taken any steps in order to reduce energy consumption in your household? What other steps could be taken?

The credit crunch has dramatically changed the situation in the energy sector. That is why all articles in this chapter have been divided into two parts – the ones that describe the situation in the industry before the crisis (Part A) and the ones that tell us about how the industry struggles to survive under the changed conditions and its impact on other sectors of economy (Part B).

TASKS for the article “The Green Upside to $100-a-Barrel Oil”

1. Study the meaning of the following useful expressions from the text:

Voratious – жадный, ненасытный, прожорливый
Public transit – проезд в общественном транспорте
Spike – делать бесполезным
Turn on the oil spigot – включить нефтяной кран
Mandate – передавать под мандат
Scant consolation – слабое утешение
Shell out - раскошеливаться

2. The following sentences describe movements. Draw graphs for each sentence and compare them with these ones of your group mates.

- Sales rocketed over the period.
- The purchase of crude oil was rather erratic, hitting a peak in the middle of the period.
- The sale of petroleum rose dramatically.
- There was a slight dip in oil extraction.
- There was a steady increase in the amount of oil used, followed by a period of stability.
- There were wild fluctuations in sales, but the trend was upward.
- The number of investors in alternative energies plunged.
- There was rather a dramatic fall in the share price.
- Share prices plummeted but then stabilized.
- There was a gradual decline in the number of bidders.
- Share prices soared.

3. Read the first 2 paragraphs and draw a graph, which denotes changes in oil prices over the period described in the article. Comment on the graph.

4. Read the text up to the end and explain the expressions in bold type.

5. Answer the following questions:

- What are the negative effects of high petroleum prices? How can you explain the paradox that humanity can ultimately benefit from high petroleum prices?
- Why is investing in alternative energies fraught with a high level of risk?
- How could governments encourage venture capitalists to invest in alternative energy projects?
- What is the energy analyst's advice to consumers?

6. Prepare a resume of the article.

THE GREEN UPSIDE TO $100-A-BARREL OIL

At 12:10 on Wednesday afternoon, on the New York Mercantile Exchange, a single trader bid up oil until it finally hit the price we'd all been waiting for: $100 a barrel. Driven by trends both short-term (political instability in Africa and speculation) and long-term (voracious new demand from China and India), oil has quadrupled since 2003, doubled since the beginning of 2007 and now reached triple digits for the first time since it began trading on the exchange began in 1983.

Конец формы

By the end of the day the price had dipped back down to $99.62, and oil still has yet to break its all-time inflation-adjusted high of $102.81 (set in April 1980 after the Iranian revolution). "$100 is a symbolic number," says John DeCicco, a senior fellow at Environmental Defense. But **unlike past eras of high-altitude oil prices, caused by short-term disruptions in supply, today there are simply more countries demanding more oil than ever before (1),** and that's unlikely to change soon. Gasoline prices lag behind oil in the U.S. — a gallon currently goes for an average of $3.05 nationwide — but analysts predict that gas could pass $4 a gallon by the spring.

High petroleum prices might hit your wallet hard, but $100-a-barrel oil has some environmentalists quietly celebrating. The more expensive oil gets, the more attractive alternative — and climate-friendly — fuels become. **Biofuels that would be buried by $17-a-barrel crude — the price as recently as November 2011 — are suddenly competitive when oil is in the triple digits (2)**. Ultra-efficient cars, public transit, plug-in hybrids — they all become better investments as oil gets and stays expensive. Global greenhouse gas emissions have skyrocketed over the past few decades on the back of relatively cheap oil, but as the price rises**, it pays to decarbonizes (3)**, and the climate will benefit. Most immediately, expensive oil essentially ties the hands of consumers, all but forcing them to use less, or deal with the economic pain. "Price plays a huge role," says Nathanael Greene, a senior policy analyst with the Natural Resources Defense Council. "The interesting question is how long prices will stay high and how volatile they'll be."

For environmentalists, that's the risk. Oil has spiked in the past, prompting a wave of investment in alternative energy that crashed as soon as petroleum prices dropped. Transitioning from fossil fuels to clean power will be a long, fraught process, and investors — whether they're pushing ethanol, hybrids or something new — need long-term certainty that they won't be undercut by old, dirty fuels dipping down to cheaper prices again. "That risk [of volatility] makes consumers and investors alike very reluctant to bank on high prices," says Greene. It doesn't make sense to spend hundreds of millions on an ethanol plant if the Saudis can undercut you by turning on the oil spigots.

That means even though high-cost oil seems here to stay, governments still need to act to send long-term signals to alternative energy investors. Price matters less than certainty, knowledge that **an outlay in clean power will still be worthwhile 5, 10 or 15 years down the road (4)**. That could take the form of a carbon tax that sets a floor on oil prices, a cap-and-trade system that could do virtually the same thing or mandated standards that require the use of less carbon-intensive fuels. (California attempted to go the last route, mandating steep reductions in carbon emissions from cars, but the Environmental Protection Agency last month rejected the law. The state announced today that it would sue the federal government in response.) The safe level varies from technology to technology but programs that keep oil above roughly $50-a-barrel would be a great help. "$100-a-barrel oil is not sufficient alone to drive investment," says DeCicco. "We need an energy policy with a conscience."

In the meantime, consumers should get used to the era of triple digit oil. "As we move forward we're looking at the sources of oil becoming more and more expensive," says Brendan Bell, an energy analyst with the Union of Concerned Scientists. "I don't realistically see it becoming cheap again." It might be scant consolation, but when you shell out extra to fill up your car or pay your heating bill, at least you're helping the planet, a little bit.

TASKS for the article "Oil: More Demand, Higher Prices"

1. Study the following useful words:

Output level – уровень добычи
Sluggish – медленный, вялый
Bickering – перебранка, потасовка, спор, драка
Faction – фракция, группировка, клика
Skirmish – схватка, стычка, перестрелка
Swaths - залежи
Off limits – под запретом

2. Read the text quickly and list the factors that have an impact on the rising oil prices.

3. Read the interview one more time and say if the statements are true or false:

OPEC countries and the USA view the situation from different viewpoints.

The increased demand factors determine the situation in the market.

Asian countries play an insignificant role in the global oil market due to their small GDP per capita.

Oil is considered to be a financial tool.

Oil is still valued on the dollar.

Gas resources are depleting.

If the USA invaded Iran, oil prices would plummet.

The conflict along the Venezuelian-Columbian border has had an impact on the soaring oil prices.

Oil extraction in Iraq will be resumed as soon as they have a law determining proprietary rights.

High prices and stretched production capabilities should lead to new domestic drilling in the USA.

4. Prepare a short talk on the factors driving share prices up.

5. Prepare questions to discuss this topic with an expert. Enact the conversation.

OIL: MORE DEMAND, HIGHER PRICES

An expert says the market for oil is growing, while the power of the dollar will shrink

After the price of a barrel of oil hit a new high last week (almost $105), President Bush asked the Organization of the Petroleum Exporting Countries (OPEC) to increase production to drive prices down. Instead OPEC officials said they'd maintain current output levels, a move that could lead to prolonged economic sluggishness for the United States. The cartel's denial looked like political bickering between oil-rich countries—like Saudi Arabia, Kuwait and Nigeria—and their biggest consumer: the United States, which cartel members blamed for economic mismanagement of the resource. But some analysts say that output may not be so easy to increase, even if the producers wanted to. NEWSWEEK's Daniel Stone spoke with J. Robinson West, chairman of global consulting firm PFC Energy, on where the global oil market might be headed. Excerpts:

How political is it for the cartel to reject America's request to raise oil production?

Frankly, this is not the first time that the U.S. has asked OPEC to move, and it's not the first time they've been rejected. So I don't think that's a big deal, and I would have been amazed if they had responded. The U.S. consumer and the president are very concerned. From the standpoint of the OPEC producers and the markets it's a very different situation, and some of these countries, notably Iran and Venezuela, need oil at very high prices in order to finance their economy.

But don't these countries have an incentive for the world's largest consumer to avoid a recession? Well, first of all, there is enormous worldwide demand. And demand in the United States has remained very high. The politicians in the U.S. always make efforts to increase supply. They do next to nothing about demand. Secondly, demand is growing very rapidly in Asia and the Middle East, so you have got demand factors, some of which are beyond the control of American politicians, and others certainly beyond the control of OPEC officials.

Talking about Asia, what role will a rising consumer continent play in the global oil market? They're transforming the market. There is analysis that shows a very high correlation between the per capita GDP and car ownership. Per capita GDP in China is still quite low, and car ownership is low. But as per capita income grows, car ownership will grow. This has happened in Korea, the Netherlands and Brazil. It happens everywhere, and as you move up that curve it's inevitable. If you believe the Chinese economy is going to grow - and I believe the Chinese economy must grow - then automobile demand and ownership must grow. If you look at Ratan Tata, a leading Indian tycoon and industrialist, he has introduced the Nano, a new [gas-powered] car that will cost $2,500. He'll bring the automobile to the general public. And if he does that, demand is going to go up.

Will the market be able to meet that demand? There's very little spare capacity in the world. Most of it is in Saudi Arabia, and most of that is heavy oil. You also have places like Nigeria, where there's a risk built into the market. But another factor is driving the price of oil: a lot of traders are basically shorting the dollar. They believe the dollar is going to go down, so they're buying oil. And that has the effect of pushing the dollar down and pushing the price of oil up even more. Oil has become a financial instrument beyond just the energy markets.

The value of oil is constantly changing, lately reaching new highs with every fluctuation. Everyone wants to know how high could it go. Well, there are a lot of people that believe that with a U.S. recession the price of oil would soften as the economy softens. But one of the things challenging that right now is this "financialization" of oil that's being used as a hedge against the dollar.

Considering the falling dollar, could there be a push to value oil on a different currency, like the yen or the euro? No. That would be very difficult. It's not so simple just to switch. But what's happening is that oil-producing countries are shifting out of dollars as soon as they receive them. They're not holding a lot of dollars.

What does that mean for the average U.S. consumer? That there's downward pressure on the dollar, and it's becoming more expensive for us.

Responding to a reporter asking about the possibility of gas prices reaching four dollars a gallon, President Bush said last month he had no indication it would reach that level. In the short run, is that realistic? The only question is when. If the economy softens, there's a good chance that oil prices will soften as well, and hence gasoline prices. But in our business we take a longer view. We believe there are a lot of people in the industry that think we're headed for a production and supply crunch. It's not that the world is running out of oil, but that the world is running out of oil production capacity.

So even if the OPEC cartel wanted to increase production, you're saying their capacity to do so would be limited? Yes. Basically, OPEC is along for the ride. Demand is driving it. Demand and the "financialization" of oil have more to do with it. Now, if OPEC opened up every stop, then they might be able to soften the market somewhat, but then you eliminate all spare capacity, which isn't a good idea either.

How would oil prices react if the U.S. invaded Iran? It would jump through the roof. Don't ask me for a number. It would destabilize the region from where a great deal of oil flows. I think the price of oil would rocket upward.

Do you foresee a similar effect from an escalation of the conflict along the Venezuelan-Columbian border? I don't think it's had that much of an impact so far. Frankly, what's had a bigger effect on the global market is mismanagement of the petroleum sector by [President Hugo] Chávez. Although they have huge oil reserves, production is declining due to just sheer incompetence. Venezuelan mismanagement is more significant to the oil market than a possible border skirmish between Venezuela, Columbia and Ecuador.

What about Iraq? What's the timeline there for getting that oil pumping? I can give you the Talmudic answer by answering a question with a question. You tell me when the political situation will be clarified and an oil law will be passed and I'll tell you when production will go up. One of the things that must happen is the passage of an oil law over who would control the oil contracts and the oil revenues. And the problem has been that they haven't been able to reach a level of agreement between the different factions in that country. This is as central to Iraq as the issue of slavery was in the U.S. This is a fundamental issue in terms of the economic structure of the country.

Could high prices and stretched production capabilities lead to new domestic drilling in places like Alaska or offshore near Florida and California? It should. The United States is the only country in the world that has large swaths of highly prospective acreage that is off limits. Everyone talks about Alaska, but the industry is much more interested in the Eastern Gulf of Mexico. What the politicians are always trying to do is find painless solutions. Energy policy in the U.S. in the last 25 years had encouraged consumption and discouraged production, which doesn't make a great deal of sense. And instead what we try to do is keep fuel as cheap as possible in the transportation and residential sectors. Those are the two sectors of the U.S. economy that are very inefficient from an energy standpoint

TASKS for the article "The Energy Trap"

1. Skim read the article. How would you describe the writer's tone of narration? What problems does the author raise in the article? What is the controlling idea of the text?

2. Study the meaning of the following useful vocabulary:

Sap – gradually weaken
Bipartisan – of or involving the agreement or cooperation of 2 political parties
Coherent – logical and consistent
Cabal – a secret political clique or faction
Comprehensive – dealing with all or nearly all aspects of something
Tread (on the planet) – impact
Align – place or arrange in a straight line or into correct relative positions
Credible – able to be believed, convincing
Copious – abundant, plentiful
Affliction – pain, suffering

3. Explain and comment on the expressions in bold type.

4. Answer the following questions:

- What made environmental issues become burning political issues in the USA in March 2008?
- What may be the hindrance to the government's effort to change energy patterns across the country?
- How do different layers of society usually respond to appeals from Washington to improve the energy policy of the country?
- What two prerequisites do people from Washington usually require when they are going to tackle energy problems?

- Why do their attempts always fail? What two projects does the author mention to illustrate his point?
- Why was corn-based ethanol program called a chameleon?
- What is the situation with energy policy like in Europe/China/India/Japan?
- Is there any hope that the situation with policy making in the sphere of energy will improve in the nearest future? Does the title of the article help to answer the question?

5. Discuss the situation with energy policy in the USA with your partner.

6. Prepare a short talk on the following topic: "Environmental and energy problems are closely connected. They both require good will and a strategic approach on a long term basis."

THE ENERGY TRAP

Why the United States is doomed to be an energy outlaw

Democrats voting in Ohio and Texas may well decide the shape of the U.S. presidential election. Regardless of who they choose to run against Sen. John McCain, the all but certain Republican candidate, it is likely that energy issues will figure more prominently in the election than at any time in the last generation. **High prices are sapping economic growth (1)**, the No. 1 concern across most of the country. Gasoline is now approaching $4 a gallon; natural gas and electricity are also more costly than a few years ago. **Global warming has become a bipartisan worry (2)**, and solving that problem will require radical new energy technologies as well. All this is good news in the rest of the world, which is hoping that a new regime in Washington will **put the United States on a more sustainable energy path (3).**

It may be a vain hope. It is extremely unlikely that Washington will ever supply a coherent energy policy, regardless of who takes the White House in November. That's because serious policies to change energy patterns require a broad effort across many disconnected government agencies and political groups. Higher energy efficiency for buildings and appliances, a major energy use area, requires new federal and state standards. Higher efficiency for vehicles requires federal mandates that always meet stiff opposition in Detroit. A more aggressive program to replace oil with biofuels requires policy decisions that affect farmers and crop patterns-yet another part of Washington's policymaking apparatus, with its own political geometry. New power plants that generate electricity without high emissions of warming gases require reliable subsidies from both federal and state governments, because such plants are much more costly than conventional power sources. Approvals for these new plants require favorable decisions by state regulators, most of whom are not yet focused on the task. Expanded use of nuclear power requires support from still another constellation of administrators and political interests. And so on.

Whenever the public seizes on energy issues, the cabal of Washington energy experts imagines that these problems can be solved with a new comprehensive energy strategy, backed by a grand new political coalition. Security hawks would welcome reduced dependence on volatile oil suppliers, especially in the Persian Gulf. **Greens would favor a lighter tread on the planet (3)**, and labor would seize on the possibility for **"green-collar" jobs (4)** in the new energy industries. Farmers would win because they could serve the energy markets. The energy experts dream of a coalition so powerful that it could rewire government and align policy incentives.

This coalition, alas, never lasts long enough to accomplish much. For an energy policy to be effective, it must send credible signals to encourage investment in new equipment not just for the few months needed to craft legislation but for at least two decades-enough time for industry to build and install a new generation of cars, appliances and power plants, and make back the investment. The coalition, though, is politically too diverse to survive the kumbaya moment.

Just two weeks ago the feds canceled "FutureGen," a government-industry project to develop technologies for burning coal without emitting copious greenhouse gases, demonstrating that the government is incapable of making a credible promise to help industry develop these badly needed technologies over the long haul. (The project had severe design flaws, but what matters most is that the federal government was able to pretend to support the venture for as long as it did and then abruptly back off.) Similarly, legislation late last year to increase the fuel economy of U.S. automobiles will have such a small effect on the vehicle fleet that it will barely change the country's dependence on imported oil and will have almost no impact on carbon emissions. Democrats and Republicans alike claim they want to end the country's dependence on foreign oil, but neither party actually does much about it.

The only policies that survive in this political vacuum are those that target narrower political interests with more staying power. Thus America has a highly credible policy to promote corn-based ethanol, because that policy really has nothing to do with energy; it is a chameleon that takes on whatever colors are needed to survive. It is a farm program that masquerades as energy policy; at times, it has been a farm program that masquerades as rural development. As an energy policy it is a very costly and ineffective way to cut dependence on oil. As a global warming policy it is even less cost effective, since large-scale ethanol doesn't help much in cutting CO_2 and other warming gases. Similarly, the United States has a stiff subsidy for renewable electricity-mainly wind and solar plants-because environmentalists are well organized in their support for it. The coal industry periodically gets money for its favored technologies, as in FutureGen, but **even that powerful lobby has a hard time getting the government to stay the course (5).**

Europe is in danger of contracting the same affliction. To be sure, most European countries long ago started taxing energy as a convenient way to raise revenues, which fortuitously also makes energy more costly and creates a strong incentive for efficiency. That approach did not originate as an energy policy, but it has emerged as a keystone of Europe's more successful efforts to tame energy consumption. And Europe is in the midst of shifting policymaking from the individual countries to Brussels, which may create a more coherent approach. But despite these advantages, Europe is notable for its inability to be strategic. For example, Brussels is touting a new pipeline called Nabucco that would help Europe cut its dependence on Russia for its natural gas. So far, Brussels is good at talking about the Nabucco dream but can't agree on a route, financing, or even on where to get the gas that would replace Russia's.

The rising powers in Asia are also finding that they, like America, have a hard time developing and applying strategic energy policies. China develops energy policy through its economic planning system, with mixed results. The country doesn't even have an energy ministry, and efforts to create one are being stymied by the bureaucracy and companies that fear they will lose influence. India has four energy ministries and no real central strategy. Like America, India is very good at declaring visions for strategic energy policy but dreadful at putting them into practice. The Japanese public is just as fickle, but the government bureaucracy is entrenched and far-sighted enough to keep its focus long after public interest has waned.

All this means that the underlying forces that are causing high demand for energy (and high prices) and emitting greenhouse gases will be hard to alter. The effort to solve global warming might change this pessimistic iron rule of energy policy, because the environmental community that is the core of the coalition in support of global warming policy is becoming much stronger and has shown staying power. For the moment, however, that is a hypothesis to be proved.

David G. Victor is a professor at Stanford Law School and directs the Freeman Spogli Institute's Program on Energy & Sustainable Development; he is also adjunct senior fellow at the Council on Foreign Relations.

TASKS for the article “On the rebound”

1. Skim read the article. What problems does it deal with? What is the main idea of the article?

2. Read the article for the second time and answer the questions after each paragraph.

3. Prepare a talk on the rebound effect and its impact on economy.

4. Arrange a panel talk on ways of raising energy efficiency in different industries. The participants of this talk could be a politician, a governmental official, an environmentalist, representatives of different industries and an economist familiar with the notion of the rebound effect.

ON THE REBOUND

Energy pleas ignore an important bit of economics

ENERGY efficiency is probably the most popular environmental panacea. While politicians discuss complicated global climate-change deals, economists tinker with intricate emissions-trading schemes and engineers design a new generation of nuclear-power plants, many greens advocate simpler steps: buying more efficient cars, replacing wasteful incandescent bulbs with efficient fluorescent ones and installing proper insulation (изоляция). The International Energy Agency reckons that more efficient manufacturing, cosier houses and frugal (бережливый, экономный) transport could reduce energy demand worldwide by a third by 2050. *(What universal recipe could cure all environmental problems? How do different groups of people concerned with this problem tackle it? What are the predicted benefits of implementing energy efficient technologies?)*

With that in mind, governments are prodding (подгонять, побуждать) businesses to make their products more efficient. A voluntary agreement between the European Union and big carmakers has helped boost fuel economy 12% above its 1995 level, although the target of 25% by 2009 will not be met *(What impact did cooperation between business and governments have on the fuel industry?).*

The airline industry has promised great strides in jet-engine efficiency to mitigate (смягчить, облегчить) the environmental damage caused by flying. Best of all, unlike proposals for green taxes or higher electricity prices to pay for expensive windmills and nuclear plants, the prospect of lower power and petrol bills makes efficiency measures attractive to consumers. *(What measures to improve energy efficiency have been taken in the airline industry? Which of them proved to be the most attractive to consumers?)*

Given that transport accounts for between one-quarter and one-third of the emissions of most developed countries, a 12% improvement in fuel efficiency sounds impressive. But economists know better.

Because fuel costs are a significant part of the total price of running a car, lowering them means cheaper motoring. And cheaper motoring, all other things being equal, means more motoring. The same applies to flying, home insulation or industrial processes: any reduction in energy use means a reduction in cost which, in turn, leads to an increase in demand, eating into the savings from more frugal engineering. In energy economics this is known as the “rebound (отдача, рикошет, реакция) effect.” It was first described in 1865 by William Stanley Jevons, an economist investigating steam engines. *(Why does economy lead to increased consumption? What is the “rebound effect”)*

Since then, says Steve Sorrel,an economist who produced a report about the rebound effect for Britain’s Energy Research Centre, there has been little research into just how big the rebound effect is. Estimates of the “direct” effect range from almost zero to over 100% (i.e, greater efficiency encourages so much more consumption that net energy use actually goes up).

The precise size of the effect depends on both the good in question and the wealth of those consuming it. “The potential for a big rebound is higher when you’re looking at low-income groups,” says Mr Sorrel. “Lots of poor people can’t afford to make their homes as warm as they’d like. So they’ll take any efficiency improvement in the form of more heating, whereas the rich—who are already comfortable—will probably spend the savings on something else.”*(What does the rebound effect depend on?)*

Nor is that the end of it. Rich people may not consume more heating, but whatever else they spend their money on (a foreign holiday, say, or a new television) will come with an energy cost of its own. Such "indirect" effects are even harder to quantify, although some estimates range as high as 50%.

The paucity (малочисленность, недостаточность) of data has meant that rebound has been ignored in most of the academic work done around climate change. It was not discussed in the Stern Review, a weighty piece of economic modelling produced by Sir Nicholas Stern, a former chief economist at the World Bank, which aimed to put a cost on climate change and a price on avoiding it. *(Why is the rebound effect ignored by the majority of researchers?)*

The Intergovernmental Panel on Climate Change, a UN-sponsored group of experts, notes the effect's existence but says nothing more. Most economists believe that the direct effect, at least, is fairly small, although they are much less sure about indirect effects. Others—such as Len Brooks, an energy expert formerly employed by the UK Atomic Energy Authority—reckon that rebound is a big enough problem to make energy efficiency programmes almost useless. *(How do scientists' views on the rebound effect vary?)*

Answers may now be coming, albeit (хотя) slowly. Britain's environment department commissioned two pieces of work that attempted to gauge (измерять, оценивать) the likely size of both the direct and indirect rebound effects across the economy. Published in 2006, one study estimated the total effect at 26%, the other at 37%, although the use of different assumptions makes the figures hard to compare directly.

Mr Sorrel and his research team, after conducting an exhaustive review of the literature, will say only that they believe the size of the effect to be at least 10%, and frequently much higher. Whichever estimate is nearest the mark, the effect seems significant. Environmentalists may wish to re-do their sums. *(What does the last sentence of the article mean?)*

TASKS for the article "The Energy Solution: *Do* Something"

1. Study the following words and word combinations from the article:

Be boiled down to a simple question – сводиться к простому вопросу

Render the actions moot – ставить действия под вопрос, сомневаться в их необходимости

Make room for the newcomers – потесниться, освободить место для вновь прибывших

Blackout – отключение электричества

Lock in vast levels of carbon dioxide emissions – высвобождать огромное количество углеводорода

Leapfrog – догнать и перегнать

The drive to lower carbon emissions – стремление уменьшить выбросы углеводорода

2. Read the article paragraph by paragraph and decide in which of the paragraphs the author:

- Expresses concern about the future of energy infrastructure of the developing economies. (The concern is rooted in the fact that the way the infrastructure is built will determine either its adverse or positive effect on the environment);
- Emphasizes the necessity of huge investment into the energy sector;
- Promotes the leapfrog attitude for the developing countries;
- Reports about the findings of the report "Lighting the Way: Towards a Sustainable Energy Future";
- Tells us about the biggest environmental challenge of the century.

3. Read the text again and answer the questions:

- What is the biggest environmental challenge of the century? In what case will the challenge be met?
- How is the developing world characterized in the report?
- Why does the author draw our attention to the fact that the report has been commissioned by China and Brazil?
- How do they deal with the problem of the lack of electrical capacity in China?
- What is wrong with building coal plants in China as long as it helps them to tackle the problem of energy deficit?
- What is leapfrog attitude? In what spheres does the author expect China and other developing countries to surpass and overtake their counterparts in the developed countries?
- How much should investment in the energy sector be increased, according to the author of the article? What will such an increase lead to?
- What options do developing countries have while building their energy infrastructure?
- How could you describe the author's tone of narration?

4. Use Ex.2 as an outline to prepare a resume of the article.

THE ENERGY SOLUTION: *DO* SOMETHING

Carl Pope, the executive director of the Sierra Club, likes to say that the environmental challenge can be boiled down to a pretty simple question. How are we going to fit a billion new rising consumers — mostly from India and China — into a biosphere that is increasingly full? If the world can make room for the newcomers, then we should be able to make it through the 21st century. If not, it won't matter what we do in the U.S. — the sheer scale of the rising demand for energy and raw materials in the developing world will render our actions moot.

Pope's question was at the forefront of a report released today by the InterAcademy Council, a Netherlands-based network of national science academies from around the world. Titled "Lighting the Way: Towards a Sustainable Energy Future," the assessment was the work of 15 scientists from 13 nations — and here's the important part — it was commissioned by the governments of China and Brazil, two future energy superpowers. The recommendations made in the report aren't exactly earth-shattering — you may have heard that we should conserve more — but what matters is the focus on the developing world, as both a market for and a center of energy innovation. "The new frontiers of energy are much more likely to be in China and India and comparable places than in the [developed world]," said Ged Davis, one of the report's panelists and a British energy economist. "This is where the investments for energy are most needed, and this is where I'm convinced they'll be most applied."

The key term is "leapfrog" — or as Davis said later, "super leapfrog." Desperate to keep juice flowing to their rapidly growing economies — in India especially, blackouts remain a fact of life — the big developing nations are adding electrical capacity fast, cheap and dirty. China alone is building a coal plant a week for the next five years, locking in vast levels of carbon dioxide emissions. It would be a big step just to get these economies to the same efficiency and relative cleanliness of developed-world energy systems. Coal plants in Japan, for instance, operate with an efficiency of 40% or better, while Chinese plants are generally much lower. Closing that gap could make a difference — but again, the sheer scale of that growth requires far more. "We need to develop that leapfrog attitude for developing countries," said Jose Goldemberg, the panel's co-chair and a professor at the Institute of Electrotechnics and Energy at the University of Sao Paulo.

That will require massive investment in the energy sector — and the dirty secret is that for all our talk about the importance of new, clean technology, governments around the world have underinvested in energy. The report's authors point out that global public investment in energy research and development was just $9 billion in 2007 — about a billion less than the U.S. is currently spending in Iraq per month. That has to be doubled, at least. "We need money on the magnitude of what the U.S. invested in the Apollo program," said Steven Chu, another co-chair and the director of the Lawrence Berkeley National Laboratory at the University of California-Berkeley. "I'm confident that will lead to a lot of breakthroughs on energy technology."

There's little time to waste. The rapid growth of developing economies presents both an opportunity and a risk in the drive to lower carbon emissions. Unlike sated developed nations, China and India still have massive amounts of energy infrastructure left to build, so if they can be induced to build clean, the future difference would be dramatic. The downside, of course, is that they still have massive amounts of energy infrastructure left to build — a startling realization, considering carbon emissions are already nearing dangerous levels today, even before that transition occurs. Cleaning up the developing world won't be simple, but it's one task we do not want to put off until tomorrow.

TASKS for the article “Green revolution stalls on cheap oil”

1. Read the text quickly to find out what consequences cheap oil has had on the development and manufacturing of alternative energies.

2. The text contains two metaphors "to take the wind out of the sails" and "to slam on the brakes". What pictures have you conjured up after you have read them? Find the sentences in the text that contain the metaphors and comment on them.

3. Read the text one more time to be able to answer the questions.

- Why did low oil prices have an adverse effect on the developers of alternative energy facilities?
- What are Jeremy Leggett's predictions on the future of big alternative energy projects?
- What are the three major factors that have made the index of clean – technology companies go down?
- What brought about the necessity to make a correction in the low – carbon industry?
- What caused the fall of Suzlon Energy stock?
- What made T Boone Pickens change his mind about building the world's largest wind farm?
- Why did Shell decide not to participate in the London Array wind farm project?
- What is the situation like in the sun energy sector?
- What is "Obama bounce"? What lies behind it?
- Why do the governments of all developed countries support the development of renewable energies?
- Is the author generally more optimistic or pessimistic about the future of renewable energies?

In a short paragraph write about the negative consequences of the credit crunch on the development and implementation of alternative energies projects.

GREEN REVOLUTION STALLS ON CHEAP OIL

Low oil prices and the credit crunch are threatening to stall (застопорить) the green revolution. The value of crude has dropped from a summer high of nearly $150 a barrel to below $40, taking the wind out of the sails of turbine manufacturers and others trying to build low-carbon alternatives.

Jeremy Leggett, founder and executive chairman of Solarcentury, says: "Talk of the death of renewables is premature but clearly big solar farms and wind projects are being cancelled. Everything is suffering in the current climate but its my contention that the low oil price is a temporary thing and the growth of renewables will resume."

Michael Liebreich, chief executive of information provider New Energy Finance, says his leading index of clean-technology companies has fallen from a high of 450 points 12 months ago to 175 points, hit by a triple whammy of lower oil prices, higher costs of capital and fear of more speculative start-up businesses.

But he too is confident that the sector can bounce back. "There was no doubt that there was a certain amount of irrational exuberance over the low-carbon economy. No industry in history has kept up the kind of 40% compound growth rates being ascribed to clean tech so share prices had run up too far and it was time for a correction."

Clean-tech and renewables stocks have been struggling with more than just sentiment. Indian-based wind turbine manufacturer Suzlon Energy, which has seen its share price plunge by 90% this year, has also been hit by malfunctions and the kind of teething problems it says is are inevitable with new types of technology.

Wind developers in the US have been cutting back in the face of tough new conditions. FPL Group, the US's largest wind-power operator, is cutting its spending this year by nearly a quarter to $5.3bn (£3.7bn) and new wind-power generation from 1,500 to 1,100 megawatts.

Confidence in the sector has also been rattled by T Boone Pickens, a veteran oil man who delighted environmentalists with a very public conversion when he promised to build the world's largest wind farm in Texas. He slammed on the brakes in November on the basis that lower oil prices had changed the economics of a scheme that would have powered 1.3m homes.

However the US wind sector has generally been faring better than the British one, thanks to tax breaks. Shell and BP have made it clear they are no longer interested in pursuing UK farms when the investment numbers stack up much better across the Atlantic.

The decision by Shell to pull out of the London Array wind farm was a particular blow to British confidence. The project has been billed as the biggest offshore scheme of its kind in the world but the oil company said the margins were too thin, leaving E.ON of Germany and Dong Energy of Denmark to go it alone.

Anton Milner, the chief executive of Q-Cells, the world's largest manufacturer of solar cells, cut earnings forecasts recently after being hit by what he described as a "flood" of cancellations from developers of solar-power projects struggling to raise finance. The US manufacturer Evergreen Solar has since delayed an $800m new factory in Asia that would have manufactured enough solar cells to power a city of 500,000 people.

But most industry figures are convinced that though the threat of global recession is slowing down the industry, the future remains bright enough, especially with a new figure taking over the White House. Liebreich says his clean-tech index has seen an "Obama bounce", rising from a low of 130 to 175 on the back of optimism about the incoming president's policies.

A raft of radical political appointments – such as Nobel physics laureate Steven Chu as energy secretary – has convinced environmentalists that Barack Obama is serious about his stated aim of hastening progress towards a low-carbon economy with a green New Deal that will reduce his country's dependence on imported oil.

A quarterly review of climate change-related business opportunities just published by analysts at HSBC says governments are increasingly active. "The engagement of governments has grown globally," they say. "Across the political spectrum there is now more recognition that climate change is a genuine long-term global issue with real growth potential."

Martin Wright, managing director of Marine Current Turbines, says no one should expect oil and gas prices to stay low. "Vladimir Putin has already said the era of cheap gas is over and no one knows when peak oil really will come about. So we can expect enormous price volatility, which all points to the need for Britain to develop an independent low-carbon alternative."

TASKS for the article "It will take more than goodwill and greenwash to save the biosphere"

1. Read the title and the subtitle. What do you expect the article to be about? (The word greenwash means "disinformation disseminated by an organization so as to present an environmentally responsible public image".)

2. Read the article for the first time. Has your supposition proved to be true? Complete the sentence to summarize the main idea of the article: The author raises his voice of protest against … he also disapproves of … and he calls on the government to … .

3. Read the article for the second time and answer the questions

- Why did Shell stop advertising itself as an environmentally responsible company?
- What is the CEO's opinion about the company's green ads?
- Have you seen the new ad described in the article? How has it improved according to the author?
- What impression did Shell's publicity film produce on the interviewer?
- What aroused the author's concern when he was reading Shell's reports and publicity materials?
- What questions did the CEO try to evade answering?
- What recent project has the company been criticized for?
- Why doesn't Shell have an incentive to invest in renewable energies?
- In what case does the author think Shell will invest in alternative energy?
- How does the author see the role of the government in this situation?

4. Prepare a resume of the article.

5. What questions would you like to ask Jeroen van der Veer? Write down the questions and try to find answers to the questions using different sources. Enact an interview between Shell's CEO and The Guardian's business correspondent.

IT WILL TAKE MORE THAN GOODWILL AND GREENWASH TO SAVE THE BIOSPHERE

Shell may boast about tackling climate change, but companies tend always to sacrifice good intentions for hard cash

George Monbiot interviews Jeroen van der Veer, chief executive of oil giant Shell

For a while it seemed that Shell had stopped pretending. The advertisements that filled the newspapers in 2006, featuring technicians with perfect teeth and open-necked shirts explaining how they were saving the world, vanished. After being slated by environmentalists for greenwash, after two adverse rulings by the Advertising Standards Authority, Shell appeared to have accepted the inescapable truth that it was an oil company with a minor sideline in alternative energy, and that there was no point in trying to persuade people otherwise.

The interview I conducted with its chief executive, Jeroen van der Veer, broadcast on the Guardian's website today, contains what appears to be an interesting admission. I asked him whether Shell had stopped producing ads extolling (превозносящий, восхваляющий) its investments in renewable energy. Van der Veer does not express himself clearly at this point, but he seems to admit that his company's previous advertising was not honest.

"If we are very big in oil and gas and we are so far relatively small in alternative energies, if you then every day only make adverts about your alternative energies and not about 90% of your other activities I don't think that - then I say transparency, honesty to the market, that's nonsense." So, I asked, Shell did not intend to return to that kind of advertising? "Probably not," he told me. "I'm very much: keep your feet on the ground, tell them who you are and explain why you are who you are."

But since the interview was filmed, Shell's messianic tendencies appear to have resurfaced. In December the company ran a series of ads in the Guardian suggesting again that it had come to save the world. "Tackling climate change and providing fuel for a growing population seems like an impossible problem, but at Shell we try to think creatively," one boasted. It features a diagram of a human brain, divided into sections labelled "fuel from algae" (морские водоросли), "fuel from straw", "fuel from woodchips", "hydrogen fuels", "windfarm", "gas to liquids" and "coal gasification". This suggests progress of a kind, in that the company is acknowledging that it sometimes dabbles in fossil fuels, but its core business - oil - and its massive investments in tar sands extraction are missing from the corporate mind. Could Shell be having a senior moment?

The confusion deepens when you watch its latest publicity film. It's called Clearing the Air, and it does just the opposite. It is supposed to tell an inspirational tale of discovery, but the script and the acting are so gobsmackingly bad that it inspires you only to rip your clothes off and run screaming down the street. The lasting impression it leaves is that Shell's staff are chaotic and incompetent. Perhaps the clean-cut corporate clones featured in the ads of 2006 put people off.

Jeroen van der Veer is neither an incompetent nor an automaton. He is charming, friendly and smart. But he refused to answer some of the questions I had prepared.

Reading Shell's reports and publicity material, I kept stumbling on an absence. In 2000, the company boasted that it would be investing $1bn in renewable energy between 2001 and 2005. But since then it appears to have produced no figures for its renewables budget. The company now claims that it is "investing significantly in wind energy", but it doesn't say what "significantly" means. Of the 10 windfarms listed on its website, only one appears to be in the planning or development stage: the others are already in operation. Where is the evidence of new money? When Shell pulled out of Britain's biggest windfarm, the London Array, last year, did this represent the end of its major investments?

I asked Van der Veer a simple question - 15 times. (Only a few of these attempts feature in the edited film.) "What is the value of your annual investments in renewable energy?" He waffled, changed the subject, admitted that he knew the figure, then flatly refused to reveal it. Nor could he give me a convincing explanation of why he wouldn't tell me, claiming only that "those figures are misused and people say it is too small", and it "is not the right message to give to the people". It strikes me that there is only one likely reason for these evasions: that Shell's spending on renewables has fallen sharply from the figure it announced in 2000. It's a fair guess that the current investment would look microscopic by comparison to its spending on the Canadian tar sands, and would make a mockery of its new round of advertising. I challenge Shell - for the 16th time - to prove me wrong.

Nor would Van der Veer give me a straight answer to another straight question: "Is there any investment you would not make on ethical grounds?" I asked this six times. He was unable to furnish me with an example. It's not hard to see why. As well as exploiting the tar sands, which means destroying forest and wetlands, polluting great quantities of water and producing more CO2 than conventional petroleum production, Shell is still flaring gas in Nigeria, at great cost to both local people and the global climate. It has been fiercely criticised for its secret negotiations with the Iraqi government, which led last year to the first major access for a western company to Iraq's gas reserves. It is prospecting for oil in some of the Arctic's most sensitive habitats.

All this makes my question difficult to answer. Aside from the greenwash, it is not easy to spot the practical difference between this civilised, progressive company and the Neanderthals at Exxon.

Like all oil companies, Shell simply follows the opportunities. Shut out of the richest fields by state companies, struggling to extract the dregs from its declining reserves, it has been turning to ever more difficult oil extraction, some of which lies beneath rare and fragile ecosystems. When the price of oil was high, it announced massive investments in the tar sands. Now the price has dropped again, it has cancelled further spending. It has even less of an incentive to invest in renewables. Shell does what the market demands.

I don't blame Shell or Van der Veer for this: they are discharging their duty to their shareholders. I do blame them for creating the impression that the company has a different agenda, and I blame governments for allowing them to drift into whatever fields they find profitable, regardless of the consequences for people or the environment.

On this issue Jeroen van der Veer and I agree. Oil companies, he says, should not seek to determine a country's energy mix: that is for the government to decide.

Saving the biosphere, in other words, cannot be left to goodwill and greenwash: the humanity of pleasant men like Van der Veer will always be swept aside by the imperative to maximise returns. Good people in these circumstances do terrible things. Companies like Shell will pour big money into alternative energy only when more lucrative or immediate opportunities are blocked. Where is the government that is brave enough to block them?

TASKS for the article "Smoke and Mirrors"

1. Read the article and answer the questions.

- What achievements in the field of clean energy can China boast of?
- What stands in China's way to a carbon-neutral future?
- How is China going to expand its electrical generation capacity?
- Why has China's demand for energy skyrocketed?
- How does the author account for the fact that China became the largest producer of the greenhouse gasses despite the government's effort and massive investment in green technologies?

2. Summarize the contents of the article.

SMOKE AND MIRRORS

No country except the U.S. is crawling with more venture capitalists looking to fund green-energy deals these days than China. The rush has not yet reached dotcom-boom proportions, but VCs and entrepreneurs see big opportunities in helping the country cope with its horrendous pollution problems through alternative-energy development. Deals are getting done. China is applying green principles to the construction of entirely new cities such as Dongtan, an area outside of Shanghai the size of Manhattan, which will use recycled water only and generate electricity using biomass. Last year, 3.4 gigawatts (GW) of wind energy were added to China's electrical grid, making the country the fastest-growing market for wind power in the world. And by 2020, China will quadruple its nuclear capacity from 10 GW to 40, again the fastest rate of growth globally.

But to anyone laboring under the impression that China is well on its way to a carbon-neutral future, reality can be sobering. Despite progress on the alternative-energy front, demand for power is expanding at such an extraordinary rate that it can only be satisfied by the combustion of vast additional quantities of coal, oil and natural gas. For example, between 2008 and 2030, the incremental increase in China's consumption of oil alone is expected to equal India's total annual oil consumption today, according to the International Energy Agency. "The government is being very aggressive in its pursuit of hydro, nuclear and renewables," says Jone-Lin Wang, a senior director at Cambridge Energy Research Associates (CERA), a U.S. energy consultancy. "But overall you're not really moving the dial that much over the next 10 to 20 years. These things take time."

Time is not on China's side. The government has announced plans to add an astonishing 1,300 GW to its electrical generation capacity by 2020. (The U.S. is currently capable of generating 1,000 GW.) The goal is for 25-30% of this to come from clean and renewable technologies. But even if these ambitious targets are achieved, some 70% of China's electricity will still come from coal-fired plants in 2020. That's down from about 78% today.

One reason China is so power-hungry: beginning in 2002, the country began dramatically expanding its heavy industries such as steel and aluminum production and auto manufacturing — capital-intensive businesses that are huge energy hogs. Five years ago, the ratio of heavy industry output to gdp in China was 55%; that rose to a staggering 120% last year. Today, light and heavy industry accounts for nearly three-quarters of the country's energy use. As a result, China is not a particularly efficient consumer of power, lagging well behind Japan, the U.S. and other developed countries in the amount of economic output it generates for every gigawatt consumed. Hoping to become 20% more energy-efficient over the next 12 years, Beijing in 2006 ordered heavy industries and local officials to develop more judicious consumption strategies. The government also increased pressure on provincial governments to enact strict building codes to make new office buildings and shopping centers less wasteful.

Laudable moves, but there's another reason why China is becoming as addicted to hydrocarbons as the U.S.: the middle-class dream is coming true for tens of millions of mainlanders, who are buying their first cars, computers, clothes dryers and other electrical appliances. Some estimate that China last year surpassed the U.S. as the largest producer of the greenhouse gases that cause global warming, yet the impact of the country's growing consumerism has barely started to spread across the world's energy and environmental landscape. To put matters into perspective, consider China's massive Three Gorges Dam, a $29 billion project that displaced millions of peasants in return for a big jolt of clean, affordable hydropower. According to a forecast by policymakers at Beijing's Sustainable Energy Program, electricity demand from air-conditioners purchased by Chinese in 2008 alone will exceed the total capacity of Three Gorges Dam.

Air-conditioners? What if 300 million Chinese decide to buy them? "The Chinese are sort of like the Americans," says CERA's Wang. "They like big cars and houses." That's an observation likely to darken the outlook of even the sunniest of solar-power advocates, and knock the wind right out of the sails of wind-power fans. No matter how much China invests in green technologies, it looks like it won't be enough.

TASKS for the article "Forget Chernobyl, Nuclear Energy is Making a Comeback

1. Read the title of the article. What do you think it is going to be about? What could be the reasons for the revival of the industry?

2. Read the text and answer the questions.

- What makes the construction of the nuclear plant on the Finnish island quite a special project?
- What safety measures have been undertaken by the project developers?
- Why had it been decided to build the reactor on the remote island?
- What do the figures about the pace of industry's development in the past few decades testify to?
- What factors have led to the change of attitude to nuclear plants and atomic energy at large?
- What other possibilities had been considered before they decided to build the nuclear plant? What advantages did it have over other options?
- How did other European countries respond to the news (that the nuclear plant was being built on the Finnish island)?
- What are the green's arguments against nuclear energy?
- What do the results of the public survey testify to?
- Why are economists in favour of nuclear energy?
- What can stall on further proliferation of nuclear plants?
- Why did President Nixon's prediction about nuclear plants prove to be false?
- What are the industry's main problems today?
- How has the debate over nuclear power changed in recent years?
- How is building nuclear plants related to the proliferation of nuclear weapons?
- Why do some countries object to the creation of international fuel centers?
- Do you agree with the secretary-general of the world Energy Council who believes that the possibility of using nuclear power for nuclear weapons is a bigger issue for the industry than nuclear waste?

FORGET CHERNOBYL, NUCLEAR ENERGY IS MAKING A COMEBACK

In winter, when the temperature regularly falls to -4ºF (-20ºC), the Finnish island of Olkiluoto feels like the edge of the world. Today, the snow is falling so hard that visibility is down to a few meters, and the air is so cold that it's impossible to write with a pen because the ink freezes. But despite these harsh conditions, there is a blizzard of activity on this desolate isle, where the French firm Areva and the German giant Siemens have teamed up to build the first new nuclear power plant in Western Europe since 1986. Some 1,200 workers — as heavily bundled up as Arctic explorers — are putting the finishing touches to a 203-ft.-high (62 m) concrete cylinder designed to protect the reactor core from the force of a collision with a commercial aircraft. The giant cylinder has another purpose that is equally unsettling to contemplate: in case of a meltdown, it's intended to shield the outside world from the nuclear danger within.

Atomic energy is the most powerful and potentially destructive force man has discovered, so it's not surprising that a new reactor would be tucked away in a place as remote as Olkiluoto. Over the past 20 years, apocalyptic images of meltdowns and mushroom clouds led much of the world to call for the phasing out of nuclear plants. After growing 750% in the '70s, and 140% in the '80s, nuclear-generating capacity increased by only 8% in the '90s. But new fears — of sky-rocketing oil prices, global warming, and an overdependence on unpredictable but energy-rich countries like Russia and Iran — have sparked a reappraisal. Nuclear energy is back from the dead, and Olkiluoto is at the vanguard of its revival. Yet as the nuclear industry envisages a future in which dozens of new plants hum quietly around the world, others question whether this makes sense environmentally or commercially. In the emotional debate over the future of atomic energy, only one thing is clear: fission remains, like the technology underpinning it, fundamentally divisive.

The Price is Right A decade ago, Finland — with its cold climate, long distances between cities, and energy-intensive industry — began looking for a way to meet its energy needs while living up to its Kyoto commitments to reduce greenhouse gases. Coal was cheap but crammed with polluting carbon. Thermal plants fueled by Russian gas seemed chancy given Finland's uneasy relationship with its neighbor. Renewable-energy sources like hydropower and wind, though promising, could not meet demand on their own. The debate kept circling back to the only other carbon-free option — nuclear. As Mikko Elo, a former MP who helped secure Finland's 2002 decision to build the new Olkiluoto reactor, recently put it: "If you worry about climate change there is no other economically or environmentally stable alternative to nuclear power."

That sentiment has quickly gained traction elsewhere in Europe, even in regions that have been staunchly antinuclear since a partial meltdown at the Chernobyl nuclear power station in Ukraine spewed a radioactive plume over the Continent 22 years ago. On Jan. 10, the British government reversed years of policy by proposing to streamline planning applications for reactors in the hope of opening new stations as early as 2017. British Secretary of State for Business John Hutton declared that nuclear power is "safe and secure" and that it's central to the country's goals for cutting greenhouse emissions. In Sweden, which decided even before Chernobyl to phase out nuclear power, an opinion poll released on Jan. 21 showed that almost half of voters now favor the technology. And even in Germany, where atomic fears helped spawn the nation's formidable green movement, many high-profile politicians, led by Chancellor Angela Merkel, are calling for the country's official opposition to nuclear energy to be overturned.

Outside Europe, the news is even brighter for the nuclear industry: globally, 34 nuclear plants are now being built in places as far afield as India, China, Russia and Argentina.

"Ten years ago, morale in [the nuclear industry] was rather low. People felt they were trapped by ecologists and gave the impression of a dead-end future," says Anne Lauvergeon, CEO of Areva, which is building the Olkiluoto reactor. "But we have nothing to hide. As a carbon-free and competitively priced energy source, nuclear has a significant role to play in the future."

Still, Lauvergeon's insistence that "nuclear is not the devil anymore" and that "the devil is coal" does not sit happily with environmental groups such as Friends of the Earth and Greenpeace. They say that because new reactors take at least 10-15 years to come online, nuclear energy is a futile distraction in the race to slow global warming. They also argue that the industry has yet to confront its toxic legacy — the fact that the splitting of uranium atoms creates isotopes that remain radioactive for thousands of years. Deep burial in certain geological structures would safely house nuclear waste, but it's notoriously difficult to persuade communities above them to accept such repositories. So far, there is only one in the world — in Olkiluoto.

Despite these concerns, environmentalists are losing the public-relations war over nuclear. A recent International Atomic Energy Agency (IAEA) poll of 18,000 people in 18 countries found that, after being reminded of nuclear energy's low emissions of greenhouse gases, 53% of respondents said they would not oppose the construction of nuclear reactors. And where the public and politicians do not stand in the way, nuclear reactors will surely follow. Once considered uneconomical, reactors are increasingly being hailed as a sound investment. The Nuclear Energy Agency, which studies the nuclear industry in OECD countries, recently concluded that in order for nuclear plants to compete with coal or gas as an energy source, oil must cost more than $45 a barrel; with oil now at twice that price, nuclear energy seems more viable than ever. And because nuclear power plants don't emit CO2, they will be exempt from future carbon taxes or carbon-trading schemes, including one the European Union recently pledged to implement, which will force utilities to buy permits to offset their emissions. "The economics now clearly favor nuclear," says Julian Critchlow, head of the global utilities practice at Bain & Company. "Between high commodity prices and prices on carbon, it's a very sound model."

These factors mean that even with their multi-billion-dollar startup costs and the steep price of eventual decommissioning, reactors now appeal not only to state-owned utilities but to the private sector, too. The Olkiluoto reactor, which was planned to cost $4.4 billion and open by 2009, is now at least two years behind schedule and, by some estimates, around $1 billion over budget. Still, the plant is ultimately expected to turn a profit for its owners, a consortium of Finnish industries, which agreed to fund the project in return for energy provided at cost.

But even the most optimistic proponent of atomic energy knows that another accident could halt the industry's growth. In 1974, President Richard Nixon predicted that the U.S. would have 1,000 plants in operation by the end of the century. Then came the disasters at Three Mile Island in Pennsylvania in 1979 and Chernobyl in 1986. By the turn of the millennium, only 104 plants were operating in the U.S.

The industry has gone a long way to allay fears over plant safety. Its recent record has been strong, and new reactors come fitted with "passive" safety features, which help prevent meltdowns even without human intervention. But no system is fail-safe, and problems remain — not least in finding qualified replacements for the industry's aging workforce. According to one estimate, nearly a third of the people in the U.S. nuclear sector will be eligible for retirement in three years. But lean years in the 1990s left a generation gap in trained engineers. The industry is recruiting rapidly, but it can be a struggle to attract talent in a field where the iconic worker has for the last 20 years been the buffoonish cartoon character Homer Simpson.

Such challenges aside, the debate over nuclear power has moved from whether new plants will be built to how many, and where. In the U.S., where no new plants have come online since 1996, the Nuclear Regulatory Commission expects applications for 27 new reactors over the next two years, and Congress has encouraged this by offering the nuclear industry billions of dollars in tax credits. Western firms are also busy courting India, China and other developing nations, where half of the world's new reactors are being built or planned. In recent months, President Nicolas Sarkozy, France's nuclear evangelist in chief, signed partnership deals on behalf of Areva with Libya, the United Arab Emirates, Morocco and Algeria. And in 2006, 28 countries without nuclear power plants attended a meeting organized by the IAEA on how to start a nuclear program, although it's not clear how many developing countries will be able to afford new plants, or have the infrastructure to harness their massive electricity output.

But just as nuclear power is based on unstable uranium atoms, the technology itself can be difficult to control, and many worry that the combination of nuclear technology and human fallibility will lead to the proliferation of nuclear weapons. The nuclear fuel cycle for reactors begins by enriching uranium until it can sustain a nuclear reaction, and it ends with the production of plutonium. Both are processes that create material for bombs. Under the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), countries must undertake these sensitive operations with supervision from the IAEA. Anticipating the spread of nuclear power, IAEA director general Mohammed ElBaradei recently called for the creation of international fuel centers, which would enrich uranium and reprocess plutonium for multiple client countries. But many governments point out that it is their right under the NPT to make their own fuel. Currently, the primary proponent of this argument is Iran, which insists it is enriching uranium for peaceful means despite international suspicion that its true intent is the accumulation of weapons-grade material.

"I'm a bit tired of leaders in the nuclear field who say there is no link between nuclear power and nuclear weapons," says Gerald Doucet, secretary-general of the World Energy Council, whose members include energy companies and government bodies. "To me, this is the biggest issue for the industry, bigger even than nuclear waste. We have to address it openly and stop pretending it's not there."

In the meantime, back in Olkiluoto, workers are focused on the more prosaic challenges of finishing their long-awaited reactor. The tips of massive cranes are hidden in the low cloud; their cables appear from the sky like marionette strings. Nearby, engineers are beginning an assessment of the feasibility of yet another reactor on the island. Amid all the activity, it's still not clear whether this historic project — and the nuclear future it portends — should be a source of fear or hope.

TASKS for the article "Viewpoint: Darkness Looms"

1. Read the article and answer the questions.

- How does the author describe the situation in the energy sector?
- What is more important according to the author – security or environmental issues? Which of them are always in the public eye?
- Where do the two threats for the Western consumers of energy stem from?
- Why is the problem most acute in Germany? Why did Germany find itself in such a situation?
- What are the predicted consequences of Germany's policy in the sphere of energy?
- Under what condition will the British government give consent to the construction of the coal-fired power station?
- Are there any problems connected with the implementation of carbon capture and storage technology?
- How does the author see Europe's energy future in 20 years' time?

2. Arrange a panel talk where the participants are going to discuss the future of the energy sector. Along with other problems, please, discuss the following: the current situation in the energy sector, most burning problems and the strategy for the future development. The participants of the panel talk could be – ministers responsible for their countries' energy policies, environmentalists, representatives of big energy companies, representatives of companies doing research in the field of alternative energies and any other interested parties.

VIEWPOINT: DARKNESS LOOMS

It is a little over half a century since I joined the *Financial Times* as a feature writer and found myself writing about the threat to Europe's oil supplies from Colonel Nasser's closure of the Suez Canal. It is a little over a quarter of a century since Margaret Thatcher appointed me U.K. Energy Secretary. So one way and another, I have been a close observer of the energy scene for quite a long time now. But I cannot recall a time when it was arguably more dangerous, or certainly more bizarre.

Discussion of energy in Europe today tends to be dominated by what are described as environmental issues, chiefly the question of carbon emissions and global warming. So much so, in fact, that the rather more urgent matter of security of supply is all too often overlooked.

But it is now becoming acute. It has two dimensions. The first relates to the potential unreliability of our sources of primary energy. We have long been used to the fact that our oil comes overwhelmingly from the endemically unstable Middle East — an instability that in the age of al-Qaeda has grown, just when the decline of North Sea oil is increasing our dependence on it. But Europe is now, in addition, substantially and increasingly dependent on Russian gas to fuel its power stations. As Javier Solana, the E.U.'s High Representative for Foreign and Security Policy, delicately put it earlier this month, "There is justified concern across Europe about Russia seeming more interested in investing in future leverage than in future production." Not that Europe is doing anything about it, by way of constructing adequate gas storage to meet any interruption of supply.

But the greater threat to Europe's energy supply lies at home, in the looming prospect of a growing gap between demand for electricity and the capacity of power stations to supply it. The problem is probably most acute in Germany, which is committed — on politically compelling but rationally inexplicable grounds — not only to building no more nuclear power stations, but to closing down those it already has. But environmental opposition to building conventional, fossil-fuel power stations, because of the carbon-dioxide emissions these cause, is also strong and growing stronger, supported by the environment wings of Europe's governments.

As a result, it has been calculated that Germany will lose some 25% of its electricity-generating capacity by 2030; and today, it is only barely sufficient for the country's needs. Germany hopes to import the electricity shortfall from France, which generates roughly three-quarters of its electricity from nuclear power, and is happy to do so. But France will not generate enough to satisfy Europe's growing shortfalls. For Germany is by no means alone.

The essence of the problem is the reduction of emissions to which Europe has committed itself, coupled with largely environmental planning delays. A top executive at E.On, Germany's largest energy group, recently pointed out that, while nuclear power stations take a long time to build, partly because of the very necessary safety standards that have to be met, in Europe it takes even longer to get a planning application approved.

But the position is little better with coal-fired power stations, which are more economic than nuclear power and rely on an indigenous fuel supply which exists in abundance. The British government is expected to approve, subject to it satisfying a host of conditions, the construction of the first coal-fired power station to be built in the U.K. for decades — as it happens, by E.On — at Kingsnorth in England. One of those conditions, which the government proudly trumpeted, was that it should be fitted with carbon-capture and storage technology (CCS).

This is a wonderful solution to the emissions and energy-security problem, since the carbon dioxide produced by burning the coal is captured and buried deep underground, rather than being let loose in the atmosphere. There is only one snag: the technology does not exist. It may, in 10, 20 or 30 years' time: there is growing R&D activity in this sphere. Or it may not: as the present Chancellor of the

Exchequer, Alistair Darling, told the House of Commons early last year, when he was the minister responsible for U.K. energy policy, the technologies required for commercial CCS "might never become available." Not surprisingly, Whitehall has now discreetly dropped the CCS condition for Kingsnorth.

All in all, the likelihood of the lights going out in Europe at some point over the next 20 years has never been greater. But the chances are that, although there may be occasional blackouts, the gap between supply and demand will be met partly by a substantial rise in the price of electricity and partly by reducing demand as Europe gradually becomes a manufacturing-free zone, as its industries migrate to China, India, Turkey, Morocco, or anywhere where planning delays are negligible and electricity is cheaper. This is not, of course, going to reduce global emissions at all; but we can perhaps console ourselves that it is a more useful form of overseas aid than most. But it is, as I said, bizarre.

(Lawson is Britain's former Chancellor of the Exchequer and Energy Secretary)

GOING PUBLIC

DISCUSSION

What is an IPO? What is a plc? What must a company do before it can go public? Whose services can a company use to underwrite the offering? Are there any disadvantages of going public? What are they? What are the advantages? How would you decide whether to buy or not to buy shares of a company that has gone public? Can you think of an example of a company that has recently gone public? How successful has it been? What do you know about Google? What is unusual about the way it organized its IPO? What are the 2 principles on which Google was founded? Have they retained the principles while going public? What is the difference between the traditional and public auction approach? What are the risks and threats of not following the traditional route and bypassing Wall Street when going public? Has Google made any mistakes while going public? Would you buy Google shares if you were considering making an investment now? Has the company suffered as a result of having antagonized the Wall Street community? If you were a CEO going ahead with plans for an IPO, would you choose an auction or would you use the services of an investment bank? What are the reasons why a business might decide to go public?

TASKS for the article «A private life?»

Read the whole text quickly to find out what it is about. As you read try to predict which words will fit in the gap. Read the text again, and write down the missing word, make sure that the sentence structure is correct.

Formulate the main idea of the article.

Answer the questions after each paragraph.

Answer the questions below:

- What implications does the appearance and popularity of tablet computers have for the future of Dell?
- What enabled the Eastern rivals to outperform Dell?
- What can create obstacles for the possible buyout?
- What proofs have been given in the article in favour of the forthcoming deal?
- How did the markets respond to the news of a potential buyout?

Browse the net to find more recent information on whether the buyout has taken place or not. How did it tell on company performance?

A PRIVATE LIFE?

DELL'S days as a public company could be coming (______1______) an end. According to a report published by Bloomberg on January 14th, the world's third-largest maker of personal computers (PCs) is exploring a potential buyout with at least two private-equity firms. Although there is no guarantee that a deal will take place, Dell's shares soared after news of the discussions surfaced. *(What made Dell's shares go up?)*

When Michael Dell, (______2_____) firm's founder, took back the chief executive role at the struggling company in 2007 after serving as its chairman for a number of years, hopes were high that he would be able to revive its fortunes. He and his colleagues have since worked hard (_____3_____) diversify the company's revenues, splashing out billions of dollars on cloud-computing and storage businesses. But over the past 12 months Dell's shares have fallen by almost a third as investors' faith in it has been shaken by a couple of trends. *(What attempts have been made by the company's management in order to raise the falling revenues?)*

One is the rapidly growing popularity of new mobile-computing devices such as tablet computers that (___4___) led to a faster than expected decline in demand for PCs. According to IDC, a research company, sales of PCs fell over the holiday period for the first time in more than five years. That is bad news for Dell, which built its reputation on the PC business and is still heavily reliant on hardware sales. *(How has the appearance of the new device told on computer sales?)*

(____5_____) trend that has shareholders worried is the rise of aggressive Asian competitors such as Taiwan's Acer and China's Lenovo (the latter's leap to global fame was highlighted in last week's issue of *The Economist)*. According to Gartner, another research outfit, Lenovo leapfrogged Hewlett-Packard in the third quarter of 2013 to become the world's largest seller of PCs, leaving Dell in third place. Lenovo and other Asian manufacturers have learnt from Dell, which pioneered a business model based (______6___) an extremely efficient supply chain to keep prices low. Unfortunately for the American firm, its Asian rivals have been able to beat it at the game it pretty much invented. *(What does the last sentence of the paragraph mean?)*

Mr Dell, (____6____) still owns almost 16% of the firm, has made it clear in the past that he has considered taking it private. The trends outlined above have no doubt made that prospect more appealing recently. But a deal will not be easy to pull off. Although private equity outfits (______7_______) as Texas Pacific Group and Silver Lake Partners have long taken an interest in technology, Dell will be a particularly large morsel to swallow. Before news of a possible buyout emerged, the company's market capitalisation stood at some $19 billion. *(What has facilitated the decision to sell Dell to private companies?)*

That may not deter buyout mavens (знаток, эксперт) who believe that the company's strategy of bulking up its cloud-based services will be easier to execute out of the public eye. The fact (_____8___) Dell still has billions of dollars of cash in its coffers is also likely to endear it to buyout groups, at least one of which now has some excellent insights (___9_____) the computer maker. Last week Dell confirmed that Dave Johnson, its head of mergers and acquisitions, (_10____) joining Blackstone, a leading light in the buyout world. *(What advantages can Dell gain as a result of the possible buyout according to experts?)*

TASKS

1. Below you'll find definitions of terms relevant to the topic. Read and compare them. Each term has been supplied with two definitions taken from a Financial Dictionary and Investopedia (an on-line dictionary on investment intended for non-professionals). Try to memorize what the terms mean as it will make it easier for you read articles on the topic.

2. Read the terms and their definitions another time and group them along the following headlines:

- Institutions/People
- Business Processes/Procedures
- Business/Legal Documents
- Other

3. Read the vocabulary entries one more time to be able to answer the questions.

- What is DPO? What are its pros and cons for a company?
- What does going public mean?
- What is a greenshoe option? Where does the term come from? Why are some companies against a greenshoe option despite its obvious advantages for the company?

- What is IPO? What is the procedure? Why is it difficult to predict its outcome?
- What is lock-up agreement? How long is a typical lock-up period? Why is it necessary to get company executives to sign the agreement? Who does it aim to protect?
- What does underwriting mean? Where does the term originate from?
- What is negotiated underwriting? Who is more interested in a bigger spread between the purchase price and the POP – the issuer or the underwriter?
- What does an issuer mean? What are issuers' responsibilities and obligations?
- What is a public offering price (POP)? What determines the POP?
- What does a Dutch auction mean?
- What is a final prospectus? What is the difference between a final prospectus and a preliminary prospectus?
- What is a red herring?
- What does gun jumping mean? What are the consequences for the company which has been caught "jumping the gun"?
- What are the functions of the Securities and Exchange Commission (SEC)?
- What is takedown? What does it determine?

4. Prepare a few examination cards and enact an examination episode where one of you is a student of economics and the other is a professor examining the student on the topic IPO.

Financial Dictionary	Investopedia
Direct Public Offering – DPO	
When a company raises capital by marketing its shares directly to its own customers, employees, suppliers, distributors and friends in the community. DPOs are an alternative to underwritten public offerings by securities broker-dealer firms where a company's shares are sold to the broker's customers and prospects.	Direct public offerings are considerably less expensive than traditional underwritten offerings. Additionally, they don't have the restrictions that are usually associated with bank and venture capital financing. On the other hand, a DPO will typically raise much less than a traditional offering.
Going Public	
The process of selling shares that were formerly privately held to new investors for the first time. Otherwise known as an initial public offering (IPO).	When a company "goes public," it is the first time the general public has the ability to buy shares.
Greenshoe Option	
A provision contained in an underwriting agreement that gives the underwriter the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves	Greenshoe options typically allow underwriters to sell up to 15% more shares than the original number set by the issuer, if demand conditions warrant such action. However, some issuers prefer not to include greenshoe options in

higher than expected. Legally referred to as an over-allotment option. A greenshoe option can provide additional price stability to a security issue because the underwriter has the ability to increase supply and smooth out price fluctuations if demand surges.	their underwriting agreements under certain circumstances, such as if the issuer wants to fund a specific project with a fixed amount of cost and does not want more capital than it originally sought. The term is derived from the fact that the Green Shoe Company was the first to issue this type of option.
Initial Public Offering - IPO	
The first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), the best offering price and the time to bring it to market. Also referred to as a "public offering".	IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future because there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, which are subject to additional uncertainty regarding their future values.
Lock-Up Agreement	
A legally binding contract between the underwriters and insiders of a company prohibiting these individuals from selling any shares of stock for a specified period of time. Lock-up periods typically last 180 days (six months) but can on occasion last for as little as 120 days or as long as 365 days (one year).	Underwriters will have company executives, managers, employees and venture capitalists sign lock-up agreements to ensure an element of stability in the stock's price in the first few months of trading. When lock-ups expire, restricted people are permitted to sell their stock, which sometimes (if these insiders are looking to sell their stock) results in a drastic drop in share price due to the huge increase in supply of stock.
Underwriting	
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt). The process of issuing insurance policies.	The word "underwriter" is said to have come from the practice of having each risk-taker write his or her name under the total amount of risk that he or she was willing to accept at a specified premium. In a way, this is still true today, as new issues are usually brought to market by an underwriting syndicate in which each firm takes the responsibility (and risk) of selling its specific allotment.
Negotiated Underwriting	
A process in which both the purchase price and the offering price for a new issue are negotiated between the issuer and a single underwriter.	The underwriter pays the issuer a purchase price, and the public pays the offering price. The spread between the purchase price and the public offering price represents the proceeds to the underwriter.
Issuer	
A legal entity that develops, registers and sells securities for the purpose of financing its operations. Issuers may be domestic or foreign governments, corporations or investment trusts. Issuers are legally responsible for	Say ABC Corp. sells common shares to the general public on the market in order to generate capital to finance its business operations. This means ABC Corp. is an issuer, and it's therefore required to file with regulators, such as the Securities and

the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions. The most common types of securities issued are common and preferred stocks, bonds, notes, debentures, bills and derivatives.	Exchange Commission, disclosing relevant financial information about the company. ABC must also meet any legal obligations or regulations in the jurisdiction where it issued the security.
Public Offering Price – POP	
The price at which new issues are offered to the public by an underwriter.	When underwriters determine the public offering price, they look at a number of factors. Some of these include the company's financial statements (how profitable it is), public trends, growth rates and even investor confidence.
Dutch Auction	
A public offering auction structure in which the price of the offering is set after taking in all bids and determining the highest price at which the total offering can be sold. In this type of auction, investors place a bid for the amount they are willing to buy in terms of quantity and price. A type of auction in which the price on an item is lowered until it gets a bid. The first bid made is the winning bid and results in a sale, assuming that the price is above the reserve price. This is in contrast to typical options, where the price rises as bidders compete.	If a company is using a Dutch auction IPO, potential investors enter their bids for the number of shares they want to purchase as well as the price they are willing to pay. For example, an investor may place a bid for 100 shares at $100 while another investor offers $95 for 500 shares. Once all the bids are submitted, the allotted placement is assigned to the bidders from the highest bids down, until all of the allotted shares are assigned. However, the price that each bidder pays is based on the lowest price of all the allotted bidders, or essentially the last successful bid. Therefore, even if you bid $100 for your 1,000 shares, if the last successful bid is $80, you will only have to pay $80 for your 1,000 shares. The U.S. Treasury (and other countries) uses a Dutch auction to sell securities. The Dutch auction also provides an alternative bidding process to IPO pricing. When Google launched its public offering, it relied on a Dutch auction to earn a fair price. 2. For example, the auctioneer starts at $2,000 for an object. If there are no bidders, the price is lowered by $100. The object will be sold once a bidder accepts the last price announced by the auctioneer, say $1,500.
Automated Underwriting	
A computer-generated loan underwriting decision. Using completed loan application information, an automated underwriting systems retrieves relevant data, such as a borrower's credit history, and arrives at a logic-based loan decision. Some applications may be referred to manual underwriting, and some inputs - such as	Automated underwriting engines can provide near-instantaneous loan approval or denial decisions; therefore, implementing automated underwriting systems can save a considerable amount of time, as manual underwriting can take as long as 60 days to complete. In addition to the time savings, automated underwriting is preferred because it is based on

income and assets - must be verified at a later date.	algorithms, eliminating human bias. Freddie Mac maintains and markets a large automated underwriting engine known as Loan Prospector, and Fannie Mae has an automated underwriting engine known as Desktop Underwriter.
Final Prospectus	
The final version of a prospectus for a public offering of securities. This document is complete in all details concerning the offering and is referred to as a "statutory prospectus" or "offering circular." 2. Because open-end mutual funds are continuously offering shares to the public, a fund prospectus is usually updated annually and made available to the public. Mutual fund prospectuses are all of the "final" variety.	1. With public offerings of securities, investors first receive what is called a preliminary prospectus, commonly called a "red herring" because of the pinkish color of the paper on which it is printed. Subsequently, the final prospectus is made available to investors who are considering a purchase of the security in question. A key difference between a final prospectus and a preliminary prospectus is that the final prospectus contains the security's price.
Red Herring	
A preliminary registration statement that must be filed with the SEC describing a new issue of stock and the prospects of the issuing company.	There is no price or issue size stated in the red herring, and it is sometimes updated several times before being called the final prospectus. It is known as a red herring because it contains a passage in red that states the company is not attempting to sell its shares before the registration is approved by the SEC.
Gun Jumping	
The illegal practice of soliciting orders to buy a new issue before registration of the initial public offering (IPO) has been approved by the Securities and Exchange Commission (SEC). 2. Trading securities on the basis of information that has not yet been disclosed to the public.	The theory behind gun jumping is that investors should make decisions based on the full disclosure in the prospectus, not on the information disseminated by the company that has not been approved by the SEC. If a company is found guilty of "jumping the gun", the IPO will be delayed.
IPO Lock-Up	
A contractual caveat referring to a period of time after a company has initially gone public, usually between 90 to 180 days. During these initial days of trading, company insiders or those holding majority stakes in the company are forbidden to sell any of their shares. Once the lock-up period ends, most trading restrictions are removed. Also referred to as "lock-up period".	An IPO lock-up is done so that the market is not flooded with too much supply of a company's stock too quickly. Typically, only 20% of the outstanding shares are initially offered to the investing public. A single large shareholder trying to unload all of his holdings in the first week of trading could send the stock downward, to the detriment of all shareholders. There is also empirical evidence suggesting that after the end of the lock-up period, stock prices experience a permanent drop of about 1-3%.
Lock-Up Period	

Window of time in which investors of a hedge fund or other closely-held investment vehicle are not allowed to redeem or sell shares. The lock-up period helps portfolio managers avoid liquidity problems while capital is put to work in sometimes illiquid investments	The IPO lock-up is a common lock-up period in the equities market used for newly-issued public shares. IPO lock-ups typically last anywhere from 90 to 180 days after the first day of trading, and are in place to prevent shareholders with a large proportion of ownership (such as company executives) from flooding the market with shares during the initial trading period. It is not uncommon to see a lock-up period of two years or more for a hedge fund; the underlying investments of a hedge fund may be so illiquid that fund managers could take big hits by forcibly selling securities to meet the cash requirements of exiting investors. The lock-up period protects the majority of assets in the fund and allows portfolio managers to keep a lower amount of cash on hand.
Eating stock	
Purchasing stock not because you desire it but because you are forced to do so.	Underwriters who can't find enough investors to purchase IPO shares are sometimes forced to eat stock. The underwriter is forced to purchase the shares that could not be sold to the public.
Gross Spread	
The difference between the underwriting price received by the issuing company and the actual price offered to the public	. By charging the public a higher price for an IPO than the price paid to the issuing company, the underwriters are able to make a profit. For example a company might get $15 per share for their IPO, but the underwriters sell the stock to the public at $17--profiting $2 per share.
Securities And Exchange Commission - SEC	
A government commission created by Congress to regulate the securities markets and protect investors. In addition to regulation and protection, it also monitors the corporate takeovers in the U.S. The SEC is composed of five commissioners appointed by the U.S. President and approved by the Senate. The statutes administered by the SEC are designed to promote full public disclosure and to protect the investing public against fraudulent and manipulative practices in the securities markets. Generally, most issues of securities offered in interstate commerce, through the mail or on the internet must be registered with the SEC.	Here's an example of an activity that falls within the SEC's domain: if someone purchases more than 5% of a company's equity, he or she must report to the SEC within 10 days of the purchase because of the takeover threats it may cause.
Takedown	
The price at which underwriters obtain securities to be offered to the public. The portion of securities that each investment banker will distribute in a secondary or initial pubic offering.	The takedown will be a factor in determining the spread or commission underwriters will receive once the public has purchased securities from them. A full takedown will be received by members of a syndicate. Dealers outside of the syndicate receive a portion of the takedown while the remaining

	balance remains with the syndicate. 2. In a shelf offering, underwriters essentially 'take-down' securities off the shelf.

TASKS for the articles from "investopedia.com"

1. The articles below will give you a lot of useful information on IPO and its consequences for companies and investors. Read them carefully and answer the questions after each paragraph. Try to use the terms discussed in the previous exercise.

2. Prepare a lengthy talk on the topic "Going Public". You can use the Summary section as an outline for your report.

SELLING STOCK

An initial public offering, or IPO, is the first sale of stock by a company to the public. A company can raise money by issuing either debt or equity. If the company has never issued equity to the public, it's known as an IPO. *(What is an initial public offering?)*

Companies fall into two broad categories: private and public. A privately held company has fewer shareholders and its owners don't have to disclose much information about the company. Anybody can go out and incorporate a company: just put in some money, file the right legal documents and follow the reporting rules of your jurisdiction. Most small businesses are privately held. But large companies can be private too. Did you know that IKEA, Domino's Pizza and Hallmark Cards are all privately held? *(What is characteristic of privately held companies?)*

It usually isn't possible to buy shares in a private company. You can approach the owners about investing, but they're not obligated to sell you anything. Public companies, on the other hand, have sold at least a portion of themselves to the public and trade on a stock exchange. This is why doing an IPO is also referred to as "going public." *(Can one buy shares in a private company?)*

Public companies have thousands of shareholders and are subject to strict rules and regulations. They must have a board of directors and they must report financial information every quarter. In the United States, public companies report to the Securities and Exchange Commission (SEC). In other countries, public companies are overseen by governing bodies similar to the SEC. From an investor's standpoint, the most exciting thing about a public company is that the stock is traded in the open market, like any other commodity. If you have the cash, you can invest. The CEO could hate your guts, but there's nothing he or she could do to stop you from buying stock. *(Who do public companies report to? Why?)*

Why Go Public?

Going public raises cash, and usually a lot of it. Being publicly traded also opens many financial doors:

Because of the increased scrutiny, public companies can usually get better rates when they issue debt.

As long as there is market demand, a public company can always issue more stock. Thus, mergers and acquisitions are easier to do because stock can be issued as part of the deal.

Trading in the open markets means liquidity. This makes it possible to implement things like employee stock ownership plans, which help to attract top talent.

Being on a major stock exchange carries a considerable amount of prestige. In the past, only private companies with strong fundamentals could qualify for an IPO and it wasn't easy to get listed. *(What are the reasons for companies to go public?)*

The Underwriting Process

Getting a piece of a hot IPO is very difficult, if not impossible. To understand why, we need to know how an IPO is done, a process known as underwriting. When a company wants to go public, the first thing it does is hire an investment bank. A company could theoretically sell its shares on its own, but realistically, an investment bank is required - it's just the way Wall Street works. Underwriting is the process of raising money by either debt or equity (in this case we are referring to equity). You can think of underwriters as middlemen between companies and the investing public. The biggest underwriters are Goldman Sachs, Merrill Lynch, Credit Suisse First Boston, Lehman Brothers and Morgan Stanley. *(What is underwriting?)*The company and the investment bank will first meet to negotiate the deal. Items usually discussed include the amount of money a company will raise, the type of securities to be issued and all the details in the underwriting agreement. The deal can be structured in a variety of ways. For example, in a firm commitment, the underwriter guarantees that a certain amount will be raised by buying the entire offer and then reselling to the public. In a best efforts agreement, however, the underwriter sells securities for the company but doesn't guarantee the amount raised. Also, investment banks are hesitant to shoulder all the risk of an offering. Instead, they form a syndicate of underwriters. One underwriter leads the syndicate and the others sell a part of the issue. *(What do companies and underwriters usually discuss during their first meeting? How can the deal be structured?)*

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. This document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used and insider holdings. The SEC then requires a cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public. *(What kind of information does the document submitted to the SEC contain? Why does SEC require a cooling off period?*

During the cooling off period the underwriter puts together what is known as the red herring. This is an initial prospectus containing all the information about the company except for the offer price and the effective date, which aren't known at that time. With the red herring in hand, the underwriter and company attempt to hype and build up interest for the issue. They go on a road show - also known as the "dog and pony show" - where the big institutional investors are courted. *(What documents are needed to start attracting big institutional investors?)*

As the effective date approaches, the underwriter and company sit down and decide on the price. This isn't an easy decision: it depends on the company, the success of the road show and, most importantly, current market conditions. Of course, it's in both parties' interest to get as much as possible. *(What does the price of shares depend on?)*

Finally, the securities are sold on the stock market and the money is collected from investors.

What about Me?

As you can see, the road to an IPO is a long and complicated one. You may have noticed that individual investors aren't involved until the very end. This is because small investors aren't the target market. They don't have the cash and, therefore, hold little interest for the underwriters.

If underwriters think an IPO will be successful, they'll usually pad the pockets of their favorite institutional client with shares at the IPO price. The only way for you to get shares (known as an IPO allocation) is to have an account with one of the investment banks that is part of the underwriting syndicate. But don't expect to open an account with $1,000 and be showered with an allocation. You need to be a frequently trading client with a large account to get in on a hot IPO.

Bottom line, your chances of getting early shares in an IPO are slim to none unless you're on the inside. If you do get shares, it's probably because nobody else wants them. Granted, there are exceptions to every rule and it would be incorrect for us to say that it's impossible. Just keep in mind that the probability isn't high if you are a small investor. *(Is there any chance for an individual investor to buy shares at the IPO price?)*

Let's say you do get in on an IPO. Here are a few things to look out for.

No History

It's hard enough to analyze the stock of an established company. An IPO company is even trickier to analyze since there won't be a lot of historical information. Your main source of data is the red herring, so make sure you examine this document carefully. Look for the usual information, but also pay special attention to the management team and how they plan to use the funds generated from the IPO. *(What should one pay attention to if one has a chance to buy shares at the IPO price?)*

And what about the underwriters? Successful IPOs are typically supported by bigger brokerages that have the ability to promote a new issue well. Be more wary of smaller investment banks because they may be willing to underwrite any company. *(Who can be trusted in this situation – big banks or small banks?)*

The Lock-Up Period

If you look at the charts following many IPOs, you'll notice that after a few months the stock takes a steep downturn. This is often because of the **lock-up period.**

When a company goes public, the underwriters make company **officials** and employees sign a lock-up agreement. Lock-up agreements are legally binding contracts between the underwriters and insiders of the company, prohibiting them from selling any shares of stock for a specified period of time. The period can range anywhere from three to 24 months. Ninety days is the minimum period stated under Rule 144 (SEC law) but the lock-up specified by the underwriters can last much longer. The problem is, when lockups expire all the insiders are permitted to sell their stock. The result is a rush of people trying to sell their stock to realize their profit. This excess supply can put severe downward pressure on the stock price. *(How can the lock-up period influence the share price?*

Flipping

Flipping is reselling a hot IPO stock in the first few days to earn a quick profit. This isn't easy to do, and you'll be strongly discouraged by your brokerage. The reason behind this is that companies want long-term investors who hold their stock, not traders. There are no laws that prevent flipping, but your broker may blacklist you from future offerings - or just smile less when you shake hands. *(What is flipping? What can be the consequence of flipping for an individual investor?)*

Of course, institutional investors flip stocks all the time and make big money. The double standard exists and there is nothing we can do about it because they have the buying power. Because of flipping, it's a good rule not to buy shares of an IPO if you don't get in on the initial offering. Many IPOs that have big gains on the first day will come back to earth as the institutions take their profits. *(What is meant by the double standard?)*

Avoid the Hype

It's important to understand that underwriters are salesmen. The whole underwriting process is intentionally hyped up to get as much attention as possible. Since IPOs only happen once for each company, they are often presented as "once in a lifetime" opportunities. Of course, some IPOs soar high and keep soaring. But many end up selling below their offering prices within the year. Don't buy a stock only because it's an IPO - do it because it's a good investment. *(Paraphrase the contents of the paragraph in your own words. What is the controlling idea of the paragraph?)*

Tracking stocks appear when a large company **spins off** one of its divisions into a separate entity. The rationale behind the creation of tracking stocks is that individual divisions of a company will be worth more separately than as part of the company as a whole. *(When do companies resort to tracking stocks?)*

From the company's perspective, there are many advantages to issuing a tracking stock. The company gets to retain control over the **subsidiary** but all revenues and expenses of the division are separated from the **parent company's** financial statements and attributed to the tracking stock. This is often done to separate a high-growth division with large losses from the financial statements of the parent company. Most importantly, if the tracking stock rockets up, the parent company can make acquisitions with the subsidiary's stock instead of cash. *(What are the company's benefits of issuing a tracking stock?)*

While a tracking stock may be spun off in an IPO, it's not the same as the IPO of a private company going public. This is because tracking stocks usually have no **voting rights**, and often there is no separate board of directors looking after the rights of the tracking stock. It's like you're a second-class shareholder! This doesn't mean that a tracking stock can't be a good investment. Just keep in mind that a tracking stock isn't a normal IPO. *(Why isn't a tracking stock a normal IPO?)*

Summary

An initial public offering (IPO) is the first sale of stock by a company to the public.

Broadly speaking, companies are either private or public. Going public means a company is switching from private ownership to public ownership.

Going public raises cash and provides many benefits for a company.

Getting in on a hot IPO is very difficult, if not impossible.

The process of underwriting involves raising money from investors by issuing new securities.

Companies hire investment banks to underwrite an IPO.

The road to an IPO consists mainly of putting together the formal documents for the Securities and Exchange Commission (SEC) and selling the issue to institutional clients.

The only way for you to get shares in an IPO is to have a frequently traded account with one of the investment banks in the underwriting syndicate.

An IPO company is difficult to analyze because there isn't a lot of historical info.

Lock-up periods prevent insiders from selling their shares for a certain period of time. The end of the lockup period can put strong downward pressure on a stock.

Flipping may get you blacklisted from future offerings.

Road shows and red herrings are marketing events meant to get as much attention as possible. Don't get sucked in by the hype.

A tracking stock is created when a company spins off one of its divisions into a separate entity through an IPO.

Don't consider tracking stocks to be the same as a normal IPO, as you are essentially a second-class shareholder.

TASKS for the article "Murky Waters of the IPO Market"

1. Read the text and answer the questions.

- How are the years of the dotcom boom characterized with regard to investment?
- How has the situation changed?
- Why can there be difficulties when one is trying to obtain information on a company going through the IPO process?
- What kind of information can be obtained from the internet?
- Why is it recommended to deal with big investment banks?
- What kind of information should you look for while reading the prospectus?
- Why is it important to approach an IPO with caution?
- Why is it necessary to wait until the lock-up period is over?
- What is the overall conclusion of the authors of the article?

2. Prepare a resume of the article.

MURKY WATERS OF THE IPO MARKET

In the days of dotcom mania, investors could throw money into an IPO and be almost guaranteed killer returns. Numerous companies, including names like VA Linux and theglobe.com experienced huge first-day gains, but ended up disappointing investors in the long term. People who had the foresight to get in - and out - on some of these companies made investing look way too easy.

But no investment is a sure thing. Soon enough the tech bubble burst and the IPO market returned to normal. In other words, investors could no longer expect the double- and triple-digit gains they got in the early tech IPO days simply by flipping stocks. There is still money to be made in IPOs, but the focus has shifted from the quick buck to the long-term outlook. Rather than trying to capitalize on a stock's initial bounce, investors are more inclined to scrutinize carefully long-term prospects.

Even if you have a longer-term focus, finding a good IPO is difficult. IPOs have many unique risks that make them different from the average stock which has been trading for a while. If you do decide to take a chance on an IPO, here are five points to keep in mind:

Objective research is a scarce commodity - Getting information on companies set to go public is tough. Unlike most publicly traded companies, private companies do not have swarms of analysts covering them, attempting to uncover possible cracks in their corporate armor. Remember that although most companies try to fully disclose all information in their prospectus, it is still written by them and not by an unbiased third party.

Search the Internet for information on the company and its competitors, financing, past press releases, as well as overall industry health. Even though info may be scarce, learning as much as you can about the company is a crucial step in making a wise investment. On the other hand, your research may lead to the discovery that a company's prospects are being overblown and that not acting on the investment opportunity is the best idea.

Pick a company with strong brokers - Try to select a company that has a strong underwriter. We're not saying that the big investment banks never bring duds public, but in general quality brokerages bring quality companies public. Exercise more caution when selecting smaller brokerages, because they may be willing to underwrite any company. For example, based on its reputation, Goldman Sachs can afford to be a lot pickier about the companies it underwrites than John Q's Investment House (a fictional underwriter). However, one positive of smaller brokers is that, because of their smaller client base, they make it easier for the individual investor to purchase pre-IPO shares (although this may also raise a red flag as we touch on below). Be aware that most large brokerage firms will not allow your first investment to be an IPO. The only individual investors who get in on IPOs are long-standing, established (and often high-net-worth) customers.

Always read the prospectus - We've told you not to put all your faith in it, but you should never skip reading the prospectus. It may be a dry read, but the prospectus lays out the company's risks and opportunities, along with the proposed uses for the money raised by the IPO. For example, if the money is going to repay loans, or buy the equity from founders or private investors, then look out! It is a bad sign if the company cannot afford to repay its loans without issuing stock. Money that is going towards research, marketing or expanding into new markets paints a better picture. Most companies have learned that over-promising and under-delivering are mistakes often made by those vying for marketplace success. Therefore, one of the biggest things to be on the lookout for while reading a prospectus is an overly optimistic future earnings outlook; this means reading the projected accounting figures carefully.

Be cautious - Skepticism is a positive attribute to cultivate in the IPO market. As we mentioned earlier, there is always a lot of uncertainty surrounding IPOs, mainly because of the lack of available information. Therefore, you should always approach an IPO with caution.

If your broker recommends an IPO, you should exercise increased caution. This is a clear indication that most institutions and money managers have graciously passed on the underwriter's attempts to sell them stock. In this situation, individual investors are likely getting the bottom feed, the leftovers that the "big money" didn't want. If your broker is strongly pitching shares, there is probably a reason behind the high number of these available stocks. This brings up an important point: even if you find a company going public that you deem to be a worthwhile investment, it's possible you won't be able to get shares. Brokers have a habit of saving their IPO allocations for favored clients, so unless you are a high roller, chances are good that you won't be able to get in.

Consider waiting for the lock-up period to end - The lock-up period is a legally binding contract (three to 24 months) between the underwriters and insiders of the company prohibiting them from selling any shares of stock for a specified period of time. Take for example Jim Cramer, known from TheStreet.Com (TSCM) and the CNBC program "Kudlow and Cramer". At the height of TSCM's stock price, his paper worth (of TSCM stock alone) was in the dozens upon dozens of millions of dollars. However, Cramer, being a savvy Wall Street vet, knew the stock was way overpriced and would soon come down to earth, along with his personal wealth. Because this happened during the lock-up period, even if Cramer had wanted to sell he was legally forbidden to do so. When lock-ups expire, the previously restricted parties are permitted to sell their stock.

The point here is that waiting until insiders are free to sell their shares is not a bad strategy, because if they continue to hold stock once the lock-up period has expired, it may be an indication that the company has a bright and sustainable future. During the lock-up period, there is no way to tell whether insiders would in fact be happy to take the spot price of the stock or not.

Let the market take its course before you take the plunge. A good company is still going to be a good company, and a worthy investment, even after the lock-up period expires.

Conclusion

By no means are we suggesting that all IPOs should be avoided: some investors who have bought stock at the IPO price have been rewarded handsomely by the companies in question. Every month successful companies go public, but it is difficult to sift through the riffraff and find the investments with the most potential. Just keep in mind that when it comes to dealing with the IPO market, a skeptical and informed investor is likely to perform much better than one who is not.

TASKS for the article «A micro-economist assesses Groupon»

1. Read the text paragraph by paragraph and formulate the main idea of each paragraph.

2. Compare and contrast your ideas with the ones below.

- Groupon's valuation is likely to nosedive due to the predicted losses in revenues.
- The principle on which Groupon works.
- How new businesses can profit from cooperating with Groupon.
- How Groupon helps businesses to regulate the flow of customers.
- How Groupon helps businesses to decide how much their customers are prepared to pay for their products and services.
- What makes the company vulnerable.
- Another disadvantage of Groupon.
- The reason why Groupon loses money.
- An example which demonstrates typical flaws of the business model.

3. Please, turn the statements in the exercise above into questions, starting with question N 2. E.g. What is the principle on which Groupon works?

4. Work in pairs. Ask and answer the questions.

5. Answer the questions below.

- What is Groupon's core business? How does it work?
- What are the benefits for business owners?
- What are the advantages for customers?
- How can you explain the following: Groupon aspires to be global, but the markets it serves are intensely local.
- What are the disadvantages of the new business model?
- Do you think that the coming IPO will be a success? What makes you think so?
- What can be done to stop copycats from copying the business model if intellectual property protection laws can't be applied in this situation?
- Have you ever used the services of Groupon? Were you satisfied with the quality of services provided? Are you going to do it again? Do you happen to know anyone who is a dissatisfied customer of Groupon? What happened?

A MICRO-ECONOMIST ASSESSES GROUPON

1).ON May 24-th Groupon says it will start its "roadshow". The social-media sensation, which offers online coupons for bargains at local shops and restaurants, is planning an initial public offering later this year. Valuations as high as $20 billion were until recently bandied around, but that now seems wildly optimistic. Groupon will lose $280m on revenues of $1.69 billion in 2014, predicts Benchmark, a consultancy. That is an ocean of red ink.

2).Groupon started with a nifty idea. Its website offered a "daily deal" whereby consumers could buy a product or service very cheaply if a minimum number of people signed up. People would nag their friends to come to the same bar or shop. The merchant would get new customers. Groupon would take a cut.

3). For merchants, this model has big advantages. They are advertised on Groupon's phenomenally popular website. This is especially useful for new businesses that no one has heard of.

4). Groupon helps merchants manage capacity, too. For example, a restaurant might sell vouchers that are redeemable only on Tuesdays, thus filling tables on a quiet night. Or a Pilates studio might use vouchers to manage class sizes. Once a client has paid for the voucher, the studio collects the fee even if she is hung-over and doesn't turn up.

5). Groupon also allows merchants to charge different people different prices for the same product. A student might buy theatre tickets on Groupon for half price. A businessman with no time to shop around online might buy the same tickets for full price. Without Groupon, it is harder for the theatre to find out what people are willing to pay. It could charge both punters full price, in which case the student may stay at home. Or it could charge both the lower price, in which case it makes less money.

6). Groupon created a new market. This is a boon (благо) to consumers, but confers no lasting “first-mover” advantage on Groupon. Its business model is unpatentable and simple to replicate, so there are already more than 20 copycats.

7). Groupon aspires to be global, but the markets it serves are intensely local. Internet selling is best suited to “experience goods”. These are goods and services the quality of which you cannot judge until you experience them, such as haircuts and Thai meals, so there is no advantage in having a bricks-and-mortar shop for people to browse in. (In North America 83% of Groupon’s deals fall into this category.) The trouble with experience goods is that generally you cannot separate manufacture from delivery: you cannot cook a meal in Guangzhou and eat it in New York.

8). So for Groupon, each city is a separate market. (Big ones, such as London, are subdivided into regions.) In each neighbourhood, it must vie (конкурировать, соперничать) with copycats to sign up merchants. Its marketing costs are expected to be a painful $958m this year. This is why it loses money.

9). A final woe: the Groupon model is open to abuse. Nicole Peters, an avid online shopper, describes how she bought a massage via one of Groupon’s rivals. The day before the appointment, the massage firm e-mailed her to say it had gone bust. Ms Peters also bought a voucher for several pairs of men’s underpants. When she logged onto the supplier’s website, there were only huge pairs or bright pink ones available. She says she will never shop this way again. Groupon’s webpage includes a guide to avoiding arguments with merchants, which suggests such tiffs (размолвка, ссора) are common.

COMPETITION

DISCUSSION

Merriam-Webster Dictionary defines competition in business as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms". Seen as the pillar of capitalism in that it may stimulate innovation, encourage efficiency or drive down prices, competition is touted as the foundation upon which capitalism is justified. According to microeconomic theory, no system of resource allocation is more efficient than pure competition. Competition, according to the theory, causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products. The greater selection typically causes lower prices for the products, compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly). Why do businesses compete against each other? What happens after a company succeeds in creating a new market? What can persuade consumers to switch/not to switch to alternative products? How can a competitive advantage be achieved? How do companies find out where they stand in relation to their competitors? Have you heard about Michael Porter’s theory? What are the 5 fundamental forces that affect a company’s competitive position? What does each mean? Is it possible for a business to build barriers to prevent other companies from entering into direct competition? How can it be done? How might established companies be affected by new products entering their markets? Do you know any companies which have recently entered new markets?

TASKS for the article «Why large firms are often more inventive than small ones»

1. Read the article below about how large companies can compete with small ones in terms of innovation. Choose the best sentence from this exercise to fill each of the gaps. Please, note, that all sentences start with the conjunction "But" which has the meaning of contrast. First find the idea, which contradicts the idea expressed in the sentence, and then make your choice.

- But that is a gross oversimplification, says Michael Mandel of the Progressive Policy Institute, a think-tank.
- But if large companies are the key to innovation, why not concentrate instead on creating national champions?
- But it can also mix technologies from a wide range of areas and, if an idea catches fire, summon up vast resources to feed the flames.

2. Scan each paragraph to find answers to the questions after the paragraphs.

3. Answer the comprehension questions.

- What are the incentives for a large Co to be innovative according to Joseph Schumpeter?
- How do modern theories explain that innovation is best promoted by large Co-s?
- Why do Western governments keep promoting small businesses and thwart the development of monopolies if the latter are more efficient in terms of driving innovation?
- How do you understand the sentence: " The likes of Google and Facebook reap colossal rewards from being market-makers rather than market-takers".
- What advantages of large Co-s are listed in the article?
- Do small businesses have any advantages in terms of innovations?
- What do you think about the problems raised by the author?

1. What could Joseph Schumpeter say to his opponent Mr. Mandel on driving forces of innovation in 1909? What could he say to him 1942? What could be the counterarguments of Mr. Mandel?

2. Discuss with your partner if small companies stand any chance of competing with large ones in terms of innovation.

Why large firms are often more inventive than small ones

Are big companies the best catalysts of innovation, or are small ones better?

Joseph Schumpeter, after whom this column is named, argued both sides of the case. In 1909 he said that small companies were more inventive. In 1942 he reversed himself. Big firms have more incentive to invest in new products, he decided, because they can sell them to more people and reap greater rewards more quickly. In a competitive market, inventions are quickly imitated, so a small inventor's investment often fails to pay off. *(What is the name of the economist who was the first to raise the question of how competitive small companies could be in comparison with big ones?)*

These days the second Schumpeter is out of fashion: people assume that little start-ups are creative and big firms are slow and bureaucratic. -- In a new report on "scale and innovation", he concludes that today's economy favours big companies over small ones. Big is back, as this newspaper has argued. And big is clever, for three reasons. *(How many reasons in favour of large companies were given?)*

First, says Mr. Mandel, economic growth is increasingly driven by big ecosystems such as the ones that cluster around Apple's iPhone or Google's Android operating system. These ecosystems need to be managed by a core company that has the scale and skills to provide technological leadership. *(What is economic growth driven by?)*

Second, globalisation puts more of a premium on size than ever before. To capture the fruits of innovation it is no longer enough to be a big company by American standards. You need to be able to stand up to emerging-world giants, many of which are backed by something even bigger: the state. *(Who can support big companies in their completion against their rivals?)*

Third, many of the most important challenges for innovators involve vast systems, such as education and health care, or giant problems, such as global warming. To make a serious change to a complex system, you usually have to be big. *(What examples illustrate the challenges facing innovative companies?)*

If true, this argument has profound implications for policymakers (though Mr. Mandel does not spell them out). Western governments are obsessed with promoting small businesses and fostering creative ecosystems. -- ------------------Anti-trust regulators have strained every muscle to thwart the creation of monopolies (for example, by preventing AT&T, a telecoms firm, from taking over the American arm of T-Mobile). But if one behemoth is likely to be more innovative than two smaller companies, why not allow the merger to take place? *(What contradiction is described in the paragraph?)*

What should we make of Mr. Mandel's argument? He is right that the old "small is innovative" argument is looking dated. Several of the champions of the new economy are firms that were once hailed as plucky little start-ups but have long since grown huge, such as Apple, Google and Facebook. (In August Apple was the world's largest listed company by market capitalisation.) American firms with 5,000 or more people spend more than twice as much per worker on research and development as those with 100-500. The likes of Google and Facebook reap colossal rewards from being market-makers rather than market-takers. *(Does the author share Mr. Mandel's argument?)*

Big companies have a big advantage in recruiting today's most valuable resource: talent. Graduates have debts, and many prefer the certainty of a salary to the lottery of stock in a start-up. Large firms are getting better at avoiding bureaucratic stagnation: they are flattening their hierarchies and opening themselves up to ideas from elsewhere. Procter & Gamble, a consumer-goods giant, gets most of its ideas from outside its walls. Sir George Buckley, the boss of 3M, a big firm with a 109-year history of innovation, argues that companies like his can combine the virtues of creativity and scale. 3M likes to conduct lots of small experiments, just like a start-up. -- *(What positive changes have been introduced by large companies in order to raise their competitiveness?)*

However, there are two objections to Mr Mandel's argument. The first is that, although big companies often excel at incremental innovation (ie, adding more bells and whistles to existing products), they are less comfortable with disruptive innovation—the kind that changes the rules of the game. The big companies that the original Schumpeter celebrated often buried new ideas that threatened established business lines, as AT&T did with automatic dialing. Mr. Mandel says it will take big companies to solve America's most pressing problems in health care and education. But sometimes the best ideas start small, spread widely and then transform entire systems. Facebook began as a way for students at a single university to keep in touch. Now it has 800m users. *(What type of innovation are big companies not particularly good at?)*

The second is that what matters is not so much whether companies are big or small, but whether they grow. Progress tends to come from high-growth companies. The best ones can take a good idea and use it to transform themselves from embryos into giants in a few years, as Amazon and Google have. Such high-growth firms create a lot of jobs: in America just 1% of companies generate roughly 40% of new jobs. *(What criterion is even more important than size according to the author?)*

TASKS for the article "Business Competition"

1. Read the text and answer the questions

- What do businesses compete for?
- What does manufacturing competition mean?
- What is competing for sales?
- What types of business competition models are discussed in the article?
- In what spheres do companies making similar products compete?
- What does the success of manufacturers depend on?
- What determines a company's success in the sphere of individual sales?

- What competition model do most businesses follow? What does it mean?
- What is head-to-head competition model?
- What is predatory competition model?

2. Prepare a short talk on business competition using the Summary part as an outline for your report.

Business Competition

A business is an organized effort to sell products and services on a regular basis. Competition between manufacturers consist of developing products that retail stores want to stock. Competition between businesses or stores consists of trying to get the customer to buy their product instead of the one offered by the competitor. In such cases, there is a clear winner and loser. But in the larger picture, businesses compete to see which has the greater market share and is more successful. There are three main models for competing in business.

Manufacturing competition

Companies making similar products compete in the areas of wholesale price, innovations, marketing and distribution, among other areas. These businesses sell their product to retail outlets and stores that may handle a range of similar products. Thus, a sale to one store or business is not really a win over the competition, because they may also sell to them.

The success of manufacturers depends on who makes the most appealing products at the lowest prices, plus who has the best distribution channels.

For example, Apple Computer has been known to make innovative products that are very stylish, although somewhat more expensive than other computer manufactures. They have a successful niche in the computer and electronic gadget market.

Competing for sales

Competing for an individual sale determines a winner and loser among businesses. The total sales determine the success of the business in the competition.

Individual sales

When a customer considers buying a product or service, there is a competition among all businesses offering that item or something similar. They are competing on the basis of price, availability, location of the store, and the quality of the extra service provided, among other factors. The purchase determines the winner and the losers in that particular sale. Then they move on to the next sale.

Success

As the number of wins and losses add up, it is a determination of which company is more successful in competing for customer sales. Those that are behind the leader may change their marketing strategies or even location in order to move ahead. Some businesses will do so poorly that they abandon the cause and go out of business or change to a different product-line.

Competition models

Businesses compete through performance, head-to-head and predatory types of competition.

Performance

Most businesses follow the affected performance competition model. That is, they have knowledge of what their opponent companies are doing and this affects their own strategies. In selling the same product, their performance determines their success.

For example, Nostrom department store has been known for extraordinary service. This service have won over customers from stores that offered less expensive items but also ordinary service.

Head-to-head

Some companies go into a head-to-head competition, where they not only try to beat the opponent in performance, but they also take actions to try to prevent the opponent from making sales. This can include negative advertising that criticizes the opponent, locating a store right next to a competitor's store, and controlling supply of goods.

For example, some beer distributors will gain concession agreements that lock out opponents from selling their brands of beer at entertainment events.

Predatory

Some large companies not only want to be successful in their competitions, but they also want to have complete control or monopolies in the marketplace. They make efforts to drive smaller companies out of business or even simply purchase them to take them out of the competition.

One method is the hostile takeover, where a company or even wealthy individual will purchase enough stock in a competing company in order to take control of it. They may them dismantle the company and sell off pieces, thus eliminating a competitor.

Summary

Businesses want to sell products and services on a regular basis. Competition between manufacturing businesses consist of developing products are more appealing. Competition between stores consists of trying to get the customer to buy their product instead of that offered by the competitor. The three main models for competing in business are performance, head-to-head and predatory.

TASKS for the article "Common mistakes when starting up - and how to avoid them" (Taking your eye off the competition)

1. You have read the title and the subtitle. What kind of mistakes do you think will be discussed in the article?

2. Read the article and answer the questions

- Why is monitoring your rivals of utmost importance since the start-up phase?

- How is competition defined in the article?
- How can you be aware of the existence of your competitors?
- What will failure to use information gathered about your competitors lead to?
- What will proper use of such information enable you to do?

3. In a short paragraph summarize the contents of the article.

Common mistakes when starting up - and how to avoid them

Taking your eye off the competition

During the busy start-up phase it can be easy to forget to set aside enough time to monitor the competition. However, it's essential that you are ready to respond to competitors in your market place and to new developments.

Failing to actively monitor the competition

Failing to monitor your rivals will stop you from seeing what competition or threats to your business exist in your market place.

Competition is not just another business that might take money away from you. It can be another product or service that's being developed which you ought to be selling or looking to license before somebody else takes it up.

You can get clues to the existence of competitors from:

advertising

press reports

exhibitions and trade fairs

questionnaires

searching on the web for similar products or services

approaches reported by your customers

flyers and marketing literature that have been sent to you - this is quite common if you're on a bought-in marketing list

planning applications and building work in progress

Failing to act on competitors' information

Failing to use information gathered about your competitors will weaken your position in the market.

Feed any useful information into your marketing plan. Your marketing plan and research will help you to set realistic targets and deadlines, and allocate appropriate resources. You can then decide to focus on building relationships with your existing clients or attract new customers. Your marketing can then be turned into sales by deciding on your sales methods.

TASKS for the articles "Sainsbury's surprises with best-EVER Christmas" and "Sainsbury's raises hopes of bonuses in sales leap"

1. The articles below taken from different periodicals are devoted to one and the same event – a retailer's record performance during recession. Read both the articles quickly. Which of them do you find to be more informative and easier to comprehend? Do you see any differences in style? How would you describe the authors' tone of narration?

2. Read both the articles another time filling out the table below. The information from the articles grouped this way will show you what kind of information is highlighted in each of the articles, and which of them contains more content points. After you have completed the table, say if the headings of the articles reflect their contents.

Information concerning:

the chain's performance and its position in the market	the staff and the CEO	customers and customer behaviour	sales of different groups of products	Composition in the stock market	competitors	marketing tactics employed by the company	predictions for the for future

3. One of the articles mentions a price war unleashed by the retailer's rivals. What do you think of price wars in general? What are the short-term and long-term consequences of price wars for customers, companies and the economy at large?

4. Look at the table you have compiled and, using the information, prepare a short talk on what enabled Sainsbury to beat the competition.

Sainsbury's surprises with best-ever Christmas

Supermarket group J Sainsbury, Britain's third-largest food retailer, today said it had enjoyed it's best-ever Christmas as it reported sales growth ahead of City expectations.

The company said it would hire 3,000 to 4,000 more people this year and that it was taking market share from rivals. Over Christmas, it took on about 20,000 temporary staff to deal with the surge - more than the originally envisaged 12,000.

It posted a 4.5% increase in like-for-like sales, excluding petrol, for the 13 weeks to 3 January. Analysts had expected a sales rise of between 3.5% and 4.5%. Including petrol, sales were up 3.9%.

Justin King, the chief executive, said the chain pulled in 22.6 million shoppers at Christmas, with its "best-ever Christmas performance completing a good overall third quarter". Its busiest trading day was 23 December, but Christmas Eve and New Year's Eve were also record performances.

Own-label products are growing ahead of overall sales while Sainsbury's Taste the Difference premium range is in slight decline, providing further evidence that customers are trading down to cheaper goods as recession bites. Sales of Basics items grew by 40%. King said the consumer is "incredibly challenged" at the moment.

Analysts welcomed the figures. Philip Dorgan, retail analyst at Panmure Gordon, talked of "another excellent trading performance from Sainsbury".

"These figures are significantly better than we had been expecting," said Jeremy Batstone-Carr at Charles Stanley stockbrokers.

Customer transactions now exceed 18m a week, but in the seven days before Christmas customers made 22.6m purchases. Sainsbury's online home delivery service saw a record number of orders in the week before Christmas, contributing to growth of 27% for the full quarter.

J Sainsbury is the first major supermarket group to report on Christmas trading. The Co-op reported strong Christmas trading on Tuesday, with like-for-like sales surging 6% in the three weeks to 3 January.

Sainsbury's performance was helped by a series of price-cutting initiatives, such as a half-price toy promotion in November when it sold nearly 3m toys over seven days. Its Tu own-brand clothing range also did well, giving Sainsbury 2.3% of the UK clothing market.

Promotions made up just over 30% of sales in the company's third quarter.

"The economic environment remains particularly challenging and we expect this to continue in 2009, however our continued investment in price and promotions along with universal appeal and a wide customer base mean we are well positioned to continue our good progress," said King.

Asda recently kicked off a new year supermarket price war by dropping its prices on 1,000 products, including a range of staple goods for just £1. Tesco soon followed suit, announcing price cuts on 3,000 items, with special offers such as three loaves of Hovis bread for £3.

Analysts pointed to trouble further ahead.

Panmure's Dorgan said: "We believe that food retail will be late cycle as is usual in a recession, and this means that sector profit growth will stumble from next year. We expect that Sainsbury will begin to feel margin pressure in the fourth quarter and we expect industry like-for-like sales growth to turn negative this calendar year."

The shares dropped 4.75p to 318p this morning, a fall of nearly 1.5%.

Sainsbury’s raises hopes of bonuses in sales leap

J Sainsbury is toasting its best ever Christmas, pledging to create thousands of new jobs and offering hope for 120,000 existing staff that they will still get a bonus this year.

The UK's third-biggest supermarket group saw sales up 4.8% in the third quarter as it defied the crisis gripping retailers. Nearly 23 million customers shopped at Sainsbury in the seven days to December 24, highlighting the revolution the company has undergone under chief executive Justin King.

By offering a three-tier range of products — basics, standard and taste the difference — King aims to appeal to shoppers on all types of budget.

The non-food arm is also growing, with clothing line Tu increasingly popular. With rivals such as Marks & Spencer slashing jobs and banning staff bonuses, Sainsbury can reasonably claim to be one of the brightest spots in the economy.

It hired 21,000 temporary staff to deal with the Christmas rush, up from 12,000 last year. It expects to keep 10% of those staff on a permanent basis and may take on another 2,000 staff this year.

King said: "No business person will ever say never on job cuts, but this is a growing business."

M&S yesterday announced that it will axe 1200 jobs.

King, paid £2 million last year of which £1 million was a bonus, can expect to cash in again this year.

Asked if he will get a bonus this year, he said: "We have a bonus scheme which is very public. My bonus targets are the same as every other person. We are three quarters into the year and if we deliver against that I and 120,000 others will get a bonus."

Like-for-like sales in the 13 weeks to January 3 rose 4.5% and would have been higher if Sainsbury had accounted for the lower VAT rates.

Sainsbury had its best ever trading days on December 23, 24 and 31. The online arm made record deliveries.

King said: "People were shopping later. They spent money as late as they could, but they spent it."

The City sees Sainsbury profits for the year at around £535 million — a number King believes it will meet.

Nick Bubb at Pali International said: "Sainsbury delivered the goods again, but the like-for-like growth is better than we dared hope." Bubb rates the shares a buy.

Tasks for the article "USA consumer products"

1. All businesses have to adapt as their markets evolve and new opportunities emerge. To stop their customers from switching to alternative products, businesses must maintain a competitive advantage. We know that this can be achieved by differentiating a product or service, by having a lower cost of production, through the economy of scale, or by controlling the source of supply or the distribution network. Read the text and write out the strategies used by the rivals.

2. Read the text and answer the questions after each paragraph.

3. Read the paragraphs containing different figures. Present them in the form of some graphs (pie charts, bar charts, etc) and comment on them.

4. What features does your TV set have now? Would you like it to be internet-ready? Discuss the future of the industry with your partner.

5. Prepare a resume of the article.

USA consumer products: Couch potatoes 2.0

TV-makers, not to mention Google and Apple, want to change the way television is watched.

The notion that the PC would usurp the TV as the home entertainment centre has been knocking around for many years. And during that time, the TV has crisply evolved from flat screen to high definition (HD) and now 3D. By doing so, it has remained the gadget of choice for coach potatoes everywhere. *(What evolution has TV undergone? Has it lost its popularity with lazy people?)*

But the balance between the PC and TV is changing. A growing minority of viewers – those with high-speed broadband access - are watching television shows streamed to their PCs, laptops or phones, using on-demand websites such as Hulu or Netflix or free peer-to-peer download sites. In 2011, this minority is poised to become a majority as the average coach potato looks for the same kind of flexibility from the family TV. *(In what way is the balance between TV and PC changing?)*

Indeed, in the US, this trend is already starting to show. According to a survey released this Monday by Forrester, the US consultants, the average American household now spends as much time online as watching TV, or about 13 hours for each. About 33% of the adults surveyed said they use the internet to watch video, up from 18% in 2007. While US cable companies are denying that this shift has yet to affect their business, Time Warner Cable, one of the country's largest providers of TV content, reported losing 155,000 subscribers in the third quarter, compared to 64,000 a year earlier when the economy was in worse shape. *(How could you interpret the figures given in the article?)*

A big reason for this shift has been the continued improvement of gadgets to bring internet content to TVs. Television makers have made this scramble easier by equipping nearly every new set over the last few years with HDMI jacks. These allow viewers to connect their TVs to gadgets that will, in turn, connect via WiFI or Ethernet cable to content which has been downloaded to a PC or phone. While not expensive, some of these gadgets can take up to 30 minutes to install. But the result means that the whole family can watch movies, TV shows, home videos, family photos or even check their Facebook pages on the bigger screen. *(What accounts for this shift?)*

And the winner is…

Companies eager to grab the lead in these devices – called media players – will need to contend with TV-makers themselves, who are starting to produce sets already installed with internet-access. Until now these have been extremely expansive, but high production volumes mean that prices are set to fall. The US Consumer Electronics Association predicts that the price of an HDTV with built-in internet capabilities will fall below the trigger point of US$1000 in 2011, down from US$1,750 last year. *(What is the main task for media players now?)*

For those who want to take their technology even further, there is also the option of a 3D-ready TV, which is generally also internet-enabled. The price of these is predicted to drop to about US$1,100 next year, compared to US$1,300 this year. Altogether, the CEA forecasts that 13.4m internet-ready TVs will be sold in 2011, up from just 3m last year. *(What is the forecast for internet-ready TVs?)*

For those unable or unwilling to splash out that kind of money on a new TV, media players offer the same kind of access to the web for hundreds of dollars less. The cheapest, Roku XD, costs less than US$75, for example, and will allow an existing TV to play internet content. The device is made by Roku Inc, a privately held company based in Saratoga, California and founded by Anthony Wood, the inventor of the digital video recorder (DVR). *(What are the options for those people who would like to have internet-ready TVs, but they are still beyond the reach of their pockets?)*

Up against tiny Roku is the assembled might of electronic giants such as Google (US), Apple (US) and Sony (Japan) who have all launched products aimed at this market. Google TV and Apple TV have not attracted overwhelmingly positive reviews. Google TV's aim – to add an internet search function to a TV – has yet to deliver. Apple TV, meanwhile, aims to allow viewers to access their iPhones or iPads or iTunes accounts. While those with Apple gadgets are likely to lap up the product, which is priced at just US$99, non-Apple fans are unlikely to be interested. *(What can you say about the attempts of the famous electronic giants to enter the TV market?)*

Cable companies, meanwhile, are watching these trends with no small amount of apprehension. Comcast, the country's third largest cable country, is currently testing a new set-top box that allows customers to both record shows and access web content. In a recent review of the test, code named Xcalibur, the Wall St Journal dismissed the offering as "a smattering of web video" with the ability to connect to social networks to comment on TV shows. *(What is the response of some cable companies to the competition?)*

While clearly a compromise to fuller web-enabled gadgets, Comcast is hoping it will prevent customers from "cord-cutting," the term the industry uses for customers who decide to abandon their cable subscription and move to web-based content. The company did report an increase in overall subscribers in the third quarter – but this was thanks to its voice business. Its video customer base shrank by 3.5% in the period. *(What aim are the cable companies planning to achieve?)*

Meanwhile, companies that specialise in delivering online content are benefiting. Netflix, the Silicon Valley company that began life as a mail-order DVD rental service, is now a leader in delivering video online in the US. The company said it had 16.9m subscribers worldwide as of September, an increase of 52% from 2009. *(What impact did the competition in the industry has had on the companies that specialise in delivering online content?)*

Time Warner CEO Jeffery Bewkes recently dismissed Netflix's advances in the *The New York Times*, equating its chances of taking over the world to that of the Albanian army. Certainly compared to the heft of Time Warner, Netflix is a minnow. But TV viewers are clearly moving to a more flexible kind of consumption of content. Cable companies will need to heed the shift.

(Comment on the CEO's words concerning the future of the companies that specialise in delivering online content).

Tasks for the article "Getting lucky: The role of serendipity in making strategy happen"

1. Read the article and formulate the main idea.

2. Read the article another time and answer the questions.

- What are Southwest Airlines famous for?
- What accounts for the company's continuous success?
- What does their winning strategy consist of?
- What role does serendipity play in developing a strategy?
- What does the example of Intel prove?
- How can the Darwinian process of variation and selection be employed in business?
- Do you agree with all pieces of advice given in "How to make strategy happen"?

3. Prepare a short talk on the topic: What is important when planning a winning strategy for your company.

4. Act out the emergency meeting of the board of directors of Southwest Airlines discussing how increase their competitiveness in the market.

Getting lucky: The role of serendipity in making strategy happen

In this article written for Executive Briefing, Freek Vermeulen explains how successful firms organise themselves in such a way that unplanned events lead to highly profitable strategic opportunities.

Southwest Airlines just might be the most successful airline ever. After a few difficult years following its founding in 1971, it has been very profitable and growing for several decades in a row. That is a major achievement in any business; in the notoriously unprofitable airline industry, it is nothing short of a corporate miracle.

Southwest Airlines is the inventor of the low-cost airline business model subsequently copied abundantly by other carriers such as Ryanair and Easyjet. The low-cost model – low prices, no frills, point-to-point short-haul routes, with extremely fast (20 minutes) turnaround times at the gate – coupled with a very strong and cohesive family-type organisational culture has brought it much success. This is evident in the company's financials but also in their superb record of customer service (for example, 2010 was the 17th year in a row that it had the highest customer satisfaction rating of all US airlines), while it consistently features on all the "best companies to work for" rankings.

This winning strategy, however, came about as some sort of an accident. In its early days, it had to sell one of its four planes because the company had run out of cash. Instead of cutting back on routes, the company and its personnel decided to fly the same routes with fewer aircraft. It meant it had to cut back severely on logistics, simplify operations massively, and turn planes around at the gate extremely rapidly. The new model worked, and the low-cost model was born. When the company came out of its financial misery, it decided to retain the model, and Southwest Airlines has grown ever since.

Inviting serendipity

Most successful strategies have a pivotal element of serendipity about them – a lucky break of something that proved crucial but was completely unplanned in a strategic analysis type of way. Often, when companies have become big and successful, we (business media, students and management alike) pretend that it was all planned from the outset, when luck played a major role. Denying this element is simply untrue and also unhelpful; acknowledging the role of serendipity in developing strategy can potentially help companies "get more lucky" because serendipity does not mean random – this type of luck, if organised well, can be managed.

Consider Intel and its hugely successful product: microprocessors. Intel originally focused on DRAM memory chips but allowed its engineers to work on "embryonic technologies" – experiments on new types of semi-conductors which few knew how they might eventually be used. One enthusiastic engineer, spurred by a customer request, happened to come up with something that later turned out to be the microprocessor. When IBM adopted it in its PCs and other computer manufacturers started copying IBM, including its Intel components, microprocessors took off and Intel focused its entire company on making them a huge success in subsequent years.

Variation & selection

What can we learn from companies such as Southwest Airlines and Intel? Scientifically, their strategies evolved like species through a Darwinian process of variation and selection. Intel, for example, explicitly sought variation by stimulating engineers to work on their small-scale pet projects and creating embryonic technologies. Subsequently, Intel's top management was exceptionally good at spotting the opportunities in their portfolio because they had set up a system to identify them. Former CEO Andy Grove called this their "strategic recognition capacity". Top managers did not just make a judgement call themselves but instead carefully monitored an evolving set of numbers as well as the combined preferences and judgement of middle managers (who, gradually, en masse began to favour microprocessors). This alerted them to the potential of microprocessors and convinced them of their future worth. This represents the element of selection.

Furthermore, they subsequently and uncompromisingly focused all their resources on making the emerged opportunity such a success.

As I describe in my book "Business Exposed: The naked truth about what really goes on in the world of business", the successful strategies of organisations as diverse as CNN, Hornby and Sadler's Wells Theatre evolved in a similar way, inviting and capitalising on unplanned strategic opportunities in a systematic manner. There are several general lessons to observe that will help companies get lucky.

How to make strategy happen

In one form or another, all these companies foster variation within their organisations – they stimulate ideas and innovations to emerge from within the firm. But all these pet projects and embryonic technologies are pursued at low-cost – they are "experiments in the margin".

These initiatives do not only emerge from within the organisation; all these successful companies tap into external sources in order to stimulate variety. This can take the form of alliances, customer participation and even cooperation with competitors. Some of these innovations merely become new products within an existing strategy framework; others might change the entire strategic direction of the firm.

These firms and their managers display a superior ability to recognise opportunities. However, it does not necessarily concern opportunities in the market, but subtle shifts in their own activities and portfolios. For example, Hornby noticed that its most detailed models were bought by adults, which led it to refocus its strategy on adult collectors instead of remaining a toy company.

A common mistake is that individual top managers select ideas in terms of what gets funded and not using quantitative criteria only. Successful firms use more subtle criteria in the early stages. For example, Intel's top management spotted the growing enthusiasm amongst its middle managers for experimental microprocessors and took this as evidence that the product had real potential.

Finally, the process of emergent experiments in the margin is not a free for all. In order to stimulate serendipity, firms need to impose a broad but clear strategic direction. For example, Intel wanted to be at the forefront of semiconductor technology related to the memory business. This strategy was narrow enough to prevent engineers from working on technologies outside semiconductors but broad enough to allow for innovations like microprocessors to emerge.

Freek Vermeulen is an Associate Professor of Strategic & International Management at the London Business School and the author of "Business Exposed: The naked truth about what really goes on in the world of business" (FT Prentice Hall).

Tasks for the article "Why big tech companies like Google can still innovate"

1. Skim read the article to answer the questioned posed in the title of the article.

2. Look through the following words and expressions. They will help you understand the text better.

- precarious – ненадежный, сомнительный, опасный, рискованный
- raise interesting questions - затрагивать интересные вопросы
- despite this evidence to the contrary –несмотря на то, что данные свидетельствуют об обратном
- make that a priority – сделать приоритетом
- nimble – быстрый, сообразительный, находчивый
- pull off – добиться успеха несмотря на трудности, справиться с задачей
- take bets on – делать ставку на что-либо
- in conjunction with - в связи с
- beat out – плыть против ветра
- be conducive to – благоприятный, подходящий, способствующий
- scrappy – бессистемный, путанный

  latitude- свобода, самостоятельность

3. Read the text again to be able to answer more detailed questions

- What did you learn about the project Google Wave?
- Why did Lars Rasmussen leave Google which has a reputation of an employee-friendly company?
- What question does the departure of Lars Rasmussen raise?
- How did The Google Wave team operate?
- What are the advantages of big companies when it comes to innovation?
- What idea do Jim Andrew's words : "I don't think there's any reason why you can't be as big as Goliath and as nimble as David," emphasize?
- What are the advantages and disadvantages of large companies as innovators?
- What are the advantages and disadvantages of start ups as innovators?

4. Prepare a resume of the article.

Why big tech companies like Google can still innovate

(CNN) -- Earlier this week, one of Google's rock-star engineers left that mammoth company -- population: 23,000 -- for Facebook, which has about 2,000 employees.

The departure of Lars Rasmussen, co-creator of Google Maps and Google Wave, is only one example, but it raises interesting questions about the precarious nature of corporate tech innovation:

Can companies grow and continue to be creative and innovative? Or will smaller operations always have a monopoly in the new-ideas department?

This is especially pressing because, with this latest project, the highly ambitious e-mail replacement software called Google Wave, Rasmussen was trying to prove to himself and to Google that innovation is possible at an enormous company.

Tech employees

IBM:	400,000	Google	23,000
Microsof	89,000	Facebook	2.000
Apple	49,000	Twitter	300
		Foursquare:	40

The Google Wave team operated like a start-up within that search-engine giant. They set up an office in Sydney, Australia, far from Google's California headquarters, worked largely in secret (rare at a company known for its internal openness), and agreed upon incentives that would reward them if Wave succeeded -- injecting some risk-reward pressure into the corporate mix.

All of that failed spectacularly. Google decided to kill Wave in August, although CEO Eric Schmidt told reporters that Google would adapt some of the back-end technology into other products.

Despite this evidence to the contrary, some business-types defend Google and the ability of big companies to come up with fresh ideas -- if they're willing to make that a priority.

"I don't think there's any reason why you can't be as big as Goliath and as nimble as David," said Jim Andrew, a senior partner at the Boston Consulting Group, which publishes a yearly list of the world's top innovative companies in conjunction with Bloomberg Businessweek. This year, Apple, Google, Microsoft and IBM led the list. Facebook and Twitter were nowhere to be found.

"Big companies have a tremendous number of advantages that should allow them to actually be, I would argue, more innovative than a given smaller company," Andrew said.

Chief among these advantages, of course, is money.

If a small company has a great idea, it may not be able to pull it off and bring it to market because it doesn't have the cash to do so, he said. Big companies, by contrast, can easily "scale" something new.

On the other hand, the internet and cloud computing have greatly reduced the cost of starting and growing a tech company. Some start-ups -- from Twitter to Tumblr -- only need employees and server space to make their business models work. The computer power can be rented from companies like Amazon, which only charge websites for the amount of server space they use.

Another advantage: Big companies are capable of taking big risks.

The tech giants tend to have a wide range of products or services to offer -- meaning they can take bets on new ideas without risking their entire business, Andrew said. Start-ups, in contrast, tend to base their future on a single product or concept. They bet big, but most of them "end up dying," said Karim Lakhani, an assistant professor at Harvard Business School. "They go out there, they try different things and then there's a large, large failure rate," he said.

But small companies tend to have fewer rules, which can lead to employees having more time to be creative -- and this kind of spirit just attracts more idea people.

New entrepreneurs also tend to be incredibly motivated. Seth Priebatsch, CEO of a start-up app called SCVNGR, keeps a sleeping bag under his couch so he can sleep in the office. Any time he spends not working on the app makes him feel guilty -- because he worries someone else will beat him out.

And that type of work ethic is normal in the start-up world.

Foursquare founder Dennis Crowley operated earlier this year in an office with several other start-up companies, with his employees sitting at long cafeteria tables instead of desks. For some, those kinds of environments are conducive to intense work and throw-out-the-old-model thinking.

But big companies are capable of letting loose the reins and motivating employees, too.

Google, for example, famously gives its engineers 20 percent of their work time to spend on pet projects of their choosing.

Lakhani praised Google's decision to experiment with Google Wave. It shows that the company is interested in trying new things and recognizing failures early on. The system wasn't broken, he said -- just the product.

"I applauded Google's decision both to release it early and then to shut it down when they thought it was not going to go anywhere," he said. "What they learned from Google Wave is that it was a technology looking for a problem -- a solution looking for a problem."

Google spokesman Aaron Zamost also said Google Wave is a success story in that it shows the big company is willing to take risks and will continue to do so.

"We want to resist large company syndrome," he said. "Google is big -- but Google is scrappy."

Both Lakhani and Andrew said it's easy for big companies to get too comfortable and forgo the risks that are necessary for innovation to occur.

Microsoft, for example, has done a good job of recognizing new trends and jumping on them, he said, citing the company's decision to jump into console gaming, mobile phones and Web apps. Others, particularly high-end PC manufacturers, haven't had such success in breaking down old business models and starting anew, he said.

"As companies get bigger that latitude [for employees to be creative] often unfortunately gets taken over by more rigid management structures and more rigid philosophies," Lakhani said.

Maybe that's a lesson the ever-growing Facebook can learn from. As The New York Times points out, some of Facebook's founding fathers are now moving on to start companies of their own.

Tasks for the article “Words to describe the glory of Apple”

1. What are the main qualities of Apple products? What are its most popular products? Who are its main competitors? Would you like to have an Apple product? Which one? Why?

2. Look through the words and their meanings. They will help you to understand the text better.

Maggot - личинка
sleek – гладкий, блестящий, глянцевый, холеный
gorgeous вычурный, эффектный, яркий, пышный
long for – стремиться к
grumpy – несдержанный, раздражительный, сварливый
mark-up – повышение цены, надбавка к издержкам
stolid - флегматичный, вялый, бесстрастный
dodgy – изворотливый, хитрый, бесчестный
insight – проникновение в суть, понимание, догадка
befuddled – одурманенный, сбитый с толку
obfuscation – спутанность (помрачение) ума
ludicrous – курьезный, нелепый, смехотворный
ubiquitous – вездесущий, повсеместный

3. Read the text and answer the questions after each paragraph.

4. Formulate the main idea of the text.

Words to describe the glory of Apple

Like most Brits, I find success in others pretty hard to cope with. When that success is combined with good looks, I can’t tolerate it at all. *(What tone of narration does the first paragraph set?)*

Apple’s continued glory eats away at me like a maggot at my core. I long for it to pick up some bruises. When the iPad came out, I prayed that it would be awful. My prayers were not heard: like all Apple products, it is sleek and gorgeous, and in due course I shall go to one of its wondrous temples of consumption and grumpily buy one. *(What does the author mean by “wondrous temples of consumption”?)*

Now I find that Apple has succeeded in an area even more revolutionary than designing beautiful products that are easy to use. This time, though, I feel no discomfort. Apple has discovered something that other companies have long forgotten, if they ever knew: language can also be beautiful and easy to use. Words can be fun to read. They can look elegant. They can make you laugh. *(What makes Apple products stand out according to the author?)*

Earlier this month it published a set of guidelines for apps sold at its App Store. According to the laws that govern this sort of thing, this document should have been doubly unreadable. It was a list of legal requirements and was aimed at techies. Instead, it was funny and clear, and I found myself reading it effortlessly, even though I barely know what an "app" is. *(What impressed the author in guidelines for applications booklet?)*

"We have over 250,000 apps in the App Store. We don't need any more Fart apps. If your app doesn't do something useful or provide some form of lasting entertainment, it may not be accepted."

The tone is direct, comic and elegantly threatening.

"We will reject apps for any content or behaviour that we believe is over the line. What line, you ask? Well, as a Supreme Court Justice once said, I'll know it when I see it. And we think that you will also know it when you cross it." *(What do they understand by "any content or behaviour that we believe is over the line"?)*

Now compare this to the standard stuff on the Microsoft website. The brand new browser, it says, "delivers a richer, faster, and more business-ready Web experience. Architected to run HTML 5, the beta enables developers to utilise standardised mark-up language across multiple browsers". Well I never. Reading this, I'm bored and restless, irritated and alienated. *(What feelings does the description of the new browser arouse in the reader?)*

Given the towering superiority of the first linguistic style over the second, will it catch on? Will other companies copy Apple's language just as they have copied its design?

You might think so. You might think there was a clear commercial advantage to be had in writing clearly and stylishly. But you would be wrong. There is no sign that Microsoft has been suffering from its stolid, dodgy way with words. Indeed it is one of the great mysteries of capitalism that there is no invisible hand that joins good language and good profits. If anything, the hand pushes the two apart. *(What does the last sentence mean?)*

Even in industries that make their money by selling messages there is no appetite for clarity. Just last week a reader sent me the following sentence from the blog of Bob Jeffrey, the head of JWT, in which he describes what his vast and successful advertising agency does: "Global consumers are rapidly re-evaluating and readjusting their value paradigms and purchasing decisions. Our job is to keep our ear to the ground with these consumers, providing relevant real-time insight to our clients that inspires cutting-edge, cost-efficient solutions." *(What does the quotation illustrate?)*

The Apple version of this would be something like: "Consumers can change so we try to keep up." This version reads better, but it is not hard to see why Mr Jeffrey didn't put it that way. "A relevant real-time insight" sounds like something that a befuddled client might pay more money for. *(Why didn't they put their mission statement in plainer words?)*

An even better example of the link between high profits and low language was on the appointments pages in the Financial Times 10 days ago. It was an advertisement from "one of the largest and most trusted banking and financial services organisations in the world" which was hoping to hire a "customer journey re-engineering manager". *(What might be the responsibilities of a "customer journey re-engineering manager"?)*

This title contains three layers of obfuscation: the ludicrous yet ubiquitous idea that a banking customer is on a journey; the idea that this journey needs re-engineering; the notion that this needs managing. There is only one conclusion to be drawn: surplus profits generate bonuses and bullshit in equal measure. *(What is the author's attitude to vague expressions that conceal their meaning?)*

The only customers who are really on a journey are those of the transport sector. And as I looked at a collection of them chugging along into Moorgate station last week I thought of another reason why Apple's brave effort to rehabilitate language won't catch on. Words are finished. Customers on journeys don't read. They watch videos on their iPads, iPhones and iPods. (*Why is the author so pessimistic about the future of the language?)*

BANKING

DISCUSSION

Starting out as places that would guard your money, banks became the main source of credit creation. Increasingly, however, borrowers are turning to the financial markets and to non-savings institutions, such as credit-card companies and consumer-finance firms, when they need a loan. This is reducing the profitability of traditional bank lending and has led many banks to enter new areas of business, such as selling insurance policies and mutual funds. Increasingly, too, traditional banks are selling off parcels of their loans in the financial markets by a process called securitisation.

What is "securitization"? To what non-saving institutions can consumers turn when they need a loan? What made many banks enter new areas of business? What are the 4 main types of banks? What do central banks/commercial banks/investment banks/micro credit banks do? What banks implement the monetary policies of governments and fix interest rates for other banks? What banks take deposits and make loans to private individuals and businesses? What banks provide advice and specialist services? What banks lend sums of money to people in developing countries for small business development? What are the main banking institutions in Russia? What banking services do they provide? Is it possible to carry out banking transactions by phone or on the internet in Russia? What qualities should an investment banker be endowed with? How are microcredit institutions different from other types of investment institutions? What are microcredit loan interest rates based on? Have microfinance institutions exploited their potential to the full? How can microinvestment banks protect their investments? Do you agree that investment will help to solve the developing world's problems? Is it possible to mix business and philanthropy? What other ways of reducing poverty can you think of?

Tasks for a set of articles on the history of banking

1. Skim read the texts on the history of banking and answer the questions:

- What did the first banks look like?
- What was the attitude to charging interest in ancient times?
- What was the development of Western banks characterized by?
- What is typical of global banking?

2. Read the text more carefully and answer the questions after each paragraph.

3. Prepare examination cards on the subject "History of Banking". The examination cards will include the questions: ancient banks, banks in middle ages, the history of western banking and global banking. Be ready to enact the examination. If you do the part of the examiner, prepare a few additional questions.

Earliest banks

The first banks were probably the religious temples of the ancient world, and were probably established sometime during the third millennium B.C. Banks probably predated the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would-be thieves. *(To what period*

of time do the first banks date back? What did the first deposits consist of? Why were temples and palaces chosen to be the first banks?)

Religious restrictions on interest

Most early religious systems in the ancient Near East, and the secular codes arising from them, did not forbid usury. These societies regarded inanimate matter as alive, like plants, animals and people, and capable of reproducing itself. Hence if you lent 'food money', or monetary tokens of any kind, it was legitimate to charge interest. Food money in the shape of olives, dates, seeds or animals was lent out as early as c. 5000 BC, if not earlier. Among the Mesopotamians, Hittites, Phoenicians and Egyptians, interest was legal and often fixed by the state. But the Jews took a different view of the matter. The Torah and later sections of the Hebrew Bible criticize interest-taking, but interpretations of the Biblical prohibition vary. One common understanding is that Jews are forbidden to charge interest upon loans made to other Jews, but allowed to charge interest on transactions with non-Jews, or Gentiles. However, the Hebrew Bible itself gives numerous examples where this provision was evaded. *(Was it legitimate to charge interest in ancient times?)*

During Late Antiquity and Middle Ages

Jews were ostracized from most professions by local rulers, the Church and the guilds and so were pushed into marginal occupations considered socially inferior, such as tax and rent collecting and money lending, while the provision of financial services was increasingly demanded by the expansion of European trade and commerce. *(What was the attitude to money lending in middle ages?)*

Medieval trade fairs, such as the one in Hamburg, contributed to the growth of banking in a curious way: moneychangers issued documents redeemable at other fairs, in exchange for hard currency. These documents could be cashed at another fair in a different country or at a future fair in the same location. If redeemable at a future date, they would often be discounted by an amount comparable to a rate of interest. Eventually, these documents evolved into bills of exchange, which could be redeemed at any office of the issuing banker. These bills made it possible to transfer large sums of money without the complications of hauling large chests of gold and hiring armed guards to protect the gold from thieves. *(What are bills of exchange? How did they work?)*

Beginning around 1100s, the need to transfer large sums of money to finance the Crusades stimulated the re-emergence of banking in Western Europe. In 1156, in Genoa, occurred the earliest known foreign exchange contract. Two brothers borrowed 115 Genoese pounds and agreed to reimburse the bank's agents in Constantinople the sum of 460 bezants one month after their arrival in that city. In the following century the use of such contracts grew rapidly, particularly since profits from time differences were seen as not infringing canon laws against usury. In 1162, King Henry the II levied a tax to support the crusades -- the first of a series of taxes levied by Henry over the years with the same objective. The Templars and Hospitallers acted as Henry's bankers in the Holy Land. The Templars' wide flung, large land holdings across Europe also emerged in the 1100-1300 time frame as the beginning of Europe-wide banking, as their practice was to take in local currency, for which a demand note would be given that would be good at any of their castles across Europe, allowing movement of money without the usual risk of robbery while traveling. *(How did the crusades facilitate the development of European banking?)*

By 1200 there was a large and growing volume of long-distance and international trade in a number of agricultural commodities and manufactured goods in western Europe; some of the goods traded during that period included wool, finished cloth, wine, salt, wax and tallow, leather and leather goods, and weapons and armour. Individual trading concerns and combines often specialized in one or more of these, as did individual producers; because a large amount of capital was required to establish, e.g., a cloth manufacturing business, only the largest firms could diversify. As a result, businesses and clusters of businesses tended to market fairly narrow product lines. Big firms like the Medici bank could and did specialize; the Medici's manufacturing division had a number of manufacturing facilities producing many different types of cloth. Perhaps the best example of product policy comes from the Cistercian monastic order, where individual monasteries and granges tended to specialize in particular agricultural products or types of industrial production, usually with an eye to meeting particular local or regional market needs. *(What required a large amount of capital in the 13-th century?)*

After 1400, political forces turned against the methods of the Italian free enterprise bankers. In 1401, King Martin I of Aragon expelled them. In 1403, Henry IV of England prohibited them from taking profits in any way in his kingdom. In 1409, Flanders imprisoned and then expelled Genoese bankers. In 1410, all Italian merchants were expelled from Paris. In 1401, the Bank of Barcelona was founded. In 1407, the Bank of Saint George was founded in Genoa. This bank dominated business in the Mediterranean. In 1403 charging interest on loans was ruled legal in Florence despite the traditional Christian prohibition of usury. Italian banks such as the Lombards, who had agents in the main economic centres of Europe, had been making charges for loans. The lawyer and theologian Lorenzo di Antonio Ridolfi won a case which legalised interest payments by the Florentine government. In 1413, Giovanni di Bicci de'Medici appointed banker to the pope. In 1440, Gutenberg invents the modern printing press although Europe already knew of the use of paper money in China. The printing press design was subsequently modified, by Leonardo da Vinci among others, for use in minting coins nearly two centuries before printed banknotes were produced in the West. *(When did charging interest on loans become common practice in Europe?)*

By the 1390s silver was short all over Europe, except in Venice. The silver mines at Kutná Hora had begun to decline in the 1370s, and finally closed down after being sacked by King Sigismund in 1422. By 1450 almost all of the mints of northwest Europe had closed down for lack of silver. The last money-changer in the major French port of Dieppe went out of business in 1446. In 1455 the Turks overran the Serbian silver mines, and in 1460 captured the last Bosnian mine. The last Venetian silver grosso was minted in 1462. Several Venetian banks failed, and so did the Strozzi bank of Florence, the second largest in the city. Even the smallest of small change became scarce. *(What did the lack of silver mean to the development of the banking system of Europe?)*

Western banking history

Modern Western economic and financial history is usually traced back to the coffee houses of London. The London Royal Exchange was established in 1565. At that time moneychangers were already called bankers, though the term "bank" usually referred to their offices, and did not carry the meaning it does today. There was also a hierarchical order among professionals; at the top were the bankers who did business with heads of state, next were the city exchanges, and at the bottom were the pawn shops or "Lombard"'s. Some European cities today have a Lombard street where the pawn shop was located. *(What did the early European banking hierarchy look like?)*

Banking offices were usually located near centers of trade, and in the late 17th century, the largest centers for commerce were the ports of Amsterdam, London, and Hamburg. Individuals could participate in the lucrative East India trade by purchasing bills of credit from these banks, but the price they received for commodities was dependent on the ships returning (which often didn't happen on time) and on the cargo they carried (which often wasn't according to plan). The commodities market was very volatile for this reason, and also because of the many wars that led to cargo seizures and loss of ships. *(How could individuals participate in East India trade?)*

Global banking

In the 1970s, a number of smaller crashes tied to the policies put in place following the depression, resulted in deregulation and privatization of government-owned enterprises in the 1980s, indicating that governments of industrial countries around the world found private-sector solutions to problems of economic growth and development preferable to state-operated, semi-socialist programs. This spurred a trend that was already prevalent in the business sector, large companies becoming global and dealing with customers, suppliers, manufacturing, and information centres all over the world. *(Which banking programs: state-operated or private sector proved to be more viable?)*

Global banking and capital market services proliferated during the 1980s and 1990s as a result of a great increase in demand from companies, governments, and financial institutions, but also because financial market conditions were buoyant and, on the whole, bullish. Interest rates in the United States declined from about 15% for two-year U.S. Treasury notes to about 5% during the 20-year period, and financial assets grew then at a rate approximately twice the rate of the world economy. Such growth rate would have been lower, in the last twenty years, were it not for the profound effects of the internationalization of financial markets especially U.S. Foreign investments, particularly from Japan, who not only provided the funds to corporations in the U.S., but also helped finance the federal government; thus, transforming the U.S. stock market by far into the largest in the world. *(What are the global banking and capital market services characterized by?)*

Nevertheless, in recent years, the dominance of U.S. financial markets has been disappearing and there has been an increasing interest in foreign stocks. The extraordinary growth of foreign financial markets results from both large increases in the pool of savings in foreign countries, such as Japan, and, especially, the deregulation of foreign financial markets, which has enabled them to expand their activities. Thus, American corporations and banks have started seeking investment opportunities abroad, prompting the development in the U.S. of mutual funds specializing in trading in foreign stock markets. *(What is the situation in the US financial markets like?)*

Such growing internationalization and opportunity in financial services has entirely changed the competitive landscape, as now many banks have demonstrated a preference for the "universal banking" model so prevalent in Europe. Universal banks are free to engage in all forms of financial services, make investments in client companies, and function as much as possible as a "one-stop" supplier of both retail and wholesale financial services. *(How does the "universal banking" model work?)*

Many such possible alignments could be accomplished only by large acquisitions, and there were many of them. By the end of 2000, a year in which a record level of financial services transactions with a market value of $10.5 trillion occurred, the top ten banks commanded a market share of more than 80% and the top five, 55%. Of the top ten banks ranked by market share, seven were large universal-type banks (three American and four European), and the remaining three were large U.S. investment banks who between them accounted for a 33% market share. *(How can the situation in the American banking system be described?)*

This growth and opportunity also led to an unexpected outcome: entrance into the market of other financial intermediaries: nonbanks. Large corporate players were beginning to find their way into the financial service community, offering competition to established banks. The main services offered included insurances, pension, mutual, money market and hedge funds, loans and credits and securities. Indeed, by the end of 2001 the market capitalisation of the world’s 15 largest financial services providers included four nonbanks. *(What has led to the appearance of other financial intermediaries?)*

In recent years, the process of financial innovation has advanced enormously increasing the importance and profitability of nonbank finance. Such profitability primarily restricted to the nonbanking industry, has prompted the Office of the Comptroller of the Currency (OCC) to encourage banks to explore other financial instruments, diversifying banks' business as well as improving banking economic health. Hence, as the distinct financial instruments are being explored and adopted by both the banking and nonbanking industries, the distinction between different financial institutions is gradually vanishing. *(How can the recent situation be described?)*

Tasks for the article “Microfinance”

1. Read the text and decide which of the following best describes the contents of the article:

- Although microfinance institutions have been least affected by the credit crunch, in the aftermath of the crisis they experience the lack of investors and problems with refinancing of the existing debt, which makes it necessary for them mainly rely on new deposits. The high repayment rates may also become a thing of the past.
- Although microfinance institutions used to be viewed as a sure way out of poverty for many people, the credit crunch revealed that microfinance loans actually finance consumption, not investment, and that borrowers use new loans from one MFI to pay off their debts with another institution, thus increasing their debts.

2. Look through the words and their meanings below. You may need them for a more detailed understanding of the text.

- Mortgages - ипотека
- Backdrop -фон
- Unflappable - невозмутимый (imperturbable, cool)
- Unscathed – невредимый, неповрежденный (unharmed, safe)
- Insulated - изолированный, замкнутый (isolated)
- Foreclosure - ссуда, предоставляемая под денежный или натуральный залог получателя ссуды; *юр.лишение права выкупа закладной*
- delinquency (rates) - неоплата счёта, просрочка, непогашение в срок
- constrained – вынужденный, принужденный (forced, obliged)
- tenures – владение недвижимостью, срок владения

- fickle – переменчивый, неустойчивый (inconstant)

3. Read the text another time and answer the questions after each paragraph.

4. Prepare a summary of the article.

Microfinance

A GLOBAL credit crisis caused by subprime mortgages is hardly the ideal backdrop for a business making unsecured loans to poor people without a credit history. Yet big microfinance companies, which do exactly that, seem to be in rude health. Mohammad Yunus, the unflappably optimistic founder of Grameen Bank in Bangladesh, a microfinance institution for which he won the Nobel Peace Prize in 2006, is adamant that business remains unscathed. “We have not been touched in any way by the financial crisis,” he said on a recent visit to Japan. “The simple reason is because we are rooted to the real economy—we are not paper-based, paper-chasing banking. When we give a loan of $100, behind the $100 there are chickens, there are cows. It is not something imaginary.” *(What makes the bank such a stable financial institution according to its founder?)*

He is not alone in thinking that microfinance is insulated from the problems of the global economy. Its proponents argue that any similarity with subprime loans is misleading. Microfinance institutions (MFIs) lend relatively small sums of money to people in developing countries to start small, profitable businesses, not to buy overpriced homes. Many of those businesses serve local needs, which has more merit at a time when exports are collapsing. And microfinance’s reliance on peer pressure for repayment must be the envy of any mainstream banker struggling with rising foreclosures and “jingle mail”; delinquency rates are microscopic. *(What are other advantages of MFIs over conventional banks?)*

Some MFIs, however, do not enjoy the same isolation that their borrowers do. Many of them are funded internationally. According to the Consultative Group to Assist the Poor (CGAP), a research centre in Washington, DC, foreign-capital flows into microfinance tripled between 2004 and 2006. About half the industry’s funding comes from aid budgets, but the share of private money is growing. The World Bank’s private arm, the International Finance Corporation (IFC) gave 55% more each year to microfinance lenders between 2004 and 2007. MFIs, especially those in eastern Europe and Central Asia, also borrowed from foreign banks. Meanwhile the microfinance portfolios of private investment funds grew from $600m in 2004 to $2 billion in 2006. *(What are the proofs that MFIs are not isolated institutions?)*

Funding from development institutions like the IFC is likely to be stable, but aid budgets are being cut and other sources of funding are threatened, too. Kimanthi Mutua, who runs K-Rep Bank, a big Kenyan microlender, says that in 2007 he fielded calls from prospective investors every couple of weeks. For the past six months he has not had a single call. According to CGAP’s Elizabeth Littlefield, borrowing costs have risen by up to four and a half percentage points in some markets. Foreign-currency borrowers may have exchange-rate fluctuations to cope with. And some global banks are pulling out altogether. Even MFIs that borrow locally may find their banks' funding is constrained by global conditions. *(What are the risks that MFIs are facing today?)*

An even more pressing concern is refinancing existing debt. Most MFIs have loans with one- or two-year tenures. According to the IFC, there is a potential refinancing gap of $1.8 billion over the next 18 months. The IFC and the German government have put together a $500m fund to help microfinance firms with refinancing. *(What is the situation with refinancing like?)*

All this, some experts argue, should encourage the institutions to start raising funds by collecting deposits rather than relying on fickle markets or donors. In Africa many MFIs already do this. The slow slog of attracting depositors can be off-putting, however, and may become harder if the crisis deepens. The World Bank estimates that worsening economic conditions could push an additional 65m people under the $2-a-day poverty line. These people—formerly known as the "nearly poor"—were just the sort whose savings deposit-taking MFIs had hoped to target. *(How should MFIs change their strategies according to some experts?)*

The squeeze on credit could expose additional frailties in the microfinance model. Many observers suspect that at least some microfinance loans actually finance consumption, not investment, and that borrowers use new loans from one MFI to pay off their debts with another. As long as new credit is readily available, this strategy works—much as paying off one credit card with another once did in the rich world. But the credit crunch may expose this as a problem, reckons Justin Oliver, who runs the Centre for Microfinance, a research centre in Chennai, India. Meanwhile, the IFC reports that data from the top 150 microfinance institutions show that the share of borrowers 30 days delinquent on their loans has increased from 1.2% before the crisis to between 2% and 3% now. This is still very low by most standards and Mr Yunus says that repayment rates at Grameen remain impeccable. But the worry is that a prolonged credit crunch could make microfinance clients start to look more like those hapless subprime borrowers. *(What can the deepening crisis lead to?)*

Tasks for the article "Money well lent"

1. Study the words and their meanings – they will help you understand the text below.

- Fete - чествовать, поздравлять
- collect accolades and honours – собирать почести и награды
- unscathed – невредимый, неповрежденный
- revered (figure) – уважаемый, чтимый, почитаемый (respected, esteemed)
- be underway - в процессе разработки, реализации
- attribute one's success to – приписывать успех чему-либо
- for the wellbeing of their children – ради (для) благополучия детей
- hurdle - барьер, препятствие (obstacle)
- creditworthy – кредитоспособный (solvent)
- in lieu - вместо
- ubiquitous - повсеместный

- wean people (off welfare) – отучать
- collateral – стоимость обеспечения по ссуде
- equitable – объективный, непредубежденный
- clout - клочок, обрывок, сильный удар
- demeanour – поведение, манера вести себя (behaviour)
- deter smb (from working) – удерживать, отпугивать
- waiver – отказ (от права, требования)
- malnourished – плохо питающийся
- hard-nosed - реалистичный
- relish – получать удовольствие, любить, одобрять
- offshoot – боковая ветвь

2. Read the text and answer questions after each paragraph.

3. Answer the following comprehension questions:

- Why is it the bank's principle to lend small amounts of money to groups of borrowers?
- Why are women better borrowers?
- Why is recession a good time to change some principles of the banking business?
- Is there any difference in lending money to a poor hard-working family or to a family which has had a long record of unemployment?
- Why doesn't the present welfare system encourage people to earn their own money?
- In which way is social business different from charity?
- How can large corporations help social businesses?
- Do you think Muhammad Yunus deserve the Nobel prize he got in 2006? Why (not)?

4. Act out one of the following conversations:

- Muhammad Unus is trying to persuade some Citybank managers to open account for his customers.
- A Grameen Bank manager is talking to his prospective customer who would like to get a loan from the bank.

5. Enlarge on the topic: The vicious circle of poverty must be broken.

Money well lent

As a bank created for poor women in Bangladesh prepares to open its doors in Britain, Alison Benjamin hears from its Nobel peace prize-winning founder Muhammad Yunus about how the recession can help people out of poverty

There is a banker who is still feted across the world, collecting accolades and honours wherever he goes. The institution he founded more than 20 years ago is unscathed by the current financial crisis, and his opinion is more sought after than ever before as politicians and economists desperately try to fix our bankrupt system. *(Why is the renowned banker so popular around the world?)*

Muhammad Yunus is to economic development what Nelson Mandela is to world peace - a revered figure whose Grameen Bank has helped millions of Bangladeshis out of rural poverty by lending them small amounts of money, or microfinance, to set up their own businesses. It has 8 million borrowers, 97% of whom are women, and since 1982 has issued more than $6bn (£3.65bn), lending around $100m a month, with the average loan just $220, and repayments of near 100%. Its model has now been rolled out worldwide, from China and Zimbabwe to New York, and plans are underway to open the first British Grameen in Glasgow. *(Why is Mohammad Yunus so much respected in the sphere of economic development?)*

Yunus attributes its success to "trust-based banking". Money is lent to women - who he identified as using money more effectively than men for the wellbeing of their children - in groups of five. If one defaults, they all suffer, so they support each other to pay it back. And the borrowers own the bank, receiving dividends in lieu of profits. *(Why is Grameen bank a success?)*

In 1976, when he approached conventional banks asking them to lend to villagers deep in debt to loan sharks, the young economics student was told it couldn't be done because the poor are not creditworthy. He has proved them wrong, as has the collapse of the global banking system. *(What has the collapse of the banking system proved?)*

"2010 is a good year to ask again: 'Who is creditworthy?' Is it the large banks with large clients? They cannot obtain their money back ... whereas the poor taking tiny loans, without collateral, are paying every penny of it and changing lives," he told a packed audience last week at a British Council lecture in London. His lecture, entitled A Framework for a Better Future, outlined how the recession provides opportunities not just for banks, but for businesses and governments to create a more equitable world. *(What was the lecture about?)*

"When things work, you do not want to touch it, because it is working. When things do not work, then you think about it. If it still does not work, then you kick it! This is the time to kick," he argued.

The biggest hurdle to setting up Grameen America last year, he explained, was finding a mainstream bank that would open a savings account for its borrowers. Under Grameen rules, borrowers are required to save a small weekly amount, but in the US, Grameen is a programme, not a bank. Even with Yunus's clout, it took time to persuade the branches of Citibank to open accounts for customers who wanted to deposit only $2 a week. *(What problems did he face in the USA?)*

"These are the lessons that we need to now bring together to ask ourselves what kind of financial system we should be creating when we move out of this crisis," Yunus said.

Fast food borrowing

There are now 660 Grameen borrowers in New York City, with an average loan of $2,200. More projects are planned in cities across the US, where, Yunus has said, he wants Grameen to become as "ubiquitous as fast food". *(What is the banker's ambition concerning the USA?)*

After the lecture, I ask him how the Grameen model will translate to inner-city Glasgow, where three generations of unemployment is not uncommon in some families. He readily admits it will be difficult to wean people off welfare and make them more self-reliant. "We don't know what all the problems will be," he replies. *(What ddi the author mean by his question?)*

Despite his calm, thoughtful demeanour, this champion of the poor is openly critical of welfare systems for deterring people from working. "Today, neither the welfare officer nor the welfare recipient has any incentive to move people out of welfare," he says. "If you earn a dollar it is deducted from your welfare cheque. Wrong things have been built into the system." *(What is the banker's main objection to9 the welfare system?)*

Yunus believes a better system would reward people for finding work by matching every dollar earned, rather than deducting it. In the US, Grameen has negotiated a welfare holiday that allows borrowers to claim welfare for three years while they build up their small business. Similar waivers may have to be looked at for the Scottish model, which is being developed with Glasgow Caledonian University and is in the process of raising £1.5m.*(What alternative system has been proposed?)*

He is currently trialling a series of social businesses, in partnership with multinational companies, that are designed to combine the innovation, technology and risk-taking of business with the social objectives of charity in order to improve the health of poor Bangladeshis. Grameen Danone (featured in Society Guardian, 18 February) provides malnourished children with a cheap, nutritional yoghurt; Grameen Veolia, set up with a French water company, created a small water treatment plant to provide clean drinking water in a country where, Yunus says, "millions of people drink poison every day"; and BASF Grameen will result in the German chemical giant providing treated mosquito nets at little cost to households to protect against malaria. *(What social projects is Mohammad Yunus involved in?)*

Yunus is convinced that social business, rather than charity, is the way to tackle social problems. "Your money will be recycled again and again. Much greater impact can be derived from it than from charity. The charity dollar has only one life; you give and it never comes back." *What is the banker's argument against charity as a way of tackling social problems?)*

Nowhere is this more pressing, he believes, than in healthcare. He points to Grameen's proposed "doctorless healthcare programme" as providing lessons for other countries, including the UK. "Health problems are everywhere, and the costs are jumping as populations age or expand," he says.

One way to cut costs is to focus on preventive healthcare, early detection, and to cut out the doctor until absolutely necessary. *(What does "doctorless healthcare programme" mean?)*

Health providers

A shortage of doctors at Grameen's 51 village health clinics has led it to adopt this approach. It is training female graduates, many from the villages, who have put themselves through high school or nursing college with a Grameen scholarship or loan, to run their own health management centres or become self-employed health providers visiting homes with portable diagnostic equipment and mobile phones. *(Who are health providers? What do they do?)*

To make it happen, Yunus has managed to persuade some of the world's most hard-nosed corporations - General Electric, Pfizer and Johnson & Johnson - to agree to create cheaper, handheld versions of hospital kit such as ultrasound machines. *(Why did the banker get in touch with some of the big corporations?)*

Yunus briefly flirted with politics in 1996 in a caretaker government, but quickly decided that, in Bangladesh, Grameen was the way to change society for the better. There are now some 30 Grameen offshoots covering everything from agriculture, fisheries, and telecommunications. *(Why did the banker give up politics?)*

He clearly relishes the potential there is to channel the knowhow and resources of money-making companies into social businesses . "Once we can do that, we will no longer have any problems," he says. *(Where does Mohammad Yunus see a solution to the problem of poverty?)*

No surprise then that, at 68, Yunus has no plans to retire from the world stage. "It's still real fun," he says. "Social business, no matter what you say or do, must be a matter of joy. That's the fantastic thing about it. You can't beat this, even by making tons of money." *(What are the banker's plans for the future?)*

Curriculum vitae

Age 69.

Family Married, two daughters.

Home Dhaka.

Education Collegiate school, Chittagong; Dhaka University, MA in economics; Vanderbilt University, US, PhD, economics.

Career 1983-present: managing director, Grameen Bank; April 1996-June 1996: adviser in caretaker government of Bangladesh; 1976-83: project director, Grameen Bank Project; 1975-89: professor of economics, Chittagong University, and director, rural economics programme; 1972-75: associate professor of economics and head of economics department, Chittagong University; 1972: deputy chief, general economics division, planning commission, Bangladesh government; 1969-72: assistant economics professor, MTSU Tennessee, US; 1962-65: economics lecturer, Chittagong college.

Awards Close on 100 awards, including the 2006 Nobel peace prize.

Tasks for the article "Banyan"

1. Skim read the text to find out some new information about MFIs and their role in fighting poverty in developing countries.

2. Read the text another time and answer questions after each paragraph.

3. Prepare a resume of the article.

4. Enact a conversation between some members of a poor family who are discussing whether they should turn for help to a microcredit organization.

5. Enact a conversation between the board members of a microlending organization who are discussing their policies and a general strategy following a number of suicides caused by the borrowers' debts to the bank.

Banyan

HER sobbing can be heard throughout her village, Nagaram, in the Indian state of Andhra Pradesh (AP). When visitors from Hyderabad, the state capital, some 80km (50 miles) away, cross the threshold of her bare little house, Narsama Anthaiah flings herself prostrate and wailing onto the dirt floor to touch their feet. Her theatrical grief is heartfelt. Two months ago her husband, aged 40, drowned himself. The AP government blames unlikely villains: microfinance institutions (MFIs), which have been expanding fast in the state. Microcredit—small loans to the poor, ideally to start a tiny business—has until recently been seen as one of best hopes for the three-quarters of Indians who still live on less than $2 a day. But the political fallout from such deaths has put paid, at least for now, to the industry's expansion. It could even destroy it altogether in AP, and conceivably beyond. *(What can hamper the expansion of microfinance lending in India?)*

The blame the MFIs shoulder is unfair. Farmer suicides are lamentably common in India. Anthaiah took his own life as a payment loomed on a 15,000 rupee ($333) MFI loan. Heavy rain had waterlogged his cotton crop and left the family struggling to pay the interest rate of 36% a year. But the couple, who had borrowed to build this house, also owed 34,000 rupees to a local moneylender, who charged over 50%. *(What caused the farmer's suicide?)*

Even so, Anthaiah's name features on a government list of 85 MFI "victims", who had taken their own lives by November 16th. The government has reacted by introducing an "ordinance" forcing MFIs to change their practices—cutting interest rates, changing from weekly to monthly repayments, etc. Opposition politicians, scenting votes, have encouraged borrowers to default. Not surprisingly, recovery rates for some lenders have plunged from close to 100% to around 20%. *(How did the government respond to the numerous suicides? What does the opposition call on?)*

This is a huge problem for Indian microcredit. AP is not so much the jewel in its crown as the crown itself. The country as a whole has seen a spurt in microcredit, overtaking, in the number of borrowers, Bangladesh, the global movement's fountainhead. AP accounts for at least half India's total, with more than 25m borrowers, up from 8m in 2007. Indeed, the MFIs' very success in AP is the source of their present troubles. *(Why can we say that MFIs fell victims to their own success in AP?)*

There have been abuses. Chasing growth, MFIs seem to have piled into the same villages, lending to the same people. Some "recovery" methods have involved intimidation. In Godhumagudu, not far from Nagaram, Laxmi Peta is mourning her 16-year-old daughter Lalitha. The family ran up 66,000 rupees in debts from five

MFIs to pay for the wedding of their elder daughter. Unable to meet a payment, they went away to seek help from the new in-laws, leaving Lalitha alone. An MFI officer arrived, along with the village head and the four other members of her mother's "joint liability group"—fellow villagers who had taken collective responsibility for the debt. After their harangues, Lalitha drank pesticide. Her mother treasures a tattered suicide note. It advises her not to take out any more loans, except for her young son's education. *(What does the tragic story of the 16-year-old victim testify to?)*

The MFIs, however, are less abusive, as well as far cheaper, than traditional moneylenders. Their troubles in AP stem from a mixture of institutional rivalry, politics and ideology. *(What do MFIs' problems stem from?)*

Among the MFIs' biggest critics is Budithi Rajsekhar, boss of the Society for Elimination of Rural Poverty, an arm of the state government formed in 2000 to run its own microcredit programme. Set up with World Bank money, this involves a network of "self-help groups", each of 10-15 women, who pool savings and then have access to bank finance. According to Mr Rajsekhar, there are now about 1m groups, with 10m members, covering 8m-9m households, or 95% of the state's rural poor. The MFIs "poach" their clients for their smaller, five-member, borrowing syndicates, and "dump" unneeded loans on them. *(What does the Society for Elimination of Rural Poverty accuse the MFIs of?)*

The antipathy is mutual. For the MFIs, the government's groups offer too little credit, too late. The MFIs offer an alternative to the old-fashioned usurer. But their success in AP has made them a political target—large numbers of voters owe them money. The main opposition Telugu Desam Party lost power in 2004 partly because it was seen as in thrall to the IT industry and foreign investors. Championing poor MFI borrowers was a cost-free way of burnishing its credentials with the rural poor. *(How can FMIs become a tool of political struggle?)*

Ideologically, many in India worry that large MFIs have become for-profit firms. The biggest, SKS, was launched by Vikram Akula as a charity, with (according to his divorced and embittered wife) donations from the guests at their lavish wedding. In July it floated on the stock exchange. The issue was 13 times oversubscribed and valued the company at $1.5 billion. It has a star-studded share register and board of directors, and a great appeal for those who like to think you can do well by doing good. *(What worries many people in India?)*

Saints and sinners

Even charitable microcredit, however, is less fashionable than it was. Other countries' microlenders, too, have had crises. In Pakistan's Punjab province, for example, it became fashionable in 2008-09 for politicians to encourage borrowers to default on microloans. And this week the movement's patron saint, Muhammad Yunus, a Bangladeshi economist and Nobel laureate, was cleared of allegations of diverting Norwegian aid money from one arm of his Grameen bank to another. The film making the accusations also aired arguments that microcredit may do more harm than good. In fact, research suggests that it does work—for some people some of the time, as you would expect. It is not a magic bullet, but nor is it intrinsically harmful. In Nagaram, where Mrs Anthaiah still has to pay off the moneylender with only her own labour to sell, her self-help group is arranging a loan to tide her over. India's problem is not too much microcredit, but too little, too narrowly directed. *(What is the main idea of the last paragraph?)*

Tasks for the article "Saint under siege "

1. Skim read the text to identify the author's tone of narration.

Is it impartial and informative or passionate and accusing?

2. Find the Russian equivalents for the following:

Winner of the 2006 Nobel peace prize, to issue a statement, to deny claims, tax-exempt status, uncover any evidence that its money was used for unintended purposes, the release of the documentary, to evade taxes, charge smb. with, be rife with conflicts of interest, allege, gain financially from the relationship, deny all the charges against smb., make some powerful enemies, announce the formation of a political party, turn one's sights on.

3. Read the text and answer the questions after each paragraph.

4. Prepare a resume of the article.

Saint under siege

IN MUCH of the world Muhammad Yunus is known as the genial pioneer of microcredit and the winner of the 2006 Nobel peace prize. Yet in his native Bangladesh Mr Yunus's reputation is under attack. His supporters fear that the government plans to remove him from Grameen Bank, the microlender he founded, and take it over. In late December Mr Yunus had to issue a statement denying claims by some in the Bangladeshi government that he had resigned from his post as the managing director of Grameen. *(What are Muhammad Yunus's supporters' fears connected with?)*

The initial trigger for the attack on Mr Yunus was a documentary screened on Norwegian television in November, which dredged up an old controversy about the use of development funds provided to Grameen by Norad, the Norwegian aid agency, in the 1990s. Grameen transferred the ownership of the Norwegian funds from one Grameen entity, fearing its tax-exempt status might be changed, to another. Discomforted, the Norwegian government asked Grameen Bank, which had originally been given the funds, to retain ownership. This was done in 1998. The Norwegian government said in early December that a probe by Norad had failed to uncover any evidence that its money was used for unintended purposes, or that Grameen had engaged in corrupt practices. *(What triggered the attack on the renowned banker and his bank?)*

But the release of the documentary led to sharp attacks on Mr Yunus and Grameen in Bangladesh. Sheikh Hasina, the prime minister, accused Mr Yunus of playing "a trick" to evade taxes. She charged microlenders with "sucking blood from the poor in the name of poverty alleviation" and treating the people of Bangladesh as "guinea pigs". On December 24th the government announced that it was planning a "high-level investigation" into Grameen's operations. *(What did the prime minister of Bangladesh mean by the metaphors:" sucking blood from the poor" and "guinea pigs"?)*

Another line of fire opened up on January 4th when a Bangladeshi news website alleged that Grameen's 20-year-old relationship with a printing company called Packages Corporation, which had been owned by Mr Yunus's family since the 1960s, was rife with conflicts of interest. Grameen took over the management of the firm in 1990 to use it for its own printing needs; it has also provided the printers with loans from a Grameen fund. The bank stresses that Mr Yunus's family, who retained ownership, have not gained financially from the relationship (among other things, the agreement with Grameen restricted the owners from getting any of the printer's profits). *(What else was Mr. Yunus accused of?)*

Mr Yunus denies all the charges against him but he has made some powerful enemies among Bangladesh's politicians. During a period of military-backed rule a few years back, he announced the formation of a political party, a project he soon dropped. Some in Bangladesh reckon that Sheikh Hasina is miffed that Mr Yunus and Grameen got the Nobel prize. It remains unclear how far the government, which already has three seats on Grameen Bank's board, intends to go. Some fear that if the government succeeds in taking Grameen over it could then turn its sights on other successful outfits, like BRAC. Bangladeshi microlenders can no longer consider themselves safe from the country's messy politics. *(What consequences for the poor is the government's interference in the bank's affairs fraught with?)*

Tasks for the article "We need to talk about banks"

1. Read the article carefully and answer the questions after each paragraph.

2. Formulate the aim and tasks of "The Future of Banking Commission".

3. Bailouts used to be common practice during the credit crunch. What do you think about them? Could governments have done without them? What would have happened if governments hadn't bailed important banks out? Who should decide which enterprises deserve the state's help and which of them don't deserve it? 4. What should the principles for selection be based on?

We need to talk about banks

The Future of Banking Commission will widen the discussion on bank practices, to include the public and keep the debate alive

We can see worrying signs that the banks are going back to business as usual. Yet their customers seem to have slipped below the radar.

A barrage of reports and reviews – Turner, De Larosière, Volcker, Walker – have analysed the causes of the crisis and made recommendations on how to move forward, without focusing on the human impact of the financial meltdown or how their recommendations will affect customers. Authorities around the world have responded to the crisis by improving aspects of financial regulation, without asking whether the needs of customers are being served. *(What has already been done and what still has to be done in order to respond to the consequences of the global crisis properly?)*

I visited Japan in 2007, to find out what lessons had been learned from the 1990s financial crash. I found that, even today, there is still considerable public anger about it, and resentment of the government's costly bank bailout from ordinary people who are still feeling the pain. The authorities in Japan still struggle to restore public confidence in the banking system. Today in the UK we must restore this confidence quickly if we are to bring about a solid economic recovery. *(What are the lessons of the 1990-s financial crash?)*

So David Davis, Vince Cable and I are launching a cross-party Future of Banking Commission, supported by the consumer group Which?. We have on board a number of highly respected experts, including leading economist Roger Bootle and policyholder advocate and former regulator Claire Spottiswoode. The Right Rev Christopher Jamison, Abbot of Worth, will act as an adviser. *(Does the commission represent different layers of society?)*

Together we want to continue the debate between the financial industry and the public, and ask the big questions about how the banking system should be working and what major changes need to be made. *(What tasks has the commission set itself?)*

It is the biggest questions that remain unanswered. Even after an £800bn public bailout, the taxpayer still finds himself on the hook, not just to protect vital everyday banking facilities, but also to stand behind high-risk financial trading. Which parts of banking are vital to society, and so must be protected by the government? How do we avoid giving a public guarantee for the less socially useful activities? *(What is the biggest question that still remains unanswered?)*

We may need to challenge existing ideas on remuneration in the financial sector. The latest pay packages for senior bankers look eerily similar to the ones we saw before 2007. Worryingly, directors no longer speak of bonuses as a reward for performance, but now say they are obliged to pay employees the "going rate" for bonuses. Do these give bankers incentives that are in line with the long-term wellbeing of the company? If not, how will they need to change? *(What issues concerning remuneration packages should be dealt with?)*

Big questions also remain for the public. The customer, too, will need to alter their expectations of financial services, just as the banks alter theirs. How can we ensure that financial companies compete by being inclusive and treating customers fairly? Do we need to make it easier for people to shop around and switch banks? And is there a need to go "back to the future" on mutuals and building societies, to create more diversity in the sector? *(What are the questions to be considered by the public?)*

Our task is to widen the discussion on the future of banking. The banks were at the centre of what went wrong, so they must be at the centre of creating a lasting solution. But we must ensure that the public also has a place at the table. The public have had to foot the bill for the crisis, by bailing out the banks, stimulating the economy and suffering job losses and cuts in public services. Their needs must also be taken into account. *(Why must the interests of general public be taken into account while discussing the reform of the banking system?)*

Most importantly, we must maintain the momentum for change – this debate must not be allowed to fade quietly away. *(What does the last sentence mean? Paraphrase it, please!)*

TRAINING

DISCUSSION

For a business to remain flexible and successful in the ever changing business world, training is of utmost importance. Companies must invest time and money in their staff if they want them to work efficiently, n o matter how large or small a company is. This not only sends out a clear message to business' clients and competition but lets the staff know that the company cares about their development. Training is approached in many different ways: in some companies, training is a standardized process where all staff members are expected to complete certain tasks throughout the year to possible get a pay rise. In other companies this process is less formalized. But whatever the industry, to build on your career, you need to be constantly developing and adding to your skills. What can companies offer to their employees if they want to develop new skills and become more competent in their jobs? Where and when do training courses usually take place? Where does the money to pay for the courses come from? How do companies benefit if they offer their staff opportunities for training? What feeling do employees usually experience if the training course has been conducted at the right time and at the right level for the worker? Do you know any innovative motivational courses? How are they run? Would you enjoy a course where you had to act out scenes from different plays? Can you think of any playwrights whose plays could be used as leadership models on business training courses? What films could be useful to business trainers? Do you think it's important for a company to have a training budget for its staff? It you were to select a training course for yourself, in what area would you choose on? Why? Have you recently attended any courses? Have they met your expectations? Would you recommend them to your friends?

Tasks for the article "We must empower the young to obtain skills and training"

1. Look at the title and the words below. What do you expect the article to be about?

Prepare for the upturn in the economy with investment in skills and training; undermine the journey out of recession; disenfranchise (лишать прав, привилегий) from the world of work; look beyond exam results; become inspired by a long term vision; open up many routes that can lead to success; amid the doom and gloom; embark on programmes; tangible results; foster individual responsibility for learning; provision of personalized help; acquire transferable skills; meet the needs of an individual; fulfill industry sector workforce requirements.

2. Skim read the text to identify the author's tone of narration.

3. Read the text another time and answer the questions after each paragraph.

4. Prepare a resume of the article.

5. Enact a conversation between the directors of HSE discussing a strategy of development for the next 5 years so that it could meet the requirements of the present day situation.

We must empower the young to obtain skills and training

There has never been a greater need for our nation to invest in skills, especially for the young. If business fails to prepare for the upturn in the economy with investment in skills and training, we will find ourselves facing a skills gap that will undermine our journey out of recession. *(How can the lack of skilled labour influence the country's exit out of recession?)*

If a whole generation is not to be disenfranchised from the world of work, a message empowering young people to obtain skills and training needs to reach disillusioned sections of society. We need to convince our youth that opportunities can still be found despite the tough economic challenges we face. *(What message should society get across to the younger generation?)*

This can only start with the provision of good careers advice and guidance. Research by City & Guilds has found that the average person has three careers and 17 jobs during their working lives. Young people need to look beyond exam results and become inspired by a long-term vision, opening up the many routes that can lead to success. *(How can obtaining skills and training be achieved?)*

Careers advice in the UK is sadly letting many young people down. Our research found that one in five people has needed to retrain or reskill as a result of unsatisfactory careers advice. Careers advice should match people's ambitions with employer needs. There are still sectors of industry that continue to grow amid the doom and gloom. Careers advisers and teachers should form a dialogue with industry to create opportunities. *(What facts prove that careers advice industry works inefficiently?)*

Official figures on youth unemployment make for stark reading— more than half of the 600,000 jobs lost in the past year were among the under-25s. The number of young people in England not in employment or training has risen to 935,000, according to government figures. The Prince's Trust says that about half of these were able to claim unemployment benefit, which is costing the taxpayer about £3.4 million a day. *(What do the figures testify to?)*

However, it is not enough for the Government just to embark on programmes which reduce the number of young people claiming benefits. The translation of policy initiatives into practical solutions that deliver tangible results is not a process to be taken for granted. *(Say the same in your own words.)*

Any initiative which succeeds in helping young people obtain the right training and skills will involve a complex network of stakeholders, including tutors, training providers and employers. There is also a case for colleges to be given the freedom to respond to local demands, rather than national targets. *(Who are the groups of people who should be involved in solving the problem?)*

We advocate the creation of a specialist skills body to finance specialist further education courses. These courses would be designed to foster greater individual responsibility for learning. The economic downturn makes it necessary for the provision of personalised help for people to acquire transferable skills. *(What policy does the author advocate?)*

For greater investment in skills-based training of the nation's youth to succeed, young learners must embark on programmes that leave them feeling fulfilled and motivated. Training needs to be as much about meeting the needs of the individual as it is about fulfilling a government target or industry sector workforce requirements. *(What are the ingredients of the programme's success?)*

Chris Jones is director-general of City & Guilds

Tasks for the article "MBA view: Programme for change"

1. We all know that offering staff opportunities for training has a positive impact on motivation and staff loyalty. It has been proved that staff generally feel greater job satisfaction and a personal sense of achievement as a result of any training they do. What about CEOs? What are their job responsibilities? Is it necessary for them to take cross-functional responsibilities and execute a variety of skills? Is it critical for them to possess leadership qualities? Will the necessary qualities and skills help sustain competitive advantage and achieve corporate growth over the long term? Where can such skills be taught? Do CEOs need any training? Where can they get it? Do MBAs generally cope with the task successfully? Skim read the text and find out the challenges facing MBAs today.

2. Read the text again and answer the more detailed questions after each paragraph.

3. In your opinion, is the author satisfied with the state of things at modern MBAs? How could you describe the author's tone of narration? Is he cautiously optimistic?

4. Prepare a resume of the article.

MBA view: Programme for change

Rob Dixon, dean of Durham Business School, says that business schools must adapt to the new economic realities

THE challenges facing business schools and companies are inextricably linked. Both need to be agile, adapt quickly and avoid complacency in what is a changed economic landscape. Nevertheless it is apparent to me that a number of the big schools are struggling to implement change because they have complex structures and vested interests. There may also be a cultural impediment *(преграда, препятствие))* to change. Some business schools will be more flexible in their thinking. It is these that will be able to provide a more relevant curriculum, an improved student experience and, importantly, more relevance in their research. *(In what way are the challenges facing business schools and companies linked? What motivates some business schools to implement change? What is the hindrance on the way to change? What business schools are more likely to be more successful than others?)*

For the MBA to remain relevant there needs to be an acknowledgement that business is not just about profit and the interests of shareholders, and that the wishes of executives cannot be placed above those of all other stakeholders. Nowhere was this more apparent than the BP oil spill where the suspicion was that protecting the dividend and shareholder value were placed above public interest. In today's business climate, organisations need well-rounded executives with strong leadership skills and the ability to integrate ethical, sustainable and stakeholder thinking into their management decisions. *(What should MBAs realize if they want to be relevant? What does the example of BP testify to? What kind of business executives are required today?)*

This move away from a shareholder, value-dominated perspective of business towards broader responsibility needs to be reflected in the MBA curriculum. Business schools need to focus on wider skills and develop integrated curricula with more prominence given to ethics, risk management and sustainable business practices. Encouragingly, research at Durham Business School, undertaken with the Association of MBAs, an accreditation agency, shows that a significant number of business schools are already embracing a new approach to the curriculum. The 100 accredited business schools that took part in our survey were unequivocal *(недвусмысленный, четкий, ясный)* that the MBA should adopt more of a stakeholder (rather than a shareholder) focus, and that corporate social responsibility should underpin *(поддерживать)* the actions of organisations. *(What should MBA curricula reflect? What did the research reveal?)*

These views are being matched by action. The vast majority had undertaken a full redesign of their curriculum within the previous five years and two-thirds had done so in the past two years. Among those schools that had redesigned their curriculum within six months of the survey, coverage of business ethics and sustainability has increased substantially. However, this research does suggest that schools still need to put more of a focus on the complex issue of risk, and they acknowledge that both risk management and strategic risk are two of the top three topics where there is the widest disconnect between what they ought to offer and what they currently do. *(What are the areas that have been successfully been dealt with by MBAs? What areas should be better developed?)*

Over and above these specific issues, the challenges facing the MBA are as much about how it is taught as about what is taught. The research also highlights a perception amongst alumni *(выпускники)* that the teaching style of the MBA is too theoretical and that there needs to be a greater focus on practical application. In contrast, only a small proportion of business schools seem to agree that this is the case. Getting the right balance here is an age-old dilemma. At the same time, the message appears to be that business schools could be doing more to engage with their students and alumni and to incorporate their feedback into how their MBAs are taught. *(What is wrong with the teaching style of most MBAs according to their alumni? Do the schools agree with the opinion? What does the author mean by "engaging with their students and alumni?")*

Tasks for the article "The pedagogy of the privileged"

1. The article below is also devoted to challenges facing business schools. Skim read the text to see if the author's tone of narration differs from that one of the previous article. How would you define it?

2. Read the expressions in bold type and explain their meaning.

3. Read the text again to be able to answer the questions.

- Did business schools accept the blame for the global crisis? Why should they accept it?
- What did they manage to achieve trying to amend for the damage done to global economy?
- What does the author accuse business schools of?
- What is the widely spread attitude to business education?
- What does the study by done by the two economists reveal?
- What is the author's attitude to the idea of teaching ethics and CSR?
- What should business schools do in order to improve their performance?
- How should the balance be changed?
- What does the author mean by boosterism?
- What do you think about the piece of advice given in the last paragraph of the article? Do you think it is feasible?

4. Prepare a resume of the article.

5. Enact a conversation between Deans of Harvard, LSE, HSE, etc. discussing challenges facing MBAs today. Try to work out solutions, too.

The pedagogy of the privileged

Business schools have done too little to reform themselves in the light of the credit crunch

THIS has been ***a year of sackcloth and ashes*** for the world's business schools. ***Critics have accused them of churning out jargon-spewing economic vandals.*** Many professors have accepted at least some of the blame for the global catastrophe. Deans have drawn up blueprints *(детальные планы)* for reform.

The result? Precious little. Business schools have introduced a few new courses. Students at Harvard Business School (HBS) have introduced a voluntary pledge "to serve the greater good" among other worthy goals, which about half of this year's graduates embraced. But for the most part it is business schooling as usual. The giants of management education have laboured mightily ***to bring forth a molehill***.

That is too bad. You do not have to accept the idea that the business schools were "agents of the apocalypse" to believe that they need to change their ways, at least a little, in the light of recent events. Most of the people at the heart of the crisis—from Dick Fuld at Lehman Brothers to John Thain at Merrill Lynch to Andy Hornby at HBOS—had MBAs after their name (Mr Hornby graduated top of his class at HBS). In recent years about 40% of the graduates of America's best business schools ended up on Wall Street, where they assiduously *(усердно)* applied the techniques that they ***had spent a small fortune learning***. You cannot both claim that your mission is "to educate leaders who make a difference in the world", as HBS does, and then **wash your hands of your alumni when the difference they make is malign.**

The real question is not whether business schools need to change, but how. One of the most common stances *(позиция, установка)*—often heard outside and sometimes within the schools themselves—is that management education needs ***to start again from scratch***. On this view, these institutions are little more than con-tricks at the moment, built on the illusion that you can turn management into a science and dedicated to ***the unedifying goal*** of teaching greedy people how to satisfy their appetites.

That is not true. A study by two economists, Nick Bloom of Stanford and John Van Reenen of the London School of Economics, concluded that companies that use the most widely accepted management techniques, of the sort that are taught in business schools, ***outperform their peers*** in all the measures that matter, such as productivity, sales growth and return on capital. Many companies in the developing world, not least China, are desperate to hire more MBAs in order to improve their traditionally slapdash *(небрежный)* approach to management.

A second popular argument is that business schools need to put more emphasis on business ethics and corporate social responsibility (CSR). There is a great deal of talk about embracing "principles of responsible management", such as "sustainability"*(устойчивое развитие)* and "inclusiveness".

This makes some sense. A 2006 study of cheating among graduate students found that 56% of business students had cheated, compared with 47% in other disciplines. The authors attributed this to ***"perceived peer behaviour***". Presumably more talk of ethics might change those perceptions. But it would be a mistake to expect too much from CSR. Both business schools and businesses have been talking about it for years without turning business people into angels (one of the loudest advocates was Ken Lay, the chairman of Enron). Moreover, many admirers of CSR confuse the sort of creative destruction that makes us all richer, in the long run, with corporate skulduggery. *(мошенничество, надувательство, обман)*

So what should business schools do to improve their performance? More history classes would help. Would-be business titans need to learn that economic history is punctuated with crises and disasters, that booms inevitably give way to busts, and that the business cycle, having survived many predictions of extinction, continues to prey *(терзать, мучить)* on the modern economy. The 2008 debacle *(фиаско)* might have come as less of a surprise if all those MBAs had been taught that there have been at least 124 bank-centred crises around the world since 1970, most of which were preceded by booms in house prices and stockmarkets, large capital inflows and rising public debt.

History courses aside, business schools need to change their tone more than their syllabuses. In particular, ***they should foster the twin virtues of scepticism and cynicism***. Graduates in recent years, for example, seem to have accepted far too readily the notion that clever financial engineering could somehow abolish risk and uncertainty, when it probably made things worse. It is worth noting that such scepticism is second nature to the giants of financial economics, as opposed to the more junior propellerheads *(тот, кто помешан на технике)*. Andrew Lo, of MIT's Sloan School of Management, was fond of pointing out that in the physical sciences three laws can explain 99% of behaviour, whereas in finance 99 laws can explain at best 3% of behaviour.

Boosters beware

The original sin of business schools is boosterism. Professors are always inclined to ***puff the businesses that provide them***, at the very least, ***with their raw materials*** and, if they are lucky, ***with lucrative consultancy work***. HBS has produced fawning *(раболепный)* studies of almost every recent corporate villain from Enron (which was stuffed full of HBS alumni) to the Royal Bank of Scotland. A taste for cheerleading has been reinforced by the rise of a multi-million-dollar management-theory industry. Professors with dollar signs in their eyes are always announcing the birth of the latest revolutionary management technique or the discovery of the hottest new "supercorp".

Business schools need ***to make more room for people who are willing to bite the hands that feed them***: to prick business bubbles, expose management fads and generally rough up the most feted managers. Kings once employed jesters ***to bring them down to earth***. It's time for business schools to do likewise.

CONSULTING

DISCUSSION

What do you understand by consulting? In what areas of business do consultancy firms operate? What conflicts of interest can arise if a firm, for example, gives advice on strategy and audits a company at the same time? In what way can legislation minimize the number of conflicts connected with conflicts of interest? What government agency monitors the activities of stockbrokers, auditors, and so on as well as takeovers in the USA? Do you agree that external consultants can offer a more objective and independent opinion than an employee of a company? Consultancy services are usually very expensive. Are they always worth the money spent on them? What arguments can you think of for and against professional consultants? Do you think consultants can be objective when evaluating the strategies they have implemented? Why can outsourcing sometimes have a negative impact on the morale of staff? What professional service firms do you know? In which countries do they operate? What problems might they experience? Would you recommend companies to use the services of global or local consultancies? Why do some global companies not use the services of global consultancies? Why is it necessary to have some international professional-service firms? Would you like to land a job with a consultancy firm in the future? Why/not?

Tasks for the article “Break the model on employee behaviour”

1. Read the title of the article. In what way do you think the model of employee behaviour should be changed? Now skim read the text and answer the questions.

2. Read the text again and answer more detailed questions after each paragraph.

3. Prepare a resume of the article.

Break the model on employee behaviour

If ever there were a moment for companies to be experimenting with how they organise and motivate their employees, now would seem to be it. Businesses are being yanked in every direction by the forces of recession, emerging markets and new technology. Psychologists and economists are collaborating as never before to expand the field of behavioural economics, to tell us why we behave the way we do when it comes to work and money. *(How is the situation in modern business world characterized by the author?)*

So why are more companies not using the crisis to rethink how they manage their people? Why are they so much more innovative when it comes to jiggering with their balance sheet or product line than human resources? It is a question that is dumbfounding Dan Ariely, a professor of behavioural economics at Duke University and author of two books, *Predictably Irrational* and *The Upside of Irrationality*. Prof Ariely is one of management’s most widely cited behavioural economists, and he told me that while companies harried him for insights into customer behaviour, they were loath to try out anything new on their employees. “There is no worse place to try to do experiments than human resources,” he said. “The first thing on their mind when they hear the word ‘experiment’ is lawsuits.” *(What puts most companies off experimenting in the sphere of HR?)*

Some of Prof Ariely’s most interesting research has been in the area of compensation. He has concluded, for example, that large bonuses have little effect on the performance of bankers. He suggests that banks would be better off firing all but their most talented employees and hiring thousands of new workers with none of the salary and bonus expectations of the old ones. They would be able to do the same work for much less money, unburdened by outlandish expectations. I would love to hear Jamie Dimon and Lloyd Blankfein debate that one. *(What advice of Prof. Ariely concerns the banking sphere?)*

Prof Ariely argues that financial rewards are only one piece of a complex web of motivations which affect each of us differently. These include a sense of purpose, status, altruism, ego and control, all of which a clever manager should take into account. And yet how many do this in anything but the most informal way? *(What part do material rewards play in the complex web of motivation?)*

“I went to a lot of companies and said, ‘Let’s do studies of bonuses,’” he says. “One hundred per cent of the time, people would tell us that bonus season is so miserable, they didn’t want to prolong the agony by studying it any further – even though we know that productivity goes down during bonus season and that bonuses are not the most efficient motivator.” *(What is the bonus season characterized by?)*

He added that “the biggest curse in compensation are compensation consulting firms” that do nothing but benchmark compensation against companies, which may or may not be useful comparisons. “They know nothing about the science,” says Prof Ariely. “They’re just perpetuating the misery.”*(How do compensation consulting firms work out their compensation schemes?)*

It may be that companies don’t have Prof Ariely’s urgency. Managers who have survived the recession intact are probably feeling confident in their existing model. Now may not seem the time to go redrafting the rewards structure and instituting flexi-time for all. *(Do managers consider it to be proper time for changing work patterns and redrafting the rewards structure?)*

Prof Ariely says he still receives plenty of calls from start-ups, brimming with enthusiasm for new organisational forms. They crave new ideas about compensation and how to improve employee morale and creativity. They are eager to use unconventional methods to motivate individuals who spend their days working away from the main office on unusual schedules, and may only ever see parts rather than the whole of a business. *Why are start-ups more responsive to Prof Ariely’s ideas?)*

But once these companies reach any kind of scale, the experimental mindset hardens into a procedural one. The enthusiasm to get the most out of every individual becomes a desire to settle on a one-size-fits-all motivational template, regardless of the irrational behaviours it might cause. *(How does the attitude change as an organization matures?)*

The only way Prof Ariely has found through this inertia is to get the chief executive on side. He began working with Scott Cook of Intuit, the financial software company, on experiments to understand the behaviour of his customers. Why, for example, do people pay down their smallest loans before those that carry the highest interest rates? He suggested creating a software tool to help customers behave more rationally. *(How does plans to overcome this inertia?)*

But now he says his behavioural economics research is seeping into Intuit’s internal organisation. Instead of offering purely financial incentives for great work, Intuit now offers high-performing employees half a year’s sabbatical. (*What kind of motivation do they employ at Intuit?)*

Mr Cook is also encouraging a culture of experimentation, telling employees that a failed experiment is no failure if it produces evidence. This is vital to employees’ feelings of control. *How is the culture of experimentation encouraged at the company?)*

Innovative management that takes the complexity of human behaviour into account can be a competitive advantage – especially now, when so few are ready to practice it. *(Do you agree with the last statement? Why?)*

Tasks for the article “Give more power to your people”

1. Read the article. Pause at the expressions in bold type and explain their meaning.

2. Read the text to be able to answer the following questions.

- How can you describe the atmosphere at British Gas?
- How important is it for a company to engage with employees?
- Choose one of the tips engaging with employees and expand on it.
- What do you know about the laws of staff retention during the upturn/during the downturn?
- How has the recession changed how employees view their relationship with employers?
- How is generation Y different from the previous generations of workforce?
- In what spheres have HR departments achieved success? What spheres have been neglected by them?
- What challenge did HCI face in 2005? How did the CEO tackle the problem? What result has been achieved?
- In what way was the situation at British gas similar to that one at HCI?
- How did The CEO get his people work with his strategy?
- What was the purpose of the series of meetings with small groups of employees introduced by Mr. Bentley?
- What was the biggest problem he faced?
- What is his challenge now?
- Who are influencers?
- How can “engaging with employees” be achieved?
- Do you think engaging with employees, empowering them has a positive impact on company performance? Can you explain it?

3. Formulate the controlling idea of the article.

Give more power to your people

Mr Bentley, who has led the company since 2007, is a good performer. He confidently ***outlines the challenges*** – new competitors, a shift to clean energy – and his strategy for facing them – to change from getting people to use more energy to persuading them to conserve it. The only time he is bumped off his rhythm is when a mobile phone rings. “Someone didn’t listen,” he says, referring to instructions at the start of the session to switch off all phones.

Business leaders make presentations such as this all the time. More remarkable is that 15 minutes before Mr Bentley’s speech, one of his employees, an engineer with close-cropped hair and tattoos, spoke in similar terms as his boss. When asked to explain the point of this event he replied: “British Gas has a vision and the idea is to get everyone going to the same place.”

Almost every British Gas employee at the NEC, from the service manager or engineer to call centre worker or solar panel sales executive, seems just as enthusiastic and proud. It feels more like a start-up than a former state monopoly that was once ***a byword for poor customer service***.

If an organisation is only as good as its people, how well it engages with employees can be the difference between success and failure. Yet, experts say, few companies are doing it well. This has been particularly true in the recession, during which many businesses have focused on cutting costs and staff without thinking about the employees left behind who will be needed to rebuild the company.

Tips for engaging employees

● Know your workforce. Unless you understand who works for you, it is impossible to engage with them, says Gary Grates.

● Create a story and learn how to tell it. Organisations need a narrative to explain the strategy. But corporate mission statements are often boring and bland for ***frontline staff***, so ***figure out a way of relaying it that resonates across the business***.

● Put the “human” back into human resources. Personal interactions are essential. This can mean the chief executive speaking to employees and being visible on the shop floor or team leaders recognising that each interaction with one of their staff – coffee, e-mail, a conversation around the water cooler – is an opportunity to engage with them. For some companies, it can also mean ensuring that not all interactions are electronic. At Dyson, for example, staff are compelled to ***talk to each other about their ideas rather than sending memos***.

●Crises are also opportunities. Vineet Nayar says companies need to create “a crisis every three to five years”. It focuses attention and ensures that organisations – at all levels – take a serious look at how well they function.

Octavius Black, chief executive of the Mind Gym, a performance consultancy that developed the event with British Gas, ***warns*** that ***while staff retention has held up during the downturn, that could soon change***. “Over 60 per cent of employees currently say they plan to switch companies, with 25 per cent actively looking for a new job,” he says. “The risk is even more acute with top performers, whose feeling of engagement with their employer has dropped three times faster than the average employee’s in the past 12 months.”

Jonathon Hogg, head of the people and operations practice at PA Consulting, the professional services consultancy, says the recession has changed how employees view their relationship with employers. “Employees are disappointed with business.”

This change builds on broader shifts already under way in the workplace. He points to the younger demographic entering the workforce – Generation Y – which is looking for a different relationship with employers. “Gen Y wants to feel part of a team, a community, rather than being an individual cog in a big corporate machine.” They expect companies to offer more than a pay cheque, and ***look to its values to accord with their own***.

The problem is that big organisations were designed for a different era and many leaders have not evolved the structures of their companies accordingly.

One reason, says Mr Hogg, is that too many human resources departments became fixated with systems that make an organisation more efficient but dehumanise management. “Companies have put in all sorts of processes to measure and evaluate performance, an arithmetic approach to assessing people,” he says. “This puts the focus on compliance and fulfilling quotas” – instead of engaging with staff.

Gary Grates, global head of employee engagement at Edelman, the PR company, and a former head of internal communications at General Motors, is more blunt. “Most organisations are communicating to people that no longer exist.” If they don’t know who their people are, how can they engage with them?

Vineet Nayar, chief executive of HCL Technologies, the IT company, echoes this dim view of traditional HR as an effective tool for engagement. “You really don’t need HR people – HR is what managers should be doing.”

When he took over at HCL in 2005, the challenge was to transform a company that was losing market share. If HCL did not change its business model fast, it would soon be destroyed by competitors.

To effect that change, he had to convince employees of the existential crisis facing the company. That meant walking around the organisation and talking to people, both to explain his case but also to better understand their concerns. His model for employee engagement turned HCL from a second-tier Indian IT firm into the country's fourth largest. He has even made the management model into a book, *Employees First, Customers Second*.

The book outlines four steps that can be applied to any company, in any sector. “Mirror mirror” – be honest with staff about the challenges so they recognise that change needs to be made. “Create trust through transparency” – build a culture of trust between employees and management through open dialogue. “Invert the organisational pyramid” – make managers accountable to frontline workers. “Recast the CEO’s role” – put employees in charge of leading the change instead of the CEO.

For British Gas, the Birmingham event is its effort to address this final step in a process that began when Mr Bentley took over. Like Mr Nayar, he inherited a company that was in a difficult position. Profits were plunging, customers were leaving and employee turnover was high. “At some call centres, we had attrition rates of 50 to 60 per cent,” Mr Bentley says, speaking after his presentation, where 20 per cent was the industry norm. “The company was on its knees.”

But a crisis can also be an opportunity and he realised that ***to turn the company round***, he had to get his people working with his strategy. First, he reorganised the senior management team – of the 13 direct reports he inherited, only one remains, and he recruited 40 to 50 key middle managers “who made the difference”. He then focused on rebuilding trust with the employees who were the key point of contact with consumers. This meant the call centre workers and the engineers who repair boilers in customers’ homes.

Mr Bentley then started a series of meetings with teams of 10 or 12 employees to get a sense of their concerns. Initially, he says, the biggest complaints were about relatively minor details – the air conditioning didn't work, they didn't like their uniforms – that were easy to fix.

The bigger problem, however, was the breakdown in trust between management and staff. "In 2007, 90 per cent of frontline engineers didn't have e-mail access," he says. Management didn't trust its employees to focus on work. He reversed the policy and, while it seems a small change, responding to a staff concern quickly had a symbolic value that improved how staff viewed management.

He says the challenge now is ***"to maintain the momentum***" in empowering staff to lead the change. So, while the Birmingham event is introduced by a company executive and a coach from Mind Gym, the process is almost entirely led by ***rank and file employees***. Called "influencers", these individuals have been selected because they have strong views about the company and are, says Mind Gym, "vocal and listened to". They are the people who everyone in an office knows, and act as unofficial links between the different networks within a workplace. They are trained in how to explain the corporate strategy in a way that resonates with the managers participating in the event.

Mr Black says this is important both as an empowering exercise for the influencers but also because communication with employees relies on telling them a story that resonates. The organisation's narrative – "where we've come from, who we are, where we're going and how we're going to get there" – is boring for many employees. But if a colleague can provide a real example of how she put the company's vision into practice by, say, helping an angry customer, it will have more impact that a mission statement from HR. "More important are the personal stories that people tell to bring the organisation's story to life," Mr Black says.

For any company, that is a tale worth telling.

Tasks for the article "The depressing vogue for having fun at work"

1. Do you think that all advice given by professional consultants should be followed to the letter? Skim read the text and point out to such pieces of advice which you wouldn't try to implement at your workplace?

2. Look at the words and their meanings to be able to understand the text better.

- Hilarity - веселье
- Ab Fab – абсолютно фантастический
- Jester – шут, шутник
- Wacky – сумасшедший, странный
- Empower(ment) – уполномочивать, поручать, давать возможность, помогать
- Devolve – передавать, переходить к другому лицу, переливаться
- Cringe – чувствовать досаду, раздражение, отвращение; отпрянуть
- Risible - смехотворный

- Coercion – принуждение

3. Read the text and answer the questions after each paragraph.

4. Prepare a resume of the article.

Down with fun

The depressing vogue for having fun at work

ONE of the many pleasures of watching "Mad Men", a television drama about the advertising industry in the early 1960s, is examining the ways in which office life has changed over the years. One obvious change makes people feel good about themselves: they no longer treat women as second-class citizens. But the other obvious change makes them feel a bit more uneasy: they have lost the art of enjoying themselves at work. *(Why is it interesting to watch the TV drama? What differences between now and then can one spot?)*

The ad-men in those days enjoyed simple pleasures. They puffed away at their desks. They drank throughout the day. They had affairs with their colleagues. They socialised not in order to bond, but in order to get drunk. *(What could one do at his workplace then without being considered unconventional and non-conforming?)*

These days many companies are obsessed with fun. Software firms in Silicon Valley have installed rock-climbing walls in their reception areas and put inflatable animals in their offices. Wal-Mart orders its cashiers to smile at all and sundry. The cult of fun has spread like some disgusting haemorrhagic disease. Acclaris, an American IT company, has a "chief fun officer". TD Bank, the American arm of Canada's Toronto Dominion, has a "Wow!" department that dispatches costume-clad teams to "surprise and delight" successful workers. Red Bull, a drinks firm, has installed a slide in its London office. *(What are the facts that many companies are obsessed with the idea of fun?)*

Fun at work is becoming a business in its own right. Madan Kataria, an Indian who styles himself the "guru of giggling", sells "laughter yoga" to corporate clients. Fun at Work, a British company, offers you "more hilarity than you can handle", including replacing your receptionists with "Ab Fab" lookalikes. Chiswick Park, an office development in London, brands itself with the slogan "enjoy-work", and hosts lunchtime events such as sheep-shearing and geese-herding. *(What do the facts testify to?)*

The cult of fun is deepening as well as widening. Google is the acknowledged champion: its offices are blessed with volleyball courts, bicycle paths, a yellow brick road, a model dinosaur, regular games of roller hockey and several professional masseuses. But now two other companies have challenged Google for the jester's crown—Twitter, a microblogging service, and Zappos, an online shoe-shop. *(How does Google try to entertain its employees?)*

Twitter's website stresses how wacky the company is: workers wear cowboy hats and babble that: "Crazy things happen every day…it's pretty ridiculous." The company has a team of people whose job is to make workers happy: for example, by providing them with cold towels on a hot day. Zappos boasts that creating "fun and a little weirdness" is one of its core values. Tony Hsieh, the boss, shaves his head and spends 10% of his time studying what he calls the "science of happiness". He once joked that Zappos was suing the Walt Disney Company for claiming that it was "the happiest place on earth". The company engages in regular "random acts of kindness": workers form a noisy conga line and single out one of their colleagues for praise. The praisee then has to wear a silly hat for a week. *(How do Zappos and Twitterr try to make their employees happy?)*

This cult of fun is driven by three of the most popular management fads of the moment: empowerment, engagement and creativity. Many companies pride themselves on devolving power to front-line workers. But surveys show that only 20% of workers are "fully engaged with their job". Even fewer are creative. Managers hope that "fun" will magically make workers more engaged and creative. But the problem is that as soon as fun becomes part of a corporate strategy it ceases to be fun and becomes its opposite—at best an empty shell and at worst a tiresome imposition. *(What are the most popular management fads of the moment?)*

The most unpleasant thing about the fashion for fun is that it is mixed with a large dose of coercion. Companies such as Zappos don't merely celebrate wackiness. They more or less require it. Compulsory fun is nearly always cringe-making. Twitter calls its office a "Twoffice". Boston Pizza encourages workers to send "golden bananas" to colleagues who are "having fun while being the best". Behind the "fun" façade there often lurks some crude management thinking: a desire to brand the company as better than its rivals, or a plan to boost productivity through team-building. Twitter even boasts that it has "worked hard to create an environment that spawns productivity and happiness". *(When does fun stop being fun?)*

If it's fun, it needn't be compulsory

While imposing ersatz fun on their employees, companies are battling against the real thing. Many force smokers to huddle outside like furtive criminals. Few allow their employees to drink at lunch time, let alone earlier in the day. A regiment of busybodies—from lawyers to human-resources functionaries—is waging war on office romance, particularly between people of different ranks. Hewlett-Packard, a computer-maker, recently sacked its successful chief executive, Mark Hurd, after a contractor made vague allegations—later quietly settled—of sexual harassment. (Oracle, a rival, quickly snapped up Mr Hurd.) *(What "real fun" is forbidden at work?)*

The merchants of fake fun have met some resistance. When Wal-Mart tried to impose alien rules on its German staff—such as compulsory smiling and a ban on affairs with co-workers—it touched off a guerrilla war that ended only when the supermarket chain announced it was pulling out of Germany in 2006. But such victories are rare. For most wage slaves forced to pretend they are having fun at work, the only relief is to poke fun at their tormentors. Popular culture provides some inspiration. "You don't have to be mad to work here. In fact we ask you to complete a medical questionnaire to ensure that you are not," deadpans David Brent, the risible boss in “The Office”, a satirical television series. Homer Simpson’s employer, a nuclear-power plant, has regular “funny hat days” but lax safety standards. “Mad Men” reminds people of a world they have lost—a world where bosses did not think that “fun” was a management tool and where employees could happily quaff Scotch at noon. Cheers to that. *(What is a way out for those employees who are not contented with imposed fun at work?).*

Appendix

I . USEFUL EXPRESSIONS FOR RENDERING AN ARTICLE

Expressions which give general information on the article and the author:

The article (paper) is entitled/goes under the heading (headline)/is headlined…

It was published in…

It was written by…

Expressions which enable you to characterize the article:

The paper (article) under discussion/consideration is intended (aims) to describe (explain, examine, survey) … It is devoted to/tackles/touches upon the problem of…/The paper discusses the situation…/The article deals with …/As the title implies the article describes .../The paper is concerned with…/The article dwells on the topic/problem of/ portrays /depicts / reflects on the situation in /The article gives many details/ looks into the situation of…/- reports at length…/- carries a lot of comment on…/- takes a critical view of…/-The author of the article is in favour of…/- is opposed to…/The main idea of the article (the controlling idea) is/It gives a detailed analysis of…/It draws our attention to…/It is stressed that…/The article is of great help to /The article is of interest to …/The purpose of the article is to show\to prove\develop\summarize\find out/Special attention is paid (given) to …/Some factors are taken into consideration (account)/A brief account of…is given in the article/The author refers to …/Reference is made to …/The author gives a review of …. .

Expressions which help you to highlight the contents of the article:

The author/ the article starts with dwelling on /goes on to say that/ concludes by saying that/outlines /points out/ reviews/analyses/aims at/raises the problem of /highlights / draws our attention to/argues that/expresses the opinion that/insists/stresses/emphasizes/makes the reader feel and understand that/compares something to something/draws a parallel between /contrasts /lays a special emphasis on/provides the reader with new experiences (ideas) /has an impact on the reader/presents a new insight into the problem of/covers a variety of problems (topics)/ gives a wide range of problems (a thorough analysis)/ criticizes/makes it clear that/expresses profound concern/comes out against/ gives a warning that/informs the reader about/

It is known that/It should be noted /The fact that … is stressed/A mention should be made about /It is spoken in detail about/It is reported that /The text gives valuable information on/Much attention is given to/It is shown that/There is some interesting information in the paper /It is expected (observed) that /It is reported (known, demonstrated) that /It appears (seems, proves) that/It is likely (certain, sure) /It should be remembered (noted, mentioned) ….

Expressions which will help you to finish your resume and express your own attitude to what you have read about:

The paper summarizes/

at the end of the article the author sums up/the following conclusions are drawn /the author gives several solutions of the problem/ concludes by saying that/ draws a conclusion that/in conclusion the author suggests that…

In summary/ in conclusion/ to sum up/to cut a long story short/ in a nutshell/ to crown it all/ on the whole/ all in all/ all things considered/ taking everything into account/ in my view/ from my own perspective/in my opinion/to my mind/personally I am in two minds/ I doubt/ I believe/ I suppose/ it's really hard to say, but I think/as for me/ could I just say that/ I can't really agree with that/I find the article(informative, thought- provoking)/ I can't but agree with the author that/ I don't share the author's opinion that/I think the author is absolutely right/ I totally agree/that is true to a certain extent/ I'm not really sure/ I don't believe that at all/ I think that it is a ridiculous idea/ it could be argued that/ it is difficult to accept this point of view as (because, since)/ although the author argues that …, we should consider/ despite claims that …, it is a fact that/ while it might be argued that …, the truth is / though it is true that…, we should also bear in mind that/ I cannot accept this because…/ although there is …, I still feel that./ that brings me to the end of my report/that was all I wanted to tell you about.

II. EXPRESSIONS FOR PROVIDING LINKS BETWEEN AND INSIDE THE PARAGRAPH

Фразы, перечисляющие точки зрения и аспекты обсуждаемой проблемы в хронологическом порядке или в порядке важности	Initially…,In the first place…, First of all…, To start/begin with…, Secondly…, Thirdly…, After this…, Afterwards.., Next…, Before this…, Finally…, Last but not least…,Lastly…, Eventually…, In the end…., At last…
Фразы, добавляющие новые аспекты	Furthermore…,Moreover…,What is more…,In addition to this…,Besides.., Also.., Apart from this…,Not to mention the fact that…,both…and…, Furthermore…,Further…, Not only...but.., As well…, Neither…nor…, Nor.., Neither…, Either..,
Фразы, выражающие причину	Because…, The reason why … is that…, As a result of this, Consequently…, Because of…, due to..., owing to…, due to the fact that…, For this reason…, On the grounds that…,
Фразы, подчеркивающие контраст, уступку, связывающие различающиеся идеи	Contrary to…, However…, on the other hand…, In spite of/Despite…, Even though/Although…, Nevertheless…, Otherwise…., Yet…, Whereas…, Much as.., Nevertheless…, Still.., On the other hand…, No matter how/what…, In contrast…, Regardless of…, Admittedly…, Considering…,
Фразы, приводящие пример,	For example/for instance, Such as, Like, Especially, In

доказательство, аргументацию	particular, To give just one example, Particularly
Фразы, выражающие следствие	And therefore…, and as a result…, and consequently…, so…, as a consequence…, this is caused by…, So…, Thus…, In view of the fact that …
Фразы, выражающие последовательность событий во времени	After that…, Once/When/After…, As soon as…, Before…,By the time…, Hardly…when.., No sooner…than…, Now that.., The minute/the moment that…, Whenever…, While…, The first/next/last time…, Just as…,
Фразы, затрагивающие другие аспекты проблемы	As far as…, As for…, Regarding/concerning/considering…, With reference/regard/respect to…, As far as … is concerned, In respect/regard/reference to this/to the fact that
Фразы, поясняющие точку зрения автора текста, уточняющие высказывание	In other words.., To put it another way…, What I mean is…, This means that…, I mean…, Specifically…, That is to say
Фразы, показывающие расположение предметов в пространстве относительно друг друга	Where…, Wherever…, As high/low/far/near as,
Фразы, объясняющие цель действия	In order to/so as to…, So that …can/may/ might/could…, With a view to…, With the aim of…, In case.., For fear of .., Lest..,
Фразы, объясняющие образ действия	As if/As though.., As…, In the way (that)…, The way in which.., In the same way as..,
Фразы, подчеркивающие сходство и сопоставление	Similarly…, Likewise.., In the same way.., Equally As… as…, Half as…as…, Nothing like…, the…the…, Twice as…as…, Less…than…, Nowhere near as much…as…,
Фразы, указывающие на существование альтернативы	Or…, On the other hand…, Either…or.., Alternatively…,
Фразы, добавляющие эмфазу высказанной мысли	Besides…, Not only this..also.., As well…, What is more.., In fact…, As a matter of fact.., To tell you the truth.., Actually.., Indeed.., Let alone…,
Фразы, указывающие на наличие условия	If…, in case…, Assuming that.., On condition that…, Provided/Providing that…, Unless…, In the event that/of…, As/so long as…, Granted/granting that…, Whether…, Whether…or…, Only if…, Even if…, Otherwise…, Or(else)…, In case of
Фразы, указывающие на причинно-следственную связь с определенным условием	Consequently…, Then…, Under those circumstances…, If so…, If not…, So…, Therefore…, In that case…, Otherwise…, Thus

III USEFUL TIPS ON DOING READING PAPERS FOR BEC VANTAGE AND BEC HIGHER

GENRAL ADVICE

Different parts of the Reading paper test different reading skills. Part one tests reading for gist and scanning. Part 2 tests your ability to understand text structure; in order to do this you are required to fill a gapped text with sentences. Part 3 tests your ability to read for gist and understand specific information. Part 4 tests your vocabulary. Part 5 (for BEC Vantage) and Part 6 (for BEC Higher) is a proofreading task, where you are required to identify extra words in a short text. Part 5 of BEC Higher tests grammar and understanding of cohesion.

When preparing for the examination IT IS USEFUL to:

- Practice reading as many types of texts as you can
- Make sure you understand the use of reference words like this, such, it etc.
- Record useful vocabulary and fixed phrases linked to different business topics.
- Check your own work and keep a records of the typical mistakes you make
- Exchange your written work with a fellow student and check his/her work for errors

How to approach reading Test Part I

- In this part of the Reading Test you match statements with short texts.
- First read each short text and then read the sentences to see which ones refer to the text.
- Make sure you read the text for overall meaning. Do not choose an answer just because you see the same words in the text.

How to approach reading Test Part II

- In this part of the Reading Test you read a text with gaps in it, and choose the best sentence to fill each gap from a set of sentences.
- First read the text for the overall meaning, then go back and look for the best sentence for each gap.
- Make sure the sentence fits both the meaning and the grammar of the text around the gap.

How to approach reading Test Part III

- In this part of the Reading Test you read a longer text and answer questions.
- First read the questions. Try to get an idea of what the text will be about. Then read the text quickly for general understanding.
- Then read the text and questions more carefully, choosing the best answer to each question. Do not choose the answer because you can see the same words in the text.

How to approach reading Test Part IV

- This part of the reading test tests your vocabulary.
- Read the whole test quickly to find out what it is about. As you read try to predict the words that might fill the gaps.

- Next, look at four possible answers and cross out any obviously incorrect words.
- Then read both before and after each gap to decide which word should go in it. The word needs to fit both the meaning and the grammar.
- After completing all the gaps, read the whole text again to check your answers.

How to approach reading Test Part V (BEC Vantage) or Part VI (BEC Higher)

- This part of the Reading Test tests your ability to identify additional or unnecessary words in the text. Most lines contain an extra word which is incorrect.
- Read the whole text quickly to find out what it is about. As you read try to identify the words which are incorrect. Make sure you consider whole sentences, not each line separately.
- Then read the text again, and write down the extra words.
- Remember there will be only one extra word in a line, and some lines are correct.

How to approach reading Test Part V (BEC Higher)

- This part of the Reading Test tests grammar and your ability to understand cohesion.
- Read the whole text quickly to find out what it is about. As you read try to predict which words will fit the gap. Make sure you consider whole sentences and consider the sentences above the gap (e.g. the pronouns may refer to nouns used in the previous sentences).
- Read the text again, and write down the missing word, make sure that the sentence structure is correct.
- Proof read it.

Меркулова Эдита Николаевна

LET'S READ AND DISCUSS
English Articles on Business Topics

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