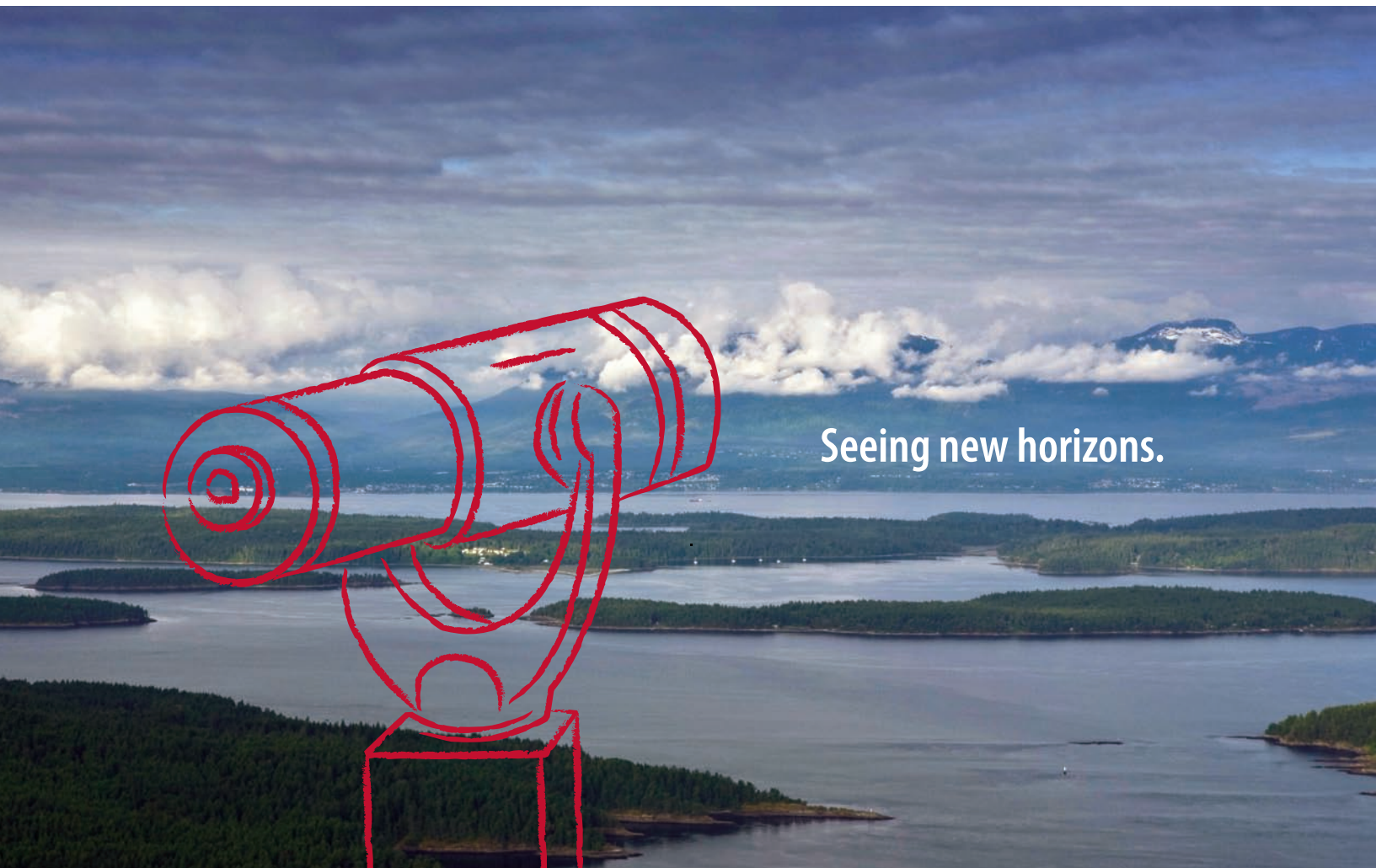




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**BACHELOR OF COMMERCE
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Note from the Editor

Particularly in light of recent economic events, it is clear that all national economies are closely intertwined. Canada's prosperity, even our own local social and cultural vibrancy, appears to be tied to the global economy. To compete in this context, managers need an international outlook which includes knowledge of other countries, strong cross-cultural skills, a sound understanding of economic, social, and environmental issues, and the ability to adapt and operate abroad. The mission of the University of Victoria's Bachelor of Commerce program, therefore, is to give students the essential knowledge and skills they need to succeed in the global economy.

At UVic Business, our goal is to develop a new generation of business leaders equipped with "global intelligence" and we are committed to providing every student with an international experience. In fact, it is this commitment that distinguishes UVic Business from other universities. The training students receive at UVic Business, through exchange, international study tours, an international co-op position, or through an international integrative management exercise, prepares them for a business world without borders. We ensure that our students develop an international perspective through direct experience with issues in management and organization. In fact, UVic Business has one of the largest international exchange programs in Canada with currently 58 active partnerships in 29 countries. The strength of these partnerships is represented in the total number of outbound students; annually approximately 80 per cent of BCom students participate in international exchanges and study tours. In 2008-2009, we sent a total of 151 students on exchange to 39 universities in 22 countries.

Many of these students were enrolled in COM 470 Business Research, the purpose of which is to give students who go on international exchange an opportunity to improve their research skills by examining a business issue that relates to the place they visit. They explore in depth a topic of their choosing, reporting on a phenomenon that affects the entire country or region or they can focus on a specific issue that pertains to a particular private, public, or not-for-profit organization.

Beginning in 2007, we began showcasing the best COM 470 research by publishing a compilation of *Best Business Research Papers*. The topics have ranged widely from an analysis of the impact of regulatory issues on a firm's export capacity to the nature of social responsibility in the local context. What these papers have in common, however, is that the authors have produced interesting and thoughtful research which is the best in their class.

While a small group of students is being honoured in this volume, there are many people behind the scenes that allow this rather complex international exchange operation to function including Dr. A.R. Elangovan, Director of International Programs; Brian Leacock, Associate Director, International Programs; Jane Collins, International Exchange Programs Coordinator; Ruth Davison, Exchange Student Advisor; Ann Peng, International Student Advisor; and Donna Davis, Clerk for International Programs. Thanks also go to Lisa Russell, Research & Special Projects Officer for co-ordinating and compiling this volume.

Anthony Goerzen, PhD
Associate Professor of Strategy & International Business
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Chilean Wine: A Short- and Long-Term Assessment of one of South America's Oldest Industries

Jonathan Bradley

ABSTRACT

This paper will begin by taking the reader through a brief history of the Chilean wine industry and more specifically, the largest producer within that industry: Concha y Toro. My goal is to examine the current state of the global wine industry, and the selected company, to gather a greater understanding of where the company is and where it needs to go to remain competitive in the future. Using the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, the paper determines the strengths, weaknesses, opportunities and threats of the company, and what can be done to exploit their strengths and mitigate their threats. It will also use Porter's Five Forces Model to help the reader get a better understanding of the competition in the global wine market. The paper will ultimately conclude, among other suggestions, that a change in pricing strategy and promotion, combined with investment in wine-making outside of Chile's borders is necessary for Concha y Toro to be a major market player in the long term.

HISTORY OF WINE IN CHILE



Figure 1: Photo taken by Eamonn Smith

Wine making has a long history in Chile that dates back to the 16th century, when wine grapes were first imported by the Spanish conquistadors, and the Catholic missionaries that followed. The Spanish tried to cultivate wine in places like the Caribbean, Mexico, and Peru, but never produced a quality product. The first vines to arrive in Chile were probably of the País variety (known as Mission in California) and were brought in through the port of Concepción around 1548. These vines were planted throughout Chile in areas that produce much of the country's wine to this day (Wines of Chile, 2008).

Throughout the 20th century, Chile became an example of seclusion and distance from the rest of the world, despite its success during the latter half of the 19th century. The two World Wars and decades of protectionism from the state coupled with bad regulations and high taxes during this time caused Chilean wine to fall off the map until the 1980s (Wines of Chile, 2008).



Figure 2: The trans-Atlantic travel of the time brought the Phylloxera louse from America to Europe which decimated the Old World wineries that were defenceless against this aggressive louse. The plague was then brought back to America, yet it never reached Chile. This proved to be a big break for Chilean wine-makers, because before the outbreak vines were imported from France to Chile. Due to the damage that had taken place in Europe and America, professional oenologists from Europe were willing to travel to Chile for work and they brought their expertise with them.

HISTORY OF CONCHA Y TORO

Concha y Toro is not only the largest wine-making company in Chile and all of South America, but is also the ninth largest producer in the world (D. Pérez, sommelier, Concha y Toro Pirque Wine Tasting Center, personal communication, November 24, 2008).

The Concha y Toro company was started by local politician and businessman Don Melchor Concha y Toro. He brought grape vines from Bordeaux to Chile and planted them at Pirque in the Maipo Valley, just south of what is now Greater Santiago. He also invited French enologist Monsieur Labouchere to Chile after the Phylloxera louse launched its attack on Europe (Concha y Toro, 2008a). This location is now the Pirque Wine Center, and I visited there to talk with a Concha y Toro sommelier (D. Pérez, personal communication, November 24, 2008).



Figure 3: Photo taken by Eamonn Smith

The success of Concha y Toro in the last 50 years has largely been thanks to Eduardo Guilisasti Tagle, who joined the company's board of directors in 1957, ascending to Chairman of the Board in 1971 where he remained until 1998. Don Eduardo focused the company heavily on incorporating new technologies and purchasing French oak barrels to produce a higher-quality product in the 1980s, and switching the sales focus to international markets in the 1990s (Concha y Toro, 2008a).

In 1993, Concha y Toro created a subsidiary called Viña Cono Sur in order to sell more budget priced wines without tarnishing the Concha y Toro name. Today, Concha y Toro and Viña Cono are the two most successful Chilean wineries in the United Kingdom (D. Pérez, personal communication, November 24, 2008).

In 1994, Concha y Toro became the first wine-making company to be traded on the New York Stock Exchange, which resulted in \$53 million in capital raised (Concha y Toro, 2008a).

Concha y Toro has also expanded its vineyards into the nearby Mendoza Region of Argentina. By doing so, they were able to add new varietals to their collection and take market share away from their largest continental rivals in Argentina. Their Trivento Bodegas y Viñedos in Argentina is now the second largest producer of wine in the country.

By 1999, *Wine Speculator*, one of the world's foremost authorities on wine gave Concha y Toro the title of the most important producer of wine in Chile and Argentina. That year, the magazine also named Don Melchor the Best Cabernet Sauvignon and the Trio the Best Merlot of the Decade.

In 2001, the company's first office abroad was opened in the U.K. and since then Concha y Toro has continued to grow its stake in the world market (Concha y Toro, 2008a).

THE COMPANY TODAY

Today, Concha y Toro is Chile's largest producer and exporter of wine and one of the top 10 wine-making companies in the world. Their business strategy is based on market diversification to participate in all segments of the wine market. At the moment they have leadership positions in key markets like the United Kingdom, United States, Canada, Scandinavia, Eastern Europe, Japan and Latin America.

According to the company fact sheet (2008), Concha y Toro's strength is built on the foundation of heavy investments into the latest technologies and production techniques. As a result, they are able to consistently produce a quality wine at low cost. Concha y Toro is working hard to extend their brand image and penetrate new markets. (Concha y Toro, 2008b).

ASSESSMENT OF THE GLOBAL WINE MARKET

I will now conduct an assessment the competitiveness of the global market for wine using Porter's Five Forces Model (1980). The Five Forces that Porter refers to in his model are: the threat of entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the degree of rivalry between existing competitors.

The first of these is one of the more severe threats to the Concha y Toro company, particularly in the long term. The threat of new entrants into the market will raise the overall level of competitiveness in the market. Chilean wines are classified as part of a group called New World wines. Some of the markets that are considered to be part of the New World wine scene are Australia, Chile, South Africa, California, New Zealand, and Chile's most dangerous New World competitor Argentina. Argentina is the most dangerous threat to Chilean wine-makers as it possesses many characteristics similar to Chilean wine; however, Argentina has 80 per cent more arable land than Chile. (Wharton School, 2008). Furthermore, Argentina has a stronger relationship with Brazil, a country that Chile has selected as a potential source of growth (D. Pérez, 2008).

In the long-term forecast, by far the most threatening new entrant to the global wine market is China. I found two recent articles that outline the rapid growth of wine consumption and production in China. The first article is called "Chinese Wine Production Soars" (Evans, 2008) and states that last year's numbers make China the number six producer of wine in the world as it has seen the emergence of over 100 new wineries since the 1990s. The second article is called "Will China Lead the World in Wine Production by 2060?" (Styles, 2008) and outlines a report by London-based wine merchants Berry Bros. and Rudd that claims that China will in fact lead the world in wine production by 2058. The report argues that with growing internal demand and a vast geography that undoubtedly holds some areas that will "rival the best of Bordeaux"; China is set to dominate the world market for wine. These views are shared by sommelier Christopher Kerridge (personal communication, December 5, 2008).

However, the threat of new entrants into the market is mitigated by the high barriers to entry that exist in the wine-making industry. Large investment requirements are needed to create a wine-making facility, especially one capable of taking a stake in the export market. Great time investments are also required to launch a vineyard, which means that not only is it expensive to enter the market, it also takes many years, and the empty space once perceived in a market may be filled by the time you are ready to make sales. Furthermore, there are barriers to entering the distribution systems used by wine-makers as there is limited space on liquor store shelves and restaurant menus that is already aggressively fought over by existing competitors.

The second of Porter's Five Forces is the threat of substitutes. This threat is significant primarily in the global alcohol market. The main threats to wine-makers around the globe come from spirits and beer (C. Kerridge, personal communication, 2008). These spirits include: scotch, brandy, and high-quality vodka. Ms. Pérez (personal communication, 2008) informed me that Concha y Toro is taking steps to take over some market share from these products in countries such as Russia, which has a high population of vodka drinkers. The willingness to substitute has an interesting component to it, in that the wine market has a great degree of national pride involved. This is especially true in the European countries like France, Spain and Italy.

The bargaining power of buyers in the global wine market is relatively low as there are many different wine options. However, in the global wine market there are several types of buyers.

In the sense of the individual consumer, there are many consumers of wine globally, and this limits their respective buyer power. There is much higher bargaining power in the restaurant market, especially because large chains of restaurant are growing in popularity and the wine list that is selected by head office will be duplicated in each location. There is, however, both a low threat of buyers integrating backwards into the industry and a low threat of suppliers integrating forward in the industry.

The relative bargaining power of suppliers in the wine industry is not that significant, considering that most of what Concha y Toro needs to produce their product, they have already purchased. As mentioned before, Concha y Toro has made the large investments that it needed in wine-production technologies; however, during my discussion with sommelier Chris Kerridge at the Bear Mountain Resort in Victoria, he informed me that the major threat from suppliers comes from the supply of barrels. The barrels that Concha y Toro uses are made from French oak which is three times as expensive as American oak, which could lead to potential problems for the company if the global demand for French oak surpasses the supply.

The final force outlined by Porter is the intensity of rivalry between existing firms. In the global wine-making industry, this competition is immense. The structure of the market is such that there are many firms competing for a piece of the market with no one, clear leader. The structure of industry costs in the market is that there are high fixed costs, which can make wineries cut their prices readily in order to compensate for an excess of production. The degree of differentiation in the market is great, which reduces its overall competitiveness. In a market with little differentiation, there would be great pricing competition. Finally, the exit costs of leaving the industry are low, even though there are high fixed costs; other companies are likely to buy a bankrupting company out in order to increase their own production.

SWOT ANALYSIS

The SWOT Analysis technique is used to determine the strengths, weaknesses, opportunities, and threats that face the company as a whole. I would like to apply this technique to Concha y Toro.

I believe that Concha y Toro is a well-positioned company whose strengths greatly out-weigh its weaknesses. The first of Concha y Toro's strengths is that it is a vertically integrated company with its own bottling facilities, vineyards, and wine production facilities. Its second major strength is that in the past it has made significant investments into the latest wine-making technologies, which now allows the company to produce wine with cost-efficiency and consistency. Concha y Toro also possess a strong brand image that is continually growing. Finally, Concha y Toro, and all Chilean wine-makers, have managed to avoid the spread of the Phylloxera louse to their vines. By avoiding this problem, Chilean vines do not need to be grafted, making the wine cheaper to produce.

Although the brand image for Concha y Toro and its subsidiaries is growing, the fact that it has not yet reached the point of truly global recognition proves one of the major weaknesses of Concha y Toro's operations. Given all the advantages that the company has, there should not be a problem with the global perception of the quality of their product.

For many people, Chile is an unknown country, and since it is in South America they know little about its business practices. When it comes to innovation, they know us in other sectors outside of wine. Clearly, Wines of Chile, an organization that promotes 90 Chilean wines from its offices in Santiago and London, has done little to change that. If you watch a Davis Cup match and then look at the promotions for Colombian coffee, for example, it becomes obvious that they are still investing little in Wines of Chile. (Wharton School, 2008).

In the past 30 years, Chilean wine-makers have successfully marketed their product as the best value wine, because it is quality wine at a reasonable price. With the emergence of Argentine wines that are pricing themselves at \$40 a case instead of just over \$25 (the typical price for a case of Chilean wine) (Ibid), it seems as though Concha y Toro has been pursuing a strategy that has left them undervaluing their wines and thus limiting their profit margins.

In recent years, Concha y Toro has made significant growth, and I believe that if they were fully able to expand on their opportunities, their growth would increase at an even more rapid pace. The first opportunity I had a chance to discuss this was with Daniela Pérez at the Pirque Wine Tasting Center (personal communication, November 24, 2008).

We discussed the notion of Concha y Toro’s expansion into growing markets. The example that was discussed specifically is Brazil. As an increasingly affluent market that is seeing levels of growth greater than many western nations, Brazil offers an excellent opportunity for growth.

Not only are is Brazil an increasingly affluent nation, but the country is one of the few markets geographically close to Chile, which would greatly reduce the transportation cost for shipping the product. I believe that there is also potential growth in other increasingly affluent nations like China and Russia.

Wine consumption is seeing growth in many markets; for example in Canada, wine consumption surpassed that of spirits in 2006 (C. Kerridge, personal communication, 2008). Opportunity for growth in the west could hinge on the growing preference for organic wines. As more and more chemicals like pesticides are being introduced into agriculture, many people are searching for products that do not contain these components.

Although I see many opportunities for the Concha y Toro company, I can also find some threats facing the company that need to be addressed. The first of these is the spread of spores and diseases to the wine that some feel will inevitably reach the Chilean wine-growing regions (C. Kerridge, 2008). The second threat is that since Chile is long, narrow country running north-to-south, it would seem inevitable that they will begin to run out of land that is suitable for the production of wine in Chile. Another major threat to wine-makers around the world is global warming. As noted in the article “The Future for Chilean Wines Turns Sour” (Wharton School, 2008), the world is generally uninformed about the value of Chilean agricultural products. The article puts much of the blame for this on ProChile, a government organization whose goal is to promote Chilean products worldwide. Finally, the global economy has dropped significantly in the last six months, which has the potential to drastically reduce the company’s sales.

Figure 4: Photo taken from Google images



Table 1: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Unaffected by the Phylloxera louse • Vertically integrated • Growing brand preference • Latest technologies and techniques 	<ul style="list-style-type: none"> • Promoting the brand • Poor effort from Chilean organizations Wines of Chile and ProChile in promoting Chilean wines abroad • Pricing strategy
Opportunities	Threats
<ul style="list-style-type: none"> • New markets like Brazil, Russia and China • Increasing popularity of wine globally • Various climate zones in Chile • Increasing global preference from organic products 	<ul style="list-style-type: none"> • Running-out of usable land • Phylloxera louse could reach Chile • Global warming • Global economic recession • Poor global opinion of Chilean agricultural products • Limited world supply of French Oak

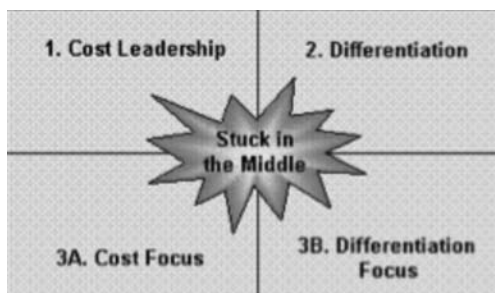
RECOMMENDATIONS

After performing the analysis, I have generated a series of recommendations designed to help the company mitigate threats and sustain growth over the short and long term. The first recommendation is designed to reduce a major threat to Concha y Toro and the whole Chilean wine-making industry. The Phylloxera louse that devastated the European vineyards in the 19th century could still make it to Chile in this day and age, especially as globalization spreads. Currently many vineyards in Chile go un-grafted. The process of grafting, while chemical-free, is costly and adds extra time to the amount needed for the vines growth. This has been a source of competitive advantage as Chilean vineyards claim that you can “taste the difference” (D. Pérez, personal communication, November 24, 2008) even though there is no difference in the composition of the grapes. The threat is that if the Phylloxera louse were to somehow make it Chile, it would decimate the crops. By spending the time and money needed to begin the process of grafting now and spreading the investment out over time, Concha y Toro and all Chilean vineyards can avoid the loss of harvest and the huge one-time investments that would be necessary to solve the problem, should it suddenly arrive on Chile’s shores.

A second threat I found from my research is that there is a limited supply of French oak in the world, and Concha y Toro runs the risk of either being forced to pay extremely high prices for the material, or having to make the switch to a different type of oak for use in their barrels. Some suggest that Canadian oak is the middle-ground between French and American oak, while the Italian have a long history of using oak from Eastern Europe, which is also cheaper than French (Robinson, 2003). Concha y Toro will need to begin searching out alternatives to the French oak that is in limited supply.

Concha y Toro prides itself on being a company with a highly-diversified product line; however, after talking with Daniela Pérez and Christopher Kerridge (2008), it is apparent that there needs to be a heavier focus on organic wine-making. Concha y Toro has already made the capital investments required to make this possible and, according to Ms. Perez, already has a line of organic wines under the name Emiliana. I suggest that Concha y Toro invest more of their marketing efforts on promoting this specific line, as well as creating new lines of organic wines to fulfill the demand for this specific type of wine. Although this is only one product type that I feel they need to further promote specifically, this leads me to my next major suggestion.

Figure 5: Photo taken from 12manage.com



A new pricing strategy combined with a new focus on promotion of the product and industry as a whole is needed in order to advance the interests of the company. I recommend that Concha y Toro change their pricing model to be more similar to that of Argentina. For years Chile has been producing high-quality wines, but selling them at a value price. This strategy has worked in the past as crop production increased year after year, but Chile has to realize that they are operating with limited amounts of land space and that being the low-cost producer will not be a successful strategy in either the short or the long term.

As mentioned earlier, the company and the two organizations devoted to the promotion of Chilean wine need to advance their promotion efforts. The two strategies for competitive advantage are either low-cost producer or differentiation. For years, Chile has been successful in a dangerous place: the middle. Although Concha y Toro has wines in almost every segment of the industry, I suggest that they put a heavier focus on differentiation. They could do this by focusing more of their investment on advertising and promotion. I suggest that they exploit their history of nearly 500 years of wine-making to compare themselves with the Old World wines, instead of the New World.

The most effective use of their time and money would be to work with the two organizations and other Chilean wine-makers to promote Chilean wine as a whole.

Although this strategy would not put this focus on Concha y Toro in particular, as Chile's largest producer of wine, they would benefit the most. By working with the other wine-makers to raise funds for promotion, they can also reduce some of the investment necessary from their company.

It is in my opinion that in the long-term Concha y Toro cannot count on being the low-cost producer of wine in the world because of the lack of space available and the predicted emergence of China as a major producer. With China's land resources and investment money that can greatly out-match Chile, it is going to be imperative to the survival of the industry in Chile to move towards differentiation.

My final suggestion to the Concha y Toro company focuses on the longer term. As discussed earlier, there is a limited amount of land in Chile that is suitable for producing wine. In order to remain in a leadership position in the global market for wine, Concha y Toro is going to have to expand its operations beyond the Chilean borders. I suggest that they start this process by moving into Argentina. They are already the second largest producer of wine in Argentina through their subsidiary Viña Trivento, but they should work hard to secure more land in Argentina in order to secure their position as the largest producer of wine in South America (Concha y Toro, 2008b). This is a position that they cannot afford to lose. With global warming being an imminent threat, Concha y Toro ought to seek places to invest in emerging areas for wine production. The article "China Will Lead the World In Wine Production by 2060?" (Styles, 2008) says that some of the new wine-making hubs of the world that will emerge in the next 50 years will be: Canada, China, Eastern Europe and even the United Kingdom. They should take a lesson from history as it always repeats itself. When the Chilean wine market was just emerging, there was plenty of investment from existing wine giants in France and Spain. Now that Chile is wine-making giant in the world, it is their turn to make investments in emerging wine-producing regions to secure their long-term existence.

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Singapore's Small Business Sector and the Financial Crisis: Is the Small Business Sector Positioned to Survive?

Heather Cameron

ABSTRACT

Global financial distress caused by the sub-prime mortgage crisis has created several difficulties for the nations of the world. One of the most prominent of those areas affected is the small business sector, as businesses struggle to receive access to credit and demand for products and services. Singapore, one of Southeast Asia's most thriving economies, has been heavily impacted by this crisis. This paper discusses the topic described above and focuses on the nation of Singapore. The information presented has been sourced from online newspapers, government and company websites, personal interviews, and academic literature. This paper will examine how small businesses have been affected by the crisis, what assistance the government has provided to support the small business sector, and what strategies small businesses should adopt in order to minimize risk and ensure competitiveness. Several accounting concepts will be applied to illustrate how businesses can mitigate risk. This paper proves that the small business sector in Singapore is fairly well-positioned to recover from the financial crisis. It illustrates that despite the impact of the crisis on the Singaporean economy, small businesses have been equipped with extremely supportive government assistance programs and other external sources of support. However, it is suggested that small businesses must also examine their internal operations and adopt the necessary changes in order to survive. This paper concludes that small businesses in Singapore who are able to adapt to changes inherent in the marketplace have the opportunity to derive a competitive advantage over those who resist change.

INTRODUCTION

Global financial disorder has been caused by what is known as the sub-prime mortgage crisis. The crisis occurred within the mortgage market following an increase in mortgage foreclosures, and collapsed mortgage lenders and hedge funds. The effect was felt in the credit market worldwide as risk premiums increased and capital liquidity was reduced. The dramatic increase in foreclosures and the resulting problems can be attributed to loose lending practices, low interest rates, a housing bubble, and excessive risk adopted by lenders and investors (Investopedia, 2009). Nations' governments have addressed the effects of the crisis as they attempt to stabilize the financial system.

The "credit crunch" poses several implications for businesses, among which small businesses have suffered substantially. Small businesses are struggling as access to credit is threatened and demand for products and services are decreasing. It is thus imperative that measures are adopted to help protect small businesses from the troubles that have arisen in the market.

Singapore, one of Southeast Asia's most developed and prosperous countries, has experienced a weakened economy as a result of the current economic crisis; the small business sector is one that has been hit particularly hard. The government of Singapore has been especially supportive, as they have provided numerous initiatives to support small businesses. Additionally, small businesses in Singapore have adopted strategies internally for coping with the hardships associated with the crisis.

The financial crisis threatens the stability of organizations in Singapore. However, those that adapt to changes inherent in the market will have greater potential to survive. To outline the impact of the crisis and the solutions available for small businesses within Singapore, the following topics are of significant importance to identify: how small businesses have been affected, what assistance the government has provided to support the small business sector, and what strategies small businesses should adopt in order to minimize risk and ensure profitable longevity.

SINGAPORE

Located off of the southern tip of the Malay Peninsula, the island of Singapore is a major center for business and commerce, and has been extremely successful in this sector. The country's population of 4.5 million people does not represent one dominant national identity, but is comprised of Chinese, Malay, and Indian ethnicities. Each ethnic group is perceived to be important to the diversity of the country. Thus, to be successful in conducting business in Singapore, one must consider the differing cultural values and traditions present (Warmstam, 2007).

Singapore's strategic location, hardworking and educated workforce, and stable political environment give it an economic importance in Southeast Asia. When Singapore separated from Malaysia in 1965, it lacked physical resources and had a small domestic market. Thus, the government introduced a pro-business, pro-foreign investment, export-oriented economic policy, and state-directed investments in strategic government-owned corporations. This proved to be largely successful, as the country displayed growth of eight per cent from 1960 to 1999. Following the Asian financial crisis, the economy improved further, producing a growth rate of 9.9 per cent for the year 2000. Today, Singapore boasts one of the highest gross domestic product (GDP) rates in the world (Wikipedia, 2009). A successful free-market economy, English as its main business language, and low levels of corruption make Singapore one of the easiest places to conduct business in Asia (Contact Singapore, 2007).

SINGAPORE'S BUSINESS ENVIRONMENT

Manufacturing and financial business services are the staples of the Singapore economy, accounting for 26 per cent and 22 per cent of the country's GDP. Electronics is the primary sector of the manufacturing industry, producing 48 per cent of total output. In an effort to remain competitive in the world market, the government is promoting higher value-added activities, specifically in the manufacturing and services sectors. The financial services, telecommunications, and power generation and retailing sectors have recently been opened to foreign service providers to assist in promoting competition (Wikipedia, 2009).

The World Bank Group and PricewaterhouseCoopers have ranked Singapore as number one for its ease of doing business in Asia. Additionally, KPMG has ranked the nation first for being the most cost-competitive place for business. Thus, it is of no surprise that Singapore is a popular destination for international business operations, such as multi-national corporations (MNCs) and start-ups, as well as entrepreneurs. These businesses thrive in this economy because of Singapore's highly skilled workforce, low tax regimes, simple application procedures and government funding (Contact Singapore, 2007).

SINGAPORE'S SMALL BUSINESS SECTOR

In Singapore, small and medium enterprises (SMEs) make up more than 95 per cent of the nation's total enterprises and contribute to nearly half of gross domestic product with roughly 180,000 small businesses present (F. S. Tong, personal communication, April 9, 2009). Between the years of 2002 and 2006, the number of businesses formed annually increased from 36,000 to more than 45,000. The small business sector in Singapore continues to grow at a fast pace as the number of businesses formed each year rises. Small businesses are responsible for employing about 60 per cent of Singapore's entire workforce, creating roughly 145,000 new jobs in the year of 2007 (H. A. Rahman, personal communication, March 27, 2009).

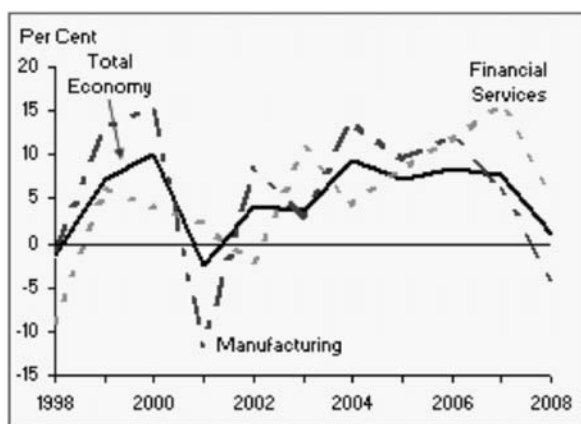
Family run businesses dominate the small business sector of Singapore. Of the 180,000 small businesses present, roughly 80 per cent are family owned. These businesses are characterized by centralized decision-making and the dominance of nepotism. As a single family controls ownership and management, many businesses in Singapore are better able to adopt a long-term view of their investment than that of a publicly owned company. Additionally, as employees are comprised of relatives, family businesses enjoy reliable and cheap labour, often demanding employees to work harder for less pay (F. S. Tong, personal communication, April 9, 2009). Fock Siew Tong, associate professor of banking and finance at the Nanyang Business School in Singapore, states that this "practice may [contribute] to such family businesses' resilience and competitiveness particularly in tough times," (Ibid).

SINGAPORE AND THE FINANCIAL CRISIS

Despite Singapore’s flourishing business environment, it is not immune to the effects of the current financial crisis. The Singaporean economy’s ability to manage its previously thriving economy is being tested as it faces its worst-ever recession since 2001. Due to government support in cutting business costs, Singapore was able to come out of the Asian financial and economic crisis with a strong rebound. During the downturn in world trade in 2001-2002, the government increased spending and boosted its efforts to restructure the economy (The Economist Intelligence Unit, 2009).

Presently, the Singapore economy is experiencing its “sharpest, deepest, and most protracted recession,” said a ministry secretary of Singapore (France 24, 2009). In 2008, the economy grew by approximately 1.2 per cent, down from that of 2007, which reported 7.7 per cent growth (Fig. 1). Despite the nation’s efforts to avoid falling into recession, Singapore was the first in Southeast Asia to officially enter into a recession in October 2008. Since January 2009, the recession has become more severe as forecasts of economic shrinkage proved to be underestimated for the fourth quarter of 2008 (Ibid).

Figure 1: Real Economic Growth
February 2009 (Government of Singapore)



The results were unfavourable, as based on a “seasonally adjusted, annualized quarter-on-quarter basis; the economy fell by 16.9 per cent, after a decline of 5.1 per cent in the third quarter and 5.5 per cent in the second” (France 24, 2009). The fourth quarter drop marked the largest since 1976. The Ministry of Trade and Industry have lowered the full year growth forecast for 2009 to roughly three per cent as the global economy and key domestic sectors experience a drastic slowdown (Agence France Press & MSN Singapore, 2009). Singapore is Southeast Asia’s wealthiest economy with respect to GDP per capita; however, its dependence on trade makes it more responsive to economic instability in developed nations (France 24, 2009).

The overall unemployment rate rose to 2.5 per cent as of December of 2008, which is up 0.3 per cent in just four months (Table 1). Fueled by the decline in output, labour productivity fell by 12 per cent in the fourth quarter of 2008 as compared to 0.8 per cent during the same period of 2007. This reflected slower GDP growth in the first half of year 2008. Employment growth has slowed down as a result of the weakened global economy. Businesses are also finding it difficult to maintain past levels of employment (Table 2).

Table 1: Unemployment Rates
Last updated: 16 March 2009 (Ministry of Manpower, 2009)

	2005	2006	2007	2008
Unemployment Rate (%)				
Annual Average	3.1	2.7	2.1	2.2
Seasonally Adjusted as at				
Mar	3.2	2.5	2.8	2.0
Jun	3.3	2.7	2.3	2.2
Sep	3.3	2.8	1.7	2.2
Dec	2.6	2.7	1.7	2.5

Table 2: **Retrenchment.** Last updated 16 March 2009,
Source: (Ministry of Manpower)

	2005	2006	2007	2008
Retrenched Workers (Number)	10,290	12,600	7,680	13,920
1st Qtr	2,170	3,650	1,960	2,270
2nd Qtr	2,120	3,260	1,920	1,800
3rd Qtr	2,810	2,470	1,830	2,350
4th Qtr	3,200	3,220	1,970	7,500

The slowdown was experienced among many industries, with the manufacturing industry leading the way as it terminated 7,000 workers in the fourth quarter of 2008 alone. This was the first contraction experienced in the sector since 2003 (France 24, 2009).

Singaporean businesses have experienced several challenging periods including the recessions of the 1970s and 1980s, the SARS epidemic, the Asian financial crisis of 1997, and the 2001 dot com bubble. However, “because the Singaporean economy is small and extremely disciplined, it is easier to manage,” said Dr. Fock, associate professor of banking and finance at Nanyang Business School (personal communication, April 9, 2009). Fock also stated that as a result of Singapore’s size and the existence of vast government reserves, the Singaporean economy is expected to be one of the first to recover from the crisis (Ibid).

Singapore is not the only country experiencing economic crisis; the impact has been felt worldwide. The governments of the world’s nations have implemented numerous initiatives including rescue, or bail out, packages to help mitigate the risks and hardships associated with the crisis. A specific focus of such initiatives is assisting small businesses in coping with the hardships currently experienced. Before delving into the descriptions of such initiatives, it is important to consider the effect that the financial crisis is having on small businesses.

SMALL BUSINESS AND THE FINANCIAL CRISIS

The situation faced by small businesses can be best explained by referring to the economic principles of supply and demand. Credit supply and/or access to credit may be affected by a decline in the willingness of banks and lenders to approve loans, and is created because of the current credit market disruptions and stresses experienced in the financial markets. Access to credit, for small businesses is, or can be, reduced by a decline in the creditworthiness of the business itself. This can be a result of depreciation, or decline, in the value of a business’ collateral that they can post back to a loan. In contrast, a decrease in demand for small business’ products and services, occurring as a result of weakening macroeconomic conditions, reduces current and forecasted sales and revenues (Krosznie, 2008). Governor Randall Krosznie of the United States has suggested that the “likely resulting pullback in expansion plans will reduce business’ demand for credit over and above any effects coming from the supply side of the market” (Ibid).

Small businesses are struggling as commercial banks tighten their credit terms and increase the interest rate spreads and fees. Banks have become more reluctant to lend, not only because of the decrease in the creditworthiness of their customers, but also because banks have been impacted by the financial crisis themselves. As small business clientele hold less disposable income, demand for products and services has lessened and businesses are finding it difficult to raise the necessary capital to fund their daily operations. When combined with more stringent lending standards, this creates a difficult environment for small businesses to operate in. It can be concluded that the two most fundamental issues for small businesses in the face of the economic crisis are: receiving access to credit and creating demand for products and services.

In Singapore specifically, domestic banking lending fell by \$1 billion, or 0.4 per cent, from November to December 2008. This sharp decline was intensified by a reduction in lending to businesses, which dropped by \$5.4 billion, or 3.3 per cent, over a two-month period (Siew, 2009). This demonstrates that the supply of credit in Singapore is declining. “One of the primary issues for businesses, more importantly those in Singapore, is that it is difficult to withstand extended periods of crisis,” said Dr. Fock (personal communication, April 9, 2009). The current financial crisis can be described as L-shaped, implying that the outlook for the economy is severe and future recovery is unknown (Ibid). Thus, another important issue arises: what can be done to help small businesses in the face of the crisis?

GOVERNMENT INTERVENTION IN SINGAPORE

It has been suggested that there is little that the government can do to aid the economic situation, except cushion the impact of the recession through its budget (Krosznie, 2008). A “resilience package,” which includes a US\$13.7 billion budget, will be implemented to support the Singaporean economy. This resilience package includes initiatives to protect jobs, stimulate bank lending, enhance business cash flow and competitiveness, support families, and develop infrastructure (The Economist Intelligence Unit, 2009). This plan has obvious benefits to small business; however, as the government strives to protect jobs, small businesses must strive to retain employees. During a time when businesses are attempting to cut costs or are in a position where they must relieve employees resulting from a lack of workload, small businesses may find it difficult to maintain staffing levels and protect employee’s jobs.

The government has introduced a multitude of funding and relaxed criteria in an effort to support small businesses during the current economic crisis, including: loans and loan insurance, grants, start-up capital, tax rebates and relief, training grants, and other initiatives.

Loan and Loan Insurance

The effectiveness of the pro-business measures in the year’s budget is yet to be determined. The Special Risk-Sharing Initiative (SRI) has been introduced with the intention of stimulating lending to companies by the nation’s banks. However, this still means that the banks make the ultimate lending decision. Therefore, there is no guarantee that bank lending to small businesses will improve. It has been suggested that some banks may fulfill their responsibility in proactively dealing with SRI loans; however, that they may only provide loans to strong customers, while declining loans to smaller companies (Siew, 2009).

In an effort to eliminate the possibility of bank failure to increase loan approval rates, it has been suggested that the government consider setting up an interim agency to issue loans to local businesses. Such an agency would administer the loans; however, the government would have the final say as to which companies are credit worthy (Siew, 2009). The government, however, will not engage in such activities as it is believed that banks possess direct relationships with their clientele that assist in contributing to their knowledge and understanding of businesses. In addition, banks possess the expertise in credit assessment among a diverse range of businesses. Thus, the SRI has been introduced and contains two primary initiatives: a new Bridging Loan Program and Trade Financing (Anastacio & Min, 2009).

The Bridging Loan Program includes relaxed criterion and higher loan quantum. The initiative enables businesses to receive a loan of up to S\$5 million to fund the daily operations of a business, also known as a working capital loan (Government of Singapore, 2009a). Trade financing assistance has been provided as a means to share risk, which includes 75 per cent responsibility for trade loans. This is of significant importance to companies that have existing orders or who require a loan to fulfill their orders. The government also provides insurance against risk of buyers defaulting on payments (Anastacio & Min, 2009).

When the government accepts a portion of the perceived risks to lenders, businesses will be more easily able to receive loan support as lenders are more likely to approve a greater number of loans. This is based on their knowledge that the government, which is seen to be more secure, will take on responsibility should a borrower be unable to meet loan obligations.

Beyond the two initiatives mentioned under the SRI loan, the government has introduced many others. The initiatives of particular importance for the purpose of this paper apply specifically to small businesses.

Firstly, the Micro Loan Program and the Loan Enterprise Finance Scheme are two loan assistance programs provided by the government. Under these two loans, the government provides funding to businesses, accepts a bigger share of loan default, and offers lower interest rate on new and existing loans. The purpose of these programs is to fund daily operations as well as automate and upgrade equipment and factory (Government of Singapore, 2009b; Government of Singapore, 2009c).

The Loan Insurance Scheme provides relaxed criteria to businesses, lower insurance premiums, and higher loan amounts. This loan can be used for a large variety of initiatives ranging anywhere from establishing a viable new business to supporting and funding majority-owned overseas subsidiaries (Government of Singapore, 2009d).

These loan initiatives have three primary benefits to small business including improved access to loan support, in larger amounts, and at a lower rate. During a time when businesses find it difficult to locate sources of cash, let alone receive a loan, these assistance offerings become invaluable.

Grants

The SME Management for Results Program, also known as SMART, is a grant created to support businesses during the economic crisis by providing higher funding. The objective of the grant is to expand and reinforce SME's management systems and processes in a systematic manner. The SMART initiative is specifically designed to assist businesses in the development of a "roadmap" to help build their capabilities with respect to specific areas of priority. A consultant is provided for the business who works with the management team for five days over a period of two to three months. Standards, Productivity and Innovation for Growth (SPRING), formerly the Standards, Productivity and Innovation Board, backs businesses by providing up to 70 per cent of the qualifying consultancy costs incurred (Government of Singapore, 2009e).

Start-up Capital

Two initiatives exist to assist in providing businesses with start-up capital. This includes the Business Angels Scheme and the SPRING Start-up Enterprise Development Scheme. The former includes S\$2 for every S\$1 invested in start-up with the maximum investment amount increased to S\$1.5 million and the latter exhibiting the same terms except the maximum investment increased only to S\$1 million. The objective of the stated initiatives is to promote proactive business angel investments in innovative seed or early stage start-up companies (Government of Singapore, 2009f).

Tax Rebates and Relief

A substantial number of tax rebates and relief initiatives have been introduced to businesses throughout Singapore for a broad range of business activities (Government of Singapore, 2009f). Providing such rebates or discounts frees up cash for small business that otherwise would have been indebted.

Training Grants

The Skills Program for Upgrading and Resilience (SPUR) boosts funding support for employee training in Workforce Skills Qualifications, which are nationally or industry recognized courses. This initiative is designed to assist companies in saving "manpower cost" and improve their ability to manage their excess manpower; upgrade the skills of local workers and transfer employees into new jobs; and strengthen manpower capabilities in an effort to improve Singapore's position to upturn its workforce. Currently, there are 800 courses offered through SPUR and the number of programs available is being expanded. If the necessary courses cannot be found, a company can receive SPUR funding to pay for in-house training programs (Government of Singapore, 2009g).

The Jobs Credit Scheme provides cash grants for local employees on Central Provident Fund (CPF) Payroll. CPF is a social security savings plan that assists Singapore's citizens in their retirement, healthcare, home ownership, family protection, and asset enhancement needs (Lan, 2007). The objective of this initiative is to encourage businesses to retain jobs during these rough economic conditions (Government of Singapore, 2009h).

Other Initiatives

Finally, the Ministry of Manpower and its tripartite partners have provided guidelines on managing excess manpower and assist companies in coping with the economic downturn. These guidelines encourage companies to consider reduction of expenditure as a last resort. In order to avoid such actions, companies need to examine potential alternatives (Government of Singapore, 2008).

One could conclude that the Singaporean government is deeply concerned about the problems that small businesses are facing and is prepared to provide assistance through a broad range of programs. Many other assistance programs exist to help businesses both through the government and external sources. One such program is the EnterpriseOne Business Information Services, also known as EBIS. This organization is partnered with SPRING, a government entity, the National Library Board Singapore and International Enterprise Singapore (EnterpriseOne, 2007). EBIS "aims to empower businesses by offering Customized Business Intelligence & Leads, Business Learning & Networking Opportunities and Business Information Resources to equip them with the knowledge and skills to compete effectively both in the local and global marketplace" (Ibid). EBIS is an excellent source for businesses to contact when in need of information or assistance, and is utilized by many businesses in Singapore. As small businesses are struggling, it is extremely important that business owners seek assistance and support from external sources; however, it is also critical that business owners examine and make adjustments to their business operations internally.

BUSINESS SOLUTIONS

As previously mentioned, Singaporean businesses are facing a number of challenges. The global economic crisis will have an ongoing and substantial effect on the means by which business is conducted. The main concern for businesses at this point in time is their cash flow and profitability, both of which are integral to a firm's survival and success (*The Business Times*, 2009).

As a business owner, one's goal is to maximize profit. A lender is unlikely to approve a business loan unless they consider a business to be profitable; otherwise, a lender could conclude that a business owner is not assuming their role and the business is not being managed effectively. (Tong, personal communication, April 9, 2009). Thus, if businesses wish to improve upon their chances for loan approval, they need to focus on profitability.

A lender is interested in two important aspects of a business when determining its eligibility for loan approval: first is the examination of the nature of the borrower's business with respect to its industry, and second is the analysis of cashflow. The most important concern for a lender to consider is "whether a business in performing its regular operating functions can continue to generate cash in sufficient quantity and in satisfactory time to meet all operating and financial obligations" (Hale, 1983). In other words, a cash flow statement is intended to provide a basis for estimating the future ability of a business to generate cash. Thus, it is imperative that businesses focus on cash flow as a major priority when seeking approval for loans, and is of particular importance during a time when banks are tightening their lending terms.

Cash is an integral aspect to the operation of a business and, if not managed effectively, will create problems with respect to a business' ability to meet its obligations. As businesses cannot depend on approval for short-term financing, they cannot expect that shortfalls in cash will be covered. Businesses must unlock hidden cash by increasing efficiency and improving their cash position, instead of relying on external sources for financing (*The Business Times*, 2009). As previously mentioned, business owners cannot rely on approval from banks for financing because banks have become reluctant to lend. Therefore, it is extremely important that businesses focus on finding, or creating, internal sources for financing.

There are several steps that small businesses should take in order to improve upon, or protect, their current position, the first being adopting a risk management mindset (*The Business Times*, 2009). In doing so, businesses will identify new opportunities that may emerge with greater ease. A business owner should do the following:

Conduct Research. Specifically, a business should examine why customers buy their products or services, and why consumer spending on their product is decreasing (*The Business Times*, 2009). These answers could help businesses identify areas to create or improve upon demand for a given product or service.

Determine Key Indicators. These indicators will inform an owner of how their business is doing and could include: tracking daily sales, cash balance, debtors' balance, and quantity of key stock purchased (*The Business Times*, 2009).

Outsource. Doing what has been effective in the past may not be desirable during these current economic conditions. A business may consider hiring an external professional or consultant to review business operations (*The Business Times*, 2009). A business owner should employ the assistance provided by the government through the SMART program, whereby the business would receive support from an external consultant in ensuring that their business is on track, establishing priorities, and planning for the future. Additionally, a business should utilize the 70 per cent rebate of the consultancy fees incurred through SPRING.

Develop Financial Management Strategies. The strategy should seek to improve cash position and/or profitability without capitalizing the business' ability for future growth (*The Business Times*, 2009). A business owner could consider any one, or combination, of the loans offered by the Government of Singapore as a means for assistance with loan responsibility. Such loans would include the following: either of the two loans offered under the Special Risk-Sharing Initiative, the Micro Loan Programme, and Loan Insurance Scheme, or the Local Enterprise Finance Scheme.

During a time of financial crisis, the importance of cash cannot be disregarded, as it is cash that ultimately determines a firm's survival. If a business is experiencing cash flow difficulties, they should adopt the following steps:

Prepare/Monitor Cashflow Statements Regularly. Monthly forecasts should be conducted to ensure that expenses and planned expenditures align with accounts receivables. Financial statements should be timely, relevant, and accurate. Additionally, business owners should prepare forecasts and be able to project where they will stand in three months' time (U.S. Small Business Administration, 2009).

Focus Marketing Initiatives. A business should focus on promotions which have lower costs or that can sell products or services that can be converted into cash quickly (*The Business Times*, 2009). It has been shown that businesses that maintain or increase advertisement outlays during slowdowns end-up outselling competitors who cut back. Thus, businesses should focus on short-term tactical techniques such as sales and promotions, and modify advertising in response to the economic climate. Promotions could be as simple as cents-off coupons and rebates (U.S. Small Business Administration). To provide an example, Cakes History, a local Singaporean cake and pastry company, displayed a large sign outside their establishment stating that as a result of the economic crisis they are giving a special offer to their valued customers by selling bread for \$1. Cakes History acknowledges that during a time of economic slowdown, customers are looking for low cost options, and has recognized the value in offering their customers a discount on their product. In return, Cakes History receives improvements in demand for their products, which ultimately increases revenues for the company.

Measure and Reward the Right Behaviour in Staff (*The Business Times*, 2009). A business owner should not allow staffing decisions to undermine their firm's service quality or cut back on training budgets. Periods of slow business represent an opportunity for businesses to conduct training activities. Thus, businesses can implement low cost training strategies such as on the job training and skills acquisition (U.S. Small Business Administration).

The Government of Singapore has provided two major grants to encourage businesses to retain jobs and promote better employment practices. As an employer, a business owner should use this time to enhance the quality of their workforce. As suggested by the Ministry of Manpower, companies should take advantage of the SPUR program by sending employees for training, and allocating employees to alternative areas of work. A business owner in Singapore has received funding from the Jobs Credit Scheme to promote businesses to retain employees. Strategies to employ to retain employees could include: introducing a shorter week, flexible work schedules or work arrangements, managing wage costs through a flexible wage system, and, finally, temporarily laying-off workers (Government of Singapore, 2008). If a business is having problems employing their current staff, they many consider hiring freelancers, consultants, and/or part-time employees.

Create Full Use of Terms of Trade (*The Business Times*, 2009). This could translate to an interest free loan. A business should not pay suppliers late, if anything, a business should attempt to negotiate better repayment terms (U.S. Small Business Administration). Many suppliers offer discounts if buyers are willing to pay early; for example, within 10 to 20 days. A business should take advantage of early repayment discounts to help save cash. The Trade Financing initiative offered through the government should be examined. A business owner is able to receive assistance with their trade loans as the government accepts 75 per cent of the responsibility for such loans. Thus, it may be easier for businesses to receive financing from lenders if need be.

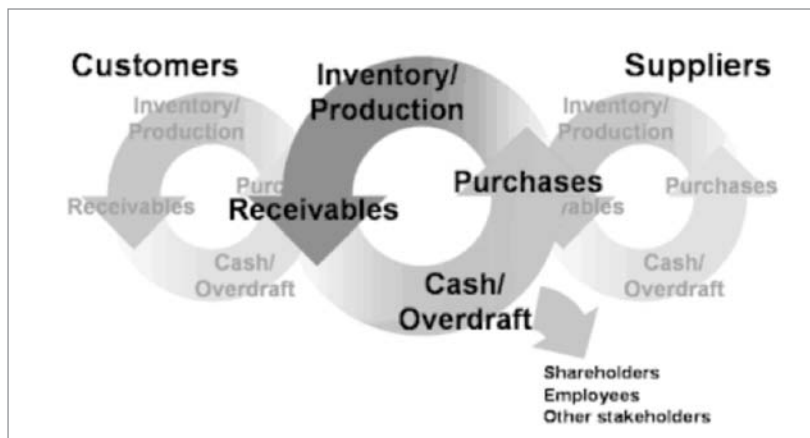
Strengthen Banking Relationships. A business must focus on being transparent, ensuring that the bank is aware of their current financial position and disclosing any problems. An owner should demonstrate how on top of their business they are, that they understand their cash position, and have a realistic strategy for recovery (*The Business Times*, 2009). When a business is being considered for a loan, one of the aspects upon which they are evaluated is management's ability to run the business effectively. If a lender has faith that management is taking a pro-active, well-planned approach, a business will be more likely to receive approval for a loan.

Alternative methods for improving cash position and profitability include the following:

Control Costs. By separating must-haves from nice-to-haves, a business can eliminate nonessential expenses. Capital spending initiatives should be examined and a business owner should consider delaying high cost purchases and expansion initiatives that take long to pay off (U.S. Small Business Administration, 2009). However, cost reductions must not jeopardize areas that are integral to success of the business, such as marketing (*The Business Times*, 2009).

Reduce Customer Debt (*The Business Times*, 2009). A business should focus on maintaining relationships with existing customers, ensuring that a close eye is kept on their credit-worthiness and position in the economic downturn. Engaging in contact with customers also assists in protecting against competitors. A business owner could try to establish long-term contracts with its most important customers and offer prepayment incentives, such as discounts on long-term buys. These actions assist in creating opportunities for generating cash (U.S. Small Business Administration, 2009). Additionally, a business must be aware of their industry's average receivables collection period. If a business finds that their collection period exceeds that of their competitors', it is necessary to tighten and enforce their credit terms as a means to protect itself against the risk of non-performing receivables. The ability of a business to issue and collect upon receivables is part of what is known as the asset, or cash conversion cycle (Fig. 2). This cycle is important to lenders as it enables them to effectively determine the reasoning behind a business' need for a loan, and the time and methods by which it will be able to repay the cash. A lender's decision to finance a company's short-term lending needs, which is generally known as asset conversion lending, is largely dependent upon a business' ability to successfully complete the asset conversion cycle (F. S. Tang, personal communication, April 9, 2009). Thus, if a business wishes to qualify for a short-term loan, they must be able to successfully collect on their receivables within a reasonable time frame.

Figure 2: Asset Conversion Cycle (gtnews, 2009)



Control Inventory. It is extremely important to remove or reduce slow moving, low-margin, and obsolete stock during a period of economic slowdown (*The Business Times*, 2009). Inventory, in the form of raw materials, work in progress, or finished goods, comprises the first three stages in the asset conversion cycle. Each aspect of the cycle represents an area of risk. As consumers decrease their spending, businesses could potentially be left with excess inventory. This can be very costly to a business, as it ties up cash in inventory, thereby affecting the business' cash flow and profitability. A business must pay critical attention to this issue so that it is able to free up cash for use elsewhere.

Improve Sales. A business should focus on profitable sales that will improve the cash position of the company faster (*The Business Times*, 2009). During the economic downturn, businesses are having a hard time generating the level of sales that they were previously able to enjoy, and must make sales a major priority. For example, a business may look into tapping into new markets, or focus on improving their sales in an existing market.

The challenges that businesses face are vast and complex. It is recommended that businesses use the experiences of other organizations during previous financial crises to help identify mistakes and learn from them. For example, one could look at the dot com bubble, or even more closely related to Southeast Asia, the Asian financial crisis. There is evidence that during episodes of financial crisis, an increased fluctuation among companies with respect to market share and sales volume exists. A study was conducted during the 2001 crisis that showed a 24 per cent increase in the number of companies that developed into industry leaders. Alternatively, of the 20 per cent of businesses seen as market leaders, 25 per cent dropped to the bottom of their sector as a direct result of the crisis. Those organizations that are willing to adapt to these changes have a greater chance of survival; however, with change comes risk. Businesses that are prepared, perform the necessary adjustments, and exploit the opportunities inherent in the market will outperform their competitors. Businesses should not expect a fast turnaround, as recovery is not expected for several years. Thus, businesses must stay strong and fight for their survival. Those who refuse to adapt and to avoid change may find that they not only forego the opportunities available, but could also suffer, as they fall behind their competitors (Propper & Strul, 2009).

CONCLUSION

The Singaporean economy has been severely impacted by the sub-prime mortgage crisis, and small businesses within the nation are once again being tested in their ability to cope. However, due to the abundance of assistance programs available, small businesses are not neglected. The government initiatives provided in Singapore are some of the most comprehensive available worldwide, made possible through extensive government reserves and recognition of the strategic importance of the sector.

In Singapore, the small business sector plays a critical role in the country's economy, contributing to a significant portion of the nation's GDP and providing the primary source of employment opportunities. Thus, as small businesses can be seen as playing an integral role, Singapore cannot afford to allow them to falter.

The government of Singapore and alternative external sources provide an extensive selection of assistance programs that target small businesses. However, seeking assistance from external sources does not guarantee that a business will survive. Businesses must also be accountable for themselves and cannot afford to have relaxed management practices. They must look internally for changes or improvements that can be implemented in their daily business operations in order to remain competitive, or even afloat. Businesses in Singapore are well positioned to survive the financial crisis; those willing to adapt and take advantage of the opportunities available to them may experience gains in market share, improved profitability, and could ultimately become industry leaders.

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Small but Mighty: Environmental Sustainability in Singapore

Terra Casey

ABSTRACT

This research paper's objective is to identify the ways in which Singapore is a global leader in environmental sustainability. Focusing on water conservation, reclamation and waste management, this paper describes the initiatives that Singapore has successfully implemented, the ways in which it has done so, and suggestions on how other developed countries, such as Canada, can become more environmentally responsible through the integration of government initiatives and policies. Results indicate that Singapore is successfully meeting its various goals, and is striving to further its development of initiatives in an effort to continue to be a global leader in environmental responsibility.

INTRODUCTION

Although environmental sustainability is recently on the list of priorities for governments of the most developed countries, it is a priority that often gets neglected despite the severe warnings of the irreparable environmental damage given by many highly-educated environmentalists. There are many reasons that environmental sustainability is not receiving the undivided attention it deserves from government policy makers, but in the end it all comes down to one: money. Being environmentally sustainable not only involves an initial capital outlay, it also takes time to show financial benefits. This delayed pay-off is inevitably an unattractive quality, especially next to alternative forms of resource usage which can bring both companies and countries timely wealth. With the current conditions of the weakened global economy, it is has become increasingly difficult for environmental sustainability to remain a top priority.

The time has come for countries to stand up and take notice of what other countries are doing in the name of environmental sustainability, such as Singapore. Singapore has become a global leader in environmental sustainability through resource management and waste reduction. By following of Singapore's responsible example, a great deal could be done to preserve what is left of the environment that has borne the brunt of severe human abuse over past years. With the average ecological footprint of residents of high-income countries ranging between four and 10 hectares per person, and with the global economy stretched incredibly past the earth's carrying capacity, drastic changes must be made to the ways in which resources are used and waste is managed (Valente, 2007).

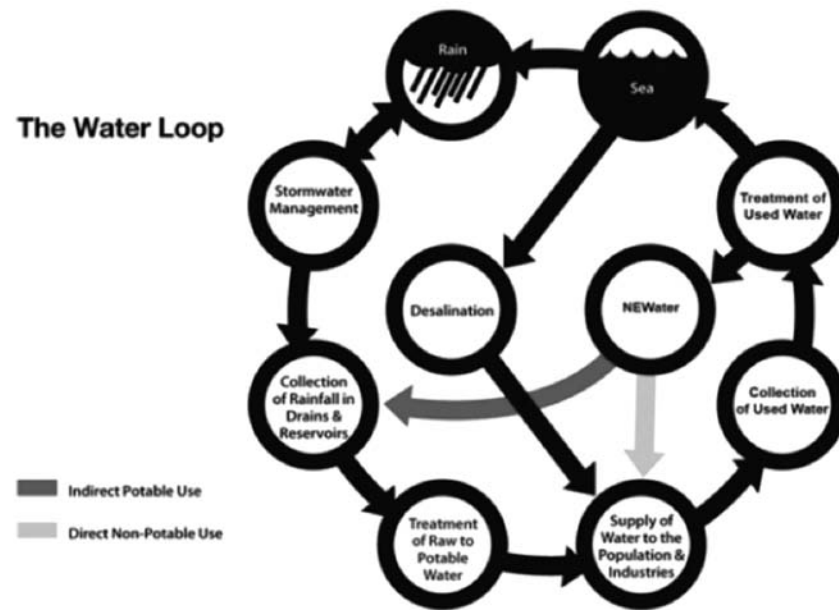
Singapore is a sovereign city-state with a population of approximately 4.7 million people, and a land size of approximately 700 square kilometres, making Singapore the smallest of all Southeast Asia's nations (Central Intelligence Agency, 2009). Singapore, after separating from Malaysia, became an independent republic in 1965. Since that time, falling into the "small but mighty" category, Singapore has moved to fifth place on the list of the world's wealthiest countries, and subsequently the tenth most expensive in which to reside (Wikipedia, 2009). Due to land and population size, a significant challenge is presented to Singapore in the use and management of resources and waste.

In response to these challenges, Singapore has developed extensive cutting-edge technologies which have dubbed it a global leader in environmental sustainability. There are several strategies and technologies that Singapore has employed; most significant are those related to water usage and conservation, and waste management.

WATER CONSERVATION

In 1961, Singapore signed a one-hundred-year agreement with Malaysia through which water, a significant amount of Singapore's supply, would be sold to Singapore by Malaysia at \$0.03 per 1000 gallons (Branca, 2009). This fixed price is locked in contractually for the full one-hundred-year term, and does not rise as inflation does. Naturally, this has caused a great deal of friction between Malaysia and Singapore, and when the contract expires in 2061 there is a good chance that Malaysia will be unwilling to renegotiate a new contract. To reduce its dependence on Malaysia, and in an effort to be environmentally sustainable, Singapore has gone to great lengths to both conserve its current water resources, and to create more of a resource through a technology it has created called NEWater. In addition to imported water, and NEWater, Singapore obtains some water from desalination, and a large portion from rain-water reservoirs (Branca, 2009).

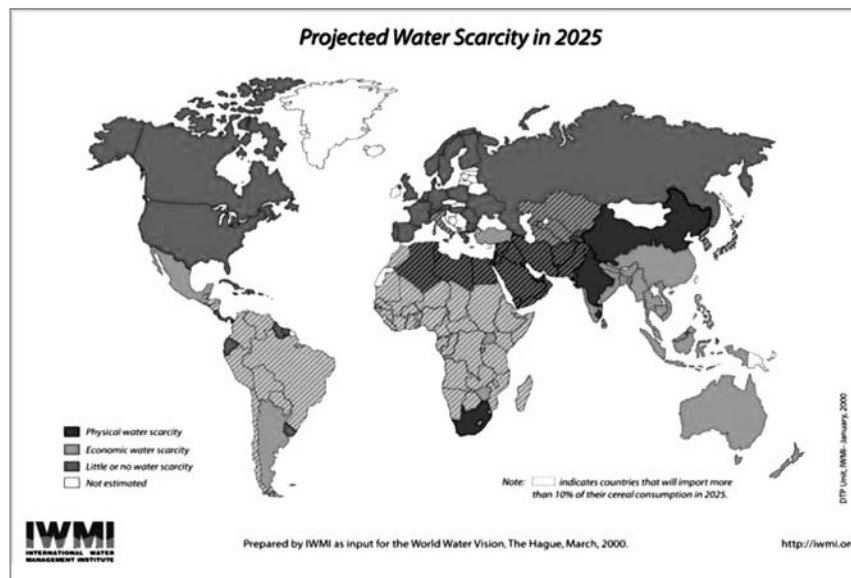
Figure 1: Water Usage in Singapore (Public Utility Board, 2008)



NEWater is the brand name that has been given to Singapore's "reclaimed" water, meaning that it is "potable" water that has been recycled from waste water. Potable water can be defined as "water that is safe to drink. Potable water is free from pollution, harmful organisms and impurities," (water-technology.net, 2009). Currently, Singapore has three water reclamation plants that can hold a total capacity of 20 million gallons of water each day. About six per cent of these 20 million gallons of water is used for indirect potable use. This means that it is mixed in with the potable water Singapore brings in from Malaysia, and accounts for about one per cent of the water Singapore requires each day. However, the rest of the 20 million gallons that is not used for potable purposes is used for industrial purposes that do not require potable water (Public Utility Board, 2008). While this is not currently a significant amount, it is expected to increase as the technology becomes more advanced.

Although NEWater is safe to consume, and technically potable, there is still a psychological stigma that the public has attached to consuming reclaimed water. This is why the small amount that is used for potable purposes is diluted with the traditionally-filtered potable water at the reservoir site. It is expected that over time, as the technology becomes more widely recognized and accepted, the general public will become more comfortable with consuming NEWater. The use of NEWater reduces the amount of waste that is produced by the country; it also reduces Singapore's reliance on Malaysia, or any other nation, for a limited resource so crucial to its population's existence.

Figure 2: Water Scarcity (NationMaster, 2000)



Water consumption is a perfect example of the epidemic of the resource funnel; life supporting resources such as water are on the drastic decline, while the consumption of such resources is steadily increasing (Fig. 2).

Singapore's Public Utility Board (PUB) has created several initiatives to encourage water conservation throughout the country. Appropriately, the PUB's tagline is 'Water for All: Conserve, Value, Enjoy'. Their two main goals are (1) "ensure a diversified and sustainable water supply, which includes local catchment water, imported water, NEWater, and desalinated water," and (2) "to engage the People-Public-Private (3P) sectors to conserve water and take ownership of water resources," (International Water Management Institute, 2000). As these two goals are interdependent, it is obvious that they will not be easy to meet. However, with Singapore's known strength in implementing processes and procedures, there has been a great deal of success related to striving to meet the goals of the Public Utility Board.

Commercial Segment

The non-domestic, or commercial, segment of Singapore accounts for roughly half of the country's daily water consumption. One such initiative is the Water Efficient Buildings (WEB) program, which encourages companies to adjust the water usage in their buildings to achieve water efficiency status. This is done through the use of water efficient fittings, and monitoring by the company's management of water consumption. Companies are strongly encouraged to recycle and reuse water wherever possible, and to use NEWater for non-potable purposes rather than using unnecessary potable water. As a result of the PUB's efforts in this program, there are currently over 1,200 WEBs located in Singapore. In addition, the PUB has a Water Efficiency Fund. This fund is used to assist companies in creating ways to manage their water demand and consumption, to adopt water conservation methods, and to develop processes alternative to those which require water. This fund illustrates the dedication Singapore has to reducing its consumption of water, and subsequently, its environmental impact. While financing is one of the strongest barriers limiting companies from focusing on environmental sustainability, the Water Efficiency Fund destroys such barriers, and enables companies to more easily adopt environmentally sustainable initiatives. Furthermore, the PUB has created the 10 Per Cent Challenge program which, as the name suggests, challenges companies in Singapore to reduce their water consumption by 10 per cent. This is achieved through water conservation equipment, as well as monitoring and resource management. Not only does this program benefit the environment, it also cuts down on a company's operational costs by reducing its utility bills (Singapore Government, 2008a).

Domestic Segment

As previously mentioned, the commercial segment of Singapore accounts for roughly half of the country's water consumption, which leaves the other half to the domestic segment. Through a variety of conservation and awareness programs, Singapore has managed to reduce its domestic water consumption between the years 1995 and 2007 from 172 litres per capita per day to 157 litres, respectively (Singapore Government, 2008b). One of these programs, again created by the Public Utility Board, is the 10-Litre Challenge. Similar to the non-domestic 10 Per Cent Challenge, this initiative challenges Singaporeans to reduce their water consumption by 10 litres per day through a variety of methods. First, there are easily accessible tips on how to do this on a website made available by the PUB. Secondly, similar to the WEB program, there is a Water Efficient Homes program through which PUB officers visit high-consumption households to install water-saving devices, free of charge. This program also offers advice on residential water conservation practices. Although it is currently only a suggestion, effective July 2009 it will be mandatory for all domestic households (newly built or undergoing renovations) in Singapore to adopt the use of dual-flush, low-capacity flushing cisterns, thus reducing the amount of unnecessary water wasted through sewage. In addition, a voluntary labelling scheme is in place to give consumers accurate, detailed information on the water efficiency of an appliance, or other water-consuming products, at the point of sale. This is in attempt to educate consumers on the efficiency of products available to them. While this is currently a voluntary practice, certain products will be given mandatory labelling requirements, come July 2009, while others will join them once there is more choice for consumers for those particular products (Ibid).

WASTE MANAGEMENT

It is no surprise that Singapore, through a strictly regimented recycling policy, has implemented one of the most well-organized, efficient waste management systems in the world. There are three main channels through which waste is managed, which include incineration plants, recycling plants, and Singapore's one and only landfill. As it stands, 54 per cent of Singapore's total waste output is recycled into alternative uses, leaving 43 per cent to be incinerated, and a mere three per cent to end up in the landfill. There are currently four incineration plants located throughout Singapore, and as mentioned, only one landfill. This is largely due to the fact that land is scarce in Singapore, which has resulted in the pressing need for an alternative in the management of waste, such as incineration and recycling. Incineration does produce ash which ends up in the landfill; however, the resulting ash is a 90 per cent reduction in volume from the amount of waste that is initially incinerated. Additionally, the heat that is generated from the incinerators is used to generate electricity throughout Singapore, which is responsible for approximately two per cent of Singapore's total electricity usage (Ministry of Environment and Water Resources, 2009).

There are several ways in which the Singapore government works to reduce waste. Educational programs have been created in an effort to engage and inform the public and companies on how to reduce waste and why waste reduction is important. Another successful program that has been adopted throughout Singapore is the monthly "Bring Your Own Bag" campaign. Through this campaign, usage of environmentally harmful plastic bags is discouraged to the point of unavailability on one day of each month. On this particular campaign day, vendors all over the country restrict their distribution of plastic bags, which not only encourages Singaporeans to bring their own bag, it makes it a necessity. This is the kind of policy implementation which leads to the success in which Singapore has experienced. Additionally, in the food and beverage industry, a voluntary packaging agreement was created in efforts to cut down on waste generation at its source, and to encourage the implementation of best practices between companies in the food and beverage industry.

RECYCLING

Directly correlated to Singapore's waste reduction strategies are those related to recycling; greatly reducing the amount of waste generated, and subsequently the need for its disposal. For the domestic sector, recyclables are collected on a door-to-door basis, and recycling bins are also made available for every five blocks of public housing, making recycling an easy task for any household. Waste recycling programs have also been introduced into schools to teach children the importance of waste management at an early age. Recycling awareness for the general public is encouraged and maintained through national campaigns such as Recycling Day and Clean and Green Singapore (Singapore Government, 2008c).

In the commercial sector, the largest waste product is related to food waste. Currently, roughly nine per cent of the country's food waste is recycled or incinerated (Fig.3), and its goal is to raise that figure to 30 per cent by the year 2012 (Wong, 2009). Enough electricity is being generated to power more than 3,000 four-room public housing flats with the percentage of food waste that is currently being incinerated. Restaurants, and other members of the food and beverage industry, are becoming increasingly aware of the detrimental implications of food waste, in addition to the cost benefits that result from its re-use. In the future, if companies begin to incinerate their own food waste, they can use the energy by-product to cut down on their electricity bills, saving thousands of dollars, if not more, each and every year. Companies are making food waste recycling a top priority, as part of corporate social responsibility, which adds transparency to their business operations, and encourages concerned consumers to conduct business with them. Some companies are pushing for government legislation to ensure that all companies recycle properly, to the best of their ability, which will no doubt drastically reduce the amount of waste which makes its way into the incinerators or landfill (Ibid).

Table 1: Waste Management and Recycling Rates in Singapore (Eugene, 2008)

Waste Type	Total Waste Disposed of (tonne)	Total Waste Recycled (tonne)	Total Waste Output (tonne)	Recycling Rate (%)
Food Waste	507,700	51,200	558,900	9
Paper/Cardboard	583,900	619,000	1,202,900	51
Plastics	584,800	75,000	659,800	11
Construction Debris	19,000	759,300	778,300	98
Wood/Timber*	118,400	127,800	246,200	52
Horticultural* Waste	133,500	91,100	224,600	41
Ferrous Metal	68,500	668,000	736,500	91
Non-ferrous Metals	16,700	75,600	92,300	82
Used Slag	7,200	520,000	527,200	99
Sludge	124,600	0	124,600	0
Glass	59,500	5,800	65,300	9
Textile/Leather	104,100	6,000	110,100	5
Scrap Tyres	3,500	22,000	25,500	86
Others (stones, ceramics & rubber)	234,600	14,000	248,600	6
Total:	2,566,600	3,034,800	5,600,800	54

* Includes 70,000 tonnes used as fuel in cogen plants

THE SINGAPORE GREEN PLAN 2012

A prime example of Singapore's dedication to environmental sustainability, as well as its commitment to meet and exceed environmentally sustainable goals, the Ministry of Environment and Water Resources has developed a plan of action. This detailed and ambitious plan, currently titled "The Singapore Green Plan 2012," outlines an extensive number of goals which, as the name suggests, are intended to be met by the year 2012. Created in 2002, this report is thoroughly updated every three years to identify the status of each of the outlined objectives. Through this three-year study, which involves 10 months of research, the ministry is able to see which goals are on track to be successfully achieved by 2012, and which are not. This analysis allows the government to make adjustments to policies, procedures, and initiatives in order to meet these goals in the allotted time frame. The report outlines six key focus areas, two of which are interrelated with this paper. They are the following:

1. Reduce Singapore's per capita domestic water consumption from 162 litres per day in 2004 to 155 litres per day by 2012; and
2. Partner the 3P sectors to generate greater awareness of the importance of conserving, valuing and enjoying water and develop a sense of shared ownership of our water resources (Ministry of the Environment and Water Resources, 2006).

It is through the tri-yearly update of this ambitious report that the ministry develops environmentally sustainable initiatives in order to aid in the realization of its set goals. As previously mentioned and directly related to the water conservation goal, the ministry is implementing an initiative demanding compulsory dual-flush, water-saving cisterns to be installed in all buildings that are either being built, or are undergoing renovations, by the end of the year 2009. While this may not be initially welcomed by the public, it is evident that the Singaporean government is firm on remaining aligned with the original goals set out for this plan, and is willing to implement decisions such as this in order to achieve them. According to the website of the Ministry of the Environment and Water Resources "various targets have been set under the SGP2012 and six Action Programme Committees (APCs) had been set up to develop and oversee the implementation of action programmes in support of these targets" (2006b).

The goals related to waste management have also been re-evaluated, for which the Ministry of the Environment and Water Resources has developed progress initiatives. Two of these initiatives have already been put in place: to develop a voluntary packaging agreement with companies involved in the packaging supply chain, and to work with companies in the retail sector to reduce the use, and waste of, plastic bags. The successful implementation of both initiatives displays the strength and discipline that Singapore possesses when striving to meet its goals. It would be easier for the ministry to turn a blind eye, and adjust the outlined goals, rather than the actions being taken to meet them. However, Singapore's dedication to environmental sustainability prevails, and the country continues to strive for success in all areas of protecting and conserving the environment.

The three-year studies are conducted with thorough research and a variety of sources. These sources include: Internet surveys from the public, roundtable events where concerns and issues are discussed in detail by key characters in the environmental industry, public forums, and public exhibitions educating the public on the key focus areas of the Green Plan. All of the information collected through these various sources are acknowledged and taken into account when initiatives are developed to better meet the goals outlined in the plan. This highly-detailed, vigorous plan is a direct demonstration of how Singapore has become a strong global leader in implementing environmentally sustainable initiatives (Ministry of the Environment and Water Resources, 2006c).

BENEFITS OF ENVIRONMENTAL SUSTAINABILITY

Striving for environmental sustainability, Singapore is not only working to preserve the existence of the human race, it is also putting itself in a position to experience great financial benefit. By continuing to invest in research and development, and through strength in system and policy integration, Singapore will ensure that it is, and continues to be, a global leader in the strategy and implementation of environmentally sustainable practices. As a result, Singapore is an attractive location for businesses in the industry of sustainable development to infiltrate. It could draw interest and expertise from a global standpoint, which could result in the development of further ground-breaking sectors of sustainability. Additionally, it will situate Singapore as a global hub of innovative and sustainable solutions, which can be applied both locally and globally.

A great deal of benefit is derived from environmental sustainability for companies that participate in greening their business operations and reducing their environmental impact. By adopting environmentally sustainable business practices, firms are responding to three of the main drivers of the Sustainable Value Framework: Pollution and Consumption, Civil Society and Transparency, and Footprint and Climate Change (Fig.4). Although this is advantageous for the environment, there are also many direct benefits for the companies themselves, taking into account their triple bottom line. Some of these benefits are the following:

1. Firms can create value by reducing the level of material consumption and pollution associated with rapid industrialization
2. Firms can create value by operating at greater levels of transparency and responsiveness, as driven by civil society
3. Firms can create value through the development of new, disruptive technologies that hold the potential to greatly shrink the size of the human footprint on the planet. (Valente, 2007)

Table 2: Sustainable Value Framework (Ibid)

	Internal Today	External Today	Internal Tomorrow	External Tomorrow
Drivers	Pollution & Consumption	Civil Society & Transparency	Foot print & Climate Change	Population, Poverty & Inequity
Benefits & Payoff	Cost & Risk Reduction	Reputation & Legitimacy	Innovation & Repositioning	Growth Path & Trajectory

PLANNING

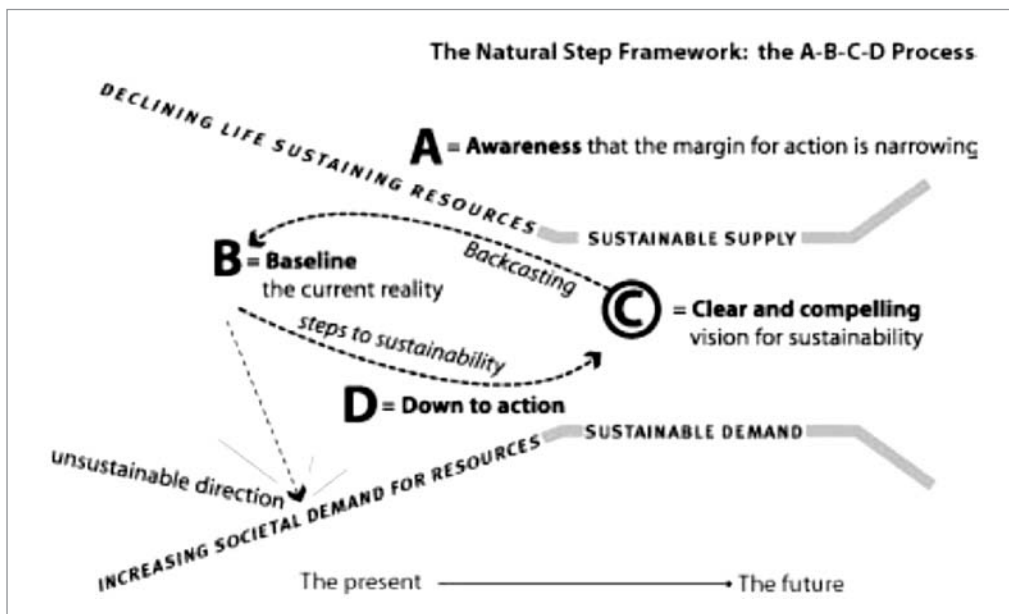
Singapore appears to be using what is known as the A-B-C-D (Aware-Baseline-Clear-Down to Action) Model for Planning in Complex Systems (Valente, 2007).

Awareness is the first step to the above model and is critical to its success. Without educational awareness, the stakeholders, being the general population and the business community, may not be willing to dedicate their efforts and participation to environmental sustainability. Singapore is actively working to create awareness of the need for environmental sustainability through a variety of campaigns and initiatives, as previously mentioned. Singaporeans are therefore constantly reminded of the dire need for resource and waste management, and the successes of the campaigns can largely be contributed to the education and awareness that has been provided and reinforced to the public on a regular basis.

As outlined by *The Natural Step*, there are four principles that must be met in order for a society to be truly sustainable:

1. Eliminate our contribution to the progressive build-up of substances extracted from the Earth's crust
2. Eliminate our contribution to the progressive build-up of chemicals and compounds produced by society
3. Eliminate our contribution to the progressive physical degradation and destruction of nature and natural processes
4. Eliminate our contribution to conditions that undermine people's capacity to meet their basic human needs. (2009b)

Figure 3: ABCD Model for Planning in Complex Systems (Natural Step, 2009)



The Baseline is the next stage of the model, calling for a society to assess which of the four principles of sustainability are being met, and which are not. This is where inventory can be taken to become aware of where the society currently sits, making it possible to create effective and realistic goals to get it to where it wants to be, also known as back-casting. As previously mentioned, the Singapore Green Plan 2012 outlines a list of environmentally sustainable goals to achieve, and conducts three-year studies which allow behaviour modifications to be made, in order to ensure the realization of these goals. As a result, Singapore is always aware of its baseline, satisfying the second stage in the A-B-C-D model (Ministry of the Environment and Water Resources, 2006a).

A clear and compelling vision is essential to the execution of any goals, especially when motivating millions of people to strive for their achievement. This is also being done through the Singapore Green Plan 2012, outlining to the public the current sustainable state of the country, as well as the desired sustainable state. Additionally, through reinforced educational environmental information, the population, both domestic and commercial, are motivated to keep their country a beautiful, clean, and sustainable place in which to reside. Not only does this action plan, with regular researched updates, provide the public with useful information about the environment in which they live, it gives a transparency to the Singapore government, keeping it accountable to do what it says it will do. Thus, this clear and compelling vision not only motivates the population of Singapore, it also motivates the government to adhere to its commitments to the environmental well-being of Singapore.

Getting down to action is the final stage in the model and by far the most critical. Without this stage, stages A, B, and C are only words and intentions. Again, through the Singapore Green Plan 2012, priorities are set to ensure that the intended goals are met, resulting in a truly sustainable society. Through this Green Plan, the priorities are adjusted with the three-year assessments, to make sure the country is on track to meet its goals. It is at this stage that the strategies are decided, as well as the tools and actions that will be used to implement these strategies. Singapore is without a doubt taking action to meet these outlined goals, and is a strong example to other nations, demonstrating how environmental challenges can be overcome with dedication and perseverance.

FUTURE PLANS FOR SUSTAINABLE DEVELOPMENT

According to Cheryl Loh, Assistant Director of Corporate Communications for the Ministry of the Environment and Water Resources, “the ‘Singapore Way’ is a highly pragmatic approach to development. [Singapore seeks] the most viable and cost-effective methods of achieving environmental sustainability outcomes. (They) focus on measures that are practical, effective, and will make impactful contributions to environmental sustainability. Going forward, [they] will continue to experiment and make investment decisions in green technology taking into account economic viability and effectiveness,” (Loh, 2009). Of course, the effectiveness and successful implementation of future initiatives and goals which Singapore will develop strongly depends on the dedication and participation of the country’s population. However, being that the ministry’s main motivator is the quality of life for the population of Singapore, initiative implementation could be easily welcomed by the public. In terms of future goals and priorities with environmental sustainability, strategies will have to be modified in order to adapt to the current global challenges faced by nations worldwide. Cheryl Loh says, “looking ahead, there is a need to do even more for sustainable development as both the international and domestic contexts have changed. Within Singapore, higher economic and population growth will exert pressures on [their] limited land resources and [their] environmental quality in the years to come. Development pressures worldwide have already translated into rising resource prices such as energy and food. Global environmental challenges such as climate change are also key concerns on the international agenda”(Ibid). Once the goals of the Singapore Green Plan 2012 have been reached, a new plan will need to be developed with new goals and key focuses. According to Cheryl Loh, the three areas of focus for this future action plan will include: resource management, pollution control, and the quality of the physical environment (Ibid). From these three priority focuses, specific goals and initiatives will be developed in the same way that the Green Plan 2012 was developed. This includes public surveys, roundtable events, public forums, and public exhibitions. It is through their commitment and education of the public that Singapore will have a strong chance at achieving their future goals to the same level of efficiency and effectiveness as they are achieving their current goals.

IMPLEMENTATION IN OTHER COUNTRIES

The success experienced by Singapore, pertaining to environmental sustainability, is astounding. The country’s dedication to conserving the environment is to be admired by other countries worldwide. However, admiration alone will not change the way other countries treat their own precious environments. Environmental responsibility is regarded as a priority in most developed nations, including Canada.

However, the speed at which change and action are taking place is insignificant compared to that of Singapore and, more importantly, to the rate at which the world's limited resources are disappearing. Achieving a truly environmentally sustainable society requires extreme dedication and financial investment. These requirements are a strong deterrent for most governmental bodies, but it is imperative that this mindset is changed before it is too late. Canada has also developed an action plan, entitled Environment Canada's Sustainable Development Strategy 2007-2009, similar to that of the Singapore Green Plan 2012. However, this plan is significantly less aggressive and active compared to that of Singapore's (Environment Canada, 2006). Canada's plan focuses more on small initiatives that can gently nudge Canadian society in the direction of environmental sustainability, rather than establish detailed goals to achieve by a certain date. For example, as previously mentioned, in efforts to reduce water consumption, Singapore has introduced both the 10 Per Cent and 10-Litre Challenges, and is implementing further initiatives such as mandatory dual-flush cisterns, and compulsory labelling for water-consuming products. These goals and initiatives are clear-cut, allowing for the opportunity of assessment on a regular basis. At the same time, however, Canada's efforts to reduce water consumption include ensuring that "water is safe, clean and secure for people and ecosystems and is used sustainably," (Ibid). This goal is far too passive and vague to obtain any significant water conservation.

Figure 5: Key Success Factors



It is evident that there are key success factors that countries, such as Canada, should be aware of and be working towards achieving. First, education, both of the public and policy makers, is essential to motivating the desire for change. From this education comes awareness, which has the ability to instil passion to become environmentally sustainable. Effective planning is another key factor that needs to be modified in order to achieve sustainability; the goals must be clear, concise, and binding, so the government will do everything in its power to meet them. By publishing detailed goals to the public, the government will be more likely to commit to their success, due to the resulting transparency. Finally, action is the most important success factor. Without strong action, plans and goals are of no significance. Although it requires dedication, both physically and financially, it is necessary for this action to be taken to ensure a clean, healthy environment for tomorrow.

CONCLUSION

Being that the health of the environment directly affects not only the quality of life, but life itself, environmental sustainability should be of great concern. Nevertheless, it is a priority that seems to be continually pushed aside by nations worldwide due to the capital outlay and financial dedication it often requires. Singapore, however, has emerged as a global leader in environmental sustainability. Through a detailed and ambitious action plan, the Singapore Green Plan 2012 continues to reach its outlined goals related to water conservation, water reclamation, waste management, recycling, and many others actions.

There are many benefits associated with environmental sustainability to countries and companies, such as those related to the Sustainable Value Framework. Reaching the goals outlined in Singapore's Green Plan requires a great deal of planning, which is currently being done through the A-B-C-D Model for Planning in Complex Systems. Singapore's future plans will include additional ambitious goals, with a focus on resource management, pollution control, and the quality of the physical environment. In order to achieve environmental sustainability, other countries must develop clear and concise action plans to effectively work towards reaching their established goals. This can be achieved through education, awareness, planning and, most importantly, action. Countries such as Canada could learn a great deal by observing the environmental responsibility that Singapore has successfully adopted, increasing the possibility of a thriving, healthy environment for generations to come.

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What Doesn't Kill You Makes You Stronger: China and the Global Financial Crisis

Malcolm Manson

ABSTRACT

The financial crisis of 2008 has caused serious problems around the world. Recent developments indicate that China has and will be affected. However, if China acts quickly and effectively, it may be able to come out of the crisis stronger than before. The Chinese strategy to combat these effects is to attempt to boost domestic demand through an economic stimulus package. This paper highlights some of the weaknesses of the Chinese economy that will be amplified by the crisis. Specifically, the underdevelopment of its financial system, social security system, and the size of its saving rate will play a role in the way that China is affected by the crisis. In addition, it also makes recommendations on how to lessen the impacts of the financial crisis. Recommendations include improving the current financial and social security systems, a campaign to educate rural citizens, rural business incentives, and increasing the financial stimulus package.

INTRODUCTION

The current global financial crisis has seemingly only just begun to affect the world economy. American and European financial institutions have crumbled, there have been massive job losses, and world economic growth has slowed significantly (BBC News, 2008a). Over the last six months, the United States has lost 1.55 million jobs (BBC News, 2008b). Shocks are hitting the economies around the world, and some have been much worse than expected. This essay addresses the effects of the financial crisis on China and recommends ways that China can lessen its impact.

China is not expected to enter a recession, but its economy is expected to slow its growth significantly. It is estimated that 10 million migrant workers had lost their jobs due to the crisis in November (Anderlini, 2008a). The Royal Bank of Scotland estimates that China's growth could be as low as five per cent (Anderlini, 2008b). The World Bank estimates China's economic growth rate for 2009 will be 7.5 per cent. The Gross Domestic Product (GDP) growth rate estimated to allow new Chinese graduates to obtain jobs is estimated to be eight per cent (Rachman, 2008). Both of the mentioned estimates are lower than eight per cent, and if either is accurate the effect on the Chinese economy will be very damaging. However, China is implementing an economic stimulus package in an attempt to counter these effects.

This financial crisis has the potential to vastly change the Chinese economy. On one hand, social unrest caused by unemployment could cause serious problems for the entire country. On the other, the crisis may act as a catalyst which, in the long-run, may make China an even more formidable economic force than before. In any event, China should be prepared for the worst.

BRIEF ECONOMIC HISTORY AND THE URBAN-RURAL DIVIDE

China has a gigantic population, estimated in July 2008 to be 1.33 billion. It has a Gini coefficient of 47 (Central Intelligence Agency, 2008). Before Mao Zedong's death, China had a planned economy (Zhao Z., 2008a). The planned economy had many negative effects on China, of which the most important for this essay is the exacerbation of an urban-rural divide in Chinese society. One of the reasons for this divide was the hukou (residence permit) system.

¹ I want to acknowledge Allen, J. Qian, and M. Qian for previous recommendations (in 2007) on improving the Chinese financial system. Some of their recommendations were relevant to the situation today and were incorporated into this paper.

There are essentially two types of hukou: urban hukou and rural hukou. The type of hukou determined where one could work and a child's parents determined what type of hukou the child would have. This created immobility in the population; farmers could not move to the cities, which had better living conditions than the countryside (Zhao Z., 2008b). In 2006, about 577 million people lived in urban areas, while 737 million lived in the rural areas. The urban population includes migrant workers with rural hukou (National Bureau of Statistics China, 2007).

The late Deng Xiaoping succeeded Mao, and in 1978 started to implement economic reforms aimed at changing China's planned economy into a market economy. The reforms have been slow and cautious. This allowed the Chinese to experiment with new economic policies. Areas were converted into Special Economic Zones (SEZs), and if the new policies were beneficial, they would become permanent. This resulted in less harmful consequences should a new economic policy fail. One of the results of Deng's reforms was to drastically reduce the instances of poverty in China. However, the reforms have not solved the problem of urban-rural division (Ray, 2002). That being said, hukou is not nearly as important as it was during the communist era. Many people from the countryside have migrated to the cities. This allows them to earn more money for themselves and their families. They send much of their earnings back to the countryside, which improves the household incomes in the rural communities. This process is called remittance and is important for the modernization of rural China (Luo & Zhu, 2008).

THE FINANCIAL CRISIS: CHINA'S STIMULUS STRATEGY

As mentioned before, China is a major exporting nation and has so far suffered a concerning drop in exports. China had anticipated this problem, and its response has been to plan a four trillion renminbi (RMB; US\$586 billion) economic stimulus package, in addition to lowering taxes and easing credit. The stimulus package is to be spent on low-income housing, infrastructure, environment protection, research and development, and disaster relief. 400 billion RMB is to be spent by the end of the fourth quarter of 2008. The goal of this package is to boost domestic demand (Xinhua News, 2008a). This would essentially lead to jobs in those areas mentioned previously replacing jobs lost in export industries. In addition, some extra goods that could not be exported could also be used to supply the stimulus-funded jobs.

ANALYSIS

Weaknesses of China before September 2008

There are several important problems worth mentioning that relate to the outcome of the Chinese strategy. Specifically, these consist of the Chinese financial systems, the Chinese social security systems and the Chinese savings rate.

Financial systems. China's financial systems are much weaker and inefficient than their Western counterparts. There are four main majority state-owned banks in China: Bank of China, China Construction Bank, Agricultural Bank of China and Industrial Commercial Bank of China. Chinese banks have a relatively high amount of non-performing loans (NPLs), which could lead to serious problems in the future. In fact, Allen, J. Qian, and M. Qian surmise that the number of NPLs may be much higher than the information made available by the banks and government (2007). In addition, the stock markets of China are inefficient. This is due in part to inadequate regulation of the listed firms. Additionally, the process that firms must undertake to become listed gives former state-owned enterprises (SOEs) an advantage, as these firms have better connections with government officials. This process results in an inefficient selection process for listed companies in Chinese stock markets (Allen et al., 2007).

² Disaster relief is mainly for assisting victims and rebuilding infrastructure in Sichuan province, which had a major earthquake in 2008..

Social security. China's current social security system is very underdeveloped. The vast majority of employees who are effectively covered under old age, disability, survivor, medical, maternity and unemployment insurance are urban workers. In most cases, employers and employees both contribute to pension accounts. The government may bail out or subsidize accounts if needed (International Social Security Association, 2006). However, the government has recently created a National Social Security Fund, which aims to improve social security. It is financed through the privatization of SOEs, government funding, and money earned through investment (National Council for Social Security Fund, 2005). As one can see, there is a serious deficiency in rural citizen social security.

The savings rate. The Chinese savings rate is quite high: estimated at around 40 per cent in 2004 (World Bank, 2005). The underdeveloped social security system and financial systems are contributing factors to this (Maps of the World Finance, 2008). I spoke with a young man by the name of Zeng Luyou with a rural hukou from Fujian province. Fujian province has developed faster than other provinces in China, and many of the rural citizens of this province are richer than other rural citizens in China. They are even able to afford cars with their income. Some migrant workers also choose to move to richer rural areas rather than cities because the prospects are better. However, Zeng said his family was poorer than many of the other rural citizens in Fujian. Their savings were stored in their home, and there was a substantial amount considering his father's income. The money was necessary to compensate for lack of social security. In addition, his family had to save to send him to school in Beijing. The bank is a 40-minute-drive away, but they still chose to keep the money in their home. One of the reasons he gave me for this was his parents' lack of knowledge regarding investments. In addition, we talked about some Chinese traditions relevant to the savings rate. In his case, his family needed to save to cover medical expenses and to assist other family members if need be. Essentially, the only investments that these poor families make are in their children. When the child's parents become too old to work, the child must take care of them. This is a major difference from Western culture, where we have pensions or hospitals for the elderly. He told me that there were three different groups of households. The first group consisted of the poorest rural families. Their savings are to ensure medical security and to invest in their children if possible. The second group consisted of richer families, whose elders lacked higher education. These families also saved a significant amount of money. This money was for their children's education, cars, and other luxury goods. In addition, some families have a tradition of buying their children a new home when they graduate. The third group consisted of richer families with high education. These families were not as traditional as the second group, and Zeng said that they would probably not buy them a house upon graduation. They had much more of an individualist identity, rather than a collectivist one. The third group would fall more into the urban population of China (2008). The way the first two groups save is not helpful to the Chinese economy. Storing money in their homes when it could be put to better use lowers the economic potential of these people.

New Problems

As a result of the financial crisis, there are several new problems that are beginning to manifest themselves or have been predicted to occur in the Chinese economy. Specifically, there has been a significant drop in exports and there is a possibility that deflation will occur.

Loss of exports and resulting unemployment. China has seen its exports fall by 2.2 per cent in November 2008, down from a growth of 19.1 per cent in October 2008 (BBC News, 2008c). This decline in exports is extremely concerning to the Chinese government, as the Chinese economy is mainly based on exports. As economic difficulties hit China's major trade partners, exports may continue to fall and have a serious effect on China's GDP growth. In turn, this would affect the Chinese unemployment rate. The consequences of a large rise in unemployment are very dire. Millions of migrant workers send remittances to their families, who in turn use the remittances to support themselves. In addition, the money earned by migrant workers may be used to support investments, either in agricultural or non-agricultural products. A decline in remittances and earnings for return-migrant workers may have the effect of stunting the already slow modernization of the countryside.

Some return-migrants may also use skills acquired from their migration to become entrepreneurs (Zhao Y., 2002). I asked a student from Chongqing who is studying in Beijing about this, and she gave me a story about her cousin from the countryside. He went to the city to work at a barbershop. After he had made enough money and learned the art, he returned to the countryside. He opened a barbershop in his town and, according to her, was very successful (Chang, 2008). It would be unfortunate if the loss of jobs hampered rural entrepreneurs from starting businesses.

Additionally, an increase in unemployment could cause social unrest. In fact, China has already had protests by workers who have been laid off (Anderlini, 2008a). Migrants are also starting to return to their homes in the countryside (Xinhua News, 2008b). As mentioned before, it is estimated that China needs a growth rate of eight per cent to ensure that new additions to the labor force have jobs. There are about 1.5 million unemployed job-searching students right now (Anderlini, 2008a). If that number, along with the number of unemployed migrant workers, increases drastically there could be widespread protests. The fact that many students and workers migrate will make this a nation-wide problem. Students with rural hukou only have a certain amount of time to find a good job after they graduate. If they cannot find one, they must return to the countryside (Zhao Z., 2008b).

Deflation. Recently, there have been predictions that China may enter a period of deflation. This would primarily be because the fall in exports would lead to an excess of goods, which Chinese businesses would want to sell in their domestic market (Anderlini & Dyer, 2008). In fact, the Consumer Price Index (CPI) and Producer Price Index (PPI) have fallen from the period between June and November 2008 (National Bureau of Statistics China, 2008b). Appendix I shows these drops. While these indices are still higher than they were in the past year, it is a disturbing trend. Deflation is most dangerous when there is a quick drop in demand and extra goods on the market, all of which are relevant in China. Consumer expectations of increasing drops in the price level could further decrease demand (*The Economist*). Considering the current savings rate, it is difficult to imagine that savings could become much higher. It may increase more in urban areas, where income and demand for goods are higher. Lack of education may also ease this problem in the countryside. Interest rates have also been cut to 5.31 per cent (Anderlini, 2008b), which may also counter other negative effects of deflation. Deflation will probably affect urban areas more than rural ones, given that there is greater education and greater demand for goods in urban regions.

RECOMMENDATIONS

The Chinese government is taking steps in the right direction. Boosting domestic demand is the best way to save their growth rate. However, the forecasted growth rates for 2009 are likely to be insufficient and may cause political problems. Essentially, China is just replacing lost jobs with new ones and buying up some of the excess goods. Replaced jobs do not mean that more shoes or toys will be bought in China. Additionally, these jobs are only temporary; after these projects are finished, they will need to be replaced again. Exports may have recovered by this time, but there is no certainty that in two years everything will be as it was before. China needs to act fast, and do more than just tackle unemployment. The high savings rate presents an opportunity to do this. Although a significant reduction in the savings rate may not be possible, a change in the way money is saved in rural areas will help to increase domestic demand. In fact, boosting domestic demand in a sustainable way may allow China to come out of this financial crisis even stronger than it was before. However, there are many changes that need to be made in order for this strength to be realized. Quick, effective reform in the financial and social security systems is of the utmost importance in order to prevent economic catastrophe.

Financial Systems

Allen, J. Qian and M. Qian feel that the one of the ways to solve the problem of NPLs in the banking system would be for the government to privatize the banks. In addition, allowing entrance of more domestic and foreign banks would also be beneficial. These changes would lead to greater efficiency and competition, which would force banks to reduce their NPLs. Given the seriousness of China's economic situation, the government should, as much as safely possible, further privatize the banks in the short-run to ensure better management.

However, they must first ensure that there is better transparency regarding the banks' financial systems. As mentioned before, the official number of NPLs owned by these banks is the subject of skepticism.

Allen, Qian and Qian also give recommendations for reforming the Chinese stock markets. Key suggestions include better government regulation and easing the process with which non-former SOEs are listed. This would decrease the risks involved in current investments and allow for more efficient firms to become listed (Allen et al., 2008).

Social Security

With improved financial systems, China can begin to create a more effective social security system. The lack of development in social security is one of the reasons for high savings in rural areas. Indeed, rural social security essentially comes from farmers' children and whatever amount retirees may have saved. Addressing this problem is a major challenge, considering the size of the rural population. It is the sheer size of the population that makes China's ability to implement a social security system at the same level as Canada's highly improbable.

However, the Chinese government should start to develop a better social security system that targets rural citizens. This would allow insurance organizations to invest more money and further increase domestic demand. As Zeng mentioned to me, one problem with implementing such a system is the rural population's lack of education regarding social security. Rural citizens may not be willing to invest their money in social security, as they will not see the full benefits. Education is the key to solving this problem, and is discussed in the next section. Another problem is the actual value of the savings of the rural citizens. Initially, it may not be enough to adequately fund old age and medical insurance pensions for every person. The government may need to subsidize these funds. However, as the countryside modernizes, the government may be able to phase out these subsidies as the funds become more sustainable. A decision must be made regarding the ownership of the pension organization(s): either state-owned, domestic, foreign or some combination. Presently, foreign investment in insurance is on China's list of "restricted foreign investment industries" (Investment Promotion Agency of Ministry of Commerce, 2007). China could benefit from an import of foreign expertise (even though a cynic might say that foreign expertise seems to have caused its problems in the first place). However, given the current investment climate, investment may not be appealing to foreign parties. The fact that investment is restricted will also deter foreign investment. The risk and restriction may be too great a problem, and China should consider revising restricted industry laws and economic policies to encourage foreign investors. On the other hand, if China chooses state ownership, the risk of lost pensions may not be as great. Major problems that may occur in this case are corruption and suboptimal investment decisions. Multiple domestic firms with government incentive plans may be more efficient, but the risk of default may also be higher. Corruption and suboptimal investment decisions may also pose problems in this case. Critical government regulation must take place in any of the mentioned alternatives.

Administration would need to take place at the town-level to ensure that rural citizens have adequate access to their funds. Transactions should occur at banks at the town-levels, and any organization should ensure that is sufficiently integrated within the banks.

In any case, the Chinese government must decide whether to encourage foreign investment or pursue a domestically-owned organization. The Chinese government needs to carefully plan its strategy to avoid problems in the future. Prudent analysis will be needed to determine the actual coverage, as welfare conditions vary significantly over China.

Education

Government education will be very important in ensuring that Chinese citizens are willing to participate in social security. The government may want to hire new graduates to speak face-to-face with the rural folk. Explaining to them, in a clear and honest way, the benefits of social security will make participation in the program more likely. This method has an additional bonus of temporarily employing job-seeking students. From personal experience, it seems to me that many of the people of China have inherent respect for the Communist Party. Their influence will be a major asset to this project. In addition, education during this period should also cover investments, such as productivity-boosting agricultural equipment, that may be available to farmers.

Incentives

It is critical that the government plays a role in the development of pension and insurance funds. If the government decides to take a more passive approach to social security, incentives should be put in place to make domestic and/or foreign investment in the industry more attractive. Tax breaks should be considered where possible. It may be better to avoid subsidizing new organizations, since this may lead to suboptimal investment decisions. However, subsidies are also something that should be considered in specific cases.

Incentives should also be given to certain entrepreneurial ventures in rural communities and to skilled labour who work in the countryside. This would help to increase the rate at which the countryside is modernized, which in turn should help raise living standards and increase demand in rural areas.

Subsidy incentives for any industry in response to the financial crisis also will need to ensure that they comply with World Trade Organization (WTO) law, as China is a member of the WTO.

Increasing Expenditures on Infrastructure

In addition to the above recommendations, China should strengthen its stimulus package further. The stimulus plan was created before the new data on lost exports was released, and thus probably did not take it into account. Replacing the jobs lost by migrant workers is essential in the short-term to avoid social unrest. However, China should ensure that any additional investments included in a larger stimulus package are beneficial to its people, especially the rural group.

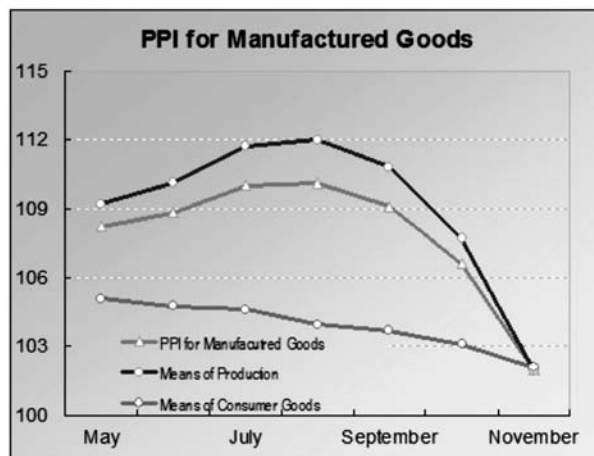
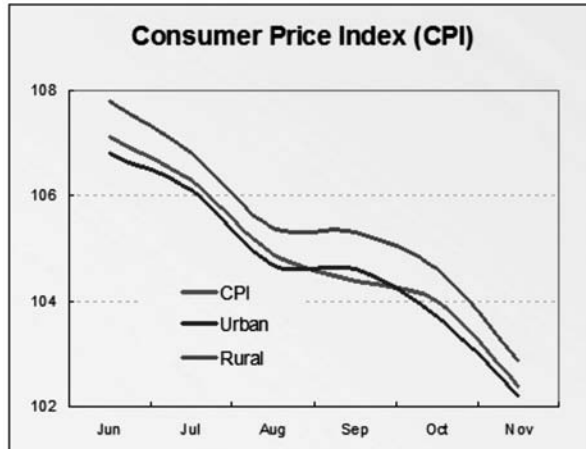
Other Thoughts

The tradition of buying a house for one's child upon graduation contributes to a high savings rate in China. While it is not my place to challenge tradition in a foreign culture, I will objectively state that individualism may be more beneficial to the Chinese economy than collectivism in this case. Buying a house requires a considerable sum of money, and if these savings were freed up it would help to further boost domestic demand.

CONCLUSIONS

Altering the way that money is saved, and attempting to decrease the savings rate in the countryside will help boost domestic demand by freeing up more funds for investment. In addition, rural citizens will be able to enjoy a better standard of living with less uncertainty. The process will help to modernize the countryside and this may help create a better domestic market. An increase in domestic demand will also lessen the effects of the imminent deflation. These recommendations may seem somewhat ambitious, but the Chinese government needs to act fast to reduce the threat of dangerous social unrest. Supplementing of the current stimulus package with the previous recommendations may be one way to accomplish this. However, the speed of these implementations are critical. At the same time, extreme caution must be taken in order to effectively implement them. Reforms also need to occur with a degree of simultaneity. It will be a delicate balancing act, as whatever actions taken to soften the impact of the financial crisis will surely affect China in the long-term. If China can keep its economic growth at a sustainable level, it may be able to come out of the crisis stronger and better developed than ever before.

Appendix I: CPI and PPI Indices between June and November 2008



Source: National Bureau of Statistics China

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A Sui Generis System: An In Depth Analysis of European Union Governance and Political Innovation and its Effect on Business

Mike Spicer

ABSTRACT

The formation of the European Union (EU) just over 50 years ago signalled the beginning of a new era for European businesses. The eventual removal of trade barriers and increased co-operation between members along with the more recent eastern expansion has led to a more interdependent system where some firms are struggling to sustain their competitive advantage. This paper attempts to clarify the EU's unique blend of capitalism, governance and corporate lobbying as an example of Europe's history of political innovation. Secondly it investigates the effects these factors have on business within the EU, with emphasis placed on the Dutch business environment. Indeed, the EU is a constantly evolving political structure that highlights the increased pressures of globalization and economic interdependence. Furthermore, the greater liberalization associated with the EU has encouraged the Netherlands to pursue a strategy of more strict market capitalism, a departure from its social welfare roots. The establishment of multi-issue politics participation in multiple trade associations and interest groups, as well as more informal networks, has become a source of competitive advantage for Dutch firms. Due to their ability to maintain high positions within these associations and create a standardization of group actions, firms can influence the outcome of the EU's decision-making process. Although the EU has brought about many changes within the structure of its members' business systems, it is also reflective of the trend of globalization. This paper illustrates the interdependence and interaction between firms and political institutions within the European Union.

INTRODUCTION

The EU is commonly referred to as a *sui generis* system, meaning that it is something new and therefore, to a degree, unpredictable. This label however is being used by many to criticize the EU as an unproven and inefficient system of governance, citing governance without government as its largest flaw. This paper will attempt to analyze the current form of EU governance and demonstrate it as an example of Europe's penchant for political innovation, in this case, successful innovation. Several key components of the EU structure will be examined in terms of their contribution to the overall position of EU governing bodies and their subsequent effect on business policy decisions. In particular, the question of the effectiveness of governance without government will be addressed. Secondly, intricacies unique to the EU will be highlighted in terms of corporate lobbying and the activities of interest groups by examining the activities of corporate lobbying both domestically and on the EU level, and the effectiveness of different techniques. I will also examine the different forms of domestic governance and the influence of traditional forms of government on the current style of EU governance. Finally, this paper will examine the overall effect of EU governance on business operations and strategy for Dutch firms.

THREE FORMS OF EUROPEAN CAPITALISM

In order to fully understand the EU in terms of its style of governance and capitalism, we must first examine the way in which the nations that comprise the union operate. We will first investigate the three major forms of capitalism found throughout the nations of Europe: market, managed and state capitalism, giving specific attention on the United Kingdom, Germany and France as they best represent the differences between the forms.

Of particular interest for the ever evolving EU is the theory of market capitalism. Market capitalism is characterized by liberal, open markets in which economic actors interact autonomously to determine the direction of their activity (Schmidt, 2002). This form of capitalism is exemplified within the EU by the United Kingdom whose service-based industry thrives due to its ability to adapt quickly to consumer needs, constantly seek the most cost effective methods of conducting business and take advantage of investment capital to turn quick profits.

Market capitalism is completely driven by the open market and therefore tends to be the direction in which most countries, not only within the EU but worldwide, are pursuing as a result of the removal of trade barriers and the increasing pressure of globalization (Schmidt, 2002). Managed capitalism is still affected by market conditions, but takes a more calculated, long-term approach, best represented by Germany. Managed capitalism is typified by a government body that acts as a “facilitator” between business and government. Perhaps the most distinctive feature however, is the relationship between industry and finance. In managed capitalism, industry is more concerned with long-term growth and market share, and therefore has very close relationships with banking as opposed to market capitalism which relies on the open market to maximize profits and short-term results (Schmidt, 2002). The final model of capitalism is state capitalism, which is becoming increasingly less prevalent, but is best represented within the EU by France, despite their recent liberalization of financial markets over the last two decades. This type of capitalism is exemplified by state involvement in all aspects of business within a nation from fully state controlled wage bargaining to state mediated industry-finance relations (Schmidt, 2002).

With three distinct systems of capitalism exemplified by three seemingly strong financial nations, which system should the EU be pursuing for its members? The response seems to be that the EU’s governing bodies favour a policy of market capitalism. Although there is evidence to support other forms, market capitalism is most closely linked with high levels of competition and requires nations to focus their resources on industries in which they hold a competitive advantage. This market orientation is also natural, due to the nature of the EU being a trade union with no barriers between market states, therefore encouraging competition among international firms for profits and market share.

This push toward a strong market orientation is reflected in the EU’s accession conditions, and the requirement of applicant states to liberalize their markets. Nowhere is this feature more prominent than in the former communist and Soviet states of Eastern Europe. History is also on the side of accession, as formerly centrally planned states have a strong desire to limit governmental intervention in business, and participate in the global market from which they had previously been shut off. This is visible in countries such as Estonia, where a thriving technological sector has motivated the country to continue along the path to liberalization. Knell and Srholec (2007) argue, however, that post socialist countries cannot simply decide to liberalize and become market economies, but must move along a continuum from a managed or co-ordinated approach to eventual liberalization. The Varieties of Capitalism (VoC) approach argues that as former command economies transition themselves into market-oriented economies, potentially new variants of capitalism can be created. These new forms would arise due to the large changes being made to the institutional framework, including changes in long held customs and traditions (Knell & Srholec, 2007).

FORMS OF DOMESTIC GOVERNANCE

Continuing with our preliminary investigation of the individual states, we look at the particular forms of governance that are in place within EU member states. Governance is defined as the ways in which decisions are made and policy is created to reflect the preferences of the citizens (Eising & Kohler-Koch, 1999), whereas government is the body or structure which enacts and enforces these policies. Similar to the individual styles of capitalism found within the EU, each country has developed their own style of governance to reflect what they believe to be the most efficient and effective method. The easiest way to understand the different types of governance among EU nations is to classify the interaction between constituents and the governing bodies in place, and the methods in which governments make policy decisions. Policy decisions are influenced by the political role of interest groups, be they large labour unions, special interest groups or individual corporations. Two broad definitions have been developed; pluralism, which refers to a system where numerous competing interests exert strong influence in their own specific sector, and corporatism, which is characterized by a strong relationship between government and large associations from which important decisions arise (Hague & Harrop, 2004). Corporatist nations, for example Germany, tend to exhibit governing decisions that favour the common good of the nation; while pluralist nations such as the United Kingdom tend to make policy decisions on the basis of individual interest, reflecting their belief that all citizens affected by a policy have a right to participate in the policy making process (Eising & Kohler-Koch, 1999).

Those governing bodies whose decisions are based on the idea of the common good are displaying their belief in the importance of collective decision-making. That is, the constituents of a country will always be bound together by the same policy so it is best to act in the interest of the common good. Nations of statism, such as France, use this common good decision-making based on a principle of majority rule, meaning the largest or strongest group will typically receive the benefit of political policy. Corporatist nations however pursue a more negotiated attempt to bridge the differences between groups to arrive at a decision of common good (Eising & Kohler-Koch, 1999). This style is exemplified by Germany and is in keeping with their style of managed capitalism in which the government acts as a facilitator for business. These contrasting styles of governance within domestic borders present an intriguing issue for the EU of incorporating the different interests and styles of governance of all 27 member states into effective policy decisions.

LEVELS OF NATIONAL SOVERIGNTY

With the numerous and widespread forms of capitalism and governance found throughout different EU nations, it is readily apparent that although they are member states of a shared trade union, individual countries still place a very high value on their individual sovereignty. This concern with domestic borders and sovereignty can be crippling for the idea of a union, as nations take a “me first” attitude toward proposed EU policy. In fact, some analysts believe that Europeans would be better off abandoning their current system of nation states and pursuing a true federal system (Calleo, 2001). This belief is supported when one investigates countries in terms of their adherence to EU legislation. Simply put, due to the fact that EU nations still enjoy complete autonomy and sovereignty, they have the ability to abide by the EU policy decisions they choose without fear of significant punishment. Nowhere was that better demonstrated than shortly after the induction of Eastern Europe’s “EU10.” Wealthier and more advanced Western European nations feared that with the opening of the EU to Eastern Europe, cheap labour would flood west and snatch up labour positions. In addition to this, there was a fear that many would take advantage of generous unemployment and welfare payments in lieu of actually seeking employment. In response to this concern several nations enacted transitional agreements on labour from the east (*The Economist*, 2006). These agreements cut to the core of the issue described above, that national governments have no qualms about enacting legislation which contravenes fundamental EU rights. In this case, free movement of citizens for purposes of employment is a basic right of all EU citizens, but regardless, some countries did all that they could to prevent this from happening. Interestingly, the countries in this example with the strictest agreements experienced the highest number of illegal, undeclared workers (*The Economist*, 2006). More importantly however, this example illustrates a serious threat to the legitimacy of EU policy making, and the credibility of EU policy; however, the fact that Ireland, the country with the highest levels of migration, experienced the highest subsequent level of economic growth and lowest unemployment figures displays that EU policy, although difficult to enforce, can be successful.

THE ROLE OF LOBBYING AND SPECIAL INTEREST GROUPS

So if the EU can propose and enact legislation, but the individual nation states can essentially choose which guidelines they will abide by, how do special interest groups and lobbyists effectively influence relevant policy decisions? EU lobbying is very unique, in that it presents challenges to lobbyists and interest groups by providing two very separate and distinct forums in which to exert influence. Depending on the salience of the issue, relevant policy decisions will be made either at the domestic level or the EU level, and each requires an individual approach.

On a strictly domestic level, the success of individual interests is largely influenced by the type of government system in place. In pluralist societies, such as the United Kingdom, politics is seen as competition between many individual interests, where the state is largely an arena for this competition (Hague & Harrop, 2004). The central theme of pluralism is that no single group can dominate government, as the highly individual nature of pluralism tends to restrict groups into one single policy sector. It is believed that through this system the government can effectively represent not only economic interests, but also act for the diverse range of interests found throughout society. Conversely, corporatist nations, such as Germany, value co-operation, co-ordination and planning between government and interest groups.

Peak associations, described as those major social partners of capital and labour, negotiate with government to implement key policies (Hague & Harrop, 2004). The peak associations are typically comprised of large unions that aggregate numerous individual groups into a larger, more powerful union. These subsequently larger groups can exert a greater influence and have a larger role in negotiations with policy makers.

But when it comes to interest group influence on an EU level, the process becomes much more difficult. Whereas sovereign nations tend to have well established processes in place, the EU presents a challenge in that they have several legislative bodies but no traditional government. Smaller domestic firms are at an even greater disadvantage, as EU lobbying is effective only if one possesses a large amount of resources. Small firms typically are reduced to joining an EU association which will lobby on behalf of its members, the trade-off being that the individual firms' voice is diluted among many more along with their potential influence.

With the main offices of the European parliament and European commission being in Brussels, the most effective lobbyists have offices in that city along with a staff dedicated to influencing EU policy decisions. Aside from direct financial incentives which border on the unethical, successful lobbying on the EU level centres on the provision of information by the lobbying party to members of the policy making body. This information can come in three forms; expert knowledge in a particular field related to salient policy issues, information on the general European interest, and information on general domestic interest (Bouwen, 2002). The latter two are the areas in which large European or domestic associations may have an advantage. Typically these associations are comprised of a large number of diverse actors that represent the general preferences of both individual nations and the continent as a whole. Expert knowledge, however, is typically more desirable for policy makers, as legislation tends to be very sector specific as opposed to broadband. Large multinational corporations therefore tend to have an advantage in this particular arena, as their growth and success is typically based on expertise in a particular field. Furthermore, due to their multi-layered organizational structure, associations are further removed from market reality (Bouwen, 2002). Those who can provide the desired information to the right people will see results, which begs the question: who are the right people to approach within the EU structure?

In almost all situations of decision making, those individuals working around and within the European Commission play a crucial role (Van Schendelen , 2005). The multi-layered structure of the EU, with the Commission, Council, and Parliament along with the Court of Justice and the Court of Auditors ensures that there is no shortage of public servants to approach and attempt to influence. The most relevant for lobbyists, however, meet two distinct criteria. The first being their position of strength regarding the decision making process, and the second being their personal policy preferences which could be based on domestic or personal values (Van Schendelen , 2005). This being said there is never going to be a shortage of connections between EU public servants and the private business sector, and therefore influence will always be exerted from interest groups. Large international firms hold an advantage due to their ability to employ liaison offices in Brussels with staff dedicated to keeping in contact with politicians, and keeping their firms abreast of any upcoming policy issues (Bouwen, 2002). With this in mind, one may think that the current EU structure and form of governance encourages corruption or gives an advantage to the large multinational firms with endless resources at their disposal. However, due to the EU's unique system of networking and constituency building, its policy making decisions are very well informed of the general interest groups as well as the preferences of the wealthy elite.

THE EVOLUTION OF EUROPEAN UNION GOVERNANCE

The preceding information culminates now, as we address the distinct form of EU governance that has evolved over time as a result of the influences of individual nations' forms of capitalism, governance and policy making. The EU's recent inability to pass a constitution into law only highlights the largest challenge for the EU moving forward, and that is integrating the priorities and positions of the 27 member states into effective and binding policy. This difficulty could be a result of the nature of the EU; being a system of networks with no clear decision making centre (Beck & Grande, 2004), as well as the fact that some citizens have a fundamental problem with being governed in the absence of an actual government (Eising & Kohler-Koch, 1999).

In order to understand the decision making process we must understand the system of governance in use in the EU.

Determining the type of governance used in the EU is difficult as it is not a state, super-state or confederation (Beck & Grande, 2004), nor can governance be objectively characterized based on patterns in large decision making, as the more “salient the issue, the greater the need to keep them under member state control” (Eising & Kohler-Koch, 1999: 17). The style of governance, that has evolved as a result of attempting to appease all member states simultaneously, is based on a series of formal and informal networks between EU legislative bodies and domestic governments, trade associations and large multinational firms; this system has come to be known as network governance. The core idea of this form of governance is seeing problem solving as the essence of politics, and policy making as highly dependent on the participation of organized social subsystems (Eising & Kohler-Koch, 1999). To this end, the European Commission has displayed this form of networking for years by actively engaging in building up multinational interest groups to aid in policy decisions in which the commission has an interest (Eising & Kohler-Koch, 1999). Two important notes to consider, however, affect this strict network governance categorization. First, depending on the policy arena which is being dealt with, the EU can exhibit different forms of governance, for instance statism in monetary policy or corporatism in social policy (Eising & Kohler-Koch, 1999). Secondly, the EU is comprised of nations with very long and rich political histories, and has always demonstrated the ability to evolve and innovate new systems of governing. That, when combined with the fact that the EU is only 50 years old and still in a formative phase implies that future evolution and change is very much possible (Eising & Kohler-Koch, 1999).

AREAS OF CONCERN FOR EU GOVERNANCE MOVING FORWARD

Although the EU has enjoyed praise in the worldwide political community, there are several flaws that have arisen in recent years that threaten its continued progression. With its informal system of networking and constituency building being the basis of policy decisions, some citizens feel as though the system is not fully democratic, and is vulnerable to corruption or persuasion from third parties, typically the large multinationals, exemplified in the Netherlands by Royal Dutch Shell. This type of thinking can breed the phenomenon of Euro-scepticism and reduce EU citizens’ faith in the legitimacy of the governing system. This fact was highlighted in the referenda on the Treaty of Maastricht which noted that decision makers “had to bring the European Union closer to its citizens” (Eising & Kohler-Koch, 1999: 17).

A major and more salient issue, however, is the EU’s inability to propose and enact a common foreign policy, and with enlargement now expanding east into the former communist and Soviet bloc nations, this seems more and more unlikely. This topic has recently come to the forefront of EU policy making with the Russian invasion of Georgia and the EU’s subsequent response, or lack thereof. Ever since the conflict in Kosovo, leading EU nations have expressed the importance of being able to deploy a collective military force when deemed necessary, therefore removing their dependence on either NATO or US forces (*The Economist*, 1999). However, foreign policy making with 27 member states, each with the power of veto, is very difficult if not impossible (*The Economist*, 2007). When the conflict in Georgia came to a head current EU president Nicolas Sarkozy headed to Moscow on behalf of the EU to broker a multi-point ceasefire agreement which both Georgian and Russian leaders agreed to. The Russians then ignored the conditions set forth in the agreement and refused to pull out their troops; the response from Sarkozy was the threat of an EU summit. The nonchalance of Russia again highlights the EU’s lack of power in terms of foreign relations, and this reputation is not aided by the diverse range of responses from individual nations of the EU. While France and Germany have tried to remain neutral, Italy has passed full blame on Georgia, while Britain, Sweden and the eastern states have condemned Russia’s aggression (*The Economist*, 2008). These contradictory responses essentially eliminate any chance of the EU presenting a united front in foreign relations, a fact that was clearly visible on Sarkozy’s visit to Moscow. He was there in the capacity of EU president, however when the ceasefire was signed there were three flags clearly visible; the Russian, Georgian and French, which again shows Russia’s desire to not recognize the EU’s power in foreign negotiations. Unless the EU is able to ratify legislation to create a common foreign policy and military force, they will never be able to have a legitimate and respected voice in foreign relations.

THE DUTCH BUSINESS ENVIRONMENT

We have seen how domestic systems and styles of government affect EU structure, but what is important to know is how the EU structure influences the business operations of firms. The final portion of this paper will highlight how some of the more unique factors of EU governance have changed the method of doing business within the Netherlands.

The Dutch economy, the world's 16th largest in terms of gross domestic product (GDP) in 2007 (World Bank), is one that is dominated by large multinational corporations involved in a broad range of industries from transport and crude oil production, to consumer and dairy products. Traditionally a social welfare state, the Netherlands has recently seen a shift towards more of a market capitalist approach as defined earlier in the text. This shift reflects two different aspects of the Dutch business system. First, the Netherlands exports over 50 per cent of GDP making them very dependent on the open market (Van Schendelen, 2005), which is a precursor to market capitalism. Second, the national government's desire to be not only a European, but also a global business leader. A strong governmental focus on business growth, with an emphasis on large multinational growth, is reflected in their recently lowered corporate tax rate of 25 per cent. This, combined with a sophisticated financial sector and very low real estate costs compared with its western European neighbours, is a recipe for the growth of strong multinational firms (Netherlands Foreign Investment Agency, 2008). Such conditions have seen companies such as Philips, Shell, ING and Heineken flourish with their home operations based in the Netherlands. With such an emphasis placed on the development of big business, the most critical issue of EU governance which affects multinational firms based in the Netherlands is the ability to successfully participate in networking, and therefore exert influence on policy decisions affecting their industries.

The unique version of lobbying that has become necessary for firms to engage in due to the EU's form of network governance has actually given some firms an opportunity to create a competitive advantage through participation in multiple committees and special interest groups. This is highlighted by the strategy pursued by Dutch consumer products giant Unilever. Unilever has operations that span the entire EU, and as a result, they have recognized the establishment of multi-issue politics and the corresponding importance of political credibility, something which can be obtained through participation in trade associations or interest groups (Coen, 1998). Their involvement in multiple trade associations, combined with their high positions held within these groups (presidencies, vice presidencies etc.) lead to a standardization of actions by these groups. This naturally leads to an environment of information sharing between groups and a strong understanding of European business dynamics, as they affect different areas of Unilever's operations (Gueguen, 2007). Also of importance for Unilever and all other major firms, is engagement in the informal area of networking. As a successful firm within the EU, Unilever has a permanent office in Brussels, the centre of all EU political decision-making, with staff dedicated to building relationships with members of the European Commission and members of various governmental committees. It is very important not to underestimate the importance of these relationships as they can keep Unilever's management informed of important policy issues that may concern them. Policy issues that Unilever encounters are evaluated on a case by case basis, and it is through this process that they can determine whether they would be best suited to address the issue through one of their association memberships, individually as a firm, or informally through an existing relationship with someone involved in the decision-making process (Gueguen, 2007). This behaviour is unique to firms operating within the EU and is a result of the EU's unique blend of market and managed capitalism which places great importance on both free market strategies and trade association participation in policy negotiations.

CONCLUSION

The European Union is a *sui generis* system, and as such, any sort of categorization or typology applied to it is strictly theoretical. Despite its inefficiencies, as exhibited in the example of foreign policy decisions, the EU still remains a model of modern governmental innovation. Spurred by the growing trend of globalization and the desire to play a larger role in the global economy it has moved barriers to trade and encouraged the liberalization of domestic markets. Its expansion has seen formerly struggling nations such as Ireland and Estonia enter times of unequalled prosperity.

As a trade union, it has experienced very strong economic growth and success, and through the offer of membership to eastern European nations there has been a proliferation of democracy in former communist governments. Several issues will determine whether the EU's success is continued or not, and the most glaring are the lack of a strong central government, foreign policy creation and the phenomenon of enlargement fatigue. With the rapid expansion into eastern Europe, some fear that the EU will lose the ability to adequately manage such a diverse set of interests effectively. For stronger western European nations such as the Netherlands, EU integration and the spread of market capitalism has led to a vast increase in competition. The elimination of tariffs and introduction of new smaller start-up firms in new member states has led to an increase in trade association participation by larger multinational firms in an effort to standardize actions across industries. For the Dutch market specifically, a lower corporate tax rate and decreased emphasis on social welfare issues reflects its attempt to lure large firms to the confines of their borders. As time moves on, and newer EU members become more and more integrated, nations will be forced to pursue a more specific business structure, whether it is the development of smaller service-based firms at a start-up level, or a focus on the enlargement of large multinational firms, such as we see in the Netherlands. Likewise, firms will increasingly feel pressure to "play the European game," that is engage in participation in trade associations or special interest groups, in addition to informal networking between government and business reflective of the EU's unique form of network governance.

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How Businesses in the Czech Republic are Benefiting from its Integration into the European Union

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ABSTRACT

This paper will explore how businesses in the Czech Republic have benefited from its accession into the European Union (EU). Both the process of accession and the necessary changes that the Czech Republic had to make will be outlined. The costs and benefits associated with EU membership will be described. Recommendations will be made for changes to the government and their policies regarding human resource development, tertiary education and innovation so that the country can overcome current challenges. The current opinions of Czech citizens will be stated and analyzed showing both their support for the EU membership and their fears of losing autonomy. Costs and benefits will be broken down into two groups, those arising from the EU market and those related to central decision-making and governance. Both groupings will be evaluated to show that most costs occur in the short run, and that the long-run benefits are much greater.

INTRODUCTION

In the past 20 years there have been endless changes occurring in the Czech Republic; it was not until 1989 that they were free from the Soviet Empire. Since then it has been a time of great improvement, with a movement to a free market economy, democracy and an increase in international trade. Currently, and for the past decade, the majority of the significant changes in this area can be attributed to the accession of the Czech Republic into the EU.

Recently, there has been much debate over whether the Czech Republic is truly benefiting from being a member of the EU, and the number of people skeptical of its membership has been increasing. Many businesses and politicians fear that the loss of autonomy and policy change that accompany membership will have more drawbacks than the benefits that the EU has to offer. As with all issues, there are pros and cons to joining the EU, but it is clear that for the Czech Republic the benefits outweigh the costs and this report will explain why. Although this report could not address all of the issues involved in accession into the EU, it will focus on those issues that most impact the Czech Republic's business community.

HISTORY OF THE EUROPEAN UNION'S FIFTH ENLARGEMENT

The fifth enlargement of the EU began after the fall of the Soviet Block in 1989 when it was made clear that many of these Central and Eastern European (CEE) countries would be the next to be nominated for accession into the EU. It took four years for this nomination to come to fruition, and in 1993 the Copenhagen European Council officially issued the invitation. To become members of the EU, these countries would have to meet stringent criteria in areas including monetary policy, government and market economies. The Czech Republic's accession into the EU officially began when the European Agreement went into force in February 1995, by ratifying the agreement, the Czech Republic officially showed its interest in EU membership, and agreed to the processes necessary to become a member (Czech National Bank, 2008).

The Copenhagen Criteria was the foundation for the accession of the Czech Republic into the EU. The main requirements of the criteria were the capacity to handle market forces and competitive pressure, as well as the existence of a market economy that functioned properly. The fulfillment of these requirements was assessed through annual reports using various specific criteria, which were the necessary benchmarks that each country had to reach.

The main conditions analyzed were:

Demand-supply equilibrium achieved through free competition of market forces

- Full liberalization of prices and trade flows
- The existence of a developed financial sector without any obstacles to market entry and market exit
- Enforceability of law, including ownership rights
- Macroeconomic stability, including price stability, sustainable public finances and sustainable international financial accounts
- A broad consensus on the principles of economic policy
- A sufficiently developed financial sector capable of channeling savings into productive investment (Czech National Bank, 2008)

At a EU summit in Copenhagen during December 2002 the accession of the 10 candidate states was approved for the year 2004 (Czech National Bank, 2008), and the Czech Republic held their referenda to decide whether to enter the EU from June 13-14, 2003. Though before the referenda was held it appeared that it would not pass, once the records were tallied it was found that the approval rate of those who voted was 76 per cent (Doyle & Fidrmuch, 2006). With this response, the Czech Republic had only to wait for the official welcome from the EU, which would occur in less than a year. Finally, after referendums were held and passed in all of the candidate states, the fifth enlargement of the EU occurred on May 1, 2004 with the membership of the Czech Republic, Slovakia, Estonia, Hungary, Poland, Lithuania, Slovenia, Latvia, Malta and Cyprus (Czech National Bank, 2008). This event put a long series of events into motion that are continuing to occur today, which have greatly affected people within the new accession areas and throughout the EU. It was also this event that evoked the current debates over whether or not the Czech Republic will benefit from the accession.

CZECH REPUBLIC IN THE EUROPEAN UNION

Ever since the Czech Republic entered the EU four years ago they have been working strenuously to gain as many benefits as they can from their membership. While the government has been working to administer the required common policies, the businesses have been taking advantage of the new opportunities available to them. Improvements have not occurred overnight, and there are many changes that need to take place in order for the Czech Republic to receive all of the benefits available.

Although the process of integrating into the EU is known to be a time-consuming one, there are many Czech Republic citizens that are beginning to debate whether becoming a member was the best decision. The current President, Vaclav Klaus, is not helping to decrease the euro-skepticism within his nation as he recently stated that regarding the accession into the EU, "there has been no measurable impact on the economic growth of... the Czech Republic" (The Associated Press, 2007). This viewpoint is not what all people believe, as many view their entrance into the EU as a great step forward. A strong example of this opinion is Petr Zahradnik of the Central European Banking Group, who is quoted saying, "The main advantage in my opinion consists in the ability of not only big companies but also SMEs and individuals or family firms to compete with their European Union competitors" (Bakshian, 2004).

The full integration of the Czech Republic will continue slowly over many years, as the country begins to get comfortable with the market, the policies and the EU central governance. During this time the above division will continue to exist, but with a few changes the country will hopefully begin to become more pro-EU. The current situation in the Czech Republic is not optimal for integration into the EU and there are several current challenges that the country must overcome in order to gain all of the possible benefits of integration.

CURRENT CHALLENGES FACING THE CZECH REPUBLIC

After four years of EU membership, the Czech Republic has begun to take advantage of the wealth of opportunities open to them, but in order to make the best of these opportunities, there are certain changes that need to be made. It can be seen in news articles and journals that the government of the Czech Republic is not overly supportive of the EU accession. As I established earlier, the current President, Vaclav Klaus, has voiced his opposition to the EU and is vehemently against further integration. An example of the President's distaste for the EU is his opinion of the Registration, Evaluation, Authorisation and Restriction of Chemical Substances (REACH) directive that binds member countries to investigate the effects of chemicals on the health of the environment and humans. This directive will require the investment of billions in the chemical industry and may possibly threaten Czech chemical companies. President Klaus was quoted saying that, "This is the most horrible thing that has ever arisen in the EU" (*International Herald Tribune*, 2007). It appears that the president is unable to focus on the long-term benefits of the directive, such as increased health and safety, a healthier environment and more knowledgeable chemical regulations, and can only see the short-term costs.

By completing personal interviews, I found that certain students and managers within the Czech Republic feel that the structure of the current government is not conducive to effectively governing the country (A. Bonnyman, personal communication, December 5, 2008), and others believe that a more pro-EU government would increase the benefits that the Czech Republic receives (P. Zvarova, personal communication, December 6, 2008). These opinions show that people believe the Czech Republic's situation can be improved by their membership in the EU and feel that having a government that supports the directives would increase the benefits. For these reasons, further change to the Czech government is a necessity if the continued integration of the Czech Republic is to be as advantageous as possible.

Another current challenge to be faced is that the Czech Republic, like all new entrants to the EU, has much less research and development (R&D) in production than do the 15 nations that were EU members prior to the 10 candidate countries being accessed in 2004 (EU15). This is something that Czech businesses need to improve if they are to compete with foreign business. Businesses will no longer be able to rely on technological advances coming from international companies, because the rate of innovation will need to be much higher in order to stave off their foreign rivals. Technological advances will have to occur locally within R&D facilities, but in order for this to happen, the Czech Republic will have to be more open to innovations. In order to create an environment that is open to innovations, the politicians, business sectors and the public must all view these innovations as important. Currently, these aforementioned groups perceive innovation to be relatively unimportant, which is one reason why the R&D in production is so low. That few businesses are willing to take risks, and that long-term, detailed strategic plans are rare, not only in business but also in government, are indicators of the value that these three groups place on innovation (Kaderabkova, 2005). In order to overcome these faults, a large change will need to occur, whereby businesses begin to believe that R&D is integral to their success and realize that innovations are a great means to increase, or create new profits.

Lastly, insufficient government policies supporting human resource development is another challenge that the Czech Republic currently faces. This insufficiency is another component of the lack of innovation in Czech business and is made worse by the low levels of tertiary education in the country. These two deficiencies create an environment where life-long learning is uncommon, and the lack of education can also lead to employees that add very little input into their jobs. The education system is currently not highly capable of training the flexible and creative workers that would allow businesses to function more efficiently and would be able to improve the level of R&D. Increasing the supply of tertiary education and policies supporting human resource development need to be urgent priorities for the Czech Republic, because their importance will only grow as the Czech Republic continues to integrate into the EU (Kaderabkova, 2005).

COSTS AND BENEFITS OF EU MEMBERSHIP

Integration into the EU takes years to occur fully, during which there are many costs and benefits that affect the integrating country. As the Czech Republic has only been a member of the EU for four years, there are still many years of change to come, but this does not mean that costs and benefits have not been occurring already. On the contrary, most costs of joining the EU occur promptly after a country shows its interest in accession and many benefits begin shortly thereafter.

Currently the Czech Republic is in a period where costs have been accrued and benefits from membership have begun to occur. Though there are many costs that are created due to integration into the EU, the benefits more than outweigh them. In this section these costs and benefits will be addressed in two different groups: those that arise due to the participation in the EU market, and those related to the central decision-making and governance in Brussels.

Participation in the EU market

Upon entering the EU, the Czech Republic gained full access to the markets of all of the member states. This access can be greatly beneficial to companies as it enhances the market opportunities within the Czech Republic. Companies now face reduced or eliminated trade, tariff and non-tariff barriers due to the EU's free movement of goods and services. These reduced barriers not only allow the movement of factors of production, but also permit people from throughout the EU to move freely in search of jobs and opportunities. This free movement could come at a cost, as many people fear that highly skilled labour will move to the older EU countries for higher wages and benefits (Andronikidis & Bitzenis, 2006). This fear has been substantiated by studies; for example one that stated five to 30 per cent of Czech doctors might leave the country after the accession. However, it can also be stated that many more customers will enter the Czech Republic for services as they are of a higher quality than those within other new EU member states. For the above example, it is believed that there will be an increase in elective procedures such as plastic surgery and dentistry for which the patients pay out-of-pocket (Spritzer, 2004). This example shows that costs to the Czech Republic associated with the loss of skilled labour can be significantly lessened by the increased demand for these skilled jobs from other new EU members.

Other inherent costs created by access to the EU market include the costs of preparing the Czech Republic for its entry into the market itself. These costs could be exacerbated, the weaker the economy and environment within a country, the higher the transition costs can be. One such cost is that of modernizing the entire Czech industry, without which the Czech Republic would be at a great disadvantage compared to the more developed and advanced EU15. This disadvantage relates to a fear that many businesses within the Czech Republic have regarding the threat of other nations to their domestic producers' market positions (Andronikidis & Bitzenis, 2006). The pressure to modernize its industry in fear of losing domestic production could actually be quite beneficial for the Czech Republic in the long run. Michael Porter (2007) supports this argument when he claims that, "When supporting industries are competitive, firms enjoy more cost effective and innovative inputs." Due to the pressure being exerted from foreign companies on the Czech market, firms are forced to be more competitive and innovative. This change, partnered with the modernization within the country should create a business environment in which companies and their suppliers are more efficient and produce a higher quality product. These firms will then be more capable to compete, which will not only benefit them, but also their local consumers, who will have access to locally produced, higher quality goods.

The connection formed between the Czech Republic and the other nations within the EU has produced many beneficial opportunities for Czech businesses. There is now easier technology transfer from other nations to the Czech Republic, as barriers have been decreased, which will create more interaction between Czech companies and those in different areas of the EU. Czech entrepreneurs will also have access to many new markets from which they can gain new ideas for products. Another benefit from this connection is increased Foreign Direct Investment (FDI) and trade flows, which will come from both EU and non-EU nations (Andronikidis & Bitzenis, 2006).

A business student that I interviewed explained this boost in FDI by expressing that he felt that the accession into the EU has created a great increase in goodwill, as it shows that the Czech Republic is now part of “an exclusive group of highly developed countries” (L. Drencak, personal communication, December 7, 2008). Non-EU countries are more willing to invest in FDI in the Czech Republic now that they are a part of the EU because it shows an improvement in their business environment and investment climate (Andronikidis & Bitzenis, 2006).

The free movement of people throughout the EU has led to an increase in the number of foreign nationals in the Czech Republic, which an Audit Commercial Manager that I interviewed believes has benefited the Czech Republic by creating more diversity, which presents the ability for a nation to benefit from the exchange of ideas that diversity brings with it (A. Bonnyman, personal communication, December 5, 2008). Reduced barriers also lead to reduced costs of business, as products can be transported within the area without fees, reducing the costs of logistics. Other reductions to business costs will come from the use of cheaper inputs available in newly accessed markets, and the reduced costs of entry into new markets (Andronikidis & Bitzenis, 2006). Due to all of these factors, “Czech businesses will step by step use the benefits of the internal market and they will be more active in setting up subsidiaries and offices in the EU” (Tax, 2004).

The preferential tariffs that the EU has with other countries also offer many opportunities for Czech businesses. Their exporters will not only have free access to countries such as Hungary and Poland, but they will also be able to benefit from trade agreements with the Mediterranean countries, Mexico and Chile. Exporters will also advance from the new export channels opened to them by EU membership along with the fact that their products will now say “Made in EU.” This new branding will prove to people that the products produced in and exported from the Czech Republic are of a high quality, which could increase people’s willingness to buy them. Access to new trade markets is a good development for Czech business, because recently trade within the EU constituted 85 per cent of their total trade, and the new preferential agreements will give Czech companies the opportunity to expand their operations into markets that they previously had no access to, which could bring immense growth to their national exports (Tax, 2004).

Central Decision-Making and Governance in the EU

By joining the EU, the Czech Republic has agreed to follow the various treaties and policies that are created by the European Commission in Brussels. In order to initially follow these common policies, the Czech Republic faced high costs of improving their national legislation, as well as the costs of adopting the EU standards for enterprise (see the Copenhagen Criteria mentioned above), and the policies themselves. Central governance, like that which occurs within the EU, can often create disparities between the different areas being governed and thus creates central bureaucracy. This is when all parties argue and lobby against policies and issues that are not the most beneficial for them, and decision-making becomes difficult and time consuming. Businesses within the Czech Republic are worried that due to common policies and central bureaucracy, the Czech Republic will compromise its culture and lose certain economic advantages (Andronikidis & Bitzenis, 2006).

Another concern for Czech businesses is that since the EU takes five per cent of the annual common budget for its own administration, some individuals believe that it is very unlikely for the Czech Republic to receive more than it gives in the long run. These people further believe that since the Czech Republic will undertake legislation created by the EU, “National elections will become a mock, since no matter who wins the elections in the Czech Republic, the European representation will remain average” (Mach, 2003). These are not the views of all citizens within the Czech Republic, but the fear of losing autonomy is one of the largest concerns I found when completing my interviews (P. Zvarova, personal communication, December 6, 2008). However, arguments against these views hinge on the fact that the EU does not have the legislative force to ensure that all nations enforce these legislations, only that they adopt them into their own policies (Quigley, 2008). Thus the Czech Republic will be able to keep some autonomy, and the decisions made by their government will continue to be of vast importance.

Though the EU policies can create some loss of autonomy for the Czech Republic, they also create various benefits. An example of a major benefit that arose due to the adoption of EU policies is the strengthening of the Czech Republic's international accounting standards (Andronikidis & Bitzenis, 2006). Because of these heightened standards, the accession into the EU has made it more likely that foreign investors will invest in Czech companies. Investors will now have more faith in the accounting figures and practices of Czech businesses and they will know that the accounting systems used are of the same quality as the EU15.

Additionally, along with the strengthening of accounting standards, accession into the EU will also improve the regulations for start-ups, increase the transparency of business operations, and increase the environmental regulations that Czech businesses must follow (Andronikidis & Bitzenis, 2006). Though many Czech citizens and businesses see the increased environmental regulation as a large cost, I agree with Michael Porter (1991) in his opinion that, "Strict environmental regulations do not inevitably hinder competitive advantage against foreign rivals; indeed, they often enhance it. Tough standards trigger innovation and upgrading." Though it is true that there will be high upfront costs to businesses arising from the increase in regulation, Porter states that:

Properly constructed regulatory standards, which aim at outcomes and not methods, will encourage companies to re-engineer their technology. The result in many cases is a process that not only pollutes less but lowers costs or improves quality. Processes will be modified to decrease use of scarce or toxic resources and recycle wasted by-products" (Ibid).

Considering these long-term benefits, Czech companies will be better off with the new environmental standards, and the innovations created will help them compete against foreign firms at a higher level.

Corporate Social Responsibility (CSR) is another area in which Czech businesses can benefit from higher EU requirements and beliefs. As I have learned in my courses at the University of Economics in Prague, CSR is not a major concern within the Czech Republic. There are disparities in wages and positions between females and males, and many students believe that businesses practicing CSR are doing it only as a marketing ploy (Quigley, 2008). An easy way for the Czech Republic to benefit from CSR is to have firms establish equal pay for equal work, no matter what sex the worker is. Not only would this simple change directly benefit those who are receiving higher wages, but it would also create a much better work environment, based on respect and equal rights, for their employees (Spidla, 2007).

Lastly, an immense benefit to the Czech Republic is the large sum of money currently being given to them from the common EU budget. New EU countries are usually net recipients of the EU budget for several years after their accession, because the more developed countries contribute funds so that the new members can bridge the gap in development and technology. In the 2007 budget, the Czech Republic received 17 billion Czech Korunas more than they paid into the EU, the largest amount that the country has received since their accession in 2004. They received such large sums particularly due to the EU's cohesion and structural funds (Radio Praha, 2008). Additional money also went to fund three projects that are being "financed by the European Social Fund: the Competitive Education Program, the Prague Adaptability Program and the Human Resources and Employment Program" (Velek, 2007). As the titles of the programs and funding bodies show, not only is the EU trying to improve the infrastructure of the Czech Republic, but also improve the quality of life and cohesion within the country.

Short-Term Costs Lead to Long-Term Benefits

Many of the costs associated with the Czech Republic's accession into the EU are upfront, such as improvement of legislation, markets and industry. Though there are certain costs that will persist into the future, such as decreased autonomy, loss of skilled workers and reductions in funding by the EU, it is clear that the Czech Republic is receiving a net benefit from joining the EU. In the long run, the country will be able to benefit from the EU's modernized industries, more experienced exporters and innovative industries that arose due to more stringent environmental regulations.

CONCLUSION

Since the fifth enlargement of the EU in 2004, there has been continual change occurring throughout the Czech Republic. In order for Czech businesses to gain as much out of the EU membership as possible, other specific changes must occur in the country. The Czech government needs to be changed in order to govern more effectively and increase support for EU policies. There must be increased policies and funding regarding human resource development and tertiary education, which the EU has already begun to fund through the European Social Fund. Innovation must also increase throughout the Czech Republic, as their proportion of R&D is much lower than the more developed EU15. Higher environmental regulations and increased competition will help to heighten the level of innovation in the country and make firms more able to protect their domestic markets.

The new markets and trade agreements that accompanied the accession have increased competition for firms, but also created many new avenues of growth. The increased competition will not only boost innovation, but also the quality of local goods, which creates a great benefit to the Czech Republic in the long run. Lastly, the potential costs of having to follow policies created in Brussels are not as high as the benefits that these policies and the EU budget create. In conclusion, it is for all of the above reasons that the Czech Republic made the correct decision by joining the EU, and will continue to benefit from it long into the future.

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The Influence of Culture on Business and Corporate Social Responsibility in France

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ABSTRACT

In today's global marketplace, corporate social responsibility has become essential to longevity and success of the business model. With emergence of the triple bottom line approach to management, corporations face increasing pressure to adopt sustainable business practices, promote transparency in financial reporting and acknowledge stakeholder interests. This paper attempts to utilize the theoretical framework based on the triple bottom line to examine French business practices and gain a better understanding of the profound impact that culture has on corporate social responsibility. In this context, analysis of three cultural elements that have influenced corporate policy in France for centuries: dignity, honour, and patrimony, provide an international perspective on business. While corporate culture in North America has been criticized for its obsession with profit maximization in the short run, French businesses have respected cultural values in promoting a holistic, long-run approach to social responsibility. Therefore, valuable lessons can be learned from the French whose approach to corporate social responsibility hinges on the intrinsic link between consumers, firms, a market economy and the realization that in order to achieve sustainable development, a model of growth must embrace all elements of the dynamic business environment.

INTRODUCTION

Over the past two decades, business has played an increasingly dominant role in the global marketplace, giving rise to intense debate about the role of business in society and corporate social responsibility (CSR). The advent of the Internet has allowed for worldwide dissemination of information, forcing North American corporations to act transparently and in the best interests of governmental groups, consumers, employees, and society at large. Public awareness has therefore triggered an evolution in the expectations placed on business, as Friedman's shareholder theory (the sole responsibility of business is to maximize profits—whilst staying within the rules of the game, and avoiding deception or fraud) is replaced by Freeman's argument that business has a moral obligation to all stakeholders—everyone with a vested interest, or “stake,” in what the entity does (Wikipedia, 2007).

In North American business schools, the concept of corporate social responsibility is associated with the adoption of sustainable business practices, transparency in financial reporting and acknowledgment of stakeholder interests, also known as the triple bottom line approach to corporate governance (dedication to environmental, economic and social interests). As CEOs of companies like DuPont and Shell rush to gain competitive advantage by publicly outlining elaborate plans to increase stakeholder value while minimizing the detrimental effects of operations on the environment, it would seem as though industrialized countries in Europe have failed to jump on the bandwagon. This misconception can be attributed to the impact of culture on business practices and international differences in the interpretation of corporate social responsibility. Martin Wolff, Chief Economics Correspondent for the *Financial Times* recently commented, “If CSR is an idea whose time has come, why has this concept entered the agendas of European business, politics and academia so much later than those of the USA and other parts of the world?” (Matten & Moon, 2004). Despite the trend towards globalization, Wolff's statement is largely representative of North American opinion as few are aware of the unwritten rule of implicit responsibility, a code that has been present in European economic development for centuries. Hence, the fact that literature on corporate social responsibility is predominately Anglo-American does not necessarily mean that other organizations have remained silent and inactive (Antal & Sobczak, 2007). It is for these reasons that researchers have concluded, “The concept of corporate social responsibility is an essentially contested topic due to internal complexity and relatively open rules of application.” (Matten & Moon, 2004: 2).

Furthermore, from an American perspective, corporate social responsibility in France as a voluntary corporate policy is considered dispensable due to the fact that the institutional framework of the economy, in particular formal, mandatory and codified rules or laws define the responsibility of corporations and other societal actors for particular social issues (Matten & Moon, 2004). In France, the influence of tradition and history on corporate social responsibility is more marked than in North America and other European countries because business people “think deeply about the origins and development of their institutions in an analytical, political, and historical way.” (Antal & Sobczak, 2007: 11). But what exactly is corporate social responsibility? With the United Nation’s creation of the Brundtland Commission (formerly World Commission on Environment and Development) in 1983 came the concept of sustainable development and a deeper understanding of the influence that corporations have on social, economic and environmental systems. Although there is not a single definition of corporate social responsibility, organizational interpretations of the concept share similar objectives. According to the European Union, the initiative encompasses sustainable development (SD) and is “a vision of progress that links economic development, protection of the environment and social justice to offer a better quality of life for everyone, now and for generations to come.” (Egan, Mauleon, Wolff, & Bendick, 2003: 3). The European Alliance for CSR has stated that the initiative “mirrors the core values of the society in which we wish to live . . . a concept whereby companies decide voluntarily to contribute to a better society” (Europa Press Release, 2006). Common to these definitions is the morality behind corporate decision-making and behaviour, and emphasis on the importance of a long-term perspective (Egan et al., 2003). Applying the triple bottom line framework of corporate social responsibility to decision making in France, it is possible to deduce that the stakeholder perspective is implicit in the way business is carried out, and not merely considered a source of competitive advantage. As one of the world’s largest economies, it is not competition but three cultural elements that have influenced corporate policy in France for centuries: dignity, honor, and weighted patrimony. While corporate culture in North America has been criticized for its obsession with profit maximization in the short run, French businesses have respected these cultural elements in promoting a holistic, long run approach to social responsibility.

As corporations in North America work towards acknowledgment of stakeholders in generating greater awareness for corporate social responsibility, lessons can be learned from the French whose economy has been based for centuries on the three aforementioned fundamental cultural principles. Essentially, strategy for sustainable development in France hinges on the intrinsic link between consumers, firms, the market economy and the realization that, in order to achieve sustainable development, a model of growth that incorporates all components of this environment must be arrived upon (Egan et al., 2003). In this context, the theoretical framework based on triple bottom line management can be used as a tool through which it is possible to examine French business practices, and gain a better understanding of the profound influence that culture has on corporate social responsibility.

A BRIEF HISTORY OF CORPORATE THOUGHT IN FRANCE

From a North American perspective, little is known about the evolution of corporate social responsibility in France because relatively few articles on the subject have been published in English. Furthermore, “confusion often arises with direct translation of ‘corporate social responsibility’ because in French there is no distinction between the notion of ‘responsibility’ and the legal concept of ‘liability.’” (Antal & Sobczak, 2007: 12). For this reason, corporations in France interpret corporate social responsibility in a different light than most countries and place great importance on its legal implications, whereas in North America such discussion is often limited to the legal community. (Antal & Sobczak, 2007). (It is also important to note that the social system in France has remained public in providing security to all citizens, and the French support state control over business. In America there is an increasing tendency towards privatization, placing greater power in the hands of corporations.) A second discrepancy in interpretation arises with the term “social,” which is representative of internal corporate structure in France (labour relations) and the external structure in North America (society). Therefore, before introducing any other elements from a cultural perspective, it is also important to note that language has greatly influenced the understanding of corporate social responsibility in France when compared to the North American interpretation (Antal & Sobczak, 2007).

Dating back to the 18th century, French political thinkers and historians have criticized the prevalence of corporate concepts in North America. In his works *Democracy in America* and *The Old Regime and the Revolution*, Alexis de Tocqueville explored the effects of the rising inequality of social conditions on the individual and the state in western societies. Tocqueville was skeptical of capitalism in North America, and believed that an overpowering sense of individualism had rooted itself in the underlying concept of Western business. His insights provide a basis for the analysis of implicit corporate social responsibility in France, and reinforce the profound impact that culture has exerted on French business and society. Tocqueville's skepticism of profit was reinforced by Marxist influence in the 1900s, as Marx considered profit a lazy means of generating capital (Gaynard, 2007). As France took more of a collectivist approach to generating revenue through commerce, political thinkers in North America such as Joseph Schumpeter were emphasizing the importance of profit for innovation and entrepreneurial endeavors.

THE THREE PILLARS OF CULTURAL INFLUENCE ON CORPORATE SOCIAL RESPONSIBILITY

The implicit institutional framework in France is composed of two elements; its informal institutions, such as values and beliefs, and the codified rules and norms that have been developed as part of the country's mandatory legal framework (Appendix A) (Matten & Moon, 2004). Inherent in the informal institution are the three pillars—dignity, honour, and patrimony—on which the traditional French approach to corporate social responsibility rests.

Preservation of Dignity at the National Level

Olivier Sirven, International Project Director for IBM in France, explains that culture has shaped implicit French business mentality since the Napoleonic Era, (a period during which France was constantly threatened by invasion and engaged in war) and has contributed to a certain skepticism of foreign multinationals. When Toyota voiced interest in outsourcing production of the Yaris II to France, despite the promise of approximately 1,000 new jobs in the region of Valenciennes, the French were extremely hesitant to accept the offer. Union representatives feared that the Japanese manufacturer would fail to acknowledge labour laws in France and recruit solely based on constant levels of productivity, neglecting the social pillar of the triple bottom line. Although the French government realized that foreign investment by Toyota would provide a significant boost to the economy and help to alleviate unemployment in the region, it was essential that the rights of workers be respected. If the arrangement did not work out as planned, officials debated whether benefits of a short-run economic boost in the region would outweigh costs to society if the factory was shut down and workers were laid off. Regarding the preservation of dignity in France, managers discussed the precedent that would be set by allowing a company of this magnitude to set up its operation in France. If Toyota did not ensure recognition of core French business values, other multinationals might assume that due to high levels of unemployment in the country, workers could easily be taken advantage of through future outsourcing arrangements.

Even today, the French have great admiration for managers who are willing to take charge of their organizations; much like Napoleon did with his armies during the fourth and final stage of the French revolution. The current President of France, Nicolas Sarkozy, has been likened to Napoleon in his blatant actions for reform. Before election, one of his key campaign promises was to organize the "Grenelle," an initiative aimed at launching an environmental revolution.

True to his promise, in the recent government summit, Le Grenelle de l'Environnement (held October 2007) green campaigners, scientists and business joined forces to develop a new platform for sustainable development in France. This initiative has been paramount in France, as Sarkozy is one of the first leaders to promote corporate social responsibility through the adoption of sustainable business practices.

Patrimony in the French Business Model

The weight of patrimony in business refers to cultural inheritance on a national level, and is best exemplified by the role of ownership that French managers accept for the companies they represent.

For this reason, patrimony is essential to the social aspect of the Triple Bottom Line because of its positive impact on the communities concerned; employees (investment in human capital), customers (psychological effect of products), suppliers and society as a whole (Aguilera, Rupp, Williams, & Ganapathi, 2007). In France, a core competence of successful management (bred from patrimony) is paternalism, which fosters a strong sense of family and pride in the workplace, and this feeling is often widespread among employees, many of whom will stay loyal to one company for the duration of their career (Furlough, 2003).

Group Auchan: A Policy of Sustainable Development. The presence of patrimony is evident in the business model of Auchan, a French enterprise and one of the world's top retail and distribution groups with more than EUR 22 billion in revenues each year. The first Auchan store was opened in 1961 by Gerard Mulliez, who wanted his company values to revolve around the sharing of knowledge, authority, and results. In 1977, Mulliez revolutionized the concept of patrimony by issuing company shares to employees and therefore instilling a sense of loyalty in all ranks of the company (even janitors were issued stock). Embracing the soft approach to human resources management, he nurtured working relationships and developed unique employee incentive systems while encouraging constant development within the organization. Mulliez realized that the key to attracting and retaining talent was providing employees with a direct link between their well-being and the company's success—much like the dynamic he considered essential in a happy family. (These ideas have been re-emerging in North American corporate social responsibility initiatives; Starbucks has implemented employee stock option plans and managers across the United States are developing strategies to increase employee loyalty and productivity).

Today, Auchan remains privately owned by approximately 300 members of the Mulliez family who hold 85 per cent of the company's shares while a number of employees who received stock upon first starting with Auchan have become independently wealthy as prices have soared. Through its policy of organic growth and internal development the company has solidified its reputation in the global marketplace, and states that, "Wherever it is located, Groupe Auchan is an actor in the economic and social landscape and has the will to act with corporate responsibility" (Groupe Auchan, 2006).

Hermès: Time is the Greatest Weapon. When asked what comes to mind immediately after hearing the word 'Paris', people often respond by saying The Eiffel Tower, wine, or fashion – *haute couture* in particular, an industry that has been dominated by the French for centuries. As exemplified by the operations of Auchan, weighted patrimony has fostered a sense of loyalty in employees, and the same is true for Hermès, undoubtedly one of France's most famous luxury brands. Upon opening his first shop in 1837, Thierry Hermès attracted the attention of European royalty, including the emperor Napoleon III and his empress, Eugenie. Originally specializing in equipage for horses, it has been said that "almost two centuries ago, a royal coronation might be delayed until the arrival of its exquisitely stitched carriage fittings, just as today even the richest women must wait for an exquisitely stitched Hermès Birkin bag—in some cases, up to five years" (Jacobs, 2007: 376). As one of the oldest family-owned-and-controlled companies in France, success rests in the human expertise that has been passed down through family generations for centuries. Jean-Louis Dumas, most recent head of the company and fifth generation of the Hermès family, has said, "We are an industrial company with 12 divisions, which designs, makes and retails its products; we will continue to make things the way the grandfathers of our grandfathers did" (Jacobs, 2007: 378). He makes strong reference to 'we', as the international collection of Hermès employees are a team and work together to achieve the desired end: perfection. This testament to tradition through patrimony has placed Hermès on a pedestal when compared to other luxury products; the company does not use celebrities in advertising and has established one of the most successful 'pull' marketing strategies in the fashion industry. True to its founders' vision, Hermès has succeeded in maintaining its 'policy of product', designing and creating timeless pieces that transcend fashion; the world's finest leather is secured by elaborate hand-stitching that will never come undone. The value that Hermès places on quality and perfection are reinforced by the family's belief that 'time is the greatest weapon', and is essential to the company's long-run corporate strategy (Jacobs, 2007). Regarding the triple bottom line, human capital is considered indispensable, and the company aims to create products that are timeless and will last a lifetime (reducing waste throughout the product life-cycle).

As North American corporations loosen their grip on technological know-how by outsourcing production to maximize profit, Hermès tightens its hold on patrimonial knowledge. It was under Dumas's leadership that Hermès made its debut on the global market; however, it did not succumb to variations and trends in the market as it began its ascent to the top of the global fashion industry. Style experts will argue that Hermès is ineffably the greatest house of fashion in the world with 283 stores worldwide, but no one can be certain of what the future holds for one of the oldest purveyors of luxury goods in France. After his retirement last year Dumas handed control of the Hermès dynasty over to the family's sixth generation, who must combine new world with old, respect for traditional corporate culture and family legacy while innovatively developing a trajectory for future growth.

Michelin: A Strategy Based on Long-Term Progress. A final example of weighted patrimony in French business involves Michelin Tires, founded by André and Edouard Michelin in 1889. There is a paradox in Michelin's strategy; the company has based its success on innovation and economic development in the global market, however it also emphasizes the importance of culture and the honour of France. In his book entitled "Marketing Michelin: Advertising and Cultural Identity in Twentieth Century France," Stephen Harp discusses the roles that paternalism and patriotism have played in helping a traditional family-owned firm forge aspects of culture in 20th century France. Michelin tires have dominated the tire market in France since the 1900s, supplying approximately one-third of the world's tires prior to the World War I. During the war, Michelin developed its well publicized system of family allowances for workers, instilling good morale in workers who were unsure of what the future had in store. "Michelin did not want to Americanize France so much as it wanted to modernize French industry, to promote techniques of production and mass consumerism for the sake of France, and, indirectly, for the sake of Michelin" (Furlough, 2003: 1).

A factor contributing to the success and prevalence of patrimony in France is tied to the distinct hierarchy of power that exists in French business—social mobility is not as possible in France as it is in North America. Generally speaking, the elitist system in France has contributed to a risk adverse culture, as people feel that they have more to lose. In North America, the rich and famous are celebrated and idolized, whereas in France there is an underlying feeling of jealousy for those who have independently made fortunes. Moreover, it is taboo to discuss topics regarding income and personal wealth in France. Leaders are still "born" into their positions, as many of France's most influential businesspeople are upper-class white men who come from powerful families, have graduated from the same business schools, and exercise their power through membership in this prestigious "old boys club." However, the social network that binds French managers has compensated for the lack of transparency, as business information is widely shared among management. Observing the CAC 40 which lists the members on each board of directors for France's top ranked organizations, the same names can be seen on several companies' boards. Although there is no reporting to prove it, it is assumed that information is shared among these managers who work together and control access to the boards. This proves that organizations are not so territorial in regard to information, and businesspeople are implicitly expected to act transparently.

Sandrine Henneron, Professor of Law at EDHEC Business School, argues that this open communication network has worked for centuries, and will continue to do so. She goes on to say that while the main drivers towards transparency in the United States have resulted from scandals such as Enron and WorldCom, France has yet to experience a scandal of such magnitude. Therefore, if the system has worked up to this point and French businesspeople have generally acted in accordance with the rules set out by society and government, there is no need for immediate reform. This does not mean that French managers are not cognizant of the push toward corporate social responsibility in North America; however, patrimony and obligation to the past explains why corporations in France have been slower to adopt new business strategies when compared to North American multinationals, who refer to France as a 'Blocked Society'—the implicit framework in France has undergone little change over the years and economists have even gone so far as to say that France has failed to embrace the 21st century. While critics argue that the French economy is in need of reform, the people in France continue to embrace cultural and traditional influences and remain skeptical of globalization—especially after the introduction of a politician named José Bové in the 2007 French presidential election.

Also a revolutionary thinker, Bové is a member of the alter-globalization (or alter-mondialization from the French *altermondialisme*) movement which supports international integration but stresses the importance of placing democracy, justice, environmental protection and human rights before purely economic concerns. For Bové the golden arches, now symbolic of North American fast-food culture, represent the worst of food industrialization and in 1999 Bové spent three weeks in jail after vandalizing a McDonald's restaurant in Millau, France. There is a paradox; McDonald's is an exciting novelty to the French, yet from a cultural perspective eating at the restaurant is considered unpatriotic. In a recent interview Bové explains, "If you question people coming out of one, they're embarrassed. They say 'I just went to see what it was like and I won't be going back.'" (Bremner, 2000).

The Honour Principle (La Logique de l'Honneur)

The reluctance to embrace multinational enterprises that fail to acknowledge the triple bottom line is also tied to honour within French society. John Gaynard, a consultant with Syre Consulting, uses Philippe d'Iribarne's Frameworks of Meaning (*les référentiels de sens*) to explain how, in every national culture, people constantly "decode the words, the expression of feelings, the attitudes and the deeds of others, within mutually understood frameworks." (Gaynard, 2007). Mr. Gaynard's areas of expertise include understanding national cultures and knowledge management, and consultants for Syre have worked with a number of French and international companies (Michelin, Roche, Volkswagen Bank), as well as subsidiaries of American companies in France (Coca-Cola, 3M, Pfizer).

The French are driven by "logic of honour," derived from ancestral tendency to distinguish between what is "noble" and what is "common." Therefore, the French take great pride in their *métier*, or occupation, and will only accept constructive feedback from colleagues who are considered fellow experts in the field. For example, a French engineer will feel implicitly responsible for ensuring that all bases are covered in his/her area of expertise, and will not accept recommendations from a manager who is perceived or known to have less experience. Mr. Gaynard directly relates this phenomenon in the workplace to the logic of honour as it is considered noble to know what is expected regarding the *métier*, and thought of as dishonourable to be reminded (or to remind one) of professional shortcomings.

Applying this concept to the perception of corporate social responsibility in France, the logic of honour resurfaces as most French employees maintain that companies exist as social entities and not solely to generate profits. This emphasis on placing "people" before "company" has manifested itself in a form of corporate culture that is quite unlike most Western models. Furthermore, employees believe that if the social connection between a company and society is strong, people will find greater enjoyment in what they do, and therefore the company will be more prone to success. These inherent values constitute the underlying principles of the triple bottom line and the morality that supports decision-making in France. For example, after purchasing an automotive factory in Rochester, New York, French engineers at Valéo (a French automobile manufacturer) were shocked upon discovering the factory's state of disrepair. The Americans had apparently taken more of a marketing approach in determining consumer needs and made minimum modifications to the factory, planning to use it for a maximum of 10 to 15 years. In terms of a holistic approach to development, the French prefer their factories to be long-term showcases. Hypothetically, in speaking with French employees Mr. Gaynard goes on to state that professional pride is paramount in French industry; if a shareholder or stakeholder asks an employee to sacrifice professional pride, the immediate reaction will be "I am not here to be bought or sold, or to sacrifice my honour—or reputation—among my colleagues to satisfy someone else's need to achieve short-term gains." (Gaynard, 2007).

LEGAL IMPLICATIONS OF THE TRIPLE BOTTOM LINE: THE FUTURE OF CSR IN FRANCE

Professor Henneron, who has written several articles focusing on the legal aspects of risk disclosure in French companies' financial reports, discusses implementation of the Law NRE (*Les Nouvelles Régulations Économiques*), an update of French corporate law passed by French Parliament in May 2001. The Law was designed to encourage French firms to expand upon the information disclosed to the public, in particular on social and environmental impacts (Appendix B). Setting an example for global business, the Law NRE imposes the first legal requirement in any nation that firms must publicly report on the triple bottom line (Egan et al., 2003). Designed to provide a framework for transparency and ethics within companies, the Law NRE sets new limitations for the number of executive mandates for limited companies that can be held by one person (Mazars News, 2007). In other words, the Law aims to reduce conflicts of interest while improving corporate governance within French companies. The introduction of such mandates are now necessary in the United States post-Enron era, and it is interesting to note that in North America, the social, environmental and economic elements of public policy are often treated as separate entities whereas the French consider these elements holistically, and actors are expected to work in a common network (*travail en réseau*) (Egan et al., 2003).

Currently, France is operating under its second National Strategy for Sustainable Development, supporting the argument that sustainable development (as exhibited through corporate social responsibility) must be reflected in a systemic network of efforts, and not a series of isolated projects (Egan et al., 2003). As part of this comprehensive approach to social responsibility, France has drafted an amendment called the Charter of Environment, stating that each French citizen is entitled to “the right to live in a balanced environment which is favorable to his health.” (Egan et al., 2003: 7).

CONCLUSION

As business continues to play an increasingly dominant role in the global marketplace and the actions of multinationals transcend national boundaries, the future of corporate social responsibility is an essentially contested topic. In France, the influence of culture on business to act in the best interests of all relevant stakeholders is powerful, and provides a valuable model for the implementation of similar initiatives in North America (Antal & Sobczak, 2007). The emergence of globalization means that in order to collectively embrace the concept of sustainable development and therefore best deal with global issues, corporations must work together to achieve mutual goals for the common good.

To date, literature on corporate social responsibility in France is limited; however, this does not mean that French businesspeople are not cognizant of the importance of greater economic, environmental and social concerns. Through developing a better understanding of French culture and how business is perceived in France, it is possible to use the theoretical framework based on the triple bottom line as a tool used to examine French business practices, and gain insight into the profound influence that culture, history and language have exerted on the interpretation of corporate social responsibility in France. Moreover, as business schools in North America stress explicit foundations of the concept, lessons can be learned from France, whose economy has been based for centuries on three implicit elements; namely dignity, honor and patrimony. Therefore, the long-run, holistic approach to corporate social responsibility in France should be respected, as one of the world's most influential economies embraces the 21st century and nurtures the intrinsic link between environmental, economic and social welfare.

APPENDIX A

Comparison of Explicit and Implicit CSR: A Conceptual Framework for Understanding CSR in Europe

Explicit CSR	Implicit CSR
Describes all corporate activities to resume responsibility in society	Describes all formal and informal institutions of a society which assigns and defines the extent of corporate responsibility for the interests of an entire society
Consists of voluntary corporate policies, programs and strategies	Consists of values, norms and rules which result in (chiefly codified and mandatory) requirements for corporations
Motivated by the perceived expectations of all stakeholders of the corporation	Motivated by the societal consensus on the legitimate expectations towards the role and contribution of all major groups in society, including corporations

APPENDIX B

Key Elements Required in Reporting under France’s Nouvelles Regulations Economiques

Topic	Suggested Quantitative Reporting	Suggested Qualitative Reporting
Human Resources		
Employment	Hires during the year	Details on recruiting process
	Short-term employees	Analysis and rationale
	Lay-offs	Analysis and rationale
Work Organization	Amount of overtime	Analysis and rationale
	Absenteeism	Analysis and rationale
Compensation	History of pay rates	--
Social Benefits	--	Details
Equal Opportunities	Integration of women in different posts	Details/Analysis
	--	Integration of Physically Challenged into Workforce
Health & Safety	--	Health and safety conditions; details of accidents and incidents
Community Involvement		
Local Impacts	--	Integration into local community
Local Partnerships	--	Contacts with environment NGOs, consumer groups, educational institutions and impacted populations
Environment		
Resource Consumption	Water, raw materials, natural sources, land use	--
	Energy	Use of renewable energy
Environmental Management	--	Compliance with environmental law and regulations
	--	Employee awareness and training programs
		Compliance with environmental laws and regulations
		Integration of foreign subsidiaries within environmental management system

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