



# **COMMERCIAL DIPLOMACY IN THE EU**

**THE INFLUENCE OF THE INSTITUTIONAL CONTEXT**

Jessica Hofmann/ s1257773  
Business Administration – International Management

First Supervisor: Dr. H.J.M. Ruel  
Second Supervisor: Dr. T. Ratinho

**UNIVERSITY OF TWENTE.**

## General Information

Student	Jessica Hofmann
Student ID	1257773
Email	<a href="mailto:j.hofmann@student.utwente.nl">j.hofmann@student.utwente.nl</a>
Date	12/07/2013
MSc Thesis Title	Commercial diplomacy in the European Union: barriers and opportunities in deploying institutional powers
First Supervisor	Dr. H.J.M. Ruël <a href="mailto:hjm.ruel@windesheim.com">hjm.ruel@windesheim.com</a>
Second Supervisor	Dr. T. Ratinho <a href="mailto:t.ratinho@utwente.nl">t.ratinho@utwente.nl</a>
University	Twente University
Program	Business Administration
Track	International Management
Faculty	School of Management & Governance
Address	Drienerlolaan 5 7522 NB Enschede
Telephone	(+31)534899111

## **Abstract**

Following globalization, the position of economic actors on the global stage is increasingly challenged: new actors and intensified competition rewrite the global conduct in international economics, posing threats for the established economic actors in particular. To overcome these threats, commercial diplomacy (CD) is increasingly applied: prescribing the deployment of political weight for commercial goals, it provides a mean to support domestic business abroad and secure both domestic economic interests and global competitive positions. Within the European Union (EU), CD has predominantly developed along national lines while joint commercial diplomacy only starts to emerge. This distinctive context provides the foundation for our research, which studies how the institutional context of the EU affects the development of this joint commercial diplomacy: by means of explorative semi-structured interviews, conducted with EU suppliers of CD, MS suppliers of CD and CD consumers, perceived barriers and opportunities to joint CD are identified and assessed. This concludes in insights in the development of joint CD and suggestions on how to balance CD between the EU and its MS: differing and competing interests within the EU are to be treated with great caution and common interests and value should play a prominent role, even though the latter is less visible under the influence of the current Euro crisis.

## Content

	Acknowledgement
	List of Figures & Tables
	List of Abbreviations
1	Introduction
2	Foundation
2.1	Shaping the context: the EU
2.2	Commercial diplomacy
2.2.1	Stakeholders
2.2.2	Actors
2.2.3	Activities
2.3	Commercial diplomacy in the context of the EU
2.3.1	External trade & investment
2.3.2	External relations & diplomacy
2.3.3	Current joint commercial diplomacy
2.3.4	Concluding overview
2.3.5	Perceiving commercial diplomacy
2.4	Commercial diplomacy activity Framework
2.4.1	Rationales
2.4.2	Activities
2.4.3	Direct outcomes
2.4.4	Benefits
3	Methodology
3.1	Research design
3.2	Respondents
3.3	Data collection
3.4	Data analysis
3.4.1	Code list
3.4.2	Code list adaptations
3.4.3	Data interpretation
4	Results
4.1	<i>SQ 1A: What are the perceived barriers to joint commercial diplomacy?</i>
4.2	<i>SQ 1B: How do these barriers constrain the development of commercial diplomacy ?</i>
4.3	<i>SQ 2A: What are the opportunities for a joint approach to commercial diplomacy?</i>
5	Discussion
6	Conclusion
7	Limitations & Directions for further research
8	References
9	Appendix
9.1	Final Code List

## Acknowledgement

I always thought the Master Research to be a challenge: an assumption that I can confirm, being at the verge of wrapping up. In front of you is my Master Thesis, the product of the Master Research and the result of an impressive process with ups and downs.

The initiation of this research was far from evident, as I was intrigued by various research fields and subjects to begin with: deciding upon the research subject and direction was the first barrier to overcome. After an introduction to commercial diplomacy by Huub Ruël, my fascination for the subject grew and I started to gather literature on the subject. It was at this point that I encountered an unexplored area in literature: commercial diplomacy, although becoming increasingly important in terms of competitiveness and global positioning, was yet to be explored from an institutional EU perspective. In an attempt to contribute to this infant research field, this research was established: an explorative study in an unexplored research area. This concluded in the possibility to design, approach and conduct the research in the way I desired; various decisions, especially in terms of design and methodology, were difficult to take, but I'm very proud of the final product.

That being said, I would like to thank a few people for their involvement and support. First of all Huub Ruël, who allowed me to conduct my Master Research in the way I desired: this taught me a lot, including that there are no real 'wrongs' in conducting research as long as you weigh your options and can justify your decisions. Furthermore, he was there to keep me in line when necessary: for me, conducting explorative research implied an enthusiast exploitation of ideas and visions – unfortunately, these sometimes missed its purpose or, worse, were far from realistic. Huub, thank you for your patience, your valuable input and for the pleasant collaboration.

Second, I would like to thank Tiago Ratinho: as the second supervisor, he stepped in at the final stage of the research process to assess my work. Tiago, thank you for your straightforward approach, valuable input, and for the enthusiastic collaboration.

Third, I would like to thank Shawn Donnelly for his comments: as the initial second supervisor, he provided input on the quality of my thesis in general and its European Integration component in particular, which I wasn't familiar with prior to this study. Shawn, thank you for introducing me to the topic and for providing valuable input and comments.

Finally, I would like to thank all of the interview respondents: if it wasn't for them, the Master Thesis would have looked very different. They happily engaged in the discussion I brought forward and even allowed me to question and oppose their view for research purposes, concluding in extensive and interesting input: input that can provide a first glance at the future of commercial diplomacy in the European Union.

Jessica Hofmann  
June 2013

## **List of Figures & Tables**

Table 1	Commercial Diplomacy Activities (Reuvers, 2012)
Table 2	CD in the EU - Overview
Table 3	CD Activities Framework
Table 4	Interview Guide: CDA Framework/ Context-specific Issues
Table 5	Respondents Overview
Table 6	Code list
Table 7	Final Code List – Concise Overview
Table 8	Final Code List

## List of Abbreviations

AT	Agency Theory
CCP	Common Commercial Policy
CD	Commercial Diplomacy
CFSP	Common Foreign Security Policy
EC	European Commission
EEAS	European External Action Service
ER	External Relations
EP	European Parliament
EU	European Union
EU Council	Council of the European Union
EUROCHAMBRES	Association of European Chambers of Commerce and Industry
FDI	Foreign Direct Investment
IR	International Relations
IS	Information Systems
LI	Liberal Intergovernmentalism
MS	Member States
NAG	Netherlands Aerospace Group
NF	Neo – Functionalism
OLP	Ordinary Legislative Procedure
TEU	Treaty on European Union/ 1992 Treaty of Maastricht
TFEU	Treaty on Functioning of the European Union/ 1958 Treaty of Rome
TKF	Twentsche Kabel Fabriek

## 1 Introduction

In the current international context, globalization puts a mark on day-to-day life: as the importance of traditional borders decreases, the accessibility to and mobility of the world evolves. In this process the course of international economics and trade is altered as well as globalization impacts the established conduct (Cerny, 1995): traditional boundaries of the geopolitical and economic world map are eliminated (Reuvers, 2012) and global economic powers shift towards developing markets (Ruël & Zuidema, 2012), facilitating an increase of connectivity and interdependencies between economic actors on multiple levels (Scholte, 2000). This results in intensified global competition for (access to) resources, markets and legitimacy (Saner & Yiu, 2003), presenting both threats and opportunities for the actors present on the global economic stage (Okano-Heijmans & Ruël, 2011).

As globalization advances, the global position of the European Union (EU) as a “formidable power in trade” (Meunier & Nicolaïdis, 2006) falters: the outcomes of globalization undermine the position of the EU by introducing new competitors and an altered conduct to European businesses, imposing a challenge for the EU to secure its competitive economic position. This implies that to retain its prominent position on the global stage, the EU, among other developed economies, has to find a way to respond to the challenges imposed by globalization and defend their economic interests on the global stage. In doing so, governments increasingly turn to the deployment of political weight to support national economies (Ruël & Zuidema, 2012) and retain national competitiveness: this is acknowledged as commercial diplomacy. By exercising diplomatic channels and processes (Lee, 2004), it allows governments to engage in activities that aim at “encouraging business development through a series of business promotion and facilitation activities” (Naray, 2008). The content of this commercial diplomacy differs on national basis, as governments hold different perspectives on how commercial diplomacy is best pursued: consequently, the underlying activities are executed by various actors on multiple levels, especially as the commercial elements of diplomacy gain an increasing amount of attention among a growing number of countries (Lee, 2004).

Within the EU, commercial diplomacy predominantly developed on Member State (MS) level; as it is a derivative of a country’s political structure, regulations and government policies (Stadman & Ruël, 2012), distinctive MS approaches to commercial diplomacy have evolved (Coolsaet, 2004; Lee, 2004; Stadman, 2012). Together with the intensifying competition between MS (Okano-Heijmans & Ruël, 2011), this leaves the EU a conflicted trade power (Meunier & Nicolaïdis, 2006): following from internal conflict, the ability of the EU to act as a unified actor on global level is undermined. This in turn affects the competitive position of the EU as a whole, as the EU’s trade power is a derivative of its coherent performance, and concludes in duplication and a decrease of effectiveness, as MS conduct similar commercial activities independently.

In the wider institutional context of the EU, commercial diplomacy is established to a lesser extent: although EU legislation increasingly emphasizes commercial diplomacy and commercial diplomacy activities are conducted at the globally dispersed European Chambers of Commerce and Industry, its full potential is yet to be established as a focus by the EU. This is remarkable, given that cooperation between MS is assumed to acquire increased benefits compared to MS commercial diplomacy: as the EU’s institutional weight would be deployed, a more favorable competitive position could be achieved in facing other economic powers on the global stage, such as China and Brazil (Okano-Heijmans & Ruël, 2011).

Few is written about this particular joint commercial diplomacy, even though the assumption that the EU as a whole can yield more benefits than separate MS in commercial diplomacy is formulated (Okano-Heijmans & Ruël, 2011); the question that follows is whether joint commercial diplomacy is both desirable and feasible in this particular context. Our explorative study approaches this blank in literature by assessing how the institutional context of the EU influences the development of joint



commercial diplomacy. Core to this analysis are the barriers and opportunities as perceived by key stakeholders of commercial diplomacy in the EU. As these key stakeholders originate both from government and business contexts, the relevance of this study is widespread: while government actors can deploy the provided multilateral insights in their approach towards the international business context, this study allows companies to gain practical understanding of how to (more effectively) consume commercial diplomacy in the institutional EU context, which could yield them increased benefits.

The following research question was established: **How does the institutional context of the EU affect the development of joint commercial diplomacy, according to key stakeholders?**

Three sub questions were established to support the research question:

- 1A     *What are the perceived barriers to joint commercial diplomacy?*
- 1B     *How do these barriers constrain the development of commercial diplomacy in the EU?*
- 2       *What are the opportunities for a joint approach to commercial diplomacy by EU MS?*

The study is structured around eight explorative semi-structured interviews with key stakeholders of commercial diplomacy in the EU, identified as the EU suppliers of commercial diplomacy, MS suppliers of commercial diplomacy and consumers of commercial diplomacy. The interviews are guided by a specially developed framework which conceptualizes commercial diplomacy to facilitate the expert interviews and guide the data analysis process; the obtained results are subsequently documented and discussed from an agency theory perspective to gain in depth understanding of joint commercial diplomacy in the institutional context of the EU.

## **2 Foundation**

### **2.1 Shaping the context: the European Union**

After a development of roughly 55 years, the EU in its current form consists of 28 Member States (MS) and several institutional bodies: together these make up for the institutional context, in which a balance is sought in terms of power and advocacy by the involved parties. The division of power within the EU institute is established through varying competences, concluding in different amounts of power assigned to either the EU, the Member States or both in distinctive policy areas. The 1992 Treaty on European Union (TEU), the 1957 Treaty on Functioning of the European Union (TFEU) and the 2007 Reform Treaty (Lisbon Treaty) outline the division of these competences, recognizing three types: exclusive competences, shared competences and supporting competences. In addition, special competences were established in three particular circumstances.

Depending on the deployed competence, the power to develop legislation is either located at the institute or the MS: while on MS level the national legislation process is deployed, legislation on institutional level requires the involvement of three institutional bodies. The European Commission (EC) formulates proposals for new legislation, representing the interests of the EU as a whole: after approval, the proposal is sent to the European Parliament (EP), representing the European citizens, and the Council of the European Union (EU Council), representing the governments of the individual MS. With the Reform Treaty, the legislation procedure was established as the Ordinary Legislation Procedure, giving equal weight to the EU Council and European Parliament. Aligning these institutions in view of legislation is a difficult task, as the EU comprises 28 MS which all retain their own interests and perspectives on how the EU should develop; a core task of the EU thus remains in its internal integration, as internal alignment is required in order to develop the EU and exploit its institutional benefits.

This integration process is accompanied by a lively debate, in which two conflicting EU integration theories dominate: liberal intergovernmentalism (LI) and neo-functionalism (NF) (Stone Sweet & Sandholtz, 1997; Wiener & Diez, 2009). LI perceives the EU MS as rational actors which in view of EU integration make a series of choices based on their domestic economic interests, the power balance among MS and the role of institutions (Moravcsik, 1998; Wiener & Diez, 2009). The prevalence of domestic interests stresses the negotiation process in integration, which is guided by asymmetrical interdependencies and concludes in a delegation of MS powers to an EU institute. The thereby established agency relationship evolves over time as MS preferences, information distribution and decision rules change (Pollack, 1997). Contrary to LI, NF perceives EU integration as a process “whereby nations [...] seek to make joint decisions or to delegate the decision-making process to new central organs [and] are persuaded to shift their expectations and political activities to a new centre” (Lindberg, 1963). NF explains EU integration based on the spillover concept: assuming that “some sectors are so independent that it is impossible to isolate them from the rest” (Wiener & Diez, 2009), the integration of one sector spills over into the integration of others following a functional-economic rationale. The attitude of the actors in this process is continuously shifting as NF assumes “rational and self interested actors” who are able to learn, concluding in changing interests, preferences and expectations: this suggests that actors initially seek solutions to their problems in regional integration, after which the functional-economic rationale, supported by national elites, pushes further integration.

## 2.2 Commercial Diplomacy

Commercial diplomacy is relatively new in research: conceptualization has been rather young and understanding of this type of diplomacy is to grow, particularly as it is of increasing concern for governments in the context of globalization (Visser, 2012). By concluding in lowered trade barriers, technology transfers (McMillan & Rodrik, 2011) and shifted global economic powers (Ruël & Zuidema, 2012), globalization intensified global competition: as this put an emphasis on national economic competitiveness and “elevated the importance of the economy for governments” (Ozdem & Struett, 2009), commercial diplomacy has provided a mean for governments to cope with the challenges imposed by globalization and secure economic stability and prosperity.

Various definitions of commercial diplomacy are proposed in literature, reflecting differing disciplinary angles and foci: consequently, significant differences exist between the proposed definitions and commercial diplomacy is often perceived as intertwined with other types of diplomacy, such as economic diplomacy (Potter, 2004). Central in this respect is the relationship between politics and economy that is established by commercial diplomacy (Lee & Hudson, 2004), accounting for disciplinary angles ranging from international relations (IR) to international marketing (Naray, 2011). Reflecting upon the latter angle, (Naray, 2011) proposed that “commercial diplomacy aims at encouraging bilateral business through a series of roles that commercial diplomats perform in various activity areas, such as trade promotion, investment promotion, and cooperation in science in technology”. From a more IR grounded perspective, (Lee, 2004) defines commercial diplomacy as “the work of a network of public and private actors who manage commercial relations using diplomatic means”. More specific is the definition (Potter, 2004), who defined commercial diplomacy as “the application of tools of diplomacy to help bring out specific commercial gains through promoting exports, attracting inward investment and preserving outward investment opportunities, and encouraging the benefits of technological transfer”. One of the most recent attempts to define commercial diplomacy was made by (Reuvers, 2012), who described commercial diplomacy as “the use of diplomatic means to support commercial activities, such as export and foreign direct investment (FDI), pursued with means and resources available to the home country aiming at economic stability, home country welfare and a national competitive advantage”.

For the purpose of this research, commercial diplomacy is defined as *‘the deployment of diplomatic tools by state representatives to promote and support commercial interests across national borders, with the aim to obtain value in terms of both strategic and economic benefits’*.

### 2.2.1 Stakeholders

Primarily, two types of stakeholders can be identified: the suppliers and consumers of commercial diplomacy. Recognized as the consumers of commercial diplomacy are members of the commercial sector, incorporating private businesses and the like, whereas the providers of commercial diplomacy consist of predominantly government actors. Being the initiators, governments mirror various motivations for the deployment of commercial diplomacy: under the general objective of “encouraging bilateral business” (Naray, 2008), a distinction can be made between strategic motivation, economic – trade motivation and economic – public motivation. Strategic motivations range from nation branding (Reuvers, 2012) to engaging in strategic trade politics (Naray, 2008) and reflect a consideration of national competitiveness; in this respect, the interests of public and private actors are intertwined as a government and country image will benefit from successful companies and vice versa (Naray, 2008). The economic – trade motivation reflects the primary intent to increase the amount and quality of international trade; underlying motivations range from business support to business promotion. Last, the economic – public motivation reflects an intent to secure national economic welfare by for example aiming to increase employment opportunities and tax revenues (Kotabe & Czinkota, 1992) and create economic security and stability (Okano-Heijmans & Ruël, 2011).

### 2.2.2 Actors

Since approaches to commercial diplomacy vary between national governments, the identity of the commercial diplomat differs on various grounds as well; although few is written about this topic, several studies did attempt to classify the commercial diplomat. (Naray, 2008) proposed a categorization of the commercial diplomat based on style and orientation, recognizing the business promoter, the civil servant and the generalist. As commercial diplomacy continues to develop, various studies recognize the involvement of non state actors in commercial diplomacy (Lee, 2004; Naray, 2008; Saner & Yiu, 2003; Udovič, 2011). (Saner & Yiu, 2003) included these non state actors in their proposed classification, assigning five roles based on the content and context of their work: the economic diplomat, commercial diplomat, corporate diplomat, business diplomat, national NGO diplomat, transnational NGO diplomat.

### 2.2.3 Activities

As commercial diplomacy aims at “encouraging bilateral business through a series of roles that commercial diplomats perform in various activity areas”(Naray, 2008), an extensive spectrum of activities is deployed under the heading of commercial diplomacy. The conceptualization of these activities is difficult to establish as research on commercial diplomacy stems from different disciplinary angles and continues to develop. (Naray, 2011) made an attempt by proposing a categorization of the activities based on roles, concluding in the FAR framework which recognizes three distinctive roles. The first comprises facilitation roles, emphasizing the enabling and supporting nature of commercial diplomacy activities. Second are advisory roles, which focus on gathering and distributing intelligence with the aim to advise (Naray, 2011). The last comprises representation roles where diplomats represent their home country by communicating and advocating national positions and interests in the host country. This role was also identified by (Ozdem & Struett, 2009), who perceive it as a natural demand of the national government.

Underlying the roles exercised by commercial diplomacy deployment is a wide spectrum of activities: based on a review of existing literature, (Reuvers, 2012) provided a comprehensive overview of these activities by proposing four activity areas. These are intelligence, network activities, image campaigns, support business, and each represent a part of the spectrum of activities underlying commercial diplomacy (Table 1).

<b>Network Action</b>	<b>Intelligence</b>	<b>Image Campaign</b>	<b>Support Business</b>
Developing business and government contacts	Gathering/ Disseminating commercial information	Promoting goods and services	In negotiations; contract implementation and problem – solving
State visits/ delegation	Market research	Participating in trade fairs, introducing potential exporters	Gathering export marketing data
Buyer – seller meetings	Reporting to home country	Sensitizing potential foreign investors	Supervising violations/ IPRs/ contracts
Match – making	Consultant to both countries	Gathering export marketing data	Advocacy activities
Search for partners/ distributors/ investors/ lawyers	Image studies, joint scientific research	Tourism promotion activities	Coordination of legal actions
Personal network of commercial diplomat		Awareness campaigns	

Table 1: Commercial Diplomacy Activities (Reuvers, 2012)

The categorization provided by (Reuvers, 2012) complements the categorization of activities proposed by other studies, such as that of (Naray, 2011), who distinguishes between intelligence, communication, referral, advocacy, coordination and logistics, and of (Lee, 2004), who distinguishes between collecting and distributing (commercial) information, developing government and business contacts and following up on generated opportunities, and the promotion of home country goods.

As the spectrum of commercial diplomacy activities is comprehensive, executive areas and levels vary as well: distinctive activities are carried out in different contexts and on different levels. With regards to executive context, distinctions can be made in terms of place of conduct and executive area: the place of conduct may either be the home or host country, while the executive area may differ between promotion of trade in goods and services, protection of intellectual property rights, cooperation in science and technology, promotion of made- in and corporate image and promotion of FDI (Naray, 2011). (Kostecki & Naray, 2007) provide insights in the different executive levels of commercial diplomacy activity deployment by distinguishing between the high policy level, where activities concerning trade policy making are conducted by actors such as the prime minister, head of state or members of parliament, and the ambassador or lower level of specialized representation, which leans on the network of government-sponsored organizations and is concerned with the promotion of trade and the attraction of investments by actors such as trade representatives, commercial attachés and commercial diplomats.

## **2.3 Current Commercial Diplomacy within the EU**

In the context of the EU, commercial diplomacy has developed on two accounts: the 28 MS pursue a distinctive approach to commercial diplomacy in terms of focus, structure, network and facilities (Stadman, 2012), while institutional commercial diplomacy is in its infancy but yet visible by through various initiatives and activities. This section explores the current commercial diplomacy climate within the EU by first assessing the two main policy areas underlying commercial diplomacy: external trade (ET) & investments and external relations (ER) & diplomacy (Lee & Hudson, 2004). Second, current joint commercial diplomacy is outlined, after which an overview of both is provided. Last, joint commercial diplomacy is perceived from three theoretical perspective to establish how the concept could take a stand in the institutional context of the EU.

### **2.3.1 External trade and investments**

Attempting to align the Union's internal developments with global activities, the TFEU established the Union's exclusive competence in ET as well as the customs union and the Common Commercial Policy (CCP). The CCP evolved as an integral part of the Union's exclusive competence in ET and has developed to be the deepest integrated policy in the EU (Meunier & Kalypso, 1999), determining "the legal basis for Europe's place in its global economic relations" (Bungenberg, 2010). Together with the exclusive competence it protects the European market and guides bilateral and multilateral trade relationships, allowing the EU to take a solid global position as the largest single market (Woolcock, 2011). Through these measures, the EU was enabled to streamline its external trade policy over the years: the last step was taken by the Reform Treaty, which expanded the exclusive competence with Foreign Direct Investment (FDI), intellectual property rights and services (Woolcock, 2008). These and similar changes to legislation directly affect the MS, as the exclusive competence in ET prescribes the compliance of MS legislation with that of the EU: MS are hence constrained in the development of their domestic ET policy (Woolcock, 2011), concluding in the 'Europeanization' of MS policies (Smith, 2000). This is literally formulated in the Reform Treaty, which states that MS' ET legislation is to be developed within "the context of the framework of principles and objectives of the Union's external relations"; hereby it is included under the common heading of external action by the EU, as prescribed by Art 207(1) of the Reform Treaty. The vast majority of ET legislation is hence established on institutional level, resulting in a tendency for MS to also transfer the details of its external trade policy to the EC (Woolcock, 2008): it contributes to the experience that an increased alignment of the EU and its MS with respect to external trade policy results in increased benefits (Woolcock, 2011).

The EU ET policies are carried out through the EU external delegations: 140 delegations and offices formally represent the EU around the world (EEAS, 2012b), securing EU trade interests and carrying out the CCP. Important in this respect is the growing presence of ET in the work of these external delegations: the commercial elements of diplomacy are gaining an increasing amount of attention (Lee, 2004) as globalization imposes (economic) challenges, allowing external trade to become the primary focus of the activities conducted by the EU external delegations (Bruter, 1999). In addition to the external delegations, the European Association of Chambers of Commerce and Industry (EUROCHAMBRES) also represents, serves and promotes EU trade interests. EUROCHAMBRES overarches the EU Chambers of Commerce and Industry around the globe, aiming to facilitate growth and transfer of businesses. EUROCHAMBRES can be perceived as an executive of institutional commercial diplomacy, as they both promote and support European businesses abroad with an emphasis on SME's: among others, they provide information, access to their network and business support.

### 2.3.2 External relations and diplomacy

The Reform Treaty illustrates the intent to align EU ER and diplomacy, introducing two major changes “with the scope for the Union to become a more coherent actor on the international stage” (Duke, 2008). The first was the installation of a High Representative for Foreign Affairs and Security Policy: underlying this function is also the vice presidency of the Commission and the presidency of the Foreign Affairs Council, which increases the impact, coherence and visibility of the EU’s external pursuits (European Union, 2012). Second, the Reform Treaty established the European External Action Service (EEAS), an European diplomatic service aimed to support the High Representative and carry out the Common Foreign and Security Policy (CFSP), the EU’s foreign policy aimed to “strengthen the EU’s external ability to act through the development of civilian and military capabilities in Conflict Prevention and Crisis Management” (EEAS, 2012a). In addition to CCP, the execution of the CFSP is pursued through the EU’s external delegations with an emphasis put on the more economic areas of the CFSP (Bruter, 1999). Lee and Hudson (2004) endorse this view, emphasizing the increasing importance of economics resulting in commercial interests being at the heart of the changes made to the traditional institution of diplomacy.

The development of the EU’s foreign policy concludes in a complex situation, as the EU is “neither a state nor a super-state” (Bruter, 1999) and ER and diplomacy have progressed along the lines of MS integration: the intra European bilateral relations, multilateral setting of the Council and emerging capacity of the EU to conduct external diplomatic relations with third states challenge traditional diplomacy (Bátora, 2003) as the EU and its MS have conflicting and competing interests on personal, national and inter-institutional level (Benson-Rea & Shore, 2012). In addition, the development of ER and diplomacy is affected by the institutional field of the EU, which lacks both a clear center of authority and a clear source of sovereignty (Benson-Rea & Shore, 2012). Emphasizing that these particular characteristics contribute to a more complicated context than the usual foreign field of nations, Bruter (1999) stressed that the context of ‘EU diplomacy’ accounts for a lack of clear foreign policy, no professional diplomats, the absence of a head of state and limited resources. The volatile status of the ‘European diplomat’ is further challenged by European integration: the measures proposed by the 2007 Reform Treaty increased uncertainties concerning ‘EU diplomacy’ in practice (Benson-Rea & Shore, 2012) by failing to account for the exact effect of proposed changes in policies and regulations in the work of the external delegations. This constrains the delegations from functioning adequately, as “there is still no coherent model of what a distinctly European service would-look like” (Benson-Rea & Shore, 2012).

Bruter (1999) classified the work of the EU’s foreign delegations into two types: autonomous action and integrated action. The former reveals components of commercial diplomacy, as these are of a promotional character and include activities to “nurture the ‘image’ of the EU abroad and increase its visibility” (Bruter, 1999): this strongly corresponds with the ‘nation branding’ activities underlying commercial diplomacy (Potter, 2004; Reuvers, 2012). The second type of activities, integrated action, concerns the delegation’s role in “reinforcing the consistency and strength of European external actions abroad and making the sometimes stagnant project of the CFSP a local reality” (Bruter, 1999). The accompanying action contributes to the delegations’ movement towards integration with other embassies and/or representations, aiming to coordinate, cooperate (Bátora, 2003) and pave a path for a more centralized approach to ER and diplomacy. An example is set in Nigeria, where the housing of the both EU and MS embassies was centralized, leading them to share facilities but remain their own ‘embassy’ within the common housing. As the staffing differs per external delegation, the course of both the autonomous and integrated actions is difficult to generalize: “the quality of interpersonal relationships among EU ambassadors, the degree of consensus on political issues that concern the host country, and the degree of tension among EU member states at a given time will largely determine the delegations’ margin of action” (Bruter, 1999). It reflects how EU integration interferes with ER and diplomacy in practice: while MS delegations and EU delegations

are independent entities, they overlap in the nation(s) they represent and the policies and regulations they have to obey to. This implies that in terms of commercial diplomacy, activities are established on both MS and EU account, while a single joint account is pursued.

### **2.3.3 Current joint commercial diplomacy**

On institutional level, commercial diplomacy is still in an infant state: recognition of the need for joint commercial diplomacy only recently developed, as did the required changes in policies to enable the initiation of this 'institutional diplomacy'. Various initiatives of commercial diplomacy emerged over the last few years as well, but as a clear commercial diplomacy approach of the EU is yet to be established, these are deemed 'pilots' based on which joint commercial diplomacy will be developed.

In terms of policies specifically emphasizing commercial diplomacy, the last decade has been of great importance for the EU: a major shift was introduced with the establishment of the Instrument for Cooperation with Industrialized and other high income countries (ICI), aimed to improve cooperation with non European countries through providing a financial stimulant. Underlying this initiative are three core areas: public diplomacy, aiming to increase the Union's visibility and promote understanding of its policies, business cooperation, securing the presence of the EU in important markets, and people to people links, increasing joint understanding (EEAS, 2013). Comparing these to the established commercial diplomacy literature, business promotion and image branding are reflected. The ICI was extended by the ICI+, enabling the EU to also increase cooperation with developing countries, but as this policy expires by the end of 2013 the aim is set to develop a new financing instrument: this resulted in the proposal of the Partnership Instrument in December 2011.

Various activities have been established which reflect distinctive components of commercial diplomacy. In some cases, these components are accommodated in foreign business centers, such as the SME Centre in China, the EU Asean Centre in Bangkok and the EBTC in India. Presenting themselves as European Trade Organizations or Programs, these centers aim to increase business between the EU and third country and provide support for internationalizing European businesses in multiple formats: e.g., within EBTC India a joint focus is established on competing climate change and exploiting economic opportunities while the Chinese SME Centre deploys general business support.

One area of commercial diplomacy activities that has developed steadily is that of information, to the most general extent: the EU offers a market database for European companies exporting outside the EU, known as the Market Access Database (MADB). Through this database, all European companies aiming to export outside the EU are provided knowledge about particular foreign markets.

More specific measures have been established through the establishment of specific programs: the Gateway program explores opportunities for European companies in the Japanese and Korean market through organizing and funding business missions. In terms of commercial diplomacy, these missions facilitate in financial/ logistical support, (business) opportunity identification, network development, matchmaking and visibility increase. The program is derived from the Business Cooperation component of the ICI, thereby demonstrating how the policy is practiced.



### 2.3.4 Concluding overview

To provide a comprehensive overview of the current commercial diplomacy climate in the EU, the previous sections are summarized below (Figure

<i>Policy Area</i>		<i>Policy/ Executive</i>	<i>Description</i>
<b>EU External Relations &amp; Diplomacy</b>	<b>Central Policy</b>	Common Foreign Security Policy (CFSP)	Strengthen the EU's external ability to act through the development of civilian and military capabilities
	<b>Executive</b>	EU External delegations	Represent/ Execute CFSP
		European External Action Service (EEAS)	Assists the High Representative in ensuring the consistency and coordination of the Union's external action as well as by preparing policy proposals and implementing them. It also assists the President of the European Council and the President and members of the Commission in their functions in the area of external relations.
<b>EU External Trade &amp; Investment</b>	<b>Central Policy</b>	Common Commercial Policy (CCP)	Determining “the legal basis for Europe’s place in its global economic relations: protects the EU market and guides bilateral/ multilateral trade relationships with third parties”
	<b>Executive</b>	EU External delegations	Represent/ Execute CCP
		Association of European Chambers of Commerce and Industry (EUROCHAMBRES)	Represent, serve and promote European Chambers of Commerce and Industry , which promote, facilitate and support internationalizing EU businesses
<b>EU Commercial diplomacy</b>	<b>Central Policy</b>	Instrument for Cooperation with Industrialized and other high income countries (ICI), extended with adopted ICI+ proposal	Stimulus for cooperation with industrialized countries through financial support: ICI+ enabled cooperation with developing countries.
	<b>Executive</b>	Various business centers (European Business & Technology Centers, EU Asean Centre, SME Centre)	Established in various countries, the EBTC’s function as an European Trade Organization aimed to facilitate the increase of trade and investment for EU companies
		Market Access Database	Provide information for exporting European companies
		Gateway to Japan program	The funding and organization of business missions to Japan and Korea for European companies

Table 2: CD in the EU - overview

### 2.3.5 Perceiving Commercial Diplomacy

As both commercial diplomacy and the EU carry a multilateral character, multiple perspectives on commercial diplomacy activities in the EU can be deployed to assess the subject of research and gain in-depth understanding. In order to structure the research and interpret its contributions, a theoretical lens is deployed which discusses the subject of research from a specific point of view both prior and after the data collection process: by doing so, the results are anchored in existing theory, creating a scientific foundation.

This study applies the agency theory (AT), as it contributes to various disciplines in the management field (Hill & Jones, 1992): from an organizational perspective, the implications of AT for organizational behavior, strategic management and organizational theory are could be of great value in the development of joint commercial diplomacy. Furthermore, AT particularly helps to gain understanding of the complex institutional context of the EU (Kassim & Menon, 2003), which is at the heart of the research.

#### *Agency theory*

The agency theory (AT) centers around the principal – agent relationship, where the principal delegates responsibilities to the agent “in order to economize on transaction costs, pursue goals that would otherwise be too costly, or secure expertise” (Kassim & Menon, 2003) by means of a contractual arrangement. AT considers how this relationship evolves when differences in interests occur between the principal and the agent, and/ or when the agent and principal keep differing attitudes towards risk sharing (Eisenhardt, 1989). The conflict of interests, occurring when “the desires or the goals of the principal and agent conflict”, is recognized as the ‘agency problem’ (Eisenhardt, 1989), while the problem of risk sharing rises when the principal and agent hold different attitudes concerning risk. AT deploys the metaphor of a contract as a means to solve these particular problems, aiming to determine the most optimal contract format; power delegation and risk are core determinants in this process. According to AT, the contract differentiates between a behavior-based contract and an outcome-based contract: the behavior-based contract emphasizes the agents’ behavior and is particularly suitable when the principal is able to verify the behavior of the agent, while the outcome-based contract aligns the goals of the principal and agent, by which it creates an incentive to solve the agency problem.

In view of this research, the incorporation of the agency theory is based upon its suitability to research context: parallels can be drawn between the core assumptions of agency theory and the context of the EU. First, a principal – agent relationship is recognized in the relationship between the Member States (MS) and the institute of the European Union (EU): as joint commercial diplomacy would develop, this initiative would be executed by an European institute. This suggests a delegation of power from the MS to the EU, revealing the principal role of the MS and the agent role of the European Institutes. This is also confirmed by European Integration Theory, where liberal intergovernmentalism deploys an agency assumption stating that “for liberals, the relationship between society and the government is assumed to be one of principal-agent” (Moravcsik, 1993). Furthermore, the contract metaphor can be perceived in the deployed competences and legislation in the institutional context: throughout these, power has been delegated from the principals, the MS, to the agent, the EU. An important note here is that the extent of power delegation differs per policy area due to differences in assigned competences.

From an AT perspective, joint commercial diplomacy brings about a significant challenge in the context of the EU as the individual interests of the MS differ from the collective interest of the EU and often conflict (Wiener & Diez, 2009): this demonstrates the agency problem. The evident conclusion follows that the agency problem needs to be solved in order to be able to develop joint

commercial diplomacy: the most suitable contract format must hence be determined. To be able to determine this, important factors must first be assessed. According to AT, power delegation and risk are critical determinants which, when applied to the research context, provide various implications:

### *1 Power Delegation*

In view of joint commercial diplomacy in the EU, the delegation of power would presumably fall under the heading of 'External trade' policy area as it is concerned with international business support and development; within the EU context, this particular policy area is under exclusive competence, prescribing that legislation in external trade can only be developed by the institute of the EU. The assumption follows that a delegation of power in view of joint commercial diplomacy shouldn't generate significant resistance as the exclusive competence of the 'External trade' policy area reflects a solid power delegation to the agent, the EU, and is already agreed upon by the principals, the MS.

More specific and challenging to joint commercial diplomacy is the development of commercial diplomacy on MS level: the question rises whether MS would favour joint commercial diplomacy in the presence of MS commercial diplomacy. Resistance to the delegation of power could particularly evolve on two accounts: when MS would fail to recognize their interest in joint commercial diplomacy, or when a joint commercial diplomacy initiative would replace MS commercial diplomacy. First, MS have to recognize their interest in joint commercial diplomacy: without this, there is no incentive for MS to favour joint commercial diplomacy and delegate their power to the EU. Recent developments, specifically with regards to financial policies, indicate that the EU recognizes the added value of joint commercial diplomacy in terms of the competitive position of European businesses, but the question is whether the MS, as the principals, manage to do so as well. Second, MS which invested in national commercial diplomacy would be required to sacrifice these for the collective interests of the EU in the event that joint commercial diplomacy would replace MS commercial diplomacy. A possible solution is found by establishing a suitable character for joint commercial diplomacy: rather than replacing MS commercial diplomacy, it could for instance complement MS commercial diplomacy.

### *2 Risk: outcome uncertainty and outcome measurability*

According to AT, the perceptions towards risk of both the principal and agent are critical in establishing the most optimal contract: a difference between the principal and agent in attitudes towards risk is assumed (Eisenhardt, 1989), which within the context of the EU could be projected on the area of 'External trade'. The exclusive competence of the EU in external trade indicates that the risk associated with the agents' behaviour in this particular policy area is low, but as (the interests underlying) joint commercial diplomacy can interfere with the interests of individual MS, the definition of risk is expanded for the purpose of this research: risk is hence perceived as the 'possibility that the MS, the principals, suffer from the behaviour of the agent, the EU'. The perceived amount of risk is closely intertwined with outcome measurability, as the possibility to monitor the behaviour of the EU in conducting joint commercial diplomacy would decrease the amount of risk perceived by the MS because "the agent is more likely to behave in interests of the principal when the principal has information to verify agent behaviour" (Eisenhardt, 1989); the presence of information systems (IS) is thus of great value. In the context of the EU, the regulatory framework is perceived as an IS: the Ordinary Legislative Procedure (OLP), used to develop legislation in policy areas of exclusive competence, prescribes the complex process of legislation development with a crucial (controlling) role for the MS in the form of the European Parliament, the Council of the European Union and a specific measure that requires the consent of the majority of the MS to develop a specific legislation proposal. The presence of this mechanism would reduce both the perceived risk and outcome uncertainty of joint commercial diplomacy for the MS, but as the latter is only partly dependent on the agent MS would have to assess whether more factors are present that possibly affect the perceived risk towards joint commercial diplomacy.

Having formulated the implications of the EU context, the question rises which contract format is most appropriate in overcoming the agency problem and developing joint commercial diplomacy in the EU ; it is needless to state that a comprehensive and detailed answer can't be provided, as, according to AT, 28 principals exist within the context of this research which hold different views on how joint commercial diplomacy should evolve. Broadly, the assumption can be formulated that the MS which have already developed national commercial diplomacy are less inclined to favour joint commercial diplomacy, in contrast to the MS which are yet to focus on commercial diplomacy.

Nevertheless, the MS that already are involved in commercial diplomacy reflect a recognition of the added value of commercial diplomacy: the assumption follows that when approached in accordance with their preferences, joint commercial diplomacy could yield their approval. MS who haven't engaged in commercial diplomacy might lack the information or resources to do so, both of which could be amended by joint commercial diplomacy. The presence of a strict regulatory framework would allow any MS to monitor the behaviour of the EU in joint commercial diplomacy, and is therefore assumed the lower the perceived risk and uncertainty outcome. According to AT, the above would conclude in a tendency towards an outcome based contract as functions effectively in the presence of an IS and a joint outcome.

## 2.4 Commercial Diplomacy Activity Framework

Based on commercial diplomacy literature, a framework is established to guide and facilitate the stakeholder interviews: by conceptualizing commercial diplomacy activities, the framework allows for a structured assessment of commercial diplomacy components in the context of the EU which in turn provides a comprehensive overview of the stakeholders' perceptions for the purpose of research. Four pillars are distinguished: rationales, which identifies the motivations to conduct commercial diplomacy; activities, which identifies the activities underlying commercial diplomacy; direct outcomes, which discuss the concrete outcomes of commercial diplomacy activities, and benefits, which identify the benefits derived from conducting commercial diplomacy activities. The framework deploys two core assumptions:

1. A direct relationship exists between the 'rationales' pillar and the 'benefits' pillar of the framework: the specific rationale to conduct commercial diplomacy is reflected in the benefits obtained from conducting commercial diplomacy.
2. There is a difference between the 'direct outcomes' pillar and the 'benefits' pillar: direct results represent the outcome of conducted activities, the benefits represent the effect of the results obtained from commercial diplomacy activities. For example: intelligence activities directly result in an commercial intelligence(result), which strengthens domestic competitiveness (benefit).

The framework is displayed on the following page (Table 3).

### *Efficiency*

Within the framework, 'efficiency' is incorporated as a separate concept under the heading of rationales, activities and benefits. The efficiency denominator was established to account for commercial diplomacy in a broader context. For the purpose of this research, efficiency concerns the inefficiency in commercial diplomacy activities on two levels: across governmental departments and business associations (national level) (Kostecki & Naray, 2007; Ozdem & Struett, 2009; Potter, 2004), and across EU MS(institutional level) (Stadman, 2012). Following from this, the proposition that joint commercial diplomacy will increase efficiency is raised during the interviews; as efficiency is linked to the political economy perspective (Reuvers, 2012), concerned with the financial funding of commercial diplomacy (Lee & Hudson, 2004; Sherman & Eliasson, 2006), cost reduction through is to be discussed as well.

The incorporation of efficiency under three specific pillars of the framework followed from the recognition that these pillars differ between nations: "the amount of resources assigned to commercial diplomacy activities varies based on national policies and priorities"(Reuvers, 2012). The assumption follows that the rationales, activities and benefits underlying commercial diplomacy are subject to these national preferences and thus differ per country, as is the extent of efficiency within national commercial diplomacy. As 'direct benefits' are the results of the execution of commercial diplomacy activities, efficiency isn't established under this heading.

<b>Rationales</b>	<b>Activities</b>	<b>Direct Outcomes</b>	<b>Benefits</b>
<i>Efficiency</i>	<i>Efficiency</i>		<i>Efficiency</i>
<b>Strategic</b>	<b>Facilitate</b>		<b>Strategic</b>
Enforcement or increase of domestic competitiveness/ respond to globalization challenges/ Increase & support country image/ Reshape regulatory bodies in own favor	<i>Network activities</i> Matchmaking/ buyer seller meetings/ partner search/ developing business & government contacts/ personal network of the diplomat		Enforcement or increase of domestic competitiveness/ Increase of country image, visibility/ increase of playfield power
	Business support: Conflict handling/ supervision/ coordination/ support business government delegations		
<b>Economic/ Trade</b>	<b>Advise</b>		<b>Economic/ Trade</b>
Increasing economic growth or trade/ generating commercial gains/ risk reduction	<i>Intelligence activities</i> market research/ home country report /consultant/ image studies/ gathering + disseminating commercial info.	Commercial/ Business intelligence	Increase in international business 1. Increase in exports 2. Increase in Foreign Direct Investments 3. Increase in trade of goods and services 4. Increase in technology transfers
<b>Economic/ Public</b>	<b>Represent</b>		<b>Economic/ Public</b>
Welfare/ economic stability & security/ increase employment Create jobs/ increase tax revenues/ economic growth	<i>Nation branding</i> State visits/ delegations/ tourism promotion activities	Increased country image/ Increased country visibility	Economic security / economic growth/ welfare increase: 1. Increase in employment opportunities 2. Increase in tax revenues
	<i>Business Promotion</i> Seminars/ trade fairs/ direct lobbying/ trade missions/ conferences		

Table 3: CD Activity Framework

### **2.4.1 Rationales**

#### **Strategic orientation**

The strategic orientation is derived from a focus on strategic concerns in conducting commercial diplomacy, such as (national and global) competitiveness and strategic value: broadly, this reflects an intent of national governments to enforce or increase the domestic competitive position through engaging in commercial diplomacy (Lee & Hudson, 2004; Naray, 2008). The orientation particularly gains ground in the presence of globalization, as it intensifies global competition and imposes both threats and opportunities for the actors on the global stage (Coolsaet, 2004): in consideration of domestic competitiveness and economic prospects, national governments deploy commercial diplomacy to respond to these challenges (Okano-Heijmans & Ruël, 2011).

The strategic rationale underlying commercial diplomacy has been touched upon in various forms throughout commercial diplomacy literature: tangible aims such as ‘supporting and increasing the country image’ (Naray, 2008; Potter, 2004) have been identified particularly in relation to the domestic visibility position on the global market, while commercial diplomacy to “reshape regulatory bodies in own favor” (Saner & Yiu, 2003) is also perceived. Nevertheless, the strategic rationale is underexposed as it is of a growing awareness and needs to be further defined.

#### **Economic/ Trade orientation**

The economic/ trade orientation follows from the rationale to promote and increase international business and trade through commercial diplomacy. This orientation is heavily endorsed in literature (Naray, 2008, 2011; Ozdem & Struett, 2009; Potter, 2004; Reuvers, 2012; Visser, 2012), even to the extent that it is central to proposed definitions of commercial diplomacy: Potter (2004) broadly touches upon the trade character of commercial diplomacy by stating that commercial diplomacy concerns “bringing about specific commercial gains” while Visser (2012) defines commercial diplomacy as “an activity (...) aimed at generating commercial gain in the form of trade and inward and outward investment”.

The engagement of internationalizing businesses in commercial diplomacy is also to be headed under this component of the framework pillar: as consumers, they engage in commercial diplomacy with the objective to reduce the risks of operating outside national borders (Naray, 2008; Reuvers, 2012), thereby securing business performance.

#### **Economic/ Public orientation**

The economic/ public orientation follows from the perception that public interests are present in commercial diplomacy (Okano-Heijmans & Ruël, 2011), and reflects an inward focus in conducting commercial diplomacy: core considerations are the well being of the national economy and society, expressed in rationales such as welfare (Heemskerk, 2010), economic security and economic stability (Okano-Heijmans & Ruël, 2011). More tangible rationales are provided by Kotabe and Czinkota (1992), who identify an increase of job opportunities, tax revenues and domestic economic growth as possible outcomes of business promotion by state representatives.

This particular orientation is established to a lesser extent in literature, as it is often perceived as a natural derivate of other commercial diplomacy aims and rationales: for example, Okano – Heijmans & Ruël (2011) endorse the existence of the economic/ public orientation indirectly, stating that it is in public interest to support international business as it results in economic welfare and stability.

### 2.4.2 Activities

To frame commercial diplomacy activities into a format where the entire spectrum of activities would be reflected upon, use was made of a categorization based on roles, categorization of activities and numerous activities pointed out in commercial diplomacy literature. The FAR framework of Naray (2008) accounted for the distinction of three roles attributed to commercial diplomacy activities: this framework classifies commercial diplomacy activities as constituting either a facilitating, advising or representing role. Into this division, the categorization of commercial diplomacy activities as proposed by Reuvers (2012) was framed; this division consists of business support, intelligence, network activities and image campaigns. As the business promotion character of commercial diplomacy activities wasn't recognized or emphasized by Reuvers (2012), the category of 'promotion activities' was added under the heading of representation roles. The interpretation following the proposed distinction of roles and activities is described below, support by more concrete and specific activities identified in literature.

#### Facilitation activities

According to Naray (2011), facilitating activities presume that commercial diplomacy "only refers, coordinates and provides logistics to encourage the transaction and/or preparation": the activities have a strong focus on (facilitating) the relation between the home country businesses and the host country context. Grouped under this 'facilitation' heading are the activity categories of 'network activities' (Reuvers, 2012) and 'business support' (Reuvers, 2012; Visser, 2012), similar to the distinction between 'market development programs' and 'export service programs' as proposed by (Kotabe & Czinkota, 1992).

The *network activities* have gained considerable attention in literature: as a presence of a network in commercial diplomacy is often considered critical, network activities are widely recognized. (Lee, 2004) refers to it as "developing business and government contact in host countries and introducing the home country private sector to these contacts", emphasizing the importance of a network in initiating international business. Reuvers (2012) identified more concrete activities under the heading of network activities, such as developing business and government contacts, state visits/ delegations, buyer-seller meetings, match-making, search for partners/ distributors/investors/ lawyers and (the development of the) personal network of the diplomat.

In terms of *business support*, various reflections are provided in literature: while Potter (2004) emphasizes the business supporting nature in his definition of commercial diplomacy, Reuvers (2012) recognizes business support as a type of activity amongst others. In the latter, a comprehensive overview of business support activities is provided: these involve coordination of legal actions, advocacy activities, contract implementation and problem solving (in negotiations) and supervision of violations of IPR's and contracts (Reuvers, 2012). According to Kostecki & Naray (2007), business support activities comprise activities such as networking and intelligence: although a different division of activities is deployed in the framework, this illustrates the close relation between business support activities and advisory activities. The work of Lee (2004) confirms this, emphasizing the deployment of information/ intelligence for business support purposes.

#### Advisory activities

As Naray (2011) explained the advisory role as roles referring to "gathering and analyzing intelligence and information with a view to advising, either internally or externally", the underlying activity categorization was labeled *intelligence activities* (Reuvers, 2012). The activities underlying this category comprise a wide spectrum, all having in common the involvement of information: the visible variety in purposes accounts for the wide spectrum of activities.



In terms of different purposes, a rough distinction can be made between the deployment of information activities for commercial and strategic purposes; the commercial purpose here reflects the use of information activities to support and promote commercial interests abroad, translating to activities such as market research and publications, image studies, gathering/ disseminating commercial information and consultancy activities (Lederman, Olarreaga, & Payton, 2006; Reuvers, 2012). (Naray, 2008) touches upon the concept of 'business intelligence', stating that "some types of information have the nature of public goods, which markets cannot supply ": the added value of information activities is hence captured in the fact that valuable information sometimes can only be obtained through diplomatic means. On the other hand, the strategic purpose of information activities is related to issues like competitiveness and strategy: (Lee, 2004) emphasized this purpose, utilizing the term 'commercial intelligence' to describe intelligence related diplomatic means that enable one to keep ahead of its rivals. The strategic deployment of information activities have also been described by a report of (Martre, 1994) in the context of the Commissariat du Plan, which recognizes commercial diplomacy as a determinant of international competitiveness.

### **Representation activities**

Representation activities, reflecting the representation of the home country's business and economic interests (Naray, 2008), comprise a vital part of commercial diplomacy as it enables one to secure these interests, which is particularly important in view of the threats and opportunities imposed by globalization. Underlying the representation heading are two categories of activities: 'nation branding' (Potter, 2004) and 'promotion activities' (Naray, 2008). Both categories carry a promotional character in essence, but where 'nation branding' projects this on the country image, 'business promotion' is concerned with the initiation of business in particular. The two categories can be perceived as complimentary, as a strong nation image positively affects businesses and vice versa (Naray, 2011): this is also reflected in the underlying activities, as particular activities belong to both activity.

The *nation branding* category is identified and illustrated by Potter (2004), who studied the Canadian approach to commercial: stating that "Canada's 'brand image' became a top concern for policy makers" (Potter, 2004), a focus on promotion of the nation, rather than promotion of businesses, is revealed. (Naray, 2011) follows upon this perspective from a more general point of view, stating that "Governments encourage home firms to trade, as well as seeking to make the country an attractive destination for FDI, research and development (R&D) and knowledge: while the first reflect business promotion, the latter part reflects of the promotion of a country as a whole. The means of conducting 'nation branding' or 'country image building' (Lederman, et al., 2006) includes a wide spectrum of activities: these have been partially identified by Reuvers (2012) and include awareness campaigns, tourism promotion activities, gathering export marketing data, sensitizing potential foreign investors and participating in trade fairs.

The *promotion activities* are business oriented, reflecting all the promotion activities for a range of distinctive business components. The indication of these business components in literature with respect to commercial diplomacy is relatively ambiguous: while some studies discuss promotion activities with regards to business and trade 'in general' (Kostecki & Naray, 2007), other studies distinguish between specific components of business that are promoted such as Foreign Direct Investment (FDI) (Potter, 2004), exports (Potter, 2004), goods and products (Lee, 2004), tourism. The accompanying promotion activities serve the promotion of business: activities recognized in literature comprise seminars (Lee, 2004), trade fairs (Lee, 2004), direct lobbying (Lee, 2004), conferences, trade missions.

### 2.4.3 Direct outcomes

To a large extent, the concrete outcomes of commercial diplomacy activities aren't incorporated in literature as more abstract benefits comprise the dominant focus, such as 'an increase in trade' or an 'increase in domestic competitiveness'. In an aim to assess that what is concretely achieved through commercial diplomacy, Naray (2008) defined the outcomes as intangible assets "such as information, image and relationship capital". Throughout commercial diplomacy literature, few references to these intangible assets are found: Lee (2004) and Naray (2008) identified commercial intelligence as a direct outcome of information activities, while Potter (2004) recognized an increased national image and visibility as an outcome of Canada's nation branding activities.

### 2.4.4 Benefits

The categorization of benefits is based on the division of 'commercial diplomacy output' proposed by Reuvers (2012) and the established commercial diplomacy rationales in the first pillar of the framework: this concluded in the identification of three types of benefits, which are categorized as either strategic benefits, economic/ trade benefits or economic/ public benefits.

**Strategic benefits** were established following the strategic aim of commercial diplomacy, reflecting benefits such as an enforcement or increase in competitiveness (Lee & Hudson, 2004; Naray, 2008) or an increase of global image and visibility (Potter, 2004): this category was touched upon by Reuvers (2012) as 'nation branding' but was adjusted as it didn't account for the strategic benefits possibly derived from commercial diplomacy. The benefit 'increased playfield power' is incorporated to account for the bargaining power gained by states in view of global competition through conducting commercial diplomacy.

Second, **economic/ trade benefits** reflect benefits directly related to trade, such as an increase in amount of international trade; this category was touched upon by Reuvers (2012) under the heading of export benefits, but was highlighted and expanded for the purpose of this study. Underlying the economic/ trade benefits are more specific gains, such as an increase in exports (Czinkota, 2002), foreign direct investments (FDI) (Coolsaet, 2004), trade in goods and services (Lee, 2004) and technology transfers (Coolsaet, 2004).

The **economic/ public** benefits category was derived from the 'political benefits' proposed by Reuvers (2012), comprising publically orientated benefits such as an increase in economic security and stability (Okano-Heijmans & Ruël, 2011). More measurable benefits of commercial diplomacy include an increase in welfare (Heemskerk, 2010), economic growth, tax revenues and employment opportunities (Kotabe & Czinkota, 1992).

### 3 Methodology

#### 3.1 Research design

A qualitative explorative approach was adopted for the purpose of this study: the novelty of joint commercial diplomacy in the EU as a research field prescribed the need for in-depth understanding of the topic, which was gained through the use of a qualitative research method as this attempts to understand the ‘why’ and ‘how’ underlying actions (Marshan-Piekkari & Welch, 2004). Furthermore, a qualitative methodology suits the subject of research as it is particularly able to “examine dynamic, context-dependent and interactive phenomena” (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002): given the complex institutional context and the various interests involved, the suitability of qualitative research for joint commercial diplomacy is established. Explorative expert interviews were conducted as interviews are “particularly suitable for exploratory and theory building studies” (Daniels & Cannice, 2004) where the desired input is too rich to capture in a survey: this suits the explorative character of this study. The involvement of experts in particular is motivated by the assumption that experts are better informed and more motivated to contribute to this research, and may provide ‘inside’ information on the research subject (Dorussen, Lenz, & Blavoukos, 2005) which contributes to the search for in-depth understanding.

The interviews were designed as non-standardized semi structured in order to obtain unrestrained input from the respondents: as described by Green & Thorogood (2004), in a semi-structured interview “the researcher sets the agenda in terms of the topic covered, but the interviewee’s responses determine the kinds of information produced about those topics and the relative importance of each of them”. The interviews were directed by an interview guide, derived from the CDA framework developed in section 2.4 (Table 3); this framework provided the interviews topics. In addition to these topics, context specific issues were stressed in order to gain more understanding of the respondents’ perception of joint commercial diplomacy: these were respondent group dependent and are included in the interview guide (Table 4).

Interview guide		
EU suppliers of CD	MS suppliers of CD	Consumers of CD
Personal perception of CD	Personal perception of CD	Personal perception of CD
Rationale of conducting CD: Strategic/ Economic – Public/ Economic - Trade	Rationale of conducting CD: Strategic/ Economic – Public/ Economic – Trade	Rationale of conducting CD: Strategic/ Economic – Public/ Economic - Trade
CD activities: Facilitating: Network/ Business Advising: Intelligence Activities Represent:	CD activities: Facilitating: Network/ Business Advising: Intelligence Activities Represent:	CD activities: Facilitating: Network/ Business Advising: Intelligence Activities Represent:
Direct benefits: Increase of (quality of) trade Increase of comm. intelligence Increase of nation visibility	Direct benefits: Increase of (quality of) trade Increase of comm. intelligence Increase of nation visibility	Direct benefits: Increase of (quality of) trade Increase of comm. intelligence Increase of nation visibility
Benefits: Strategic/ Economic – Public/ Economic - Trade	Benefits: Strategic/ Economic – Public/ Economic – Trade	Benefits: Strategic/ Economic – Public/ Economic - Trade
Personal perception of CD improvement in context of EU	Personal perception of CD improvement in context of EU	Personal perception of CD improvement in context of EU

Context		
EU suppliers of CD	MS suppliers of CD	Consumers of CD

Global identity	Global identity	Global identity (NL/ EU)
Differing interests	Differing interests	Accessibility
Scope within current policies	Scope within current policies	Fine tuning CD demand/ supply
Added value	Added value	Added value
Integration advancement	Integration advancement	

Table 4: Interview Guide: CDA Framework/ Context-specific Issues

### 3.2 Respondents

For the purpose of this study, experts were defined as key stakeholders of joint commercial diplomacy in the context of the EU. Three key stakeholder groups were recognized, based on the commercial diplomacy actors present: EU suppliers of commercial diplomacy, Member State suppliers of commercial diplomacy and consumers of commercial diplomacy. These three stakeholder groups developed into respectively three interview respondent groups: representatives from the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), from commercial departments of MS embassies in the Hague and from relevant departments of international companies based in the Netherlands. The foreseen respondents were approached by means of either a telephone call or a letter, in which the research was shortly explained and the respondents were invited for participation. An overview of the respondent groups is provided in Table 4.

<b>CD Consumers</b>	<b>EU Suppliers of CD</b>	<b>MS Suppliers of CD</b>
<b>Internationalizing Businesses</b>	<b>EUROCHAMBRES</b>	<b>MS Embassies Trade/ Ec. Repr.</b>
<i>1. Netherlands Aerospace Group</i> Sjoerd Keizerwaard, International Events & Communication	<i>1. EUROCHAMBRES</i> Dirk Vantighem, Director International Affairs	<i>1. Embassy of the United Kingdom</i> Michiel Venhuizen, Head of UK Trade & Investment in the Netherlands
<i>2. Van Oord</i> Arnoud Kuis, Area Director Middle East, Mediterranean & South West Asia		<i>2. Embassy of Sweden (Business Sweden)</i> Andreas Rentner, Market Unit Manager BENELUX
<i>3. Twentsche Kabel Fabriek</i> Enes Seta, International Account Manager Marine & Offshore		<i>3. Embassy of Poland</i> Piotr Kulik, Head of Trade & Investment Promotion section
		<i>4. Embassy of Spain</i> Enrique Fanjul, Economic & Commercial Counsellor

Table 5: Respondents Overview

### 3.3 Data collection

Prior to the interviews, the respondents were equally and concisely informed about the interview content in order to ensure an equal approach towards all respondents; this equal approach was carried through until the end of the interviews in order to reduce interviewer bias, decreasing the possibility that the behaviour of the interviewer affected the contributions of the respondents. In addition, the possibility of anonymity was provided, but wasn't utilized by respondents. Further bias was reduced through a pre-test, which tested and subsequently secured the applicability of the interview guide for the purpose of this research.

The interviews took place in the period from March 25<sup>th</sup> 2013 until the first of May 2013 and were conducted at a location of the interviewee's preference: this ranged from a Skype interview to various locations in the Netherlands. All interviews were recorded for the purpose of data analysis.

### **3.4 Data analysis**

The interviews were transcribed, after which the transcripts were coded by the use of a code list. This process was IT supported by means of the software program ATLAS T.I., aimed to facilitate the analysis of qualitative data as "the use of appropriate software programs may be valuable in the analysis of differences, similarities and relationships between passages of text" (Kelle, 2004). By deploying ATLAS T.I., the obtained qualitative data is organized and structured which secures the analytical process and the validity of the obtained results (Kelle, 2004).

#### **3.4.1 Coding process**

As the CDA Framework (Table 3) comprises the core of this study, the applied code list was partly derived from this framework. The components of this framework were deployed as codes in the 'CDA Framework – Research' category, defining and labelling synopses in accordance with Kelle (2004), who proposed the use of coding categories based on abstract theoretical concepts. These synopses, "textual locations that relate to the same topic, are kept together and analysed comparatively" (Kelle, 2004), thereby structuring the obtained data to facilitate further analysis. In addition to these coding category, three more categories are formulated to correctly value the obtained data: these are defined below, after which the coding list is presented (Table 6).

##### **1 Research Core**

The 'research core' category reflected upon the core of this study by deploying two overarching codes which are central to this research and apply to the entire set of data: 'barriers' and 'opportunities'. Together these form the guiding line of this research as they reflect upon the development process of joint commercial diplomacy by identifying both favourable and opposing factors and conditions. The interpretation of the gathered data in view of this particular coding category is loosely, as the codes represent data critical to this study and all the valuable data should be recognized.

##### **2 Research Context**

The codes underlying the 'research context' category are directly derived from the interviews, where various context-specific subjects were discussed distinctive to a particular respondent group, and account for the influence of specific factors in the context of the respondents. The category is established with the aim to assess the perceived influence of the current European (business) context.

##### **3 CD – General**

This particular coding category was established with the aim to account for the particular experiences and backgrounds of the interview respondents, as these are assumed to be of great influence on their contributions to this study. The codes underlying this category reflect upon the respondent-specific background by emphasizing their perceptions and definitions.

Research core		
Barriers/ Opportunities		
CDA Framework - Research	Research - Context	CD - General
P1 Mot – Strategic	CD Accessibility	CD perception
P1 Mot – Economic/ Trade	Added value	CD definition
P1 Mot – Economic/ Public	Differing interests	CD development
P2 F – Network Activities	CD demand/ supply	
P2 F – Business Support	Current policies	
P2 A – Intelligence Activities	Global identity	
P2 R – Nation Branding	Integration advancement	
P2 R – Business Promotion		
P3 Direct Benefits		
P4 Ben – Strategic		
P4 Ben – Economic/ Trade		
P4 Ben– Economic/ Strategic		

Table 6: Code List

### 3.4.2 Code list adaptations

Unfortunately, the code list proved insufficient on various accounts: both the depth and variety of the codes fell short in relationship to the richness of the obtained data, resulting in the formulation of new codes and code categories.

#### 1 Respondent Background

The analysis of the interview transcripts learned that respondents expressed their input based on own experiences and context: a significant amount of data concerned the interaction with commercial diplomacy activities in their distinctive situation and proved to be the foundation for their input on research specific issues such as barriers and threats to joint commercial diplomacy within the institutional context of the EU. Even though this was already expected and acted up upon by establishing the 'CD – General' code category, it proved insufficient in view of the richness of the gathered data: in addition to distinctive perceptions and definition, accounted for by 'CD – General' category, respondents heavily stressed the importance of previous experiences with (actors of) commercial diplomacy. This shaped their view of joint commercial diplomacy, as for example a previous negative experience with business support of the EU directly decreased the confidence of an CD consumer in both the desirability and feasibility of joint commercial diplomacy. To account for these valuable respondent experiences, the code category 'Respondent Background' was established which comprises three codes that capture the specific experiences of each respondent group in relation to commercial diplomacy.

#### 2 Respondent Context

In addition to perceptions, definitions and previous experiences, the current commercial diplomacy context of the respondents was also discussed heavily for the purpose of this research: often the respondents related their view on joint commercial diplomacy to their current commercial diplomacy context. To account for this development, a code category similar to the established 'CDA Framework' category was established: under the heading of 'CDA Framework – Background', data was gathered that explicitly discussed the current commercial diplomacy context of the interviews respondents. The same codes that were applied in the 'CDA Framework' category were used here, and were differentiated from the other framework category adding the accompanying number of the pillar. In addition, the code 'CD structure' was added to this category to reflect upon the particular structure of established commercial diplomacy pursuits and hence illustrate the difference in approaches to commercial diplomacy between different contexts.

### 3 CDA Framework Expansion

The code category 'CDA Framework' is, as mentioned earlier, derived from the framework developed to guide the respondent interviews. It captures and combines the available commercial diplomacy literature into a structured framework overview of commercial diplomacy activities and thereby facilitates an analysis of the development of joint commercial diplomacy. Throughout the interviews, new input was gathered on the four pillars that guide the framework: new activities were proposed and rationales and goals were identified. To account for this particular input, the code 'unclassified' was developed and added to the 'CDA Framework' category.

While the final code list can be found in the appendix (Table 8), a concise overview of the final list of coding categories is provided below (Table 7); the bold concepts represent code families, while the .

Research Core		
Background	Commercial Diplomacy	Research
Respondent Background	General	CDA Framework – Research
CDA Framework - Background		Context

Table 7: Final Code List – Concise Overview

#### 3.4.3 Data interpretation

Following the coding process, the results are formulated. The conscious choice was made to present the results per sub question, rather than per respondent group: as the respondent groups varied in composition, this particular design was considered best able to appreciate the input of distinctive respondents and assign equal value to their contributions.

## 4 Results

The results of the eight interviews are discussed below, following the order of the sub-questions: in this discussion the respondents are referred to according to their number in the respondents overview as displayed in Table 5.

### 4.1 What are the perceived barriers to joint commercial diplomacy?

Throughout the interviews, barriers to the development of joint commercial diplomacy were identified; multiple of these were attributable to specific characteristics of the EU, such as its context and institutional design. In addition, barriers relating to European integration were recognized.

With regards to the institutional context, three barriers were identified: first, the diversity in the plurality of MS interests in the EU context was perceived as a barrier as these interests not only often conflict, but also constrain the EU from developing both its institution and its institutional powers. In view of joint commercial diplomacy, respondents acknowledge that an alignment of interests is required but in turn mark this as an extremely difficult task as the MS have different needs and requirements: for example, larger and more developed MS like France and Germany are less inclined towards joint commercial diplomacy, as they conduct it on their own, while smaller en relatively weaker MS like Slovenia have already sought the help of the European Union in terms of supporting their international business. MS supplier of CD #1 comments:

*"(...) and then we come back to the first point we discussed, about what is the point of commercial diplomacy. Evidently it is a broader concern, but it is directly about the question of what is good for Britain."*

A second barrier is perceived in (the existence of) internal competition between EU MS: as MS compete and focus on their own (economic) interests, the perceived distance between them increases which makes it more difficult to establish joint commercial diplomacy. MS supplier of CD #4 commented:

*"I see (...) that Spanish companies are competing with French companies or with German companies, so I think it would take still a very long time (...) and I don't see then the European Union and the European delegations supporting (...) these companies because they are competing among them."*

Mistrust among the MS evolves as a third barrier to joint CD: the differences in views and interests, supplemented with competition, generate a distrustful and sceptical attitude of the MS in recognizing and utilizing joint interests, constraining the development of joint commercial diplomacy.

Four barriers were identified in terms of institutional design. First, a functioning governance structure is lacking: as put by the EU supplier of CD #1, institutional commercial diplomacy is in an infancy state and questions like 'who is in charge' prevail, accompanied by a debate on where to draw the line between trade policy, under EU competence, and trade promotion, under MS competence. He emphasizes:

*"The problem is that (...) there's no proper government structure for economic diplomacy."*

Second, doubt exists whether the EU could execute coordinate an institutional concept as joint commercial diplomacy, as dissatisfaction exists regarding the current state of affairs within institutional Europe and a lack of coordination ability is perceived. As put by MS supplier of CD #3:



*“Maybe you need to clean up within the EU before you start working as a joint effort outside the EU. If we can’t do it ourselves within the Union, is it realistic to do it outside?”*

In addition to the structure and coordination barriers, a lack of internal visibility and transparency also emerges as a barrier to joint commercial diplomacy: in the current context, national MS commercial diplomacy prevails and little awareness of ‘institutional commercial diplomacy’ exists, let alone that one knows where to find it. This was illustrated by a complete lack of knowledge of the CD consumers regarding EU commercial diplomacy and the following expression of MS CD supplier #3:

*“The problem you have different things in different parts of the European Commission, different DG’s or different ICD departments are doing different things and you need to be aware to know how to look for it.”*

Fourth, the current direction of the EU’s attitude in foreign trade is perceived as a barrier: the terms ‘best boy in class’ and ‘too gentle’ are frequently used by respondents, who stress that the currently deployed attitude will cause the EU to lose ground in international trade and a change of mindset is required. The ‘best boy in class’ reference in this respect reflects how the EU tends to judge its business partners, even when it is not in the position to do so. CD consumer #2 explains:

*“When you want to do business with someone, you must not be judgmental.”*

The ‘too gentle’ reference touches upon the ‘European conduct’ of international business, where the EU respects ethical standards and behaves properly even when its competitors do not. In essence there is nothing wrong with that, but respondents emphasize that it will damage the internationalization of European businesses on the long term: the established conduct constrains the internationalizing European business in their behaviour, thereby decreasing their competitiveness.

Finally, respondents acknowledge two possible side effects of conducting joint commercial diplomacy as barriers to developing joint commercial diplomacy: the possibility to be disadvantaged by the behaviour of others and the possibility of smaller companies being absorbed by the larger companies in the commercial diplomacy process. In case of the first, the anxiety prevails that one might be harmed by the behaviour of others, resulting in a loss of (an often carefully build) image and business. The vast majority hence prefers their national MS identity over the EU identity in view of commercial diplomacy, as explained by CD consumer #3:

*“I prefer the Netherlands, nothing against Europe or the European Union but not all the MS carry a good image .. some European countries have behaved in such a way that I’m quite happy to work for a Dutch company.”*

In addition, it is assumed that a joint approach to commercial diplomacy advantage the larger companies at the expense of SME’s. CD consumer #4 clarifies:

*“An SME from Delft with 10 employees, a beautiful product but a small organization, do they benefit when their interests are represented by the EU? Are they still in the picture? I really wonder whether that is the case, and then I think it’s difficult .. so I think that if you [pursue joint commercial diplomacy] .. that will sure benefit the truly large companies (...) As a metal processing firm you perhaps have only 2 competitors within the Netherlands. Within Europe you might have 20 .. what is the role of that one small firm, how is he positioned?”*

The results identified barriers in the development of joint commercial diplomacy on three accounts: with regards to the institutional context, the institutional design and the European integration, nine

factors which exert a negative influence on the development of joint commercial diplomacy according to the key stakeholders.

#### **4.2 How do these barriers constrain the development of joint commercial diplomacy?**

Naturally, the identified barriers take effect in the development of joint commercial diplomacy within the EU: both its adoption and execution are sensitive concerns as they are subject to these barriers.

In adopting joint commercial diplomacy, the barriers relating to the institutional context play a prominent role: the plurality of interests, international competition and mistrust emphasize the differences among the MS and between the MS and the EU institutes, thereby increasing the perceived distance among the MS and between the MS and the EU institutes as well. As joint commercial diplomacy requires a shared interest, perspective and course of action of the MS and the EU institutes, this is an undesirable development: the increased perceived distance decreases the ability to recognize the joint interests and deploy an accompanying course of action. In addition, it encourages the MS to prioritize their (national) MS interest over the collective EU interest as the internal competition and mistrust among MS make it difficult for the MS to recognize the added value of the collective EU interests and they subsequently perceive their domestic interests to be harmed by the collective interest of the EU. MS supplier of CD #3 illustrates:

*"Sometimes it may happen that for one country it's great deal, for others absolutely not and each country tries to protect themselves."*

In executing joint commercial diplomacy, the barriers associated with the institutional design prevail as these question the ability to carry out joint commercial diplomacy: a lack of perceived government structure, ability to coordinate and visibility, along with an undesirable attitude in foreign trade, decrease the confidence of the MS that joint commercial diplomacy would be feasible when executed on institutional level. As the MS interests are central in the development and execution of joint commercial diplomacy, the perceived lack of confidence hinders its development as MS perceive their interest to be at stake. EU supplier of CD #1 explains:

*"Looking at it positively it's very dynamic.. being cynical you would say it's a mess because you know we have no structure yet because it's new of course. It's new and it's politically very very sensitive because in the end it's about national interests"*

A strengthening factor in respect of the perceived barriers to both the adoption and execution of joint commercial diplomacy has been the crisis: particularly in times of crisis, the MS reflect a tendency to prioritize national interests over those of the EU as a whole and express this in their behaviour. MS supplier of CD #4 explains how times of crisis affects institutional initiatives such as joint CD:

*"At the end you have interests of different states and you could see how that works mostly in times of crisis situation. Every country tries to be as open as possible in good times when the economy is increasing and exchange of goods is very good and nice but suddenly something happened you need to protect your citizens."*

The barriers to joint commercial diplomacy, identified by key stakeholders, hence conclude in a perceived increase of distance among MS and between MS and the EU and a perceived inability of the EU to adequately carry out joint commercial diplomacy and are strengthened by the negative perceptions accompanying the EU crisis: this constrains the development of joint commercial diplomacy on various accounts, as it negatively affects the attitude of the MS towards joint commercial diplomacy because they hardly can distinguish their interests in a joint commercial

diplomacy and lack confidence in its executive, the EU. The MS will hence be more anxious and reluctant to engage in joint commercial diplomacy and delegate their power to the EU as long as these barriers are perceived.

#### **4.3 Are there opportunities for a shared approach to commercial diplomacy by EU MS?**

In addition to the barriers to joint commercial diplomacy, opportunities were also expressed; respondents reflected upon how joint commercial diplomacy could be translated into a format that would add value to the context, yield increased benefits for the involved parties and would be feasible in terms of establishment. Opportunities were proposed on a general level, an issue specific level and an activity specific level.

On a general level, respondents expressed the need for a joint interest and determination among MS to feasibly execute commercial diplomacy: if this isn't the case, MS won't recognize the added value of conducting joint commercial diplomacy. MS supplier of CD #1 forecasts:

*"I think that [commercial diplomacy] can only be developed if you come to some sort of common understanding of what is important for the EU to grow economically."*

More specific, the common perception exists that joint commercial diplomacy is not deployable for all fields underlying commercial diplomacy: following the developed framework and identified barriers, the notion was established that in order to work out, joint commercial diplomacy should work around a possible clash of interests of the involved parties. This implies that the opportunity for joint commercial diplomacy directly lies in the identification and deployment of shared interests of MS within commercial diplomacy activities. As mentioned by a MS supplier of CD #2:

*"The opportunities for a common approach and more effective approach to commercial diplomacy within the context of the EU lie in the area besides the competition for markets."*

An illustration is found in the respondents' perception of intelligence activities and network activities: both types of activities are able to facilitate interests of different stakeholders without distinguishing between them or favouring one over the other, as everyone could get involved in these activities and they are conducted at the initial stage of commercial diplomacy. As put by MS supplier of CD #4 in view of joint intelligence activities:

*"I think that would be a very good idea. That could be very useful and I think this is something that probably reasonable could be undertaken. I mean it wouldn't cost a lot of frictions you know, because this is at the first stage of commercial activity (...) I think that could be very interesting, very useful."*

Opportunities for joint CD also evolved out of the current context: Dutch CD consumers perceive both the Netherlands and the EU as lacking in terms of competitive behaviour, resulting in a disadvantaged position for EU originated companies in global competition. Hence they called for a deployment of institutional political weight to defend and secure both the Dutch and European competitive position. A tangible example of the need was expressed by CD consumers #2:

*"In India we have .. if you want to work there as a dredging company, you have to provide them with a price. Then you arrive there with a ship, well such a ship costs I don't know how much, and on top of that you have to pay some sort of import duty as it is a foreign ship (...) Then there is another rule as well, when you provide them with a price of 100, and there is an Indian company that is located within 10 percent of that price but higher, so 109 for example, than they have the right to match your price and take the work. You are already behind due*

*to the import duty and then they also have the right to take your work when they are within 10 percent range of your price.”*

As this undermines a company's competitive position, respondents expressed the need for the EU to deploy its institutional weight to secure the competitive position of European firms: concrete examples of this are the establishment of a global code of (business) conduct, the maintenance of bilateral business relations and the adoption of a more 'aggressive' and 'protective' approach on the global market. Important to note in this respect is that European business support in foreign countries could be able to exert more influence not only as they represent the collective EU rather than a MS, but also because they have fewer diplomatic restrictions: as the EU is not a state, they wouldn't be constrained by diplomatic pressures in defending the interests of European companies outside European borders.

A second specific example where the EU could add value to commercial diplomacy originates from a complementary perspective: introduced by a MS supplier of CD is the concept of looking across one's border to search for partners who can strengthen a particular business or industry. Currently this means that inter-EU industry specific conglomerates are established in view of entering markets outside the Union: as this happens dominantly on a bilateral level, the question was raised whether the EU as an institute couldn't stimulate this process by for example providing a platform for this search for complimentary partners. Third, respondents reacted enthusiastically at the idea of (access to) an European business network: naturally, the more potential clients can be reached, the better. In addition, the belief exists that when this would be established institutionally without limitations in terms of access to particular parties or business, it could be achieved relatively easy yet boost the international activities of European firms tremendously.

On activity level, recommendations were proposed with regards to the design of commercial diplomacy activities: central to these are the alignment between the existing demand of the internationalizing businesses and the supply of the activities by the government. Both suppliers reflect the aim to optimize their work, but according to the CD consumers this sometimes misses its target due to a lack of 'feeling with the industry' on the side of the supplier. This was illustrated in a noteworthy example by CD consumer #2:

*“I was located in India, when the political leaders of Dutch Parliament came to visit the country. At that point, Wouter Bos (...) emphasized the corruption in the country and stated that India should do something about it. That generated a furious response of India, who then immediately returned all the financial development aid provided by the Netherlands over the years and stated that they want nothing to do with the Dutch (...) We suffered tremendously from that as a company.”*

A valuable factor in this respect is, according to the CD consumers, the involvement of branch organizations: representing the (businesses underlying the) industry, these are in close contact with governments in view of commercial diplomacy. This leaves them in the middleman position to align the demand of the industry with the supply provided by the government, thereby increasing the effectiveness of commercial diplomacy in general. As put by CD consumer #3:

*“My more positive experiences were gained at the moment that trade missions were organized by branch organizations, because a branch organization has a bit more directed to a specific market segment. ”*

## 5 Discussion

The results of this study contribute to the infant research field of 'EU commercial diplomacy': as further theoretical foundation is missing, an in-depth understanding of the results is not straightforward. In an attempt to frame the results, this section discusses them from the agency theory (AT) perspective as formulated and proposed in section 2.3.5., as this theory holds significant implications for various organizational disciplines, such as strategic management and organizational behaviour (Hill & Jones, 1992), and is of particular value in gaining understanding of the institutional complexities of the EU (Kassim & Menon, 2003).

### *Agency problem*

Prior to the data collection, the expectation that an agency problem would be encountered in the institutional context of the EU was formulated. The results of this study confirm this expectation, as the conflict of interests between the MS and the EU was identified as a significant barrier towards the development of joint commercial diplomacy. Nevertheless, the agency problem was identified as only one of the influencing factors to the development of joint commercial diplomacy: further barriers derived from the institutional context were found on account of the institutional context, institutional design and European integration and leave significant implications for the delegation of power and the perceived risk.

### *Power delegation implications*

In view of power delegation, the barriers perceived by key stakeholders reflect that multiple changes need to be made before the MS approve joint commercial diplomacy and delegate their power to the EU. Core to these changes is the agency problem, as the strongest argument against joint commercial diplomacy is the possibility that it would harm the MS and its interests: this implies that prior to MS' approval of joint commercial diplomacy, the EU has to prove that in joint commercial diplomacy it acts in the interest of the MS and is able to recognize these distinctive interests aside from the collective EU interest. The questions rises how this should be done, as the interviews reflect criticism among key stakeholders since they perceive the interests of the MS to contradict each other: the EU thus wouldn't be able to serve all MS interests as these may conflict. Based on this observation, the key stakeholders initially question the ability of the EU to overcome the agency problem and conduct joint commercial diplomacy to the satisfaction of every MS. Nevertheless, as noted by the EU supplier of CD, the exclusive competence of the EU in the policy area of external trade reflects trust of the MS in the EU to act in the interests of the MS in this particular area: no comments were made by other key stakeholders on how this comes to shape in the development of joint commercial diplomacy.

The ability of the EU to act upon joint commercial diplomacy is not only subject of discussion in relation to differing interests within the EU context: the interviews also reveal doubt as to whether the EU could carry out such a joint initiative in general. Recognizing that an added value of joint commercial diplomacy must be established in order for it to exist next to MS commercial diplomacy, key stakeholders emphasize that the EU must increase their efforts; the adoption of an appropriate governance structure, efficient coordination measure and more aggressive global attitude are identified as means for the EU to gain this trust from the MS. Remarkable here is that most doubt is found among the MS suppliers of commercial diplomacy: possibly due to their engagement in a developed commercial diplomacy environment, joint commercial diplomacy is generally perceived as a threat rather than an opportunity as they perceive joint commercial diplomacy to challenge their established conduct and accompanying benefits. This increased the risk associated with joint commercial diplomacy, conform to the expectation formulated in section 2.3.5.: the potential threat of MS commercial diplomacy by joint commercial diplomacy makes MS more resistant to participate

in it. The conclusion follows that joint commercial diplomacy must be established in close cooperation with the MS bodies engaged in commercial diplomacy, in order to develop it efficiently.

Furthermore, the scope of joint commercial diplomacy should be assessed carefully: the interviews revealed that, according to the key stakeholders, not all areas of commercial diplomacy are suitable for joint commercial diplomacy. The conflicting interests and internal competition play a key role here, as key stakeholders perceive the differences between MS as incompatible: joint commercial diplomacy must hence be developed in the areas where all individual interests are served, as well as the collective European interest.

### *Risk implications*

When the perceived barriers are acted upon, a trade off is presumably reached where the amount of perceived benefits of joint commercial diplomacy exceeds the amount of perceived risk in relation to the EU as the executive of joint commercial diplomacy. This would imply the a decrease of perceived risk in joint commercial diplomacy and confidence in the EU to act upon the interests of the MS. In addition to the perceived risk and outcome uncertainty associated with the inability of the EU to act in the interest of the MS, increased outcome uncertainty is perceived to follow from the current global context: the results of this study touch upon the negative influence of the current Euro crisis on the development of joint commercial diplomacy, as this shifts the focus from the collective economic interest towards the domestic economic interests. The conclusion follows that in the presence of the Euro crisis, the development of joint commercial diplomacy will face a difficult time.

The implications provided above provide insights in how the institutional context of the EU affects the development of joint commercial diplomacy, but also contribute to discussion on how joint commercial diplomacy should develop as various key stakeholders propose their suggestions for this process: these suggestions can be interpreted with the use of AT. According to AT, the key stakeholders have motivated the deployment of both a behaviour-based format and an outcome-based format of joint commercial diplomacy: while the suggestions for solving the agency problem and inability of the EU to carry out joint commercial diplomacy direct towards a behaviour-based format as these represent suggestions for improving the conduct of the MS, and thus the agents' behaviour, the reduction of perceived risk by the establishment of a joint goal and the deployment of the European regulatory framework support the deployment of an outcome based format.

## **6 Conclusion**

Within the EU, joint commercial diplomacy is a relatively new appearance which challenges the institutional context of the EU: the question emerged how this institutional context affects the development of joint commercial diplomacy.

Eight key stakeholders of commercial diplomacy, originating from different backgrounds, assessed this question throughout explorative semi-structured interviews: these interviews identified nine perceived barriers on three accounts. These factors were identified as exerting a negative influence on the development of joint commercial diplomacy, as they increased the perceived distance between stakeholder interests and reflect doubt in the ability of the EU to conduct joint commercial diplomacy and act upon MS interests. The institutional context of the EU hence influences the development of joint commercial diplomacy by exerting a negative influence on the relationship between its principals, the MS, and the executive body, the EU.

The identification and assessment of the institutional context in view of joint commercial diplomacy also suggested opportunities and chances for joint commercial diplomacy: according to key stakeholders, joint commercial diplomacy should serve the a joint goals of MS and the EU by avoiding areas where MS interests conflict, meeting the demands set by the current global business context and involving branch organizations in the commercial diplomacy activities.

## **7 Limitations & Directions for further research**

This study explored the possibility of joint commercial diplomacy in the institutional context of the European Union by means of semi-structured interviews with various key stakeholders of commercial diplomacy present in this context. The novelty of this particular research field, ‘institutional commercial diplomacy’, provides a distinctive limitation: as the subject is yet to be explored, a distinctive theoretical foundation wasn’t present and a responsible methodological approach had to be developed. This allows for a discussion on ‘the optimal approach to research’, in which some might disagree with the careful considerations underlying the formulation and execution of this study and would opt for a different approach. A second limitation, more specific to this study, is the relatively small amount of interview respondents and the unequal composition of the respondent groups: an increase in the amount and scope of the respondents would have provided a more comprehensive overview.

### *Directions for further research*

In the aftermath of this study, three directions for further research were recognized. In the first place, research on commercial diplomacy needs to be followed up upon: as competitiveness and thus commercial diplomacy are both of increasing importance for the EU in the global context and Europe is presumably at the verge of losing its prominent global position, this study established that action needs to be taken. Evidently, the EU provides a complex context to do, which provides all the more motivation to take up research on commercial diplomacy in the EU: little research is conducted on the topic so far, and as globalization is predominantly established on MS level, significant challenges arise in terms of deploying institutional powers and secure institutional competitiveness. This explorative study provides a first step by identifying the barriers to joint commercial diplomacy, which could be followed up upon by a quantitative approach to confirm the results of this study.

Second, the alignment of CD demand and supply is to be subject of future research: as reflected upon in this study, fine-tuning the CD demand from the industry with the available CD supply of governments is a challenge. Following from this, the involvement of branch organisations in commercial diplomacy provides a feasible direction for research: being at the verge of commercial diplomacy demand and supply, these organizations could function as a value adding intermediary in the process of optimizing commercial diplomacy effectiveness as they are in the position to align demand and supply. In current literature, the value of involvement of branch organisation is underexposed; this study slightly touches upon the involvement of branch organizations in commercial diplomacy, but proposes a further examination of their value for the development of commercial diplomacy in general as the involvement of branch organisations in commercial diplomacy has yet .

Finally, the influence of the current Euro crisis is to be further examined: the crisis was identified as a constraint to the development of EU commercial diplomacy, raising the question of how this interfering factor exactly functions and what kind of effect it causes. Recognizing that literature currently lacks research on this phenomenon, this study proposes ‘the effects of the Euro crisis on the institutional development of the EU’ as a valuable direction for future research.



## 8 References

- Bátora, J. (2003). Does the European Union transform the institution of diplomacy? University of Oslo.
- Benson-Rea, M., & Shore, C. (2012). REPRESENTING EUROPE: THE EMERGING 'CULTURE' OF EU DIPLOMACY. [Article]. *Public Administration*, 90(2), 480-496.
- Bruter, M. (1999). Diplomacy without a state: the external delegations of the European Commission. *Journal of European Public Policy*, 6(2), 183-205.
- Bungenberg, M. (2010). Going Global? The EU Common Commercial Policy After Lisbon. In C. Herrmann & J. Terhechte (Eds.), *European Yearbook of International Economic Law 2010* (Vol. 1, pp. 123-151): Springer Berlin Heidelberg.
- Cerny, P. G. (1995). Globalization and the changing logic of collective action. *International Organization*, 49(04), 595-625.
- Coolsaet, R. (2004). Trade and Diplomacy: The Belgian Case. *International Studies Perspectives*, 5(1), 61-65.
- Czinkota, M. R. (2002). Export promotion: A framework for finding opportunity in change. *Thunderbird International Business Review*, 44(3), 315-324.
- Daniels, J. D., & Cannice, M. V. (2004). Interview studies in international business research. *Handbook of qualitative research methods for international business*, 185-206.
- Dorussen, H., Lenz, H., & Blavoukos, S. (2005). Assessing the reliability and validity of expert interviews. *European Union Politics*, 6(3), 315-337.
- EEAS. (2012a). Common Foreign and Security Policy Retrieved 18/11, 2012
- EEAS. (2012b). EU Delegations. Retrieved 17/01, 2013, from [http://eeas.europa.eu/delegations/index\\_en.htm](http://eeas.europa.eu/delegations/index_en.htm)
- EEAS. (2013). Financing Instrument for Cooperation with Industrialised and other high-income countries and territories 2007-2013. Retrieved 24/05/2013, from <http://eeas.europa.eu/ici/>
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, 532-550.
- Green, J., & Thorogood, N. (2004). *Qualitative methods for health research*: Sage Publications Limited.
- Heemskerk, F. (2010). Toenemend belang van economische diplomatie voor Nederland. *Internationale Spectator*, 64(2), 2.
- Hill, C. W., & Jones, T. M. (1992). Stakeholder-agency theory. *Journal of management studies*, 29(2), 131-154.
- Kassim, H., & Menon, A. (2003). The principal-agent approach and the study of the European Union: promise unfulfilled? *Journal of European Public Policy*, 10(1), 121-139.
- Kelle, U. (2004). 5.14 Computer-assisted Analysis of Qualitative Data. *A companion to qualitative research*.
- Kostecki, M., & Naray, O. (2007). *Commercial Diplomacy and International Business*. Den Haag: Nederlands Instituut voor Internationale Betrekkingen "Clingendael".
- Kotabe, M., & Czinkota, M. R. (1992). State government promotion of manufacturing experts: Gap analysis. *Journal of International Business Studies*, 23(4), 21.
- Lederman, D., Olarreaga, M., & Payton, L. (2006). Export promotion agencies: What works and what doesn't.
- Lee, D. (2004). The Growing Influence of Business in U.K. Diplomacy. *International Studies Perspectives*, 5(1), 50-54.
- Lee, D., & Hudson, D. (2004). The old and new significance of political economy in diplomacy. *Review of International Studies*, 30(3), 343-360+317.
- Lindberg, L. N. (1963). *The political dynamics of European economic integration*: Calif.: Stanford University Press.
- Marshan-Piekkari, R., & Welch, C. (2004). Qualitative research methods in international business: the state of the art. *Handbook of Qualitative Research: Methods of International Business*, 5-24.

- Martre, H. (1994). *Intelligence économique et stratégie des entreprises*: La documentation française.
- McMillan, M. S., & Rodrik, D. (2011). Globalization, Structural Change and Productivity Growth. National Bureau of Economic Research.
- Meunier, S., & Kalypso, N. (1999). Who Speaks for Europe? The Delegation of Trade Authority in the EU. *JCMS: Journal of Common Market Studies*, 37(3), 477-501.
- Meunier, S., & Nicolaïdis, K. (2006). The European Union as a conflicted trade power. *Journal of European Public Policy*, 13(6), 906-925.
- Moravcsik, A. (1993). Preferences and power in the European Community: a liberal intergovernmentalist approach. *JCMS: Journal of Common Market Studies*, 31(4), 473-524.
- Moravcsik, A. (1998). *The choice for Europe: social purpose and state power from Messina to Maastricht*: Cornell University Press.
- Naray, O. (2008). *Commercial diplomacy: A conceptual overview*. Paper presented at the 7th World Conference of TPO's.
- Naray, O. (2011). Commercial diplomats in the context of international business. *The Hague Journal of Diplomacy*, 6(1-2), 121-148.
- Okano-Heijmans, M., & Ruël, H. (2011). Commerciële diplomatie en internationaal ondernemen. *Internationale Spectator*, 65(9).
- Ozdem, M. I., & Struett, M. J. (2009). *Government agencies in Commercial Diplomacy: seeking the optimal agency structure for foreign trade policy* Unpublished manuscript.
- Pollack, M. A. (1997). Delegation, agency, and agenda setting in the European Community. *International Organization*, 51(1), 99-134.
- Potter, E. H. (2004). Branding Canada: The Renaissance of Canada's Commercial Diplomacy. *International Studies Perspectives*, 5(1), 55-60.
- Reuvers, S. (2012). *Research on Economic and Commercial Diplomacy: Review and Implications*. University of Twente, Enschede.
- Ruël, H., & Zuidema, L. (2012). The Effectiveness of Commercial Diplomacy; a survey among Dutch embassies and consulates. *Discussion Papers in Diplomacy*, 2012(123).
- Saner, R., & Yiu, L. (2003). *International economic diplomacy: mutations in post-modern times*: Netherlands Institute of International Relations' Clingendael'.
- Scholte, J. A. (2000). *Globalization: A critical introduction*: Palgrave Macmillan.
- Sherman, R., & Eliasson, J. (2006). Trade Disputes and Non-state Actors: New Institutional Arrangements and the Privatisation of Commercial Diplomacy. [Article]. *World Economy*, 29(4), 473-489.
- Smith, M. E. (2000). Conforming to Europe: the domestic impact of EU foreign policy co-operation. *Journal of European Public Policy*, 7(4), 613-631.
- Stadman, A. (2012). *Competitors or collaborators: a comparison of the commercial diplomacy policies and practices of EU member states*. Unpublished MSc Thesis, University of Twente, Enschede.
- Stadman, A., & Ruël, H. (2012). Competitors or collaborators: a comparison of the commercial diplomacy policies and practices of EU member states. In H. Ruël (Ed.), *Commercial Diplomacy and International Business: A Conceptual and Empirical Exploration* (pp. pp.183-225): Emerald Group Publishing Limited.
- Stone Sweet, A., & Sandholtz, W. (1997). European integration and supranational governance. *Journal of European Public Policy*, 4(3), 297-317.
- Udovič, B. (2011). Slovene commercial diplomacy in the Western Balkan countries. *Communist and Post-Communist Studies*, 44(4), 357-368.
- Visser, R. (2012). *Commercial diplomats as corporate entrepreneurs: explaining role behavior from an institutional perspective*. University of Twente, Enschede.
- Welch, C., Marschan-Piekkari, R., Penttinen, H., & Tahvanainen, M. (2002). Corporate elites as informants in qualitative international business research. *International Business Review*, 11(5), 611-628.
- Wiener, A., & Diez, T. (2009). European Integration Theory.

Woolcock, S. (2008). The potential impact of the Lisbon Treaty on European Union external trade policy. *European Policy Analysis*(8), 6.

Woolcock, S. (2011). EU economic diplomacy: The factors shaping common action. *The Hague Journal of Diplomacy*, 6(1-2), 83-99.

## 9 Appendix

### 9.1 Final Code List

Research Core			
Barriers			
Opportunities			
Background	Commercial Diplomacy	Research	
<i>Respondent Background</i>	<i>General</i>	<i>CDA Framework – Research</i>	
CDC (CD Consumers)	CD definition	Mot – Strategic	
CDS MS (CD Supplier – Member State)	CD perception	Mot – Economic/ Trade	
CDS EU (CD Supplier – European Union)	CD development	Mot – Economic/ Public	
		F – Network Activities	
<i>CDA Framework – Background</i>		F – Business Support	
P1 Mot – Strategic		A – Intelligence Activities	
P1 Mot – Economic/ Trade		R – Nation Branding	
P1 Mot – Economic/ Public		R – Business Promotion	
P2 F – Network Activities		Direct Benefits	
P2 F – Business Support		Ben – Strategic	
P2 A – Intelligence Activities		Ben – Economic/ Trade	
P2 R – Nation Branding		Ben – Economic/ Strategic	
P2 R – Business Promotion		Unclassified	
P3 Direct Benefits			
P4 Ben – Strategic		<i>Context</i>	
P4 Ben – Economic/ Trade		CD Accessibility	
P4 Ben – Economic/ Strategic		Added value	
CD structure		Differing interests	
		CD demand/ supply	
		Current policies	
		Global identity	
		Integration advancement	

Table 8: Final Code List