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# IUG BUSINESS REVIEW

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the International  
University in Geneva*

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# IUG

## BUSINESS REVIEW

A Journal of the  
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in Geneva

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# IUG

## BUSINESS REVIEW

Volume 3, Number 1,

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## NOTES TO CONTRIBUTORS

Papers for publication in future issues of the *IUG BUSINESS REVIEW* are welcomed. Only papers related to international business, international relations and diplomacy, international trade and cross cultural business communications will be retained. Emphasis will be given to the practical aspect of international business.

The following topics will be addressed in future issues of the *Journal*:

- Cross cultural business negotiations
- Cross cultural marketing communications
- Exporting/Importing
- E-business and digital marketing
- Foreign joint ventures and strategic alliances
- Investment and financial risk management
- Capital markets and corporate finance
- Entrepreneurship and enterprise development strategies
- Global marketing management and strategies
- International relations and diplomacy
- International trade promotion
- International project management
- Marketing channels and supply chain management
- Case studies on global business issues

Contributors should send their manuscripts via e-mail to the Editor ([ccellich@iun.ch](mailto:ccellich@iun.ch)). Manuscripts should not exceed 20 double-spaced pages.

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## EDITORIAL

For the 3<sup>rd</sup> issue of the *IUG Business Review*, articles covering a wider range of topics to reflect the introduction of new programs and courses at the University as well as the research interests of the faculty have been considered. A selection of the best papers was retained for publication following the recommendations of the Editorial Review Board and external experts. Finally, the composition of the Editorial Review Board was updated with new members to represent the University's expanding educational programs. Thanks to the commitment of the faculty, the administrative staff and management, the 3<sup>rd</sup> issue of the *IUG Business Review* became a reality.

The first article *Opportunities and Challenges for the Next Generation of Global Leaders* is based on the inspirational speech delivered by Ian Johnson at the University's 2012 graduation ceremony. In his address, he encouraged the graduates to become responsible global leaders in a world full of contradictions and challenges. Recent crises have weakened the global economy by destroying natural resources at unprecedented rates, causing rising levels on unemployment as well as financial scandals that call for new economic thinking and models. These challenges should be seen as opportunities for the next generation of leaders to become committed to reengineering the world economic system.

The second paper by Nora Neufeld *Trade Under Fire: How New Forms of Terrorism Threaten Global Business and Undermine Facilitation Reforms* explores the consequences of

new forms of terrorism on world trade. To cope with these new challenges, reforms are needed to improve security while facilitating the movement of goods. In the paper, the author recommends a balanced approach to reform enabling business to prosper despite disruptive forces that can derail or weaken the globalized trading system.

In the third paper on *Corporate Social Responsibility Development in China: Cause of Harmony or Discord?* the author argues that corporate social responsibility (CSR) as defined by Western nations does not necessarily apply to other emerging economies. The author examines China as an example where the application of CRS differs from the Western model. In her view, adoption of CRS in China must take into consideration the social values, cultural dimensions, tradition and its historical aspects. As far as China is concerned, the author reviews the progress made in recent years and despite difficulties, she sees continuous improvements in implementing CRS directives by taking into account the local context.

The article on *Market Study of Innovative Services in eHealth Care: Towards a Better Understanding of Medical Staff Acceptance in Two case Studies* looks at the acceptance of eHealth technology by the medical and health specialists in diagnosing and treating patients at distance. Their findings are supported by two case studies in Jordan and Azerbaijan. In these two countries, the medical profession has been able to improve the treatment of their patients regardless of their location. However, to become truly effective, government health officials and medical schools must take a leading role in promoting the benefits of eHealth to the population at

large by introducing computer training and improving the confidentiality of the patients' medical records.

The article by Michel Borgeon is based on the book entitled *Trade Promotion Strategies: Best Practices*. In his research, the author has identified a number of best practices initiated by national Trade Promotion Organizations (TPOs) in Africa, Asia, Europe and Latin America. Promoting trade in the 21<sup>st</sup> century differs substantially from traditional models forcing TPOs to reinvent themselves to remain relevant to their business constituencies. The paper ends with a set of guidelines that can be replicated by other TPOs by providing them with integrated competitive response strategies for the benefit of their export-oriented enterprises.

The paper by John Santantoniou *Repositioning a Consumer Product: The Experience of Colgate-Palmolive* describes how a well-known consumer product lost its market share in the eighties due to changing consumer preferences, a shifting social-economic context and increased competition in Western European markets. To redress the situation, Colgate-Palmolive carried out a research project to identify the product's strengths, weaknesses and future challenges. As a result, the product was improved, its packaging modified and a new marketing strategy formulated. Re-launching and repositioning the product proved to be more difficult as all the European markets were not identical and the executives responsible for their territories were not convinced of the benefits from implementing the new strategy.

The paper on *Negotiators and Interpreters: A Winning Team* explores the role and contribution of interpreters in cross cultural negotiations. With trade liberalization and the entry of new entrants in the global economy, more and more

business executives will be negotiating across cultural and language barriers. Too often, negotiations fail due to poor communication and misunderstanding. Having access to professional interpreters and knowing how to work with them not only improve communication significantly between the parties but can result in better outcomes. Examples and suggestions on how to optimize the services of professional interpreters during the negotiation process are provided.

The authors' own original styles and references have been kept in order to reflect their organizations as well as the multi-cultural mix of which IUG is not only a part but also whole-heartedly endorses.

On behalf of the Editorial Review Board, I take this opportunity to thank everyone who has contributed to this issue. Future issues of the *IUG Business Review* will continue to publish contemporary and practical articles and cases in international business, international relations and diplomacy and cross cultural business communication for the benefit of the student body, alumni, faculty and the business community it serves.

The Editor

## Opportunities and Challenges for the Next Generation of Global Leaders

Ian Johnson\*

We certainly live in exciting times. We have witnessed, even during this past decade, five major global challenges that will shape the planet's history: *an economic and financial crisis* driven by the sub-prime collapse in the USA and elsewhere. There is an *ecological crisis* where we have lost biodiversity and forests at unprecedented and alarming rates, where we are on the cusp of major climate change with unknown effects. An *employment crisis* where 300 million of our fellow human beings have no work, a billion are under-employed and close to 2 billion are under the age of fifteen who represent either a major resource or a major social burden. A *food crisis*, driven by soaring food prices resulting in increased hunger in the world. And an *unresolved poverty crisis* where 2 billion of the world population live in poverty where 20% of the world's people have 80% of the world's wealth and more telling where 80% of the world's population have only 20% of the wealth.

We have, of course, made major strides in civilization: from vast improvements in health to astonishing inventions in communications and a great many more that we should be proud of. Yet for all of humanity's extraordinary achievements, we live in an unsustainable world. Let's just take a quick glimpse into the future.

*\* Ian Johnson is Secretary General of the Club of Rome and former Vice President of the World Bank.*

## *Opportunities and Challenges*

By the middle of the Century, not so far away for many of us, we will almost certainly be part of a very different world. Indeed it is worth considering that over one third of children born this year in Switzerland will live to be at least one hundred years old thus passing the Year 2100. So what can they expect?

### A Bigger World:

Our population will have increased perhaps to nine billion people; most will not have been born in the rich world. One third may be under the age of fifteen.

A growth in global income and assets perhaps by 2 to 3 times what we have today: an increase from US\$60 trillion to over US\$150 trillion.

We are almost certain to witness an increase in food and energy demand, doubling or trebling by then. A search for water as costs spiral upwards and some regions of the world become highly water deficient; pressure on our land and ecosystems; and the need to deal with a dramatically changing climate.

### But Also a Smaller World:

We live in a world that is better educated where people live longer and aspirations are rising, especially from the poorer parts of the world. In two hundred years we have moved communications from months to weeks to hours to minutes and now to nanoseconds. We can create communities of interest across cultures and boundaries as never before. We

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move seamlessly across boundaries once forbidden in the search for a better life.

We have offered aspirations and we have provided glimpses of a better life to the 80% who remain poor. We are mobile: across space and to new expectations for those who have less.

Our natural capital is shrinking, getting smaller by the year, as we lose precious biological diversity, fisheries and tropical forests at an alarming and unprecedented rate. We also live in one world, bounded by physical limits that have hardly changed over the course of millions of years. As we consider the future we must recognize that the limits to human ingenuity are limitless even as we recognize that our common ecology, our bio-sphere and planet are limited. And we live in an uncertain world: whether it be through climate change, financial crisis or social upheaval.

We have options to create a better world. We have the opportunity to harness the power of ideas, the power of the marketplace. We can shape your own vision to make a better world. Not just because it is the right thing to do but because it is essential if we are to move to a more harmonious, safer and happier planet.

So what must we do? The five crises mentioned above have two striking features. The first is just how interconnected they are and how each can be traced back to similar underlying or “root” causes. The second is that each crisis is anthropogenic in origin. Humans created the problems and humans can solve them. Therein lie our challenges as well as our hopes.

## *Opportunities and Challenges*

We can use *Change Management* in industry as an example: the need to re-engineer the inner workings of a company; to realign its values and behaviors in a manner that reflects new realities; to bring harmony within the workplace through mutual respect on the basis of gender, race and religion; and to increase the real net worth of the company. Values, finances, organizations and human behaviors, need to be uplifted, aligned and made “fit for purpose”. We will have to collectively diagnose the weaknesses and assess a way forward to ensure a company is “built to last”. This is exactly what our planet needs: a major overhaul; a re-alignment, a boost in values; a “built to last” focus; and a people centered mentality. No less than a *Change Management* program on a planetary scale. There is, indeed there must be, a better way forward than what we have today. It is simply inconceivable that a species that has emerged from the jungle, built cities, sailed the seas, flown the skies and invented business schools should have reached the end of its evolutionary potential.

### So Where Should We Start?

We need a discussion on values. Not as utopian ideals but as the means and ways to guide us to an enlightened and better future. We must ask ourselves the seminal questions of our generation: What kind of world do we want? Do you care for future generations? Do they have rights? Do we believe in a global humanity? Our values are the bedrock of our common humanity. The time is now ripe for a new narrative, new metaphors and a new storyline for humanity. Our choices for the future must be guided not merely by the technological fixes presented before us but by the fundamental premises that drive our values.

If values are pivotal, so too is valuation: the need to reshape our economic thinking and our economic models. They were designed to be of relevance to the turn of the Century: the Nineteenth Century that is. Our current economics and the models that drive economic decisions are not only outdated, they are wrong. My plea to economists is to cast aside their neo-classical economics views and get real: reach out for new economic paradigms. Forget the fundamentalist dogma that provides a mantle of Newtonian conception to economic theory. We need to dismantle the holy grail of neo-liberal economics. Let's face it, how can we treat economics seriously when the destruction of our natural capital, the cornerstone of our very existence, is counted as a positive contribution to economic growth and prosperity. When, in a world convinced that climate change is a reality, we ignore the economic cost of greenhouse gases. When, with positive discount rates, any impact beyond ten years is treated as a zero cost or benefit. When many things we intuitively think of as negative to our well-being are counted as positive in the economics calculus: war, pollution, crime, terrorism, deforestation, water scarcity- the list could go on. Yet we do not value social harmony, recreation, enjoyment, the beauty of our natural systems and the value they provide in the services they deliver to humankind. When the signs of economic recovery are driven by consumption mania: a point when people start buying things they do not need with money they do not have, when economic models are blind to unemployment, to the distribution of income and wealth, and to the ravages of crippling poverty.

We have witnessed a significant worsening in income distribution amongst almost all countries, and especially in

the “tail ends”. The financial assets held by the top 0.1% of humanity are equivalent to the entire world’s GDP. We must learn to balance the constructive role of inequality as a motivating factor for progress with the growing demand of the aspiring masses for a fair share in the benefits of development and in the use of the global commons. A major shift is needed to re-engineer our economies: questioning the assumptions that underlie current economics; altering the systems of metrics by which we assess progress to ensure that our valuations reflect our values of contributing to human welfare and where we embed the full costs (direct, indirect and inter-temporal) into the actions we take. We need to change policies to reflect the new realities of the values we place in the various forms of capital, especially natural and social capital. We need to review our concept of growth and real wealth and revamp our growth models to ensure that they meet the real needs of both present and future generations, with particular attention to the future of work and the maintenance of our high-value natural systems. And if our economics and economies are in need of a fix then so do the institutions they have spawned. The most important of which is the financial and banking sector: the wayward child of wrong economics. Our financial sector has grown out of all recognition. In three decades global financial assets have multiplied from US\$12 trillion to US\$216 trillion, equivalent to four times global GDP. Each day US\$4 trillion is traded on currency markets. And yet we must ask ourselves how much of that moves into the real economy, how much food it puts on the table of those in need, how much of that provides jobs? The answer sadly is not a lot. The financial sector has become divorced from the economy: it writes its own rules and plays in its own ballpark. Financial markets

have shifted out of the real economy and into “illusory” wealth creation with disastrous results for all but a handful of speculators. “Casino” banking has come of age. The permanent specter of speculation helps no one. As Mark Twain, one of the greatest wits of all time, once commented “There are two times in a man’s life when he should not speculate: when he can’t afford it, and when he can”.

Urgent efforts are needed to reverse the huge public trust deficit arising from the functioning of our financial markets. The philosophy of the Washington consensus has promoted unfettered and largely unregulated markets, at a time when the public good component of economic activity has never been larger or more obvious. We need to shift the balance of risk and reward: from one in which the people take the risks and the bankers get the rewards to one that recognizes progressive prudence by rewarding financial sustainability, and for contributions to economy and real wealth creation.

The financial and banking sector needs to be made “fit for purpose”. We need to ask ourselves the values question: What is the purpose of the financial sector? And is it fulfilling that purpose? Sometimes the simple questions are the correct ones.

New institutions will, in turn, require more enlightened and effective forms of governance. We all have our roots in a local community, whether a village or a city. Every one of us is a national citizen. But we are all global citizens. What we do affects others and what others do affects us. We are bound by an invisible bond to each other. Policies, plans and actions in all spheres of civic life will increasingly take on a global perspective. And a global society will demand new forms of

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representation and governance, the means to bond across interests and issues, the need for a common voice. We are on the crest of a new age of global governance which will ultimately need to replace the tired worn out and polarized systems of today. When consensus in the United Nations takes the form of the least committed country agreeing with the least interested country and this is heralded by lengthy rounds of applause we sense we have a problem of sinking to the bottom of our values chain. We know we can and must do better.

If challenges are opportunities then opportunities have never been larger. Many of the younger generation are lucky as they step forward into a brave new world, finding the ladder upon which they will rise, exploring options. On this journey and quest for job satisfaction and the desire to make a contribution, it is always important to carry the wisdom of others. One of the most insightful and thoughtful pieces of advice out there, *"If At First You Don't Succeed.....Lower Your Standards"!!* Indeed, with this maxim all of us can be successful!

In some careers lowering one's standards is a requisite for success. Take the banking industry. As a keen observer of the unfolding banking sector travails it seems quite obvious that the name of the game is indeed to take standards as low as is possible. A wonderful example for aspiring financiers and bankers amongst you was a Swiss bank that through careful and prudent management was able to lose 28% in shareholder value. During the year it managed to mislay somewhere around 3 billion Swiss Francs. In its first quarter of operation this year profits were down by 51%. Those achievements, taken as a whole, were assessed with great

due diligence by the twelve-member Executive Committee of the Bank which felt sufficiently jubilant to give themselves a bonus of over 70 million Swiss Francs. This was Risk 'n' Reward at its undeniable best.

This is not a call against the corporate and private sector, quite the opposite. It is a call for changes to the game, and the placing of new goal posts. It is about changing course, moving us towards a new age of enlightenment, a new purpose and a greater sense that collectively we must address the current challenges, a great many of which are global in nature. It is suggesting that the old metrics of GDP must be replaced by something that measures the things people want: safety, security, well-being, a job, happiness. It suggests that risks and rewards in the financial sector should be proportional. That short term corporate targets of quarterly earnings should be complemented by measurements of long term financial sustainability and that efficiency should not be measured by how many people we put out of work but how many jobs we create. And last, but not least, we should never mistreat the natural capital that we all depend upon for the air we breathe, the beauty we enjoy, and the wide range of services, estimated at US\$4 trillion each year, it provides.

These are challenges. We need to change course and we will need captains to lead us there: captains of the policies we adopt, the changes we make, the technologies we introduce and the businesses we operate. These are the challenges for the first generation of truly global citizens, the privileged leaders of a new class: the globalists. They understand lateral communities between cultures, religions, nationalities; understand the dependencies created across borders; revel in

the communications that allows movement wherever and whenever they choose. That is the measure of the new generation's contribution.

# Trade Under Fire:

## How New Forms of Terrorism Threaten Global Business and Undermine Facilitation Reforms\*

Nora Neufeld\*\*

### Abstract

*Bomb attempts on freighters have shown that terror has taken a new form with unprecedented implications. Using commercial cargo as their mode of operation, those attacks hit a weak spot in our globalized trading system – and our existing security regimes – and target the economy as a whole. In reacting to the new challenges, governments must learn from their 9/11 responses and avoid the mistakes of the past. They have to find a measured approach that addresses our actual security needs without undoing years of trade facilitation reform. Rushing into populist, callow measures would be counterproductive, costly and could lead to distortions in the global movement of goods. In the current economic environment, such measures could also stall the fragile recovery and reverse the rebound in trade. Without a carefully balanced response, trade reforms are not only likely to be delayed but could result in counterproductive measures.*

*\* The views expressed in this article are those of the author alone and do not necessarily reflect the views of the World Trade Organization.*

*\*\*Dr. Nora Neufeld is an adjunct professor of International Relations at the International University in Geneva.*

The “New” Old Enemy

The story seemed all too familiar: When news of a terrorist bomb attempt made the headlines, the déjà-vus will have been frequent. Terror threats have sadly become common. Governments had to deal with them on a priority basis for over a decade now, arguably even longer. And yet, the story was also disturbingly different. Unlike past cases where terrorists had targeted passenger jets, the bombs were found on board of UPS/FedEx delivery planes – and the attacker was not a suicide bomber but a simple package posted in the mail. Does this signal the start of a new phase of the terrorists’ campaign – where the intended victim is not only a jetliner, but the arteries of the world trading system? And how will this impact on international efforts to keep global markets open and trade flowing freely?

The 9/11 attacks had already had a major impact on the world economy. They had led to a first peak in anti-terror action that did not just target a country-specific enemy but aimed at enhancing security as a whole. The global reach of those counter-measures had an immediate impact on business, despite trade not being the direct target – neither on the government nor on the terrorist side. It was more of a side effect that companies had to face a wave of anti-terror acts that often impeded their business – a collateral damage that was claimed to be inevitable.

It happened at a time when trade facilitation – the effort to expedite the movement of goods by cutting obstructive red-tape – was just about to really take off. With consecutive trade rounds having brought down traditional obstacles to an

all-time low, governments saw the need to tackle the remaining barriers on the non-tariff side. An initiative to lift domestic facilitation efforts to a multilateral – and enforceable – level was close to being realized when ministers of 144 countries met at the WTO's Doha Ministerial Conference to kick off a new global trade round. It was only a few weeks to the scheduled start of that conference that the planes hit the twin towers, sending shockwaves around the world and dramatically changing the political priorities.

Initially, the international community claimed to be undaunted by the terror threats. The Doha Round was launched despite the terrorists' efforts to shock the world into paralysis (or even because of it). The trade facilitation agenda, however, became increasingly more complex with different views on where to place the emphasis. Initiatives started to face headwind in that what used to be seen as mutually reinforcing goals – the enhancement of facilitation and control – was suddenly perceived as a conflicting objective. Some countries underwent a re-orientation process during which they largely withdrew from the WTO discussions on whether to negotiate a global facilitation accord<sup>1</sup>. Campaigns for an ambitious outcome lost steam. Domestic measures increasingly focused on security.

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<sup>1</sup> While technically forming part of the Doha Round, the trade facilitation negotiations had a delayed start due to the political need to agree on their modalities before commencing the actual negotiating work.

In the United States, the government stepped up control and enacted a flurry of inspection measures in an attempt to enhance security. US Customs – which changed its name to "US Customs and Border Protection" in reflection of the new philosophy<sup>2</sup> - implemented several measures (such as the Container Security Initiative, CSI<sup>3</sup>, the Customs-Trade Partnership Against Terrorism, C-TPAT<sup>4</sup>, the SAFE Port Act<sup>5</sup> or the 24-hour rule<sup>6</sup>) to increase supply chain security.

The impact of those measures was immediately felt by business and evoked criticism for causing considerable – and, as some argued, disproportionate – damage to the economy. But faced with a post-9/11 environment where security seemed to be an overriding priority, traders largely acquiesced to their implementation, albeit somewhat grudgingly. Concerns were eased by the fact that facilitation

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<sup>2</sup> The paradigm shift can also be seen from the change in institutional responsibility, moving customs from the Treasury to the newly formed Department of Homeland Security.

<sup>3</sup> The program seeks to ensure that all containers with a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States.

<sup>4</sup> Through this initiative, customs asks businesses to ensure the integrity of their security practices and to verify the security guidelines of their business partners within the supply chain in exchange for certain benefits (such as priority processing of inspections).

<sup>5</sup> The Act codified a number of programs into law that aimed at improving security of US ports. It covers a range of measures (such as additional requirements for maritime facilities, the establishment of interagency operational centers for port security, a special grant program and the assessment of foreign ports.)

<sup>6</sup> The regulation requires shipping manifests to be submitted 24 hours prior to the lading of sea containers.

efforts were still alive – and that regulators gradually came to see the need to temper security with measures to ease the clearance of goods.

The customs community tried to preserve the facilitation aspect as a core element of its work. The World Customs Organization (WCO) was especially vocal in stressing the need for balancing facilitation and control<sup>7</sup>. And it seemed to be winning the argument that risk management – the selective inspection of the merchandise based on an analysis of related risks – should remain a key feature of the clearance process as opposed to reliance on comprehensive physical control. An attempt by the United States to replace it with a 100 per cent inspection scheme triggered a predominantly negative response. The 176 WCO members endorsed a resolution considering 100 per cent scanning to be "detrimental to world trade" and to "result in unreasonable delays, increased storage demands and port congestion (...)"<sup>8</sup>. Opposition was also voiced in the US itself, most prominently by the newly formed Safe Commerce Coalition, led by a former official of the US Department of Homeland Security.

While in principle maintaining its plans for a 100 per cent scanning policy, the US government came to recognize the importance of limiting the negative impact of security

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<sup>7</sup> See, for instance, the views expressed by its Secretary-General in the *World Customs Journal* (Vol 1, No.2 ).

<sup>8</sup> WCO (2007).

measures and the need to reinforce trade. In the WTO negotiations, the US delegation advocated a number of facilitation initiatives, including expedited procedures for express shipments that would speed up clearance for carriers such as FedEx and UPS (as well as other companies).<sup>9</sup> In Washington, the "Customs Facilitation and Trade Enforcement Reauthorization Act of 2009"<sup>10</sup> presented by the chairman of the US Senate Finance Committee sought to address concerns by business that trade facilitation had taken a backseat to national security. The stated purpose of this bill was to make customs facilitation and trade enforcement a priority. This was hoped to be achieved by a series of measures such as the creation of high-level positions at customs devoted exclusively to trade, the dedication of funding for the development of enhanced automated commercial processing or the provision of additional benefits for importers with a history of complying with U.S. customs laws. Many large industries made statements in strong support of this bill. Other countries discussed a relaxation of their security measures as well, including those relating to

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<sup>9</sup> US (2005, 2007 and 2009).

<sup>10</sup> Bill Text, 111<sup>th</sup> Congress (2009 -2010), S.1631.

passenger traffic. The EU, for instance, decided<sup>11</sup> to phase out the liquids restrictions in air travel it had imposed in 2006.<sup>12</sup>

In New Packages ... and with Unprecedented Implications

It was against this backdrop of gradual regulatory relief and re-balancing that the cargo bombings took place. As familiar as they appeared at first glance, there was an entirely new quality; a distinct feature that made them even more threatening to world trade. Earlier terror acts (such as the 9/11 events or the attacks in Madrid and London) had essentially been directed against humans, seeking to inflict maximum casualties and to convey a political measure of fear and vulnerability. And they deployed humans to cause the damage with the terrorists using their own bodies to carry out the assault (or at least deposit the bomb). Damage to objects was accepted as inevitable – and perhaps even desired as symbols of the inflicted injury – but trade was never their direct target, and there was also little emphasis on hurting the economy per se.<sup>13</sup>

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<sup>11</sup> EU Commission Regulation No 297/2010 of 9 April 2010 amending Regulation (EC) No 272/2009 supplementing the common basic standards on civil aviation security, Official Journal, L 90/1, 10.4.2010.

<sup>12</sup> The EU had restricted the amount of liquid that passengers can take on board in 2006 after the U.K. uncovered a terrorist plot to blow up US-bound flights using liquid explosives carried in soft-drink bottles.

<sup>13</sup> This might still not be the primary objective but turned into a calculated element of the new strategy

Using commercial cargo as a means of carrying out an attack significantly increases the likelihood of its “success” in that cargo is much harder to control – the volumes are far higher, the delivery vehicles more diverse, and the costs of inspection, in terms of trade disruption, are far higher. Passenger controls in air traffic may be clumsy – not to mention annoying - and result in certain costs, but they can be integrated into the normal movement of people without bringing the system to a halt. Restrictions on cargo traffic are far more difficult to combine with the current way of doing business. It is far from clear how tighter controls could be worked into our globalized trading system – defined by highly integrated production chains and just-in-time delivery - without inflicting serious damage to the economy. Already accounting for more than a third<sup>14</sup> of the total value of goods traded internationally – and growing – the sheer volume of cargo traffic makes it difficult to control. Over 47 million metric tons were transported by air in 2011<sup>15</sup>, with forecasts expecting the numbers to go up even higher.

Targeting cargo therefore aims at the economy as a whole, far more directly and effectively than earlier forms of terror did. It hits a weak spot in our globalized economy – and in our existing security regimes – while posing a new set of

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<sup>14</sup> Statement by the Director-General of the International Air Transport Association (IATA), [http://logisticstoday.com/global\\_markets/iata-recommends-tightened-air-cargo-security-1104/](http://logisticstoday.com/global_markets/iata-recommends-tightened-air-cargo-security-1104/). The precise figure given is 35 per cent.

<sup>15</sup> IATA

challenges. The scope of the potential implications seems to be recognized by governments which were fast to come up with an initial response. Germany, Great Britain, the Netherlands and the United States banned<sup>16</sup> all air cargo from Yemen (and later also Somalia), including freight that was merely intended for transit. The US Postal Service froze mail from those countries. The British government further announced tightened additional controls for airfreight from Bangladesh, India, Iran, Libya, Pakistan, Qatar, Sudan and Thailand. Together with the United States, they also banned toner and ink cartridges weighing more than 16 ounces from commercial flights. The US government went even further by barring "high-risk cargo" from passenger planes more generally.<sup>17</sup>

### How to Avoid Turning the "War on Terror" into a "War on Trade"

But addressing this new form of terror needs more than quick responses; it also requires a thoughtful and measured approach. The central issue is how to devise a strategy that targets the threat without overshooting the mark and inflicting unnecessary damage to the economy.

Rushing into populist, knee-jerk measures might even turn out to be counter-productive. Seemingly easy answers such as 100 per cent scanning would not only be hugely costly –

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<sup>16</sup> The ban was of a temporary nature in waiting for longer-term measures to be designed.

<sup>17</sup> See statement made by the head of the Department of Home Security on 8 November 2010.

they are unlikely to provide the desired results. The negative implications of such a strategy are recognized even by those currently implementing. A report of the US Accountability Office<sup>18</sup> quotes US customs officers as saying that to observe “scanning all cargo bound for the United States may actually provide a lower level of security” by “diluting the current focus on high-risk containers<sup>19</sup>.” Moreover, the report goes on to note that “reviews may not be as thorough because customs officers could lose focus due to the sheer volume of work. If images are not properly or thoroughly analyzed, a degradation of security could result.” Experts also point at the increased risk for corruption, arguing that “if the customs controls foment exceptional delays, traders may come under extra temptation to offer bribes to accelerate customs clearance (...)”<sup>20</sup>. There are also unsolved confidentiality concerns with respect to the scanned data<sup>21</sup>.

Most importantly, excessive security measures could have extremely negative effects on global trade flows. The financial burden would already be considerable in developed countries. A report by the European Commission concludes

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<sup>18</sup> United States Accountability Office, GAO-08-538 International Supply Chain Security.

<sup>19</sup> Idem (page 6).

<sup>20</sup> Ireland (2009), page 5.

<sup>21</sup> This was explicitly recognized by the US Customs Commissioner at the time, W. Ralph Basham, who also stressed the difficulty of scanning all 11.5 million containers that enter US seaports at a foreign port, referring to operational, technical and diplomatic challenges. For more information see [http://www.cbp.gov/xp/cgov/newsroom/speeches\\_statements/archives/2008/ncbfaa.xml](http://www.cbp.gov/xp/cgov/newsroom/speeches_statements/archives/2008/ncbfaa.xml).

that "(...) the envisaged scanning of all U.S.-bound containers (...) would lead to major trade disruptions and an additional administrative burden. It would require major re-structuring of EU ports and place a very heavy financial burden on EU business and ultimately its taxpayers.<sup>22</sup>" For developing and least-developed countries, the impact could be even more significant. Apart from the financial costs of installing the high-tech equipment, a global scanning requirement would result in a redistribution of maritime transport from a large number of regional harbours to a selection of "safe" ports. In the current economic environment, such measures could stall the fragile recovery and reverse the rebound in trade with catastrophic consequences. As one commentator already remarked at time of the 9/11 attacks, "A sudden rush of unfamiliar, often costly controls, leading to delays and distortions in global goods movements (...) will have far greater effects if they impinge on consumption, production and so employment, at a time of downturn in market confidence<sup>23</sup>." There is a serious risk that the cargo bomb attacks will be used – and abused – as an opportunity to validate the controversial measures enacted in the aftermath of the 9/11 attacks. Criticism could be silenced on "patriotic grounds" even when justified by facts.

What is required is a carefully balanced and precisely targeted response – measures that address our actual security needs (as opposed to our imaginary ones) without undoing years of effort to liberalize and facilitate trade.

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<sup>22</sup> EU (2009).

<sup>23</sup> Raven (2001).

## *Trade Under Fire*

There is certainly room for improving supply chain security – including more training for officers and scaled up technology. There is also room for more honesty in the public debate – starting with making passengers aware that their low air fares are largely cross-financed by savings on cargo security. But overall we have to learn our lessons from the 9/11 responses and avoid the mistakes of the past. Without a carefully balanced response, trade reforms are not only likely to be delayed but could result in counterproductive measures.

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# Corporate Social Responsibility Development in China: Cause of Harmony or Discord?

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Abstract:

*Emerging economies are an underrepresented field in the discipline of Corporate Social Responsibility (CSR). This article seeks to fill that specific gap by focusing on historical and socio-cultural trends in China that influence CSR. There are numerous CSR literature from a Western point of view, but very little is known about practices in emerging economies. Although studies have shown there is a low level of CSR awareness in emerging economies, there is evidence that indigenous or localized forms of CSR are already present due to the socio-cultural history of these countries. The article looks at the historical progress of CSR in China, identifying key issues facing China at present that are challenges for the growth of CSR paradigm. The response of enterprises and the government will be discussed, as the reaction and handling of these issues by them will determine how CSR in China is perceived, adopted and implemented. The paper concludes with a view that Confucian inspired local expression of CSR can be a cause for harmony and good business ethics in Chinese society as long as cultural and traditional contexts are not overlooked.*

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## Introduction

CSR is a phenomenon of culture, i.e. the responsibilities of firms are perceived to be different across cultures. Hence people in different countries under varied circumstances would have a unique view and expectation of CSR, thus making the definition of CSR dependent upon culture, social forces and geography. China represents a wholly novel environment for CSR by virtue of its distinctive roles of government and regulation; rich cultural and ideological heritage; and its very recent integration into the global economy (Ip, 2009). The recent emergence of CSR is in response to China becoming the factory of the world. (Ip 2009a).

This article, therefore, seeks to address the overall under representation of Asia and China in the analysis of the field of CSR. More research is needed, given the valuable insights it can offer to the faded pictures of the Western scholars (Belal, 2001). The aim is to identify evidence suggesting that a localized version of CSR exists in China. In other words, it looks at the indigenous characteristics of a Chinese CSR paradigm. The evidence points to traditional aspects of Chinese CSR are prevalent and aiding in reviving a new CSR framework sensitive to Chinese realities.

The first part looks at theoretical underpinnings of CSR definitions. The second part briefly views the historical progress of CSR in China, indicating existing local knowledge

of the concept. The third part outlines the current environmental, socio-cultural and political issues facing the evolution of CSR in China and the response of enterprises and the government to it. The final part concludes with a summary and the future of CSR in China.

### Theory of Corporate Social Responsibility

Amongst the many dramatic changes that have taken place in the business world since the 1990s, the rise of the CSR agenda is certainly one of the most noteworthy. The contemporary CSR movement is largely founded on Anglo-American values, philosophies, experiences and priorities and was first broached by Oliver Sheldon in 1924 (Chapple et al, 2005). Since then CSR has been construed to express that corporations have not only economic and legal obligations but also include social responsibilities.

The idea of corporations contributing to sustainable development was first discussed by Carroll (1979) outlining four facets of CSR that contributed to the concept as a whole being; economic, legal, moral and philanthropic. In essence he emphasized that these four faces of corporate citizenship were intimately interlinked and essential to businesses, despite frequent tension among them.

McWilliams et al (2006) define CSR as situations where the firm goes beyond compliance and engages in, *actions that appear to further some social good, beyond the interests of the firm and that which is required by law.* Dalhsrud (2008)

terms this phenomenon as, *discretionary spending in furtherance of an explicit measurable social objective consistent with relevant social norms and laws*. Meanwhile, Visser (2008) emphasizes that presuming CSR is the same the world over and is one of many popular misconceptions about CSR. In other words, CSR should be seen as a local, not a universal, concept—with no particular one size that fits all. The historical and national context of communities especially their corporate and societal governance frameworks and business-society relations, impact on how CSR is practiced.

CSR has been a contentious topic in that it is a term that defies precise definition as it can be perceived both in a broad and narrow sense encompassing economic, social, environmental, and ethical dimensions (Moon & Shen, 2010). The authors believe that it is not so much the confusion with explaining the term but as to how CSR is socially constructed in a specific context. Overall the different definitions imply the same message; CSR may change in different circumstances with different consequences. Matten and Moon (2008) point out that it is not easy to define CSR as its meaning and practices differ according to countries.

### Corporate Social Responsibility (CSR) in China

Since the 1990s China has rapidly become a critical player in CSR; a stark contrast to the era when CSR was regarded as a concept beyond the grasp of government or law (Moon & Shen 2010). Nonetheless, CSR inspired practices and concepts are still very much in their infancy in the country where short

term actions in philanthropy are largely prevalent. The core principles of what constitutes CSR are not new to China and have a long history thanks to the influence of Confucianism (Wang & Juslin 2009). The historical trends of Chinese CSR can be best described as having gone through in waves.

Traditional CSR has its roots in Confucianism, a moral political philosophy focusing on *Ren* (compassion) and *Li* (rites broadly defining rights and wrongs of conducting oneself). These core values formed the familiar collectivism, where the collective values ranked permanently over individual values (Ip 2008).<sup>1</sup> Caring for the community as part of one's big family affected all levels of social hierarchy, including business. Confucian traders in the imperial era applied these ethical codes to their business with the aim to pursue profits with integrity and commitment to the community's prosperity (Huang, 2008). Therefore, the history of China has embodied rich CSR thoughts leading to the further development of traditional CSR.

Between 1949-1983, Confucianism, seen as the crown jewel of feudalism was heavily denounced and criticized due to the

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<sup>1</sup> For example in the Ming and Qing dynasties prominent merchant families from Ninbao and Shanxi extensively practiced this traditional commercial ethos.

communist authorities' desire to replace it with a new socialistic culture (Ip 2008). State Owned Enterprises (SOEs) became the norm, under a planned economy functioning as an extension of the government with obligatory responsibilities authorized by the central state.<sup>2</sup> The decade of 1984-1994 saw the absence of CSR and rapid economic growth in China, under Deng Xiaoping who championed openness, pragmatism and economic liberalization with slogans like *To get rich is glorious*. Under his administration the culture of profit was shamelessly pursued where business, profit and wealth were not seen as immoral but portrayed in a positive light; transitioning China from a planned to a market economy. Unfortunately all this economic prosperity came at a price, while creating great benefits there have been huge costs at the expense of environment, society and stakeholders. Corruption, lack of transparency and unscrupulous and irresponsible business practices took root, mainly due to unethical corporations, controlled media and lax enforcement. The only responsibility of firms during this time was to simply maximize economic profit. Nowadays China is struggling to cope with the severe repercussions of such policies.

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<sup>2</sup> SOEs' had small communities of their own where they provided housing, schools and medical services to their workers.

From 1995-2004, both the state and businesses focused on creating an industrial export-orientated economy that was competing globally, the attitude of government according to Lee & Wickersham (2010) morphed from skeptical to hesitant engagement. Numerous SOEs' were privatized or restructured, and the number of joint-venture enterprises and privately-owned ones rose. In their position as players in the global supply chain, many enterprises passively accepted some CSR obligations such as monitoring and enhancing labor standards under pressure from foreign buyers; but there was a gradual realization by enterprises that perhaps CSR was a trade barrier, an international interference or an attempt at blocking China from competing globally. Furthermore, the Western inspired CSR norms and rules did not necessarily apply to Chinese reality (Wang & Juslin 2009). The first wave of CSR was brought by multinational corporations (MNCs) doing business in the newly liberalized Chinese market, but the ramifications of such economics coupled with a growing culture of corruption have led to an urgent need for a local version of CSR by various stakeholders in China.

Subsequently in 2000s there was a strong response towards the need for local CSR by Chinese academics, non-government organizations (NGOs) and international organizations that gradually became active players in promoting CSR as a concept. The government aware of rising social mistrust against unethical corporations and their lack of integrity, formulated policies such as *The Construction of a*

*Harmonious Society'* (2006) that indicated the revival of traditional CSR.<sup>3</sup> Harmonious Society has generated interest among CSR scholars as there seems to be shared objectives between it and CSR. The concept, with its underpinnings of Confucianism aims to bring awareness of CSR among Chinese businesses (Li et al, 2004). From 2004 until now, there has been active CSR engagement, whereby participating in CSR has become a matter of consensus with all levels of society realizing that developing CSR is an important element in the attainment of a harmonious society (Zhou, 2006). There have been a series of positive steps with regulation regarding CSR driven practices occurring not only in export-orientated enterprises and SOEs but also among MNCs. In order to produce a local version of CSR, both government and industrial organizations for example created their own CSR regulations such as CS9000 in 2005 for the textile industry (Wang & Juslin, 2009). In short, the objectives of the Harmonious Society policy is slowly being translated into numerous CSR initiatives by firms that believe both concepts are linked.

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<sup>3</sup> The Harmonious Society policy is seen as major milestone is the localization of CSR in China. In 2005 President Hu Jintao put forth the concept as a guiding principle for government policy making. It is perceived to be a departure from the economic growth at all cost model to one in which economic growth is balanced with addressing urgent environmental, ethical and social crises facing China (Cui et al, 2006).

### Current CSR Challenges and Drivers

Due to rapid economic growth, there have been negative impacts of businesses activities on society. The importance of such priorities, reflect local realities and underline the need of CSR paradigms in China. The way these moral doldrums are handled and by which players- government or enterprises- signify the development of localized versions of CSR. In all, these local priorities are the major drivers of CSR in China.

### Economic Drivers

Exports and sales to foreign markets are key drivers for improving CSR performance in China. Foreign partners have set strict requirements of CSR with their Chinese suppliers. In order to compete globally and responsibly, Chinese companies have had to respond quickly to market needs especially in labor intensive and export-oriented industries. MNCs entering the Chinese market are another strong driver for CSR, as the companies bring their own CSR models along with expertise, technology and capital. In turn MNCs' CSR principles will undoubtedly strongly influence the germination of CSR trends in China. Underlying economic success is the imperative issue of labor rights to an estimated 200 million migrant populace from rural areas who are supporting China's growing cities by taking up low paying back-breaking jobs in building post-reform China (Ip, 2008). For example, China's mining sector is one the world's most dangerous workplaces according to China's official data 15 coal miners die per day on average but independent labor groups say the

unofficial figure is much higher as many are unreported deaths from small privately-owned mining companies (Ip, 2009b). MNCs have started to pressurize their Chinese counterparts to comply with standards and regulations such as on wage conditions and health and safety rules but dealing with the issue has been slow (Zhou, 2006). Chinese firms complied in part to consumer protests and this was seen as a mere business tactic aimed at satisfying local legal and regulatory requirements, but sadly implementation has been severely lacking.

### Environmental Protection

The economic success of the last 30 years have inflicted serious long term damage on the environment, according to one estimate by the World Bank damage caused by air and water pollution amounted to US\$54 billion annually, or between 3.5% and 8% of China's GDP (Welford & Chan, 2004). The issue has received special attention from both the central state and State Environmental Protection Agency (SEPA) and in response to large number of premature deaths due to air and water pollution, is trying to impose penalties on lower governments, including punishing the worst offenders by threatening to close down their factories. In most cases, enterprises have been fined but this amount is just a small proportion of corporate gains, hence profits generated from pollution easily counterbalance the possible costs (Kolk et al, 2010). Another interlinked concern for CSR is efficient and sustainable utilization of natural resources.

With a growing population and soaring economy, China has crises in water, energy and other natural resources. Energy consumption increased nearly 70% between 2000 and 2005 (Ip 2008). The environmental issue is complex and of critical importance where the conflict of goals between economic success and environmental protection has produced serious damage, in the absence of environmental legislation, accountability and lack of transparency.

### Political Priorities

The keen interest of the government's policies dealing with CSR such as Harmonious Society, serve as political drivers. The state is eager to project a successful and positive image of an emerging China, where now business practices are keenly watched and standardized. Yet regulatory restrictions by the state when it comes to NGOs and media freedom, act as constraints against CSR development in China. In order to enable CSR in emerging economies the evolution of civil society is crucial. As a result, the guiding policy of the state (with a focus on sustainable development) CSR has become controlled, compulsory and 'strategically' driven for enterprises to follow and implement, thereby lacking civic participation or collaboration.

### Socio-Ethical Issues

The Confucian tradition of ethical business practices was lost in the midst of market reforms in the 1980s. Recovering, reviving and developing those business ethics is a pressing

issue in China. Confucian philosophy champions for firms to attain harmony through its work and by doing so contribute to the construction of a harmonious society. Another issue is the role of stakeholders like consumers and media, which can increase the demand for CSR through public pressure. Presently the level of engagement by NGOs, media and power of society is strictly controlled by the state. Case in point, NGOs are underdeveloped in China as the government is not keen to develop a non-profit sector.<sup>4</sup> NGOs are vital stakeholders as they have expertise, human capital and local knowledge, all of which are crucial for successful CSR initiatives. By increasing the level of freedom of these stakeholders this will correlate with increased pressure for CSR activities and will lead to greater transparency and rise in investigating corporate abuses especially among SOEs thereby bringing issues to strong societal importance to the surface (Zhou 2006).

Finally there needs be CSR awareness among industry sectors such as self-regulation and membership of companies in global business associations.<sup>5</sup> Chinese firms responsible for

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<sup>4</sup> Regulations for NGOs in China came into being after the Tiananmen incident and included government control over NGO operations. For instance they have to be registered with a sponsor that is a government line agency. If they do not comply then they have an uncertain legal status and with their lack of media access they cannot play an advocacy role. They run the risk of being shut down if they attract too much attention and this prevents them from raising issues of importance.

<sup>5</sup> Common reporting rules allow evaluation of extra-economic performance of firms within the industry and can lead to pressure on underperforming firms to meet industry regulations and adopt international best practices. The gain is particularly high for countries where companies have a low-level of CSR activities, such as China

unethical business practices still have a long way to go in terms of common reporting norms on social and environmental standards. A recent study by SynTao, another Chinese CSR consulting company, highlighted that local companies are generally not aware of the value of CSR reporting and performance monitoring. Furthermore, such enterprises only offer abridged versions or grant only government authorities the access to their published reports. Therefore disclosure of CSR is patchy at best making it difficult for external stakeholders to stay abreast of latest developments (Irwin, 2012).

### Response by State and Businesses

The CSR focus seems to be on SOEs and MNCs as these two company structures dominate the public sector while the private sector is severely restricted and underdeveloped (Moon & Shen 2010). These distinct types of ownership have very different understanding of CSR due to their organizational background and extent of government intervention. Hence, CSR is manifested very differently between these company structures.

MNC's have generally been positive in their response in raising and expanding CSR awareness in China with many of them having brought their own CSR culture to China transferring it locally in their suppliers and consumers. On

one side, MNCs are contributing to local initiatives in accordance with Chinese government programs, such as Caterpillar, that as a CSR pioneer in China focuses on health and education through its charity Caterpillar Foundation. The company has based its initiatives in communities where it has factories, contributing to local human capital development.<sup>6</sup> Corruption and bribery (legacies of the planned economy era) have been one of the major obstacles for MNCs seeking to expand in China. It can be difficult for MNCs operating in China to compete against SOEs, or companies in which the government has a stake. The common corruption risk areas comprise of dealings with public officials, lack of separation of public officials from management in SOEs, and lack of transparency when entering joint ventures with local firms. Additionally, facilitation payments, also known as 'kickbacks' are a common form of bribery in China (Irwin, 2012). In regards to tackling corruption, 38 pharmaceutical MNCs including Pfizer, Novartis and Roche began coordinating efforts to ban bribery and promote transparency in the markets (Shu-Ching, 2006). A 2011 survey by the American Chamber of Commerce in China of 318 US companies showed that there was major dissatisfaction with corporate governance in China. Companies had concerns over

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<http://www.knowledgeatwharton.com.cn/index.cfm?fa=viewArticle&articleID=2218&languageid=1>

inconsistency in regulatory interpretations or unclear laws (42%), corruption (30%) and national protectionism (28%).<sup>7</sup>

Additionally, MNCs apply pressure on local firms and partners to adhere to global CSR norms and rules for ethical business, as MNCs themselves face societal pressure from their home economies regarding supply chain management, sustainability standards, outsourcing and low labor costs. A dilemma exists where MNCs decided to outsource production to countries like China in order to reduce costs and in the process have suspected that such profits were the result of difficult working conditions, low wages and sometimes child labor. It is a complex balance of costs and facing backlash and public attention from both in home countries and China. This has led to increasing pressure in questioning the legitimacy of this approach for this affects both outsourcing and retailing companies.

SOEs' are the prevalent form of companies in China, where the state owns 64% of public listed companies (Li & Zhang, 2010). SOEs' on CSR awareness depict two main traits: first the socially behavior of firms is government sanctioned due to overwhelming impact of the state in the economy; and second, economic responsibility is regarded as a primary social responsibility being in line with the policies of the central government. Hence, any type of CSR awareness or

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<sup>7</sup> Bloomberg BusinessWeek, 2nd May 2012, *The Great Fall of China*. Available at: <http://www.businessweek.com/articles/2012-05-02/the-great-fall-of-china>

development is strategic in nature where the government acts as the principal stakeholder and companies in return pay ample attention to its interests (Gao, 2009). Besides bribery, embezzlement and extortion are among the illicit practices that are prevalent in SOEs and local government threatening China's communist rule and image both with its public and on the world stage. This creates a significant investment barrier for Chinese firms who wish to go public. Therefore there is a need for governance structures and tighter state regulation. Nonetheless, there has been positive progress by SOEs that by publishing CSR reports, codifying management systems and endeavoring to be transparent have opened up to praise and criticism from the public. For example; in the aftermath of the Sichuan earthquake, which is considered a turning point for CSR in China, a local enterprise with a positive image called China Vanke came under severe public attack for not donating enough (just 2 million RMB) for relief efforts considering it is one of the country's largest property developers. The donation was viewed too low in comparison to China Vanke's corporate earnings and stakeholders were called on to dump the company's stock and stop purchasing homes from the company. This led supposedly to a share valuation collapse from 25 Yuan to 19.58 Yuan for the company. Facing growing backlash from citizens (internet users) the owner Wang Shi apologized with a second donation of 100 million RMB admitting company actions had affected brand image and share price. Meanwhile local companies who donated generously were seen in a favorable light with their brand image and sales soared due to their generous philanthropic efforts. (Darigan & Post, 2009)

Chinese initiatives on CSR	
<p><b>2005:</b> China CSR Association developed first ‘China CSR Standard’ and released <i>China CSR Beijing Statement</i>.</p> <ul style="list-style-type: none"> <li>• <b>2006:</b> Chinese Company Law, Article 5 stated, “<i>in the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to government and public supervision, and undertake social responsibility.</i>”</li> <li>• <b>2006:</b> Shenzhen Stock Exchange published <i>CSR Guidelines for Listed Companies</i>, requiring listed companies to include information about employee protection, environmental pollution, product quality, and community relationships in their CSR reports.</li> <li>• <b>2008:</b> China’s State Environmental Protection Administration (SPEA) issued the <i>Guideline for Green Security</i>.</li> </ul>	<p><b>2008:</b> Shanghai Stock Exchange published <i>Environmental Information Disclosure Guidelines for Listed Companies</i>, requiring listed companies to include information about contributions on sustainable social development, environmental and ecological sustainability in addition to sustainable economic development.</p> <ul style="list-style-type: none"> <li>• <b>2008:</b> the Chinese Academy of International Trade &amp; Economic Cooperation (CAITEC) issued draft <i>Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises</i> (CSRC).</li> <li>• <b>2009:</b> China Banking Association, a self-regulatory organization of all banks in China issued <i>CSR Guidelines for Financial Institutions in China</i>. This Guideline recommended that CSR reports should include economic responsibility, social responsibility, and environmental responsibility (CBA 2009).</li> </ul>

Source: Doing Business in China: An overview of ethical aspects, by Judith Irwin, July 2012 (Institute of Business Ethics)

The role of the government plays a significant role concerning CSR. It is a major stakeholder in China in two respects: monitoring business practices and setting standards for companies operating in China; and being involved in companies as a shareholder, a customer or an operator of government backed non-governmental organizations (GONGOs). Hence, the response of the state has been strongly focused on CSR development. There are differing opinions on the nature of response especially after so many years of treating CSR with open skepticism. The obvious reason according to Woo (2006) is policies like *The Harmonious Society* and other legislation, was introduced in recognition of the social and environmental problems beseeching China today.<sup>8</sup> The policy had national priority from a political angle as these problems resulted in social instability that threatened the state's grip on power. The Party wants to have a grand vision for society, a solution for these problems as it could lose political legitimacy if failing to tackle them. The newly appointed Premier of China Xi Jinping has stressed the fight on corruption as one of the major priorities for the ruling party emphasizing failure to do so could result in the collapse of the party and state.<sup>9</sup> Today there seems to be a revival of Confucianism and its belief of social harmony, with many senior government officials openly

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<sup>8</sup>The amended Company Law of the People's Republic of China came into effect in 2006. The law requires companies among other things, to abide by social ethics, business ethics, honesty as well as fulfilling social responsibilities.

<sup>9</sup><http://www.nationmultimedia.com/aec/Xi-Jinping-vows-to-tackle-corruption-30194397.html>

touting the values and significance of it in *furnishing China with a badly needed moral order* (Ip, 2008).

A further demonstration of China's commitment to reform is its signatory to the OECD's Principles on Corporate Governance. China has also participated in the Asian Roundtable on Corporate Governance and is in dialogue with the OECD on Guidelines on Corporate Governance of State-Owned Enterprises.<sup>10</sup> Additionally China's role concerning the UN global compact principles indicates Chinese firms are taking steps to pursue responsible business practices in demanding operating environments and advance sustainable development therefore helping to safeguard their long-term success while making a positive impact to societies in which they operate.<sup>11</sup>

## Conclusion

Business ethics and CSR in China are still maturing fields and the author argues that local CSR with heavy doses of Confucianism is very much part of Chinese society. Due to historical conditions, it was attacked and suppressed, but now

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<sup>10</sup> A 2011 OECD-China Policy Dialogue on Corporate Governance of listed companies in China, which looks at the institutional framework of corporate governance in China through the prism of the OECD Principles of Corporate Governance, concluded that corporate governance has "improved significantly since the Chinese stock market was created in 1990, with important achievements in establishing and developing the legal and regulatory framework."

<sup>11</sup> <http://www.unglobalcompact.org/news/321-04-17-2013>

is making a revival as a response to the urgent social and environmental issues facing China today. The government and businesses have realized the imperative need for local expressions of CSR in China; and so concepts like Harmonious Society are being implemented. All parties have a stake in it as the state wants to retain its political legitimacy while local enterprises want to reinvent their tarnished images to become ethical corporate citizens (and so gain back some operational legitimacy), and foreign companies want continued unhindered access to China's young market. Hence, there are high expectations on business to ensure that their ethics and CSR programs complement the Government's long term strategy for social improvement as outlined in the Chinese Government's *Five Year Plan* (Irwin, 2012).

Finally, there is major and important work to be done in a country like China where CSR is just emerging. This requires raising awareness of CSR among stakeholders resulting in significant changes such as dealing with corruption, encouraging stakeholder relations, addressing environmental considerations and promoting sustainable business practices to name a few. This will pave the way for modelling a CSR framework that fits Chinese reality that simultaneously pays homage to its rich ideological and cultural heritage and complements China's phenomenal politico-economic rise. There is a tremendous opportunity for MNCs, SOEs and government to work in harmony and contribute to the country's integral CSR socio-economic evolution by advancing a new paradigm of CSR, combining ancient CSR norms with Western CSR concepts. Confucian inspired local expression of

CSR can and will be a cause for harmony and good business ethics in China, leading to the construction of a harmonious society as long as cultural and traditional contexts will not be overlooked. The challenge is to foster CSR which is not only efficient and effective, but also can generate a virtuous circle of benefits to business and Chinese society as a whole.

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# Market Study of Innovative Services in eHealth Care:

## Towards a Better Understanding of Medical Staff Acceptance in Two Case Studies

*Patrice-Anne Nuq\* and Leonid Androuchko\*\**

### Abstract

*Innovative services based on eHealth technology allow doctors and healthcare specialists to diagnose and treat patients over distances, whether that span is across a street, a city or a country. eHealth services open new opportunities for people who live in remote areas of a country having only basic healthcare services for obtaining medical advice and better treatment. However, the widespread use of these services is limited and therefore, it is important to understand the motivational factors for adoption. This paper presents some of the results of two case studies in Jordan and Azerbaijan dealing with attitudes and opinions of medical staff for understanding eHealth acceptance. It was based on an interview survey developed by the research team within the International University in Geneva. Finally, some recommendations are presented.*

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## Introduction

Despite governments, international organizations, and many companies' growing interest in eHealth services, research of these services in developing countries remains relatively scarce. The introduction of ICT into healthcare, also known as eHealth, was officially recognized by the World Health Organization (WHO) following its resolution on eHealth as approved by the fifty-eighth World Health Assembly in May 2005. This Resolution stated that "eHealth is the cost-effective and secure use of information and communication technologies in support of health and health-related fields, including health-care services, health surveillance, health literature, and health education, knowledge and research." eHealth has the potential to extend medical care efficiently to nearly 40% of the population of the developing world, where healthcare is almost non-existent.

This paper presents two case studies that were undertaken in Jordan and Azerbaijan in using primary research dealing with medical staff attitudes and opinions regarding eHealth acceptance. It was based on a survey developed by the research team within the International University in Geneva. The questionnaire consists of 50 questions in six sections as follows:

1. The first part of the questionnaire has 6 questions asking whether the person has heard about eHealth.
2. The second section of the survey has 5 questions regarding the awareness of the benefits of eHealth.

3. The third section includes 16 questions about the usage of eHealth, asking the respondent if he or she will be able to use these services as well as the possibility and interest for their hospital administration to install an eHealth Management Information System.

4. The fourth section addresses the topic of supporting eHealth, not only from the technical side of their hospital, but also addresses the person's personal opinion about whether or not he or she would support the implementation of eHealth at their workplace.

5. The fifth section concerns the education of eHealth. It has questions indicating whether the respondent has had some training in eHealth and if he or she thinks it would be useful for their daily working environment.

6. The last section is about the personal or classification data of the employees.

### Jordan Case Study

Jordan was one of the first countries in the Arab world to recognize the importance and huge potential of information technology applications within the health care sector. A group of doctors and telecommunication specialists, together with two hospitals in Amman, a private company called Heartbeat Jordan set up in 1997. Today, the Government in Jordan is giving growing attention to the improvement of health care services through innovative information and telecommunication technologies.

His Majesty King Abdullah II launched the National eHealth program “Hakeem” on the 27<sup>th</sup> of October, 2009 in Prince Hamzah Hospital. This program will bring a modern information technology system into the healthcare sector in Jordan and its main goal is to facilitate efficient and improved healthcare to patients.

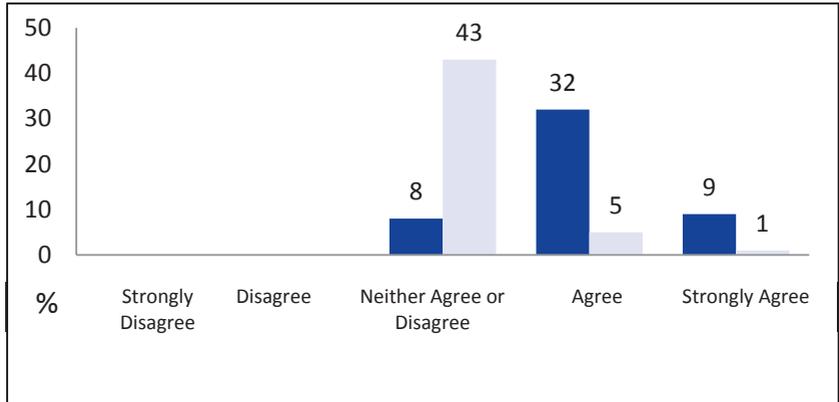
The findings of the study indicate that Jordan is favorably disposed to eHealth services. The response rate was 68%. Seventy two interview questionnaires were distributed and forty-nine responses were obtained. Some of the responses to specific questions are listed below:

*Question 10 Figure 1 (black). I would use eHealth because I can consult patients from rural and remote areas at a distance.* Forty-one respondents (84%) supported this statement. The majority of medical staff agreed eHealth can contribute to better treatment for patients from rural and remote areas.

*Question 11 Figure 1 (grey). eHealth would provide diagnoses and treatment more accurately through consultation at a distance with other medical staff.* Only 6 out of 49 answers agreed with this statement, or 12%. 88% were neutral. It is important information for the development of a marketing strategy. The majority of medical staff were not sure if consultation at a distance would help them to make more accurate diagnoses. In this case, marketing has to use more evidence- based information and clearly show to medical staff

where and how the consultation at a distance is helpful and useful.

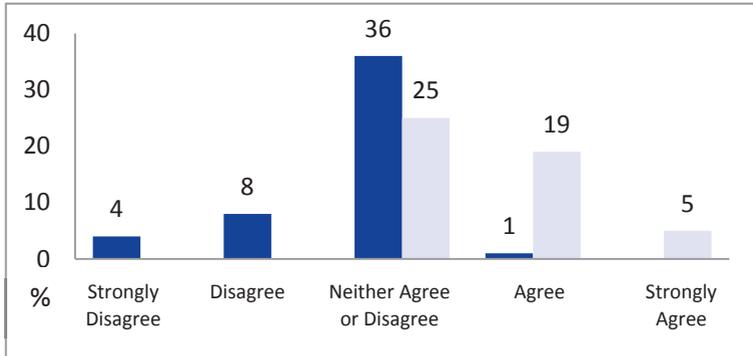
Figure 1: Responses to Questions 10 and 11



Question 23 Figure 2 (black). Doctors and medical staff perceive telemedicine/eHealth as an additional burden since they are overworked and stressed.

Question 29 Figure 2 (grey). In general, your organization would support the use of eHealth.

Figure 2: Responses to Questions to 23 and 29



There is common opinion that doctors would not accept eHealth because they are very busy and overloaded. However, looking at the answers for Question 23, we can see that there is no one who agreed with this statement. The majority is neutral and even 25% disagreed with it. It means that medical staff would accept eHealth if they are convinced that it is useful for their practice. This study confirmed again that promotional activities have to include as much as possible evidence-based information about the beneficial aspects of eHealth.

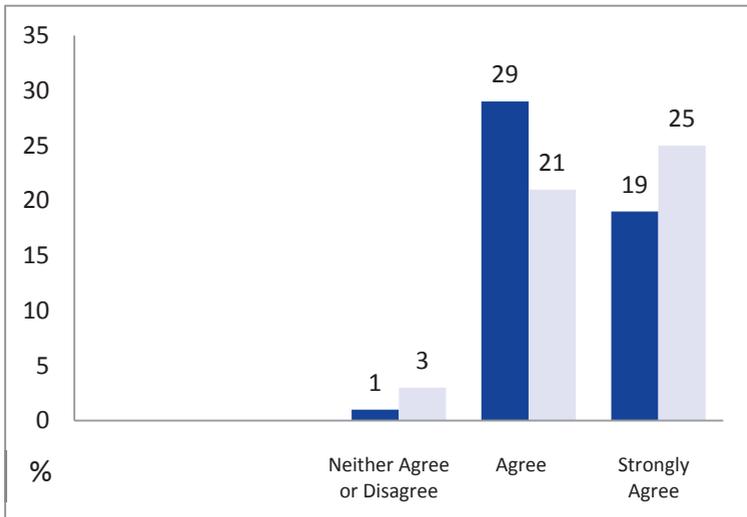
*Question 38 Figure 3 (black). Introduction to eHealth within my medical education (University/College/Nursing School/Continuous Medical Education (CME), etc.) would make it easier to use eHealth in practice.*

*Question 40 Figure 3 (grey). I would use eHealth in practice if I received training within my medical education*

*(University/College/Nursing School/Continuous Medical Education (CME), etc.)*

There was high support for on-going education and training. Question 38 received 98%, and question 40 received 94% positive responses. Future success for the introduction and acceptance of eHealth services depends very much on education and training in this field using practical demonstrations.

Figure 3: Responses to Questions 38 and 40



In concluding, the overall attitude towards eHealth services in Jordan is positive. However, in order to gain acceptance, the main obstacles to adoption will need to be addressed. The case study showed that the main obstacles for the implementation of eHealth services are:

- The lack of Government policy related to eHealth.
- The lack of financial resources for the promotion, training and implementation of these services.
- The lack of information on successful eHealth implementation in other countries and Jordan in particular.

### Azerbaijan Case Study

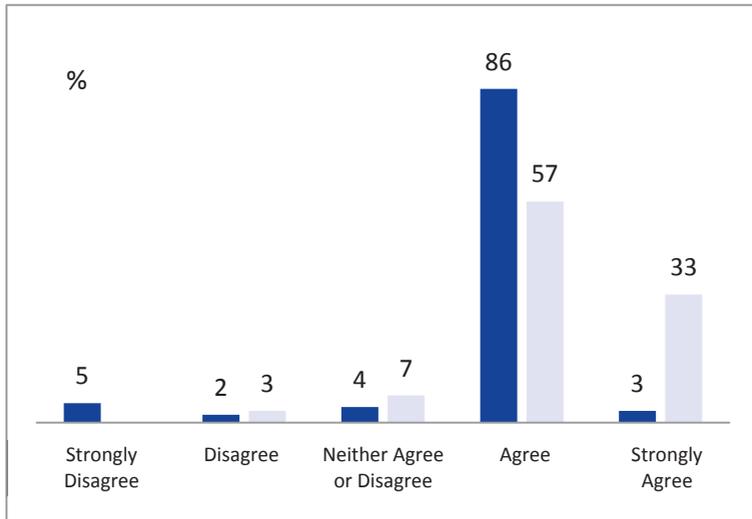
This case study attempted to understand the awareness and attitude towards eHealth services in Azerbaijan. One hundred interview questionnaires were obtained and these results could assist policy-makers and healthcare leaders to increase the eHealth adoption rate.

The majority of respondents (95%) said they would find eHealth useful in their medical practice, but they are afraid that using eHealth would decrease their productivity, by serving fewer patients. This is due to the additional time required for applying this innovative technology. The answers for two questions (23 and 29) are presented below.

*Question 23. Figure 4 (black) Doctors and medical staff perceive telemedicine as an additional burden since they are overworked and stressed. 91% agreed with this statement.*

*Question 29. Figure 4 (grey) In general, your organization would support the use of eHealth. In spite of some difficulties the majority was in favor of eHealth and even 33% were strongly supporting eHealth.*

Figure 4: Responses to Questions 23 and 29

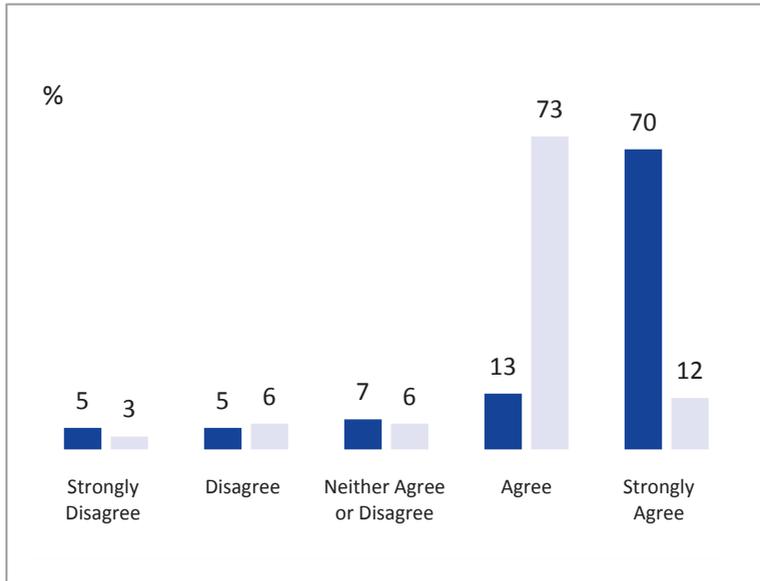


85% agreed that if they would use eHealth, they would increase their chances of earning more as they could consult patients from rural and remote areas at a distance. Also the majority agreed (85%) that eHealth would help to provide diagnoses and treatments more accurately through consultation at a distance with other more experience medical staff.

*Question 10 Figure 5 (black) I would use eHealth because I can consult patients from rural and remote areas at a distance.*

*Question 11 Figure 5 (grey) eHealth would provide diagnoses and treatments more accurately through consultation at a distance with other medical staff.*

Figure 5: Responses to Questions 10 and 11



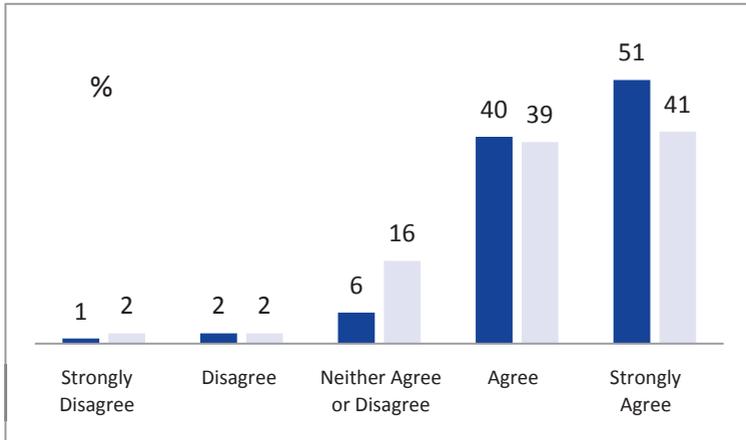
The survey indicates that learning about eHealth is critical to future medical professionals and throughout their careers. The earlier they are introduced to eHealth services, the more likely they are to benefit from eHealth services.

*Question 38 Figure 6 (black) Introduction to eHealth within my medical education (University/College/Nursing School/Continuous Medical Education (CME), etc.) would make it easier to use eHealth in practice.*

*Question 40 Figure 6 (grey) I would use eHealth in practice if I received training within my medical education.*

The answers are presented below.

Figure 6: Responses to Questions 38 and 40



The same answers are apparent for these two questions. 91 out of 100 respondents consider that the introduction of eHealth services within their medical education would make it easier to use eHealth services in practice. 80% think they would use eHealth if they received training within their medical education and 79% stated that they would use eHealth if they received continuous training in eHealth after graduation from Medical University/College/Nursing Schools.

### Conclusions and Findings

The findings of these two case studies enabled the researchers to make several recommendations for an applied marketing strategy in Jordan and Azerbaijan. The findings indicate:

- Government and the Ministry of Health both play key roles.
- Understanding of eHealth benefits for hospital administrators is largely unknown as some medical staff have heard about eHealth but they do not know many important details (Question 39). Medical staff is largely unfamiliar with the benefits of computer technology and therefore are reluctant to use eHealth solutions as it is perceived to require extra work.
- Special attention has to be given to security, privacy, and confidentiality of patient' data. Training and dissemination of information about best practice will play extremely important role as there is a shortage of medical staff experience in eHealth.
- Importance of eHealth' pilot projects

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## BEST PRACTICES IN TRADE PROMOTION STRATEGIES\*

**Michel Borgeon\*\***

*In the context of an increasingly complex and competitive environment, trade promotion is becoming a challenging activity. Building effective national export strategies imply the development of strategic goals, integrated within a planned process and shared between public and private institutions in network clusters, carefully assessed, monitored and evaluated. This article describes the present and future of trade promotion, the actors and their key role, in order to organize an integrated competitive response for trade promotion specialists engaged in the globalization process.*

*\* This paper is based on Borgeon Michel & Cellich Claude (2012) Trade Promotion Strategies Best Practices New York: Business Expert Press*

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Developing Trade Promotion Strategies in a More Complex and Interdependent World

Recent trends in world trade, from sustained growth over decades to sudden and unpredicted deep crisis followed by fragile recoveries, tend to lead to the following consequences:

- challenging traditional trade links,
- breaking established positions,
- moving in or out of supply chains.

The above findings brought both opportunities and major problems in formulating consistent strategies in trade policies and promotion. More than ever, they have to be formulated within a dynamic international context and the constraints of the national environment. Trade expansion has brought about increased inter-dependence among trading partners, with important implications for national trade promotion programs. Moreover, the impact of fluctuations of major currencies are more or less controlled with growing imbalances (US dollar, Euro, Chinese Renminbi, Japanese Yen, etc.).

Within the World Trade Organization (WTO), concerted actions are now recognized as key for avoiding domino effects in post-crisis times, and trade promotion policies can no longer be formulated independently from regional agreements (bilateral or multilateral). Sometimes, national

protection is required by lobbyists even if they openly contradict agreements. This makes trade agreements more difficult to formulate, if not to apply, explaining why the Doha Round has yet to be concluded. The reality is that national needs of the domestic environment (employment growth, trade deficit control, new industries incentives, visible or invisible sector subventions) is frequently conflicting with development in international trade, at least in a trade liberalization perspective.

It is essential to consider that, with increased global competition, national strategies and decisions have become more rather than less important, questioning the fundamentals of liberal analysis. Even if companies are the final key actors, they need to benefit from the best possible environment at national level. They are under pressure and challenges, with strong domestic rivals, competitive home-based suppliers and ever more demanding local customers, including growing overseas markets requirements forcing them to innovate constantly. Companies have to deploy their resources in a forward-looking, dynamic and challenging national environment within established and predictable rules, supported by trade promotion organizations that play a dominant role.

Who is Concerned with Trade Promotion Strategies?

For all trade parties concerned, public or private, one key fact governs the national and international landscape: progressive liberalization of markets with the consequent globalization of world trade. As a result, local firms as well as governments are likely to face increased competition at home as well as in the international market place, with diminishing possibilities to protect the economy and its businesses from outside challenges. Now more than ever, the competitive advantages that any firm or country has achieved become smaller and less durable. At international level, executives are therefore facing several strategic challenges as listed below:

- becoming globally competitive (or at least improving their ability to do so)
- pursuing new business opportunities (in line with market liberalization)
- maintaining their « business as usual », based on the perception that, for the time being, they still enjoy comparative advantages or national protection, with inevitably diminishing sales and /or profit.

At national level, the long-term implications are also significant. The country and more specifically the government, has to establish and maintain a favorable business environment in an increased global competitive context, where best national practices are highly desirable.

Such a trade environment should:

- encourage local entrepreneurs to invest in new technologies, markets and products or services (home or abroad)
- help increase employment (local or indirectly through outsourcing)
- generate specialized skills (adapting and skill training),
- help generate innovation and new technologies in order to maintain and increase competitive advantages,
- ultimately generate profits.

If the previous points are not taken into account, the business sector will inevitably suffer, gradually losing market shares abroad as well as in the domestic market. It should be noted that this affects small and medium- sized enterprises (SMEs) and multinational corporations, with greater major concern for SMEs.

This is a particularly challenging scenario for the public-sector planner and strategy-maker in a developing or transition economy. In such economies, the private sector may be vulnerable, with more day-to-day survival concerns than long-term development considerations, making these economies unprepared and unable to take any kind of leadership role in response to the requirements of new global competition. Therefore the national challenge consists in formulating and managing a ***national export strategy which is effective*** and can be implemented by all concerned parties.

A National Export Development Strategy (NEDS) gives priority to market development, improved traditional promotional instruments, like trade fair participation, trade missions and commercial representation services in foreign markets. The NEDS may also concentrate on the delivery of more efficient public-sector services addressing the obstacles found on new or non-traditional markets. Such difficulties may consist in collecting and purchasing trade-related information, covering initial market contacts and other research costs. These difficulties, if not overcome, lead to a kind of self-limitation to invest in new opportunities, preferring well-established traditional networks, with known consequences on the companies' competitiveness.

A NEDS may mix promotional initiatives, traditional and non-traditional, organized on behalf of existing enterprises, with custom made supporting programs. Such programs would be designed to generate new export capacities rather than to strengthen existing links.

The starting point would be, of course, to assume that there is a *need for the local business community to come close to international standards of competitiveness*, which could be considered as subjective, rather than an objective process. Such initiatives will consist in setting up an expanded export strategy to address all the factors reducing the cost of the export transaction by:

- improving forward and backward linkages within and among local industries, and to some extent integrating the production process, generating higher value-added production capacities.
- helping the companies involved in the value chain to acquire new technologies,
- building new, export-oriented competencies for these value chains.

However, **NEDS, to be effective, must be integrated into the overall economic planning framework.** This has a clear implication: it should not simply deal with one time foreign market development and promotion, but establishing a national competitiveness framework, creating an export culture and national consensus, thereby developing new export industries. This leads to the conclusion that two of the most important factors need to be reassessed in the process of managing a NEDS. These are:

- The direct and substantive involvement of all relevant parties beyond the private sector, namely ministries concerned in strategy-management processes and building infrastructures - industry, agriculture, transport and public utilities, labor, education, foreign affairs and, of course, finance.
- Integrated inter-ministerial consultations and coordination at the highest level of decision-making.

For NEDS to become effective, the private sector is the key player. The private sector, therefore, must be fully involved in the overall process. Not just consulted, but involved. The private sector must "buy in" and feel responsible for the success or failure of the strategy.

To initiate the strategy development process, it is necessary to consider the question of *leadership* and *ownership*.

- Should strategy management be a top-down responsibility (i.e. government-directed) or a bottom-up exercise (i.e. business-led)?
- Should the initiative shift as strategy moves through the design, implementation and evaluation/refinement phases? What are the institutional implications?

### Strategic Goals

At that point, eight key concerns (see table below) have to be considered before and during the process of trade promotion strategy building.

Table 1: Key Strategic Goals

<b>Goal 1:</b>	Awareness Building
<b>Goal 2:</b>	Prioritize Needs Versus Demand
<b>Goal 3:</b>	Targeting the Client
<b>Goal 4:</b>	Building a Competitiveness Response Capacity
<b>Goal 5:</b>	Considering National Environment & Clustering to Promote New Capacities
<b>Goal 6:</b>	Shortening the Steps Toward Internationalization
<b>Goal 7:</b>	Lowering the Cost of Doing Business
<b>Goal 8:</b>	Reorienting Trade Promotion to Develop Long-Term Relationships

Strategic Goal 1: Awareness Building

From the public-sector perspective, awareness building, development of a national export culture, skills development and the stimulation of international entrepreneurship are the components of a national export development strategy. The challenge facing the strategy planner is therefore how to balance these two interpretations of the need for trade promotion (new markets exploration versus expansion of existing ones, or whether to support newcomers or

strengthen existing ones), within the context of a national export strategy.

### Strategic Goal 2: Prioritize Needs Versus Demand

A complicating factor in needs assessment arises when strategists try to distinguish between *demand* within the business sector for specific trade promotion services and *actual* need. Consequently, the challenge is how to satisfy the business sector's demand for immediate solutions, while concurrently developing higher levels of managerial competency over the long term and a company's capacity to achieve international standards of competitiveness.

A differentiated approach may be the best option, which defines trade promotion in terms of:

- Development objectives (e.g. gaining a significant market share in the target country).
- Meeting existing demand within the business sector for promotion and trade support services.
- Building longer-term competitiveness (e.g. increasing comparative cost advantage).

### Strategic Goal 3: Targeting the Client

The most critical question for the advisors is who within the business sector should really be the strategy's primary clients? For example, a classification can be drawn between a firm's export potential and its support requirement. In the final analysis, the answer will dictate the strategy's overall definition and scope. If trade promotion services focus on this target group, the impact of the strategy can be more easily demonstrated within a shorter time.

When defining the national approach to trade promotion, the development dimension of an export strategy implies that the strategy-planner should concentrate on target groups mostly made up of inexperienced businesses with good export potential, but with extensive need for support. The risk will be higher of course with less obvious impact in the short to medium term.

The type of support will be significantly different and certainly more comprehensive than that required by high-potential firms with low export-support requirements.

### Strategic Goal 4: Building a Competitiveness Response Capacity

The past fifteen years have seen a radical change in the nature of international competition. A trade environment now exists that can be described as (hyper competitive) for many products and services. Trade strategies that focus only

on where to export, what to offer, and how to promote products or services are rapidly becoming inadequate.

Today, international trade is characterized by constantly escalating competition among producers and suppliers, rapid product innovation, shorter design and product life cycles, aggressive pricing and knowledge-based competition. Along with these changes, new approaches have been introduced to serve customer needs with a total competitiveness capacity. Consequently, exporters who previously competed on the basis of price and quality now are also competing in term of ***response capacity***. Success in the international marketplace is increasingly determined on the basis of the firm's adaptability, flexibility, quick response, communication and delivery capacity. In today's global market place, exporters, industries and governments must take the initiative collectively to introduce strategies that will result in a business environment that is truly internationally competitive. In short, a total competitive response is now required.

What are the implications for the national export strategists? The trade promotion strategy must not only address market identification and market development issues, but also facilitate the business sector's adjustment to changing methods of doing business and to the market's rising expectations about the seller's capacity to respond "comprehensively and just in time".

Strategic Goal 5: Considering National Environment and Clustering to Promote New Capacities

For SMEs in general and developing countries in particular, it is frequent that weaknesses at the production end of the transaction process often represent the greatest constraint to sustained improvement in export performance including:

- Production inputs that do not meet international specifications.
- Technology being inadequate for design or quality requirements and for moving up the value chain.
- Insufficient installed capacity for accepting minimum order sizes.

At the moment, few export strategies address these domestic issues directly. Strategy developers concerned with questions of market access and market development may well ignore the fact that one cannot export what one does not have or cannot produce. Particularly from the developing country perspective, defining a trade promotion strategy implies considering domestic product development as a fundamental issue for a comprehensive strategic response.

A strategy that defines trade promotion in the context of export capacity development will involve local programs designed to generate complementarities and synergies within export industries.

In this respect, creating capabilities and efficiencies through industrial clusters and networks, reinforcing backward

linkages between high performing exporters and local suppliers, and promoting the development of joint marketing groups have all proven to be relevant approaches for long-term, export capacity development and trade promotion.

Strategic Goal 6: Shortening the Steps Toward Internationalization

One strategic approach is to shortcut the export process. Finland, for example, is pushing to integrate SMEs into the country's export-oriented industrial clusters and is encouraging them to begin international operations as start-ups, rather than following the traditional route of start-up from domestic-market development to step by step export. But this implies a strong national export development program.

Strategic Goal 7: Lowering the Cost of Doing Business

Reducing the costs of nontrade components, i.e. the cost that the enterprise must assume in order to be qualified to export, such as Internet access and quality certification, is also a relevant aspect of a comprehensive national trade development strategy. Similarly, all programs are designed to reduce the overall export transaction cost including simplifying procedures and lowering the cost of financial services.

Strategic Goal 8: Reorienting Trade Promotion to the Develop Long-Term Relationships

Studies confirm that the cost of finding a new customer is three times more than the cost of maintaining an existing customer. This suggests that a national trade development strategy should be reoriented to market development and promotion efforts. This means moving away from helping exporters to look for new customers on a spot-contract basis – which is the tendency of many trade support programs – and toward assisting the local business community in developing long-term supply relationships. This means targeting multinational companies that are outsourcing a growing part of their production or service requirements. Of course, in international business where competition is fierce, comparative advantages are constantly challenged by newcomers, but this point should not be overestimated. Multinational corporations appreciate established relationships and do not shift their business to unknown newcomers unless they have strong reasons to do so.

Setting Up the Process of Trade Promotion Strategy

As the performance of several countries with high export performance confirms, effective strategies are based on a continuous process involving design, implementation, monitoring and evaluation, feedback and refinement. Yet, national strategy planners must be involved in all phases of the strategic cycle. Indeed, all members of the national strategy management team both public and private must

participate, in one way or another, throughout the cycle. One of the lessons learned by successful exporting countries is that while the public sector is the catalyst in the strategy development and management process, to be effective, the strategy must be “owned” by the private sector. Strategy design is therefore most effective when its development and refinement comes from the bottom up with industry representatives and managers working directly with public-sector officials in establishing priorities. Partnership can be viewed as an ongoing synchronized process run in parallel, by the public and private sector with different roles:

#### Export Development as a Strategic Choice

All countries, whether they are developed, in development or emerging economies, are considering export development as a major tool for growth, either for expanding their market shares in foreign markets or for acquiring access in new markets alone or through joint partnership. Such goals are strategic in a way that they imply long-term commitment and sustained efforts to reach their objectives, and require structural adjustments at the national level for getting the required competitiveness to “make the difference”. For many countries, especially in developing and emerging economies, export-oriented production tend to be more labor intensive than production oriented for the domestic market, therefore creating employment.

Export Trade has its Own Exigencies:

Exporting is highly competitive and constantly changing. Price competition is intensive because foreign buyers increasingly rely on outsourcing and business-to-business production processes, with shorter product life cycles pushing for timely delivery. Only producers and countries that can keep up with these pressures will benefit from increased globalization. So the challenge is to ensure that trade promotion policies translate the identified need to thrust foreign trade priorities into profit opportunities. With the effective globalization of trade, the promotion of exports is universally viewed by governments around the world as a public function, which is universally recognized as generating jobs, providing strong incentive to productivity increases and projecting the nation's brand image into global markets.

The Growing Role of National Initiatives to Promote Trade

It is essential to consider that with increased global competition, governments have become increasingly important for companies to succeed, as they need to benefit from the best possible environment at the national level. Companies are under pressure, with strong competitive home-based suppliers, ever-more demanding local customers and growing foreign (importing) market requirements that force them to innovate constantly. They have to deploy their resources in a forward-looking, dynamic and challenging national environment within the established and predictable rules of national culture and economic structures, where

supporting institutions (local and national) play a dominant role. This national favourable environment can make the difference in competitiveness. Nations succeed in particular industries or services because their home environment is the most forward looking, at infrastructure and institutional levels. New theories recognize that in international competition, companies compete with global strategies merging trade and foreign investment. This underlines the key role of home-based institutions and regulatory environments. This also explains why there is a sort of competition of comparative advantages offered by host countries to attract investments and to allow better treatment to companies established in a given location.

### Institutional Linkages

The type of institutional linkages and functional relationships should first be reviewed in order to ensure that a broad-based strategy is effectively formulated, implemented and reflected through the various action plans initiated by the organizations directly involved in the export development effort.

#### 1. Adopting the Principles at the National Level

The goal is to *build national consensus and commitment* and to maintain functioning partnerships at all concerned levels within the public sector, between the public and private sector, among trade institutions, and within the business community.

## 2. Implications for the National Trade Promotion Organization

Once the decision of developing a fully integrated approach to export development is taken in the form of a National Export Development Strategy, clear implications emerge for the National Trade Promotion Organization (TPO); namely, the TPO has to be *proactive* as it contributes to the export strategy *management process*.

## 3. Assessing the Process

A National Export Development Strategy must not only be perceived as being effective, it should also be confirmed as being so, and not just because the monitoring and evaluation of strategy is becoming an increasing preoccupation of authorities concerned with public budgets and expenditures. Therefore, assessment of benefits and impact should be included in the process to refine and adjust both the strategy itself and the implementation process.

## 4. The NEDS as an Ongoing Process

Rather than proceeding to a “classic” evaluation exercise, there is a need to look at some of the more important “competitiveness drivers”. It affects the implications for the national export strategy of e-commerce, the increasing impact of multinationals, and the growing trend of global outsourcing. More specifically, the following questions should be addressed:

- What is the role of the public sector in assisting local firms to find their way along the Internet and e-business?
- What steps must be taken to ensure that local companies can engage more effectively in the international outsourcing programs of multinationals and in other foreign companies?
- What should be the priorities of the public-sector strategy-builder?

In answering these questions, the aim is to assist the NEDS building process to develop a response to the challenges of today's competitive marketplace. Obviously here, there are more questions than answers. But this building process provides an incentive for creating or strengthening partnerships all over the global environment. Such a process involves a continuous dialogue between trade promotion officials and the business community.

#### The Key Role of TPOs for Successful Promotion Activities

There are a number of new forces in the international marketplace – drivers of competitiveness – which are changing how business is carried out and creating new commercial opportunities for developing country enterprises. These drivers dictate that action must be taken at the level of individual enterprise and may involve a fundamental redefinition of the way companies organize and conduct their business. While the decision to change rests entirely with the enterprise's management, the *public sector* must assume the

instrumental role of facilitator. After all it is the public sector's responsibility to ensure that the appropriate business environment is in place to support a suitable response by the private sector. This is the key to a successful strategy partnership at the implementation phase of a national export strategy. Altogether, these drivers constitute a new definition of the *total response capability* that will shape the enterprise, enterprise networks and supply chains of the future.

The most successful TPOs are those that have institutionally distanced themselves from the political influence of government. Trade promotion requires a long-term strategy built on the experience of both private sector and public sector, and the ability to respond quickly to market changes. This is the opposite of the short-term, non-commercial strategies usually adopted by many governments.

Furthermore, in countries where political change can be significant, consistency can be achieved only by separating trade promotion from political influence. Australia and Costa Rica have both established political independence for their TPOs by structuring them as private public entities, managed by influential boards of directors, with a majority of votes from the private sector. These board members are elected for fixed terms and come from large and midsize exporters in a variety of industries. TPO status should state very clearly that the board, not the government, has final say over budget and policy issues. This helps to maintain a long-term private sector focus, regardless of the direction of political influences, leaving government-appointed directors to provide

specialized expertise. Public sector directors in Australia and Costa Rica include high-level officials in the Ministry of Trade and other government departments. Representation from ministries of transportation, industry, science and technology, and even education is seen as desirable, given the role they all play in building a competitive export sector. Costa Rica has given its TPO (Procomer), even more independence by linking its operating budget to export volumes through a US\$3 tax on every export shipment. This provides an incentive to serve both large and small exporters, whereas an ad valorem levy would entice the TPO to concentrate on large companies and bulk product exports. Australia, on the other hand, recovers a substantial portion of its operating budget through user fees. Other nations find it more practical to support TPO financial independence by blending multiple sources of funding. That way, user fees can be weighted towards the most export-ready companies, with other costs covered by an annual budget from the Ministry of Trade.

#### A Customer Relationship Management (CRM) Approach Used by TPOs

An emerging best practice is a formal CRM system to track export results, to assess client satisfaction, to document lessons learned, and to obtain constructive criticism. Australia does this as a component of its fee-based services system. Canada's Department of Foreign Affairs and International Trade (DFAIT) is upgrading its current client-tracking system with a sophisticated new virtual trade commissioner system that incorporates CRM. Chile's ProChile, Colombia's

Proexport, and Costa Rica's Procomer, are among the most active TPOs in Latin America that have adopted CRM systems. Customer Relationship Management begins when a potential exporter first contacts a regional TPO office in the home country. From that point forward, the software-based system tracks their progress from first preparation to repeat sales. It identifies the exporter's training and facilitation needs, assesses market-readiness, documents their first contact with a foreign market, and follows their participation in trade promotion events. Moreover, the system records the sales that exporters achieve over the first several years in a new market. All of this data allows the TPO to measure the return on investment of its various promotional activities so that it can constantly improve them. The private sector expression that "if you can't measure it, you can't manage it" also applies to the business of trade promotion.

#### Planning the Export Promotion Process

Almost all trade promotion programs follow a similar path of assistance to the concerned exporter. It begins with assessing a company's readiness for export and proceeds through several phases, with the aim to conclude the firm's first export sales in the selected target market(s). Considering the support provided by the TPO throughout the process, this can be viewed as a large investment for the institution and company concerned; both from the human and financial resources viewpoint. Training and consulting are part of the continuous process of accompanying the company

throughout the process. It may take months or years, depending upon its export readiness. Planning and budget allocation over a medium-to-long term period is therefore crucial. In planning the export promotion process TPOs must therefore build their programs with the following four key questions in mind:

- In what industries, markets and to which companies are limited resources best allocated?
- To what degree should the cost of export promotion program be shared or financed by the exporter?
- Which organizational / institutional structure is best suited to such trade promotion programs?
- Which trade promotion initiatives provide the best results?

### Focusing on a Few Markets

Today there are almost 200 countries in the world. The largest 25 countries represent 80% of global GDP and an even larger share of imports, which means that the remaining 175 countries represent less than 20% of the global export market. For this reason, few of the world's largest companies try to penetrate no more than 20 or 30 international markets.

### Helping Those Who Can Help Themselves

Targeting specific foreign markets is a less controversial aspect of the notion of focus than the task of selecting which exporters or potential exporters will receive help and which

will be turned away. Almost every country promoting trade likes to highlight its support for SMEs. The motives are partly political, since they address an important and often disadvantaged constituency. But they are also pragmatic, in that they recognize that export sales can be a tremendous stimulus to build the next generation of corporate leaders.

Unfortunately, most SMEs are not prepared to assume the full cost of servicing a new market should they succeed in generating export sales. In most emerging markets where a large share of trade promotion is focused, market information is scarce, legal services can be expensive, product adaptation requires considerable time and expense, and intellectual property may not be well protected. Most companies spend US\$150,000 to US\$200,000 over two years to successfully introduce a new product line into a market. For companies approaching US\$20 million in annual sales, this is a large but viable investment. For smaller companies, that kind of investment is too expensive. Yet, in most markets, a US\$20 million company is large and not considered as an SME.

When entering new markets, trade promotion officials would usually do better to design programs for medium and large enterprises (LME's) rather than those for smaller firms. It is the large companies that have the resources and staying power to really penetrate new markets. Once established, LMEs typically turn to their smaller suppliers to outsource their requirements for products and services. Some trade promotion agencies, like Mexico's ProMexico, recognize this

dynamic and focus much of their SME promotion on linking small suppliers to large exporters, many of which may be foreign multinationals. Alternatively, SMEs should be encouraged to join forces in consortia-like groupings when pursuing opportunities overseas, pooling resources to finance the high cost of market entry.

#### Keys for Reengineering the Export Promotion Process

Once it has been decided to adopt a trade promotion strategy, and once the institutions by which the strategy is to be implemented and have had their role defined, a crucial phase of the strategy process still remaining is the monitoring and evaluation phase. Monitoring and evaluation pose a number of challenges which need to be confronted and solved. The most satisfactory solutions are in defining a monitoring and evaluation mechanism built into the strategy from the outset. Given the expected difficulties, is that process really useful? One obvious answer is that a credible monitoring and assessment mechanism will help to justify the resources put into the trade promotion program when reporting to financing authorities and stakeholders. More important are the benefits from monitoring and evaluation for all those directly involved, and those who benefit from its services. Assessment, when properly designed, organized and implemented, enables policy makers to learn from the experience and increase the awareness in a manner that provides tools for refining the strategy.

In practice, planners will have to take into account the resources spent and proposals for additional resource

allocations, to learn through feedback the highest return in terms of strategy management. Unfortunately, practice shows that few countries or organizations evaluate the effectiveness of all their programs. Even fewer can claim they do it well. What are the reasons for such a paradox? Since evaluation aims to discover inefficiencies, the process often has negative connotations for participants. Moreover, the measures used are not always meaningful. Increased profit is a frequent metric, although evidence shows that such an increase is not always achieved in the short term. Other benefits realized through exporting, such as improvements in product quality or enhanced competitiveness in the domestic market are not considered because of difficulties in quantifying them. At the moment, there are a limited number of examples dealing with evaluation practices concerning export development strategies. Generally results are reported without sufficient coverage and clear methodology, providing few learning opportunities for examples cited.

Current practice in evaluation often focuses on specific activities, such as trade fair participation programs, outward missions, advisory services or seminars. There the most common approach is to evaluate the *overall performance* of participating companies. Generally, the focus is on outcomes, and the criteria used are more often quantitative than qualitative (for example increased export volumes, number of new jobs created). The most frequently utilized information-collection methods are mail surveys or interviews.

Given the above mentioned points, what are the important issues to consider when carrying out an evaluation?

- First, consider both short-and-long-term goals.
- Second, identify the best measurement component.
- Third, in order to balance negative statements, service providers may change their activities according to the evaluation criteria to be used.
- Fourth, it is important to identify only those results that are directly related to a specific activity.

### An Enterprise-Focused Approach to Evaluation

Generally, it is important, when dealing with strategy making, to look into the influence and impact of a national export development strategy from the company point of view, with regard to both the process and outcome. That means the trade officials should take into account all the four main levels (enterprise, program, service provider and macro-environment) when designing and implementing export promotion programs. Despite these difficulties, it is still possible to develop a specific approach to evaluation. It is suggested that this should start with *the enterprise and its needs*.

At each level of evaluation, it is important to give attention to both *process* and *outcome*, irrespective of whether the purpose of evaluation is reporting on impact of a given program to a funding institution (*static process*) or an internal review of the program for refining it during the course of

implementation (*dynamic process*). It is clear that increasing attention should be given to the dynamic process, implying ongoing assessment – both qualitative and quantitative. Such attention definitely feeds into a better management process.

### The Future of Trade Promotion

Globalisation has revolutionized the way business is conducted in recent years and there is every indication that it will continue to do so, despite the 2008-2009 world financial crisis. In fact, the world trade environment is generating new requirements affecting markets:

- The widening trade liberalization is favoring the emergence of new trading patterns (supply chains becoming constantly appraised by buyers) that are likely to influence future trade flows.
- The international marketplace is being increasingly influenced *by real-time state of the art communication systems*. Markets and clients are becoming more specialized, more efficient and ultimately more demanding of the suppliers.

A global competitiveness-based approach to trade development must replace the traditional market-based focus that many TPOs continue to pursue, possibly influenced by their traditional clients, if not by the national institutions involved in trade promotion. The changing times set also another challenge to the TPOs is to ensure that export

performance makes a significant contribution to overall economic development.

### Complementary Objectives

In fact, competitiveness and development objectives do not contradict themselves because they can be driven in parallel. Together, they ensure long-term, sustained improvement in export performance, but their compatibility does not come *per se*. Another challenge confronting national trade promotion organizations is how to make them complementary to the work undertaken by other national institutions or private sector representatives. What does this mean for TPOs?

- TPOs must be more comprehensive in their approach. A competitiveness-based export development assistance requires that trade support should be available to the business community at all critical points of the export value chain. Support must be made available to exporters for helping them produce better products / services, communicate rapidly with existing or potential markets and deliver more competitively. Furthermore, support must be available to new entrepreneurs and even to new export-oriented nongovernmental organizations.
- TPOs must specialize. Providing general services do not contribute to improve competitiveness. Specialized services do. The range of specialized

- services needed to sustain export competitiveness at the national level and the new investment linked to such a specialization are beyond the capabilities of a single trade support organization. A multiple-agency approach to export development is required.
- TPOs should build a national trade support network with other institutions involved in the export development process, including with the private sector. They must strengthen their network through partnerships, both in-country and abroad. TPO officials must reinforce such networks by implementing joint programs with other specialized trade support organizations, ideally focusing on a specific and identified need within the export community.
- Finally, all the network members must keep on top of a fluctuating business environment by being prepared to adapt. TPOs must benchmark their performance, measure results and adjust when the impact is less than planned.

From the above development objectives, the following road map emerges:

Establish a Unifying Vision for all Members of the Network

This step implies the preparation of a national export development strategy, primarily based on a realistic

assessment of medium-term export opportunities, of the constraints to achieving competitive advantage and the strengths and resource limitations of key members of the national trade support network. The defined strategy is put in place with the full participation of other network members, including on-going political endorsement.

#### Every Network Needs a Catalyst and a Coordinator

The national TPO is best qualified to undertake both roles and should take the lead to:

- identify the elements of a competitiveness-based approach to export development;
- determine the areas where trade can best contribute to overall economic development;
- create a national trade support network that involves public-private sector partnerships

#### Maintain the TPO as the Focal Point

The national TPO should be the first point of contact for the individual exporter. Focus on providing the three basic but essential specialized services to all network members and enterprises involved: commercial intelligence, export counseling and hands-on referral services.

Enlarge and Expand Networks with other Trade Related Institutions

Today, trade promotion organizations are prime national players for ensuring that trade is an effective engine for development. In order to do so, they have to cooperate closely with other trade related institutions.

Implications for Trade Promotion Stakeholders

Due to increased globalization, the internet revolution and intense competition, TPOs have had to reinvent themselves to remain relevant to the business sector. Consequently, several initiatives were designed leading to the development of new strategies, tools and networks. The new strategies consisting of proven best practices involve all the key players in trade development and promotion by setting up networks coordinated by the National Trade Promotion Organizations. These best practices can be replicated by most TPOs enabling them to help their industries become active players in tomorrow's highly competitive global economy.



## Repositioning a Consumer Product: The Experience of Colgate-Palmolive

John Santantoniou\*

### Abstract

*The article describes how a well-known consumer product lost its market share in the eighties due to changing consumer preferences, a shifting social-economic context and increased competition in Western European markets. To redress the situation, Colgate-Palmolive carried out an in depth analysis to determine the product's strengths, weaknesses and future challenges. As a result, the product was improved, its packaging modified and a new marketing strategy formulated. Re-launching and repositioning the product, however, proved to be more difficult than expected as the European markets were not identical and the executives responsible for their territories were not convinced of the benefits from implementing the new strategy.*

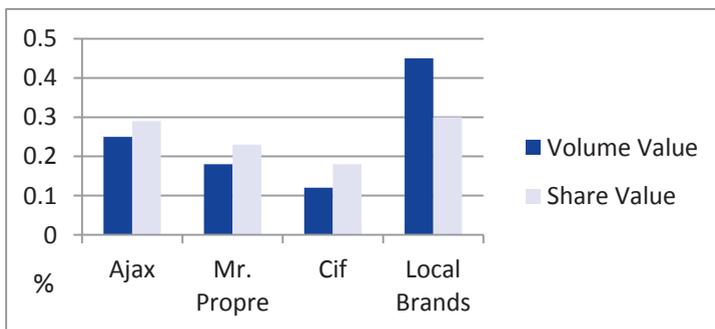
*\*John Santantoniou is the Executive in Residence at the International University in Geneva where he teaches marketing. He has held senior positions in marketing and sales with Colgate-Palmolive and Hewlett-Packard, and CEO at Energizer and Invensys Controls.*

## Background

In the eighties, the Western European liquid surface cleaner market had an estimated worth of US\$4 billion, with a growth rate of 3-5% per annum. The main markets in the region were Germany, France, Italy, the United Kingdom and Spain. Ajax held approximately 25% market share that made it the market leader in the liquid surface cleaner market. Its flagship products included the following: the Ajax all-purpose cleaner, which was positioned as capable of cleaning any household surface, the Ajax thick liquid removed tough stains on surfaces and the Ajax window/glass cleaner gave households gleaming glass surfaces.

Its main competitors were Procter and Gamble's Mr. Propre with 18% of the market and Unilever's Cif with 12% of the market. Local brands held 45% of the market volume (tons of liquids sold), however they held only 30% of the market value share (monetary value of the volume shares represented as illustrated in figure 1).

Figure 1: Market Share by Major Brands



Source: A.C. Nielsen retail audit 1983

### Procter and Gamble's Mr. Propre

Procter and Gamble's Mr. Propre is a relatively new entrant in the Western European market. It was able to attract consumers and quickly attained 18% of the market share with a price index of 105 (5% more expensive than the market leader, Ajax). Mr. Propre focused on appealing to consumers' emotions. The lemon scent of the product, the facility and speed of cleaning, and the shiny appearance the product created after use, all created added value for the consumers. The lemon scent differentiated it from other products that were either odourless or scented like chemicals (ammoniac for example to portray efficiency). Furthermore, having only one product which could be used on all surfaces and could remove stains with just one swipe ensured its attractiveness. In addition, the bottle used was transparent to highlight the lemon colour of the product, which corresponded to the lemon scent. This technique was a complete break from the traditional marketing strategies of cleaning products, which typically used white bottles to portray cleaning efficiency. Finally, the smiling face of Mr. Propre, on the label and ads, clearly communicated the key message: cleaning is easy, fun and efficient.

### Unilever's Cif

With a price index of 120, Cif, the tough but gentle cleaner, was designed for kitchen and bathroom use. The product placed itself as a sophisticated product capable of cleaning delicate modern surfaces. It focused on the meticulous

composition of the product, which cleaned without damaging application surfaces. In its famous skating television commercial, the product portrayed the hard cleaning ingredients of its competitors to the damage ice-skates do to ice during ice-skating. Thus, implying the strong products used by their competitors cause damage to application surfaces. Moreover, the creamy, smooth appearance of the product was used to portray the product as inoffensive. This was a contrast from other competitive products, which usually required brushing and thus were more likely to damage application surfaces.

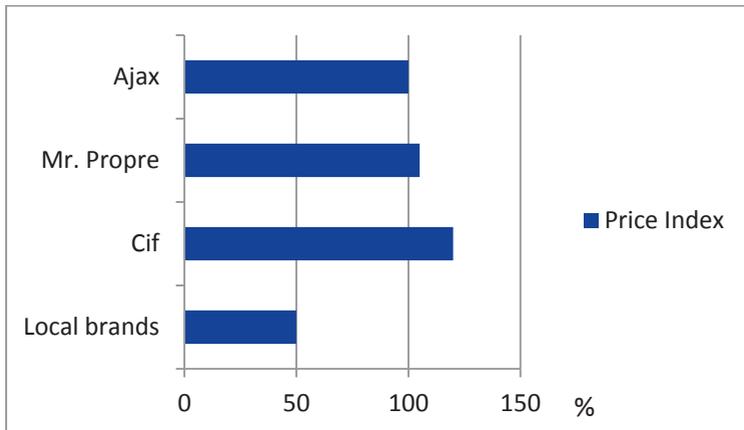
#### Colgate-Palmolive's Ajax

The product positioning focused on the functional benefits or efficient cleaning and was portrayed as the best liquid cleaner on the market. It emphasized the ammoniac content and scent to make consumers associate it to efficient cleaning. The efficiency of the product was also highlighted in the memorable white tornado in TV commercials, its slogan being "*powerful like a white tornado*". This commercial attracted many male figures, yet the powerful portrayal of Ajax contributed to its aging image. Because cleaning with Ajax typically required more effort (i.e. rinsing after each use), the product did not address current consumer needs, who wanted to clean effortlessly. The white bottle was used to communicate the "clean feeling" the product allegedly ignited after use.

## Local Brands

These products focused on giving consumers value for their money and were priced 30-50% lower than the three main market players (refer to figure 2). Compromising the performance level ensured relatively low prices. Contrary to the three main players, these products were not widely distributed, with little or no advertisements to raise awareness.

Figure 2: Price Index by Major Brands



Source: A.C. Nielsen retail audit 1983

## Consumers Changing Preferences and Profiles

Ajax all-purpose users were mostly housewives. Women were the target market before the eighties as they typically stayed at home and took care of everyday household tasks. Consequently, their time and energy were dedicated to household chores.

In addition, an important market segment was its usage in rural areas. The surfaces were stronger and more difficult to clean, which made the product perfect for this market. However, with the advent of urbanization, the rural population began leaving for better economic conditions in the cities. This was a great opportunity for the brand to adapt to this societal trend, and re-direct its target to urban consumers.

Another changing factor was the evolution of the working population. People worked less in the industrial and agricultural sectors, while the tertiary sector began to boom. In addition, from the seventies the entry of women in the working world increased considerably. Their status changed from that of a housewife to that of an active, independent working woman. As a result, both genders had less time for household chores including cleaning.

In the sixties and seventies, although Ajax's formula cleaned efficiently, removing dirt entirely required a second wipe and rinsing. Consequently, after the eighties, this formula did not correspond to the changed consumer profile. A new formula was urgently needed.

Additionally, consumer tastes and preferences changed during this period. They were not only looking for product efficiency, but also an added feature that went beyond cleaning. These extra features were related to the scent, the color and the texture. Users were looking for a product that

scented like natural ingredients rather than the strong ammoniac.

### Application Surfaces

The surfaces also evolved over time. In Europe, two types of soil coating initially prevailed. The first type was the natural stone and tiles. This ground surface was available in four types: marble, granite, slate and natural stone. Cleaning this type of soil was demanding and required anti-stain treatments. For this reason, Ajax all-purpose was efficient in the cleaning of this type of surfaces. Tiles were widely used in Europe in the 1960-1970's. The main types of tiles were cement tiles and terracotta. Ajax all-purpose was the product, which removed stains and dirt from these porous surfaces. Over time these materials were replaced by soft surfaces such as Formica, a new type of coated tile and wood parquet. For this reason a new formula needed to be designed to fit these new application surfaces.

### Prelaunch Phase

The need to relaunch the product led to the initial prelaunch phase. Various observations were made, including the following:

- A thorough understanding of the change in trends and mentalities in Western Europe, for women in particular, was essential.
- Reviewing the performance of the product and its characteristics was needed. The cleaning efficiency was not an issue; however it had to be performed with less effort.

- The evolution of surfaces had to be examined. In particular, the manufacturers focused on understanding both short-term and long-term developments of surfaces.
- Prices had to be reviewed. Should they be lowered, maintained, or increased?
- The positioning of the product was examined and in particular its communications. It was vital to understand why the product was viewed as aging and no longer met consumer expectations. The new communication campaign had to adequately represent the new image of the product.

All these above findings led to the decision of organizing a Pan-European project, comprised of various individual markets. The coordination between the various senior country marketing executives was required.

This prelaunch phase featured more qualitative research rather than quantitative, including in-depth interviews, group discussions, focus groups and brainstorming. In addition, psychologists were consulted to understand the consumers' changing perspectives and mentalities. The problem was not the performance of the product or its formula, but rather about the changing consumer needs and expectations as well as their environment.

## The Implementation Phase

After the research was conducted in the prelaunch phase, it was concluded that consumers wanted house-cleaning to be easier, faster and trouble free yet efficient. This new consumer trend of “cleaning with pleasure” changed the product’s positioning from a hard cleaning to a soft cleaning product. These results led to the following action plan:

- The need to develop a no rinse formula without compromising the cleansing power of the product. This new formula had to clean faster and without rinsing. The current product encouraged cleaning to be done several times, first applying the product, then rinsing it out with water and finally passing over a third time to make the surface shine.
- A new bottle/label had to be developed, though it should not deviate too much from the original. The white bottle, which characterized the brand, remained although other colours such as green were introduced.

To change the aging image of the product a new communication campaign had to be developed, which consisted of TV commercials, print advertisements and point of sale materials. The commercials did not use the concept of the white tornado and instead showed women happily throwing away buckets in an expression of liberty to the sounds of the opera *Carmen* by George Bizet, which is popularly known as *Love is a Rebellious Bird*. This new

communication campaign was the driving force of the relaunch.

### Management Challenges

The changes in the Ajax all-purpose formula and overall marketing strategy was a tedious and challenging process, taking roughly two years from the prelaunch phase to the relaunch of the product. The decision to change the product was agreed to take place in several countries initially, including Italy, Greece, Spain and Portugal. Germany, France and the United Kingdom were not included as executives in charge of these markets were not convinced of the benefits from this new Pan-European project.

The Director of Marketing in Italy was put in charge for coordinating this project to completion across Western Europe. In the eighties, Colgate-Palmolive's organization functioned on a country basis. In other words, each country acted independently in managing product portfolios and marketing strategies and programs. As the Director of Marketing for Italy did not have authority over the national managers, implementing the project proved to be a daunting task. Additional efforts had to be made to convince skeptical country managers to adopt the plan and cooperate. More specifically, his role was to persuade and motivate the country managers to adopt the new product/marketing mix strategy change.

To convince local management, the Director of Marketing for Italy had to explain the main reasons for the need to change

the formula, the product and the marketing program by emphasizing the following:

- The market share of Ajax was declining and Ajax needed to react in order to stay the market leader in Western Europe
- The consumer profile, as well as application surfaces, changed over time and product adjustments were required
- The competition was offering products with features that matched the latest consumer trends
- The overall marketing strategy and program had to be adjusted to the new realities

The new plan and product were not accepted homogeneously across Western Europe. Managers from Greece, Spain and Portugal, accepted the change, but those in France and Germany were not convinced. However, through persuasion these skeptical managers finally came on board. In regards to the United Kingdom, it was particularly complex to advocate a change, as the surfaces were usually covered by carpets. Thus, change was not immediately necessary in this specific situation.

Another management challenge was the development of an adequate product formula. As soon as the decision had been shared and approved by many of the European offices, worldwide R&D had to be convinced to dedicate time and resources to the project.

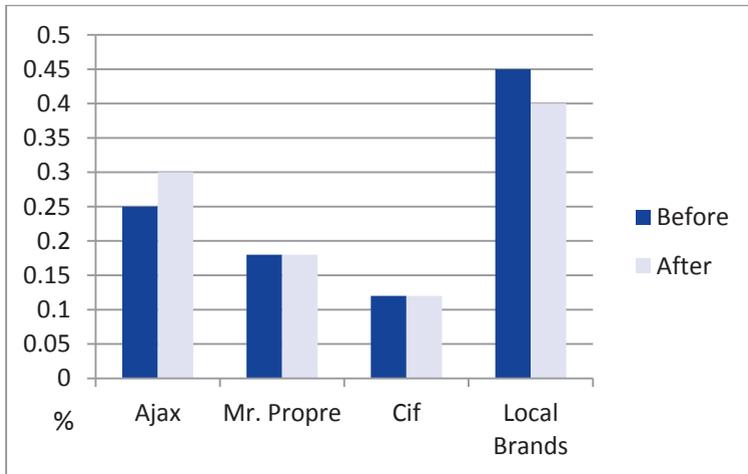
The research and development was conducted in the United States under the supervision of the Marketing Director for Italy and responsible for the European project. His task was to guide the researchers on new product development, as he had more knowledge of the surfaces in Europe than his American colleagues. Key European competition needed to be taken into account. Product tests and trials on surfaces in laboratory had to be conducted. The formula was changed several times until it reached a desired outcome, which conveyed the new concept of easy but efficient cleaning.

#### Implementation of the New Product and Marketing Strategy

The implementation of the new marketing strategy and product was gradual over time. It first started in Italy as a trial then moved to Southern Europe, followed by France and Germany. The United Kingdom became the last country to adopt it.

The re-launch of Ajax was successful as it led to an increase of 5 market share points, mostly at the expense of local brands. The two main competitors were able to maintain their market share as shown in figure 3.

Figure 3: Volume Share by Major Brands



Source: A.C. Nielsen retail audit 1985

The success of the program was also evident in the payback period, which required less than one year. In addition, product line extensions took place in order to increase volume sales, enabling new scents to be introduced. The most famous of the scents were the lemon and lavender ones, in new semi-transparent bottles. By launching the new product, the company showed its ability to adapt quickly and efficiently to the market changes. As a result, long-term consumer trust and loyalty increased and had a positive impact on the company's image.



## Negotiators and Interpreters: A Winning Team \*

*Interpretation is both an art and a science and to many a passion*

*Claude Cellich\*\**

### Abstract

*In the article, a number of issues are raised concerning the role of interpreters in cross cultural negotiations. Due to language barriers, executives negotiating business deals often rely on the services of professional interpreters to assist them in their discussions. A brief yet concise set of suggestions on how to optimize interpretation during the interaction phase of the negotiation process is provided.*

### Interpretation or Translation?

Business executives negotiating with counterparts unable to speak the same language can count on the skills of interpreters. Even if negotiators have a working knowledge of the other party's language, when it comes to negotiate international business deals, particularly complex ones, it is best to rely on professional interpreters to overcome the language barrier.

*\*The author gratefully acknowledges the valuable comments of Yury Obozny and Jenny Sigot Müller*

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Too often, when cross cultural business negotiations fail, it is frequently due to poor communications and misunderstanding among the parties. For instance, when Mr. Sato, Chairman of Toyota Motor Sales met Roger Smith Chairman and CEO of General Motors, the language barrier made the visit “bewildering” in Smith’s words (Weiss 1987).

Distinction between interpretation and translation as well as interpreting and interpretation is called for as they are not synonymous. Interpreting refers to communication being translated from one language to another. Interpretation on the other hand, refers to the translation of one language into another including non-verbal behavior, cultural factors, emotion and so forth. The interpreter listens to what is being said in a face –to- face situation provided that it is consecutive interpreting or liaison interpreting. Otherwise, the interpreter works in a booth, sometimes outside of the room or even in another city or country, via videoconference. The main distinction between the interpreter and the translator is oral versus written translation. Furthermore, translators have more time to refer to dictionaries, reference materials and if need be consult language experts (Ferraro & Briody, 2013). Consequently, translators can revise their translation over and over again until they are satisfied with the end product before submitting it to the interested party. Language interpretation is much more difficult than language translation as it is highly demanding and stressful. The strain and tension is further aggravated as negotiation is itself a stressful process and even more so when negotiating in a highly global competitive environment.

Simultaneous or Consecutive Interpretation?

Negotiators have the choice of simultaneous or consecutive translation. Generally, simultaneous interpretation is used in diplomacy, in the United Nations and its specialized agencies, the European Commission, international and national conferences. Simultaneous translation demands language expertise, a high level of concentration and the ability to manage constant pressure throughout the discussions. In addition, it calls for special physical arrangements, sophisticated audio equipment and technical support personnel requiring significant financial investment particularly if a second or third interpreter is needed. The other type consists of consecutive interpretation which is more common in business negotiations. Concerning consecutive interpretation, negotiators have two options to choose from, either the short or long interpretation. The first option (short interpretation) is called “liaison interpreting”. Consecutive interpreting always refers to the long consecutive type of interpretation, with note taking. Consecutive interpretation actually means more than just providing a summary. The interpreter (unless the client wishes summaries) is required to reproduce the whole speech (with all the details). From the outset, negotiators have to decide with the interpreter what type of translation would be most suitable.

As consecutive interpretation slows the negotiation process and even more so if both parties exchange information through their respective interpreters, more time needs to be

planned. On the other hand, it could be an advantage to slow down the discussions as negotiators have extra time to think about how to reply while the interpreter is translating the previous statement. This strategic advantage however, benefits both parties

### Interpretation Calls for Language Flexibility, Extra Time and Cultural Adaptation

To avoid misunderstandings or misinterpretation, negotiators have to speak slowly and then pause after completing a phrase or statement to allow the interpreter to translate what has been said. It is important for interpreters to pay special attention to the negotiator's speech pattern, voice variations and pronunciation. In a number of languages, the interpreter has to rely on several words or sentences to convey the intended meaning. Because English is a more direct language particularly in business, a statement in English will require at least 25% additional words to express the same message in French, Spanish, Russian and many other languages as there are no specific equivalent words. When negotiating with Japanese executives, interpretation is increasingly complex due to cultural factors and language structure. For example, communicating with Japanese negotiators, interpreters have to overcome social factors and language syntax as well as handling periods of silence or lack of disagreement that can be mistaken for agreement. In addition, Japanese have several grammatical structures for communicating respect and power distance while English has few words for differentiating status (Rudd & Lawson, 2007).

When negotiating in China, the same words in English may have different interpretation when translated in Chinese making translation even more difficult to translate (Fang 1999). In eastern Asian cultures, language tends to be indirect where the message is communicated not only with words but with non-verbal cues and the social context. In Asia, silence is considered a part of communication, is highly appreciated and long pauses between speakers expected. For instance, Japanese have a high tolerance for silence (Yamada, 1997). In these cultures, communication tends to favor politeness, cooperative and conciliatory behaviors. In Anglo Saxon cultures where communications are direct, negotiators tend to adopt more competitive behavior and favor persuasion and arguments. As it may take more words and increasingly more time for interpreters to translate, negotiators should not become impatient nor assuming that the interpreters are deviating from the original statement. This is particularly relevant when negotiations take place in cultures when time is considered a precious commodity that should not be wasted.

### Interpreters are Highly Skilled Professionals

Interpreters not only know how to listen but have to understand what is being said. When negotiating with the help of interpreters, the negotiating parties should speak in short sentences, rely on plain words and not interrupt. Lastly, when a negotiator speaks, he or she should address the other party, not the interpreter particularly in traditional and relationship-oriented cultures as this could be interpreted as

a lack of respect to the other negotiator. Moreover, there is a tendency to speak to the person sitting on the opposite side of the table who is fluent in your language, thereby ignoring the other team members including even the team leader which in many cultures is considered disrespectful (Cavusgil et al, 2012).

When hiring interpreters, negotiators need to determine their competencies and experience from independent and reliable sources. This is best done by contacting your embassy/consulate for their advice as they are likely to maintain a list of approved interpreters. Chambers of Commerce, trade associations, or multinational banks are also excellent contacts for identifying professional interpreters (Salacuse, 1991). Ideally, your interpreter should have travelled frequently to the host country to remain up to date with the latest economic realities, political changes and social developments. Although negotiators have access to a large pool of people with language skills, qualified interpreters are in short supply.

To avoid unpleasant surprises, it is advisable to stay away from inexperienced interpreters particularly when negotiating complex or sensitive business deals. Whenever possible, hire interpreters familiar with the other party's culture and industry as well as on-going business practices. For instance, during the negotiations between GM and Toyota that led to the GM-Toyota joint venture, GM continued to consult Jay Chai an executive vice president of Itoh & Co (America) and adviser to Roger Smith, Chairman and CEO of GM on Japanese affairs, strategic and cultural issues since he knew the

industry, Japanese business practices and the Japanese language (Weiss 1987). If you have a large pool of interpreters to choose from, avoid those with high pitched, hoarse, stressful or monotone voices. To have access to experienced interpreters, they should be contacted early on to ensure their availability instead of waiting till the last minute.

### Brief Interpreters Before Negotiating

Before the discussions actually begin, negotiators ought to hold one or more briefings with the interpreter to explain the nature of the deal, what you want in the way of interpretation and why you want it. For example, make your requirements clear if you want everything to be interpreted or if you would rather have summaries. At times, your choice will depend on whether the negotiations are mainly technical and without major problems as both parties are near agreement or will it be difficult discussions that will require more time, plenty of patience and persuasive arguments.

To optimize the quality of interpretation, brief the interpreters as early as possible about the upcoming negotiations, particularly the key issues that will be discussed allowing them to consult background documents, carry out research to familiarize themselves with the issues to be negotiated and the technical terms that are likely to be referred to. Advance preparation by interpreters is considered essential to the success of any interpretation (Sigot Müller 2012).

In the event you have prepared a written text to be read during the negotiations, make sure to provide an advance copy to the interpreter to familiarize him/herself with the subject even if it is at the last moment as it will be greatly appreciated. In relationship oriented cultures interpreters input can go beyond interpretation by transmitting emotions, motivation and speech variation of the negotiator. Actually, professional interpreters independently of the culture should take all these aspects into consideration. An experienced interpreter not only translates what the negotiator is saying but is able to adapt the verbal and non-verbal messages to the cultural context (Ting-Toomey 1999). Their role being to protect their own teams from confrontational conduct and even advise the team how to counter adversarial tactics (Trompenaars and Hampden-Turner, 1999).

When negotiating with interpreters it is better to speak clearly and pause after each statement to give the interpreter time to translate your words whether it is liaison interpreting (short passages) or consecutive interpretation (longer passages). Each statement should be planned carefully so that it can be easily understood and as well as ensuring that it does not contain abbreviations, slang, idioms, local expressions, double negatives and words having several meanings. It is equally important to pronouncing correctly the names of the party, places, dates and figures. Moreover, avoid proverbs, sophisticated metaphors and references to political events unless you are absolutely sure that it will not confuse or offend the other party.

Special attention must be given to metaphors as they are culture oriented and can easily lead to misunderstanding and poor interpretation. Both interpreters and negotiators need to ask for clarifications or to repeat intricate or important statements when they have doubts about their meanings. As interpretation is difficult, extremely tiring work and stressful, it is suggested to consult with the interpreter the kind of pace is considered ideal and when to take breaks. To avoid mistakes by the interpreter, discussions should not go beyond a certain number of hours. Simultaneous interpretation of 30 minutes followed by 30 minutes breaks is the norm in most international conferences. In consecutive interpretation more flexibility concerning breaks is possible including the duration. For instance, a 6 hour day of interpretation is made up of frequent breaks and may require a second interpreter.

At times when negotiations near the deadline, there is a tendency for negotiators to speak faster and faster causing interpreters to fall behind in the translation and making unnecessary mistakes. To avoid these types of situations, negotiators can ask for more time to close the deal, however, they need to consult the interpreters to determine whether they are physically able to continue.

#### Interpreters, Facilitators or Mediators?

There are times when interpretation is not really needed, but one or both sides insist on interpreters for reasons other than language translation usually when anticipating highly emotional/conflicting situations, contentious/toxic issues or

to gain more time in preparing their responses. On other occasions, the interpreter is expected to play a role of go-between or to act as a facilitator/ mediator.

For example, some time ago, I was assigned to accompany a trade delegation of Asian exporters of essential oils to meet French importers in Paris. My role was to do the interpretation from French into English as the French buyers were reluctant to negotiate in English. At the beginning of the discussions, I was doing the interpretation for both sides but found it increasingly difficult to do so as each side started to accuse each other of unfair business practices. As the discussions were getting more confrontational, I tried to interpret what was being said in a more neutral tone and less conflicting language. This approach did not help as the French importers without waiting for the interpretation started to reply directly to the accusations in English. From then on I became a spectator rather than an interpreter and finally a mediator. According to the Asian exporters, they were being paid low prices for their products. To them low prices called for low quality essential oils. On the other hand, the French buyers were paying high prices as they needed fine quality ingredients for producing perfumes. The problem came from agents who profited from the situation by promising the importers quality oils while buying a mixture of various qualities at bottom prices which created problems in the production of high priced perfumes. In the end, both exporters and importers realized the nature of the problem and came to the conclusion that it was best for them to deal directly bypassing intermediaries.

Another example of an interpreter assuming a role of facilitator took place during the GM-Toyota negotiations when Jay Chai assumed a dual role of facilitator and intermediary. To allow the negotiation process to go forward besides doing the interpretation he became a facilitator as he had to explain to the Toyota representatives the proposals written by Roger Smith to allow the negotiation to move forward (Weiss 1987).

### Integrate Interpreters in Your Negotiating Team

To benefit fully from the interpreters' expertise, negotiators need to arrange briefings concerning the upcoming discussions as they are most helpful in sharing common interests and experiences to build a working relationship and develop trust. In case the negotiator is accompanied by one or more experts, the interpreter should meet the other team members as well. During the discussions, it is most likely that these team members will be called upon to express their views making it essential for the interpreter to become familiar with their speech patterns, enunciation and technical terms. These briefings are essential if you want to integrate the interpreter in your negotiating team. By considering itself part of the team, the interpreter may provide additional useful information about the other party and the cultural context. However, make sure that the interpreter does not get involved in the negotiations and remains neutral.

Include a Team Member Fluent in the Other Party's Language

In a negotiating team, it is advisable to include a member able to speak the language of the other party. This member can notice any discrepancies in the translation and eventually help the interpreter with technical issues. However, if during the negotiations such a person finds that the translation is incorrect, he or she should avoid interrupting the interpreter but instead write a brief note clarifying the problem and giving it to the interpreter. For instance, during the negotiations on Intellectual Property Rights (IPR) with China, Charlene Barshefsky, the US Trade Representative had an advantage by having Lee Sands, the assistant USTR, who was not only fluent in Chinese but had an “unusual ability to decipher actions at and away from the negotiating table...and provided crucial insight and avenues for cooperation and understanding”<sup>1</sup> Besides interpretation, the interpreter can help the team members with their personal requirements if travelling to a country where their language is not spoken widely. Generally, interpreters are not available outside their official function as interpretation is demanding and exhausting.

However, if the interpreter is available to join you in your social functions, it can only reinforce your team spirit and solidarity. It is worth remembering that interpretation is highly strenuous requiring the interpreters plenty of recovery time,

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thereby do not be surprised if your interpreter declines the invitation, unless their presence is needed and included in the contract. Whether your invitation is accepted or refused, it will be very much appreciated by the interpreter.

Inform the other Party if you Speak or Understand their Language

If a negotiator or a team member is conversant in the other party's language, this fact should be mentioned before the discussions begin. If you do not want to do it in a formal way you can have your bilingual team member say a few words in the host language at the beginning of the discussions. Withholding this information from the other party may be considered unethical and can lead to suspicion, a lack of trust or even a break in the negotiations.

For example, a North American consulting firm went to Saudi Arabia to present a project for constructing a hospital. One of the engineers was fluent in Arabic having lived in the region as a teenager. Although the discussions were carried out in English, the Saudis spoke among themselves in Arabic in side conversations. This happens often as team members switch to their native language as they find it easier and more convenient to discuss issues among themselves (Hendon et al, 1996). Furthermore, they may believe that the foreigners do not understand their language. During these conversations, information concerning weaknesses of the project was picked up by the visiting team thanks to its own Arabic speaker. As a result of this new information, the consulting firm presented

a modified design that included most of their objections which allowed the discussions to move forward. To avoid any loss of face or embarrassment by the other party, the bilingual team member was excluded from further discussions in case the other party found out that their conversations were being listened without their knowledge. In the event you intend to record the negotiations, your request should be made as soon as possible even before meeting the other party. The interpreter must also be asked if he or she agrees to be recorded. It helps if your request is supported with valid justification. If the request is refused, it is better to drop it as it may lead to suspicion or jeopardize the entire discussions.

Learn the other party's language is a significant asset.

Whenever possible, negotiators making an effort to acquire some basic vocabulary of the host language can help develop a friendly working relationship. Being able to speak a few words in the host language even with a foreign accent can break the ice. However, it is not recommended to inject words from a third language as it may lead to confusion. By letting the other parties know that you are trying to learn their language is not only a sign of respect for their culture but a commitment to the negotiations. By learning a language, negotiators not only acquire linguistic skills but equally important are gaining a better understanding of the other party's behavior and thinking process as there is a close link between language and culture.

An excellent example of how language had an influential role in the discussions that took place between Renault, the French automobile manufacturer and Nissan of Japan. In early 1999, during the identification of possible synergies, Renault's executive vice president, Carlos Ghosn and 50 Renault researchers began to take daily Japanese classes to improve their understanding of Japanese culture and language (Weiss 2011). After 18 months of discussions, the negotiators agreed to an alliance that has proved to be mutually beneficial for both parties by paying special attention to life after the agreement.

### Conclusion

Effective communication is at the heart of any negotiation, particularly in cross cultural ones. Communication between negotiators becomes more complex when they belong to different cultures and do not speak each other's language. Although English has become the lingua franca of business, not all negotiators have a proficiency level sufficient to negotiate in that language. In view of the rapid expansion of global trade, business negotiators will be increasing dealing with foreign executives representing cultural and linguistic diversity. Knowing your counterpart's language can contribute to reaching mutually beneficial agreements because having a common language tends to bond people together. To overcome the language barrier, negotiators can rely on professional interpreters to communicate and interact with their counterparts. Negotiators can optimize the interpreters' expertise by consulting the following table listing

selected best practices concerning interpretation.

**Table 1 BEST PRACTICES FOR NEGOTIATORS RELYING ON INTERPRETATION**

**DO**

- Hire your own interpreter instead of relying on the other party's interpreter
- Choose interpreters having language skills but also whenever possible possess cultural sensitivity and business exposure
- Contact your embassy/consulate, chambers of commerce, trade associations or local translators associations for their list of approved list of interpreters
- Give preference to candidates who travel extensively to the host country
- Brief them well in advance about your requirements and type of translation wanted
- Prepare a set of working documents for the interpreter to get acquainted with the nature of the negotiations
- Use these briefings for you and the interpreter to get accustomed to each other's speech, voice intonation, diction, accent and speech pattern
- Speak slowly in short sentences, be explicit and repeat/rephrase key points and be careful when pronouncing names
- Keep your language simple, avoid slang, colloquialisms, abbreviations and local expressions
- Wait until the interpreter is finished translating what you just said before continuing
- Break complex issues into manageable ones
- Take frequent short breaks
- Direct your conversation towards the chief negotiator not the interpreter
- Observe the other party's body language when your interpreter is translating
- Have the interpreter meet your team members as part of briefing
- Hire a second interpreter for long complex negotiations

### **DON'T**

- Rely on the other party's interpreter
- Call on people with limited language skills for difficult negotiations
- Interrupt the interpreter while your statement is being translated
- Make any negative comments to the interpreter especially in front of the other party and avoid doing it in front of your own team when it is not necessary
- Show irritation or give away body language different of what is being translated
- Use words that have several meanings, double negatives or long complicated sentences
- Read your statement unless an advance copy has been given to your own team and interpreter

### **KEEP IN MIND**

- Interpretation increases negotiation costs
- Negotiations require more time particularly if both parties need interpretation
- Interpretation is rated as one of the most stressful job in the world
- Relying on interpreters can delay the development of working/personal relationships with the other party
- Interpreters can influence the outcome of negotiations particularly in relationship oriented cultures
- Jokes don't travel well across borders and cultures
- Adapt your speech pattern, vocabulary and voice to avoid misunderstanding

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