

Conference Paper:

**Sustainability Challenges for European Exporting
Companies - The Role of Sustainability Assessment in
Global B2B-Business**

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Abstract

The conference paper deals in a nutshell with the results of a research project conducted at the CSM in 2008-09. The study focuses on the influence of OECD sustainability requirements on the competitiveness of OECD based exporting companies in comparison to exporting companies from non-OECD countries. Major differences between OECD and non-OECD requirements lead to fundamental policy conflicts. These conflicts imply challenges for the strategic management of OECD exporting companies to contribute to a sustainable development of their target markets without forfeiting their competitiveness.

Research topic

Foreign trade and the promotion of foreign direct investments are an essential part of the European economy – especially of the German economy. In the utilities and infrastructure development sector being usually B2B companies, most of the export business is organized and conducted by the private market partners themselves (Backhaus & Voeth 2007; Diller 2004). By now, it has proven that almost 75.2% of the German transactions are contracted with industrial countries – in contrast, only 24.8% with developing countries and emerging markets (in 2007; VDMA 2009). Thus, apart from that obvious percentage, export transactions with markets in developing countries and emerging markets achieve increasing importance thanks to high growth rates (Federal Statistical Office of Germany 2008). The markets for utilities and infrastructure development migrate more and more in countries with rapidly growing need for energy and infrastructure like markets in Africa, South-East Asia and South America (Naughton 2007; Goldstein et al. 2006). At the same time, the historical demand force of industrial countries diminishes.

However, export transactions with developing countries and emerging markets often imply higher risks for German exporting companies than transactions with industrial countries because buyers in the target markets have by trend:

- limited access to capital
- preference of lowest product and investment costs
- non-strict political compliance systems (Euler Hermes 2008a).

This is why the German federal government supports exports of German companies by offering coverage for their foreign trade and foreign direct investment activities (Euler Hermes 2008b). In Germany, a joint venture of Euler Hermes credit insurance company and PricewaterhouseCoopers AG was appointed by the national government to manage these promotion schemes.

In the utilities and infrastructure development sector, eco-efficient engines and industrial services taking account of societal claims can make a positive contribution to the sustainable development of target markets like developing countries or emerging markets (OECD 2009; IFC 2006). Therefore, sustainability issues are of paramount importance for the German government when deciding whether to cover export transactions and investment projects in developing and transitory countries (Agaportal 2008b). The sustainability assessment procedure is governed by the OECD's revised "Recommendation on Common Approaches on Environment and Officially Supported Export Credits" (OECD Common Approaches; Agaportal 2008a; OECD 2007). Insofar, government guarantees facilitate corporate risk management with regard to foreign market entry and also sustainable development in those foreign markets (Bremmer 2005).

A study in 2008-09 analyzes the framework of this environmental assessment procedure and its effects on the competitiveness of German companies in the utilities and infrastructure development sector (Schaltegger et al. 2009). The report analyzes the extent and kind of influence different aspects (e.g. contextual requirements, data collection, time, costs, etc.) of the environmental assessment procedure have on the core factors of the German industry's competitiveness. The analysis starts from the observation

that German industry judges the current OECD Common Approaches as the main competitive disadvantage because relevant competitors from non-OECD countries like Brasilia, Russia, India, and China ("BRIC") are not subject to the same stringent or even no sustainability requirements and thus have crucial competitive advantages due to lower transaction costs (Federation of German Industries 2006; Schaltegger et al. 2009; Bosshard 2007b). For this reason BRIC's exporting companies are expected to be able to offer considerably lower product prices which can be the main competitive advantage in developing countries and emerging markets (Brewer 2008; Bosshard 2007a).

However, the environmental assessment scheme is also seen as a contribution to the reduction of reputational risks, which, in turn, influence competitiveness (Song 2004). This research project provides a scientifically based discussion of the advantages and disadvantages of the OECD Common Approaches and their effects on German exporting companies and German export loan banks. The focus on the competition between exporting companies and export loan banks from OCED and non-OECD countries – here focusing Germany and China – helps to better understand if and how the OECD Common Approaches could support the creation of a business case for sustainability for German and OECD based companies.

Research questions

The focal point of the reported project has been to explore the meaning of the different political requirements between OECD and non-OECD countries for the competitiveness of OECD based companies. This indicates the following core question:

How can the OECD Common Approaches support a 'business case for sustainability' for German and OECD based companies whose export transactions are being covered by the government?

Therefore, it will be necessary to analyze how the OECD Common Approaches influence the competitiveness of German companies compared to Chinese companies. In that way, it has to be considered what kind of influence aspects like contextual requirements, time and costs of the OECD sustainability assessment have on the core factors of their exporting companies' competitiveness. This raises the following sub-questions:

- *Which factors do influence the competition and the competitiveness of the German exporting industry in comparison to the Chinese one?*
- *Which role does the sustainability assessment procedure of the OECD Common Approaches play regarding the competitiveness of German export companies?*
 - *Which costs are due to the compliance with the OECD Common Approaches for German exporting companies?*
 - *Which additional benefit does the compliance with the OECD Common Approaches offer to German exporting companies?*

Analysis and research method

The analysis includes three parts. First, it will be theoretically analyzed which competition factors of German export companies are relevant in comparison to Chinese companies and what is the role of the OECD sustainability assessment procedure. The competitive advantage theory with Michael Porter's "diamond model" offers the theoretical ground for analyzing the competitiveness at firm and industry level in the present case (Porter & van der Linde 1995; Porter 1990). Therefore, competitiveness is caused by the dynamic interaction of six different conditions like "factor conditions", "demand conditions", "related and supporting industries", "firm strategy, structure and rivalry", "government", and "chance". These six competitive conditions of the "diamond model" serve as concrete base to compare the competitiveness of German and Chinese companies in the utilities and infrastructure development sector. Furthermore, Porter's model also

emphasizes that stringent environmental regulation can induce innovations in firms and can lead to win-situations which increase their competitiveness (Esty and Porter 1998; Porter & van der Linde 1995). Due to that model, it will be possible to analyze the role of political regulation like the OECD sustainability assessment procedure without neglecting other possibly relevant competitive factors and due to the assumption it will be also possible to prove the competitiveness of German companies under the condition of strong sustainability regulations. Thus, in this multi-factor-analysis it has to be asked for the role of the OECD sustainability assessment procedure with concern to further competitive conditions for German export companies.

Second, the study is empirically based to gain insights into what kind of influence aspects like contextual requirements, time and costs of the OECD sustainability assessment have on the core factors of exporting companies' competitiveness (World Bank 2008; IFC 2007). Within a two-steps approach (questionnaire and interview) 20 representatives of European exporting companies of the utilities and infrastructure development sector, loan banks, export credit agencies, industrial consulting services, and specialized NGOs are asked. The interviewees from companies, loan banks, and consulting services had to be well grounded in the application modus for trade coverage and the OECD sustainability assessment procedure according to preset criteria. The longer questionnaire was composed of questions with closed and semi-open character followed by a semi-structured interview with open questions as complement to the questionnaire. The aim of the two-steps approach is twofold. It seeks to receive a broad appraisal by different representatives concerning the research questions. Moreover, it intends to generate assumptions. The investigation took place from July to October 2008.

Finally, recommendations based on the concept 'business case for sustainability' will be given for European exporting companies, supporting

industries and policy actors in how to deal with and turn the OECD Common Approaches into a competitive advantage. The 'business case for sustainability' concept aims for successfully managing sustainability performance links with competitiveness and economic performance (Schaltegger & Wagner 2006).

Results

1. The competitiveness of German exporting companies depends on various different factors. Taking recourse to Porter's strategy model the competition factors of German exporting companies cannot be reduced to the OECD sustainability assessment procedure as a strong political factor as argued by the German industry. There are many more relevant factors which cause the competitiveness of German companies. One essential factor which can be influenced by German actors and which plays a substantial role for the competitiveness of Chinese companies is the Chinesees' ability to offer attractive financing packages with low investment costs in a very short time (time from first contact to offer) to their customers in developing countries and emerging markets (Chan-Fishel 2007).
2. Regarding the competitiveness analysis, the environmental assessment procedure of the OECD Common Approaches does not exert a recognizable direct influence, however, an indirect influence on two core factors of competitiveness can be assumed (supporting industries, regulations/government). This is why the effects of the environmental assessment procedure on the supporting industries and the role of government to increase competitiveness of German and OECD based companies are investigated.
3. The relevant issue of the environmental assessment procedure is the duration of the procedure. The period until the decision on the

acceptance of the export credit guarantee has to be reduced in order to improve the competitiveness of the German companies. Within projects which are likely to have highly significant environmental effects the assessment procedure can only last between 20 to 100 days (Schaltegger et al. 2009). Concerning to the fact that the buyer expects the technical and commercial offer of the exporting company in around two months after the opening of the tendering procedure German export companies can be at a disadvantage in comparison to companies that do not underlie the OECD sustainability regulations. On the contrary, the sustainability assessment procedure does not represent a relevant cost driver for German companies competing with Chinese companies.

4. German export companies need to focus on differentiating competitive strategies and quality leadership. The Chinese cost leadership in the utilities and infrastructure development sector is the reason why German exporting companies will not succeed against their Chinese competitors – neither in the medium nor in the long run (Federal Statistical Office of Germany 2008; Naughton 2007; Song 2004). An abandonment of the environmental assessment procedure of the OECD Common Approaches will not improve the cost structure of German companies crucially compared to the Chinese competitors.
5. German companies have to develop innovative business and financing models based on eco-efficiency advantages for their offers to customers in developing countries and emerging markets. Especially in the utilities and infrastructure development sector, eco-efficiency advantages are crucial to differentiate on quality. The improved environmental performance of German products in the analyzed sectors is a potential source of competitive advantage as it can lead to more efficient daily processes, improvements in productivity and lower operating costs combined with new market opportunities for the

German sellers (Schaltegger & Wagner 2006; Porter & van der Linde 1995). In addition, focusing the eco-efficiency leadership, German companies need to create attractive financing models in order to defend their 'first mover advantages' from selling the eco-innovations to financially few solvent buyers in the target markets (Esty & Porter 1998).

6. To implement financing models based on eco-efficiency advantages, German exporting companies are highly dependent on innovative financing schemes which are supported by foreign regional supporting industries (i.e. financing and insurance companies). A possibility to better create voluminous packages of long term financing and insurance packages is to establish a Clearing House as a financial institution that coordinates banks, insurance companies, suppliers and (potential) customers as well as political decision makers to reduce the time to offer for German exporting companies (Schaltegger et al. 2009). In addition, the Clearing House can offer consulting to optimize industrial products towards an enhanced sustainability and it can support customers in developing countries and emerging markets to improve their projects.

7. From a long-term perspective, the German government and its European counterparts should actively support global efforts aiming at harmonization between OECD and non-OECD countries with multilateral consultation and sustainable development processes of private actors and research institutions. Concerning the Porter strategy model, it has to be considered in the international debates for harmonization between OECD and non-OECD countries that stringent sustainable regulation could lead rather to win-win situations than multilateral agreements with weak regulation (cf. Schock 2008). Within that open question result crucial domains requiring further research.

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