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**DIGITAL FINANCE: A CATALYST FOR FINANCIAL INCLUSION?**

**EVALUATING THE EFFECTIVENESS OF ONLINE CORPORATE TRAINING FOR BUSINESS PROFESSIONALS AND ORGANIZATIONAL OUTCOMES**

**TECH-IN-THE-LOOP (TILT): A DIFFERENT APPROACH TO PRODUCT STRATEGY IN TECH**



*“The visionary starts with a clean sheet of paper,  
and re-imagines the world.”*

Malcolm Gladwell

# **ONRESEARCH**

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## FOREWORD

The global community is already thinking about what comes next for humanity. In the past few weeks, world leaders converged on Glasgow for COP 26, to re-assess our collective action in mitigating the risks associated with climate change. At the same time, economies around the world have started the re-recovery process, as they look to sustainably maximize resources for an increasingly uncertain but exciting future. In this edition of our eponymous journal, “( r )e-,” we explore the precedents for this next stage in contemporary socio-economic evolution.

Re-invigorate! It is time to put the energy back in our efforts at improving the state of the world. While some industries have seen renewed commitments towards positive change, like the health sector as a result of the pandemic, other global issues are suffering from a drop in energy - as evident from the limited scope of commitments at COP 26. By re-invigorating our efforts, we can bring back the urgency of change that the world so desperately needs.

Re-claim! With renewed energy and urgency, multilateralism can reclaim its place at the front of the social and economic transformation process. The last decade both served to bolster and strain global trust in international systems. The next offers a unique opportunity and context in which to re-build.

Re-design! Beyond the opportunity to build back better is an opportunity to design systems and tools that are most effectively tailored to the worlds current needs and address the most pressing problems. From financial tools and economic systems to international development and consumerism, humanity can benefit from a re-evaluation of what is important and how we get there.

ONResearch is keen to explore a variety of perspectives on these subjects in the coming year. I would like to thank our contributors, readers, reviewers as well as the ONResearch team for coming together to make this knowledge sharing possible.

**Suddha Chakravartti**

*Editor-in-Chief*

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# INSPIRING CHINESE UNIVERSITY STUDENTS – STRATEGIES THAT ENCOURAGE CLASSROOM ENGAGEMENT

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*Aaron Taylor*

**ABSTRACT:** *The number of Chinese students studying in UK Higher Education (HE) has grown markedly in recent years with over 120,000 students studying in the UK in 2020. These students contribute a great deal to the UK economy but also arrive with a few challenges that need to be addressed. This study examines how to address the issues faced by Chinese students and offers solutions on how to inspire and motivate them, using a London-based UK HE institution as a case study.*

*The results demonstrate that there are three main reasons which prevent students from fully participating in classroom activities – cultural issues, distractions, and language difficulties.*

*The study also illustrates that there are two areas that increase motivation; praise from the teacher and accomplishing extrinsic motivation via achieving high grades. There were a few other relevant approaches identified to increase motivation in Chinese university students. These included enhancing student self-belief, creating enriching learning experiences, possessing cultural awareness as an academic and adapting to student needs.*

**KEYWORDS:** Chinese university students, motivation, teaching strategies, student participation, learner engagement.

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## CONTEXT

The UK is the most popular European destination for Chinese university students with the number growing by 34% to over 120,000 since 2014-2015. In 2020, these students represented the largest body of international students in the UK with this increase set to continue (Jeffreys, 2020). Although Chinese students visit the UK in great numbers, they also bring their own cultural dependencies and preferred ways of learning (Xue, 2015). It is therefore vital for educators to understand how to best optimize the learning environment and to fulfil the expectations of such an influential group (Dogancay-Aktuna, 2005). Fulfilling student expectations is vital for many reasons. For example, Webb *et al.* (2014) contend that students can become dissatisfied when they are unable



to develop the knowledge and skills that they need due to teachers and the learning environment failing to meet their expectations. Moreover, Bailey (2005: 3) in a study of 29 Chinese students at the University of Wolverhampton, discovered that these learners expected UK learning styles to be 'more independent, creative and practical'. Similarly, Xue (2015) in a study of 120 Chinese Masters students at Newcastle University uncovered that they expected classes to be more interactive and participative than in China. These are several examples of the complexities faced by Chinese students in UK HE institutions.

The current situation thus presents a clear opportunity for UK HE institutions (UK HEIs) with both academics and university leaders seeking to better understand how to deal with this phenomenon to enhance the quality of their offerings and to better serve this significant student population.

Therefore, a small-scale study took place with 16 Chinese students at a London-based UK HEI from September 2019 to February 2020. These students were recruited from a cohort of 252 first year postgraduate students studying an MBA in Global Business. The nationalities were varied and included students from Nigeria, India, Vietnam and mainly China which represented the largest student population with 72 students in total. All students had to possess 6.5 IELTS to be accepted although Chinese students have tended to struggle the most out of all the nationalities mentioned above in terms of attendance, classroom participation and performance. For instance, attendance for Chinese students was 74% in 2019 compared to 92% for all other nationalities. Furthermore, the average grade for Chinese students was 54% in 2019 and 62% for all other nationalities. This was just over the 50% pass threshold. Unfortunately, Chinese students have generally struggled to perform well when compared to other students and have found it difficult to engage with other nationalities both inside and outside the classroom. For instance, since 2017 Chinese students have had a 12% higher failure rate than students from different countries. Moreover, end-of-term feedback has demonstrated working with non-Chinese students can be "difficult" and occasionally "stressful".

The rationale for conducting this research is clear – I aim to discover the reasons why modules are generally not well-attended to explore whether participation levels and engagement can be improved. It has been particularly noticeable that Chinese students have had difficulties in adjusting to group-work and pair-work activities (Will, 2016) arguably due to many students being used to rote-learning which is generally practiced in Chinese education (Zhao, 2012; Xu, 2019; Yu, 2019). Chinese students have also found it difficult to mix with other nationalities due to a lack of confidence in their language ability (Yu, 2019).

Cross and Hitchcock (2007: 2) affirm that many Chinese students endure 'philosophical dissonance' when studying in the UK as their expectations of the teaching philosophy and learning environment are often very different to what they are used to. As Yu and Moskal (2019) and Zhu and Reeves (2019) observe, little attention has been paid to this issue from both UK HE institutions and in academic literature.

Therefore, the intention of this study is to build upon the limited amount of research on the subject and to explore how to inspire Chinese university students to provide solutions and recommendations for academics, administrators, and university leaders. The literature review will now discuss these issues in depth.

## LITERATURE REVIEW

Taking Education has long been important for Chinese parents. The growing affluence in Chinese society has presented families with more options and sending children to countries such as the US and UK has become more popular in recent years (Tu, 2019). The influx of these students has necessitated universities to re-think their pedagogical strategies to best integrate Chinese learners into their learning environments.

Leach (2016) pontificates that there are five main strategies that teachers can use to increase learner engagement and motivation. These include enhanced self-belief, the use of pair work and group work, creating enriching learning experiences, possessing cultural awareness, and adapting to student needs. First, Leach (2016) states that it is vital for all teachers to identify ways in which they can increase the self-belief of their learners. As Wang and Zhang (2019) assert it is important to create a student-centered experience in which learners are actively encouraged to share ideas with others. Secondly, Leach (2016) argues that the use of pair work and group work activities are beneficial in increasing student motivation due to providing greater autonomy and a sense of competence. Indeed, Liu and Yu (2019) state that intrinsic motivation (something which makes a student feel positive) formed through participation in activities with others can lead to self-determination and ultimately greater student engagement. This contrasts to extrinsic motivation where students tend to be more interested in achieving high grades rather than the acquisition of knowledge (Liu *et al.*, 2020).

Like all HE students, it is fundamental to create interesting and challenging learning experiences for students in which they can reach their potential. Academics must create interactive experiences that challenge and stretch students to perform more effectively (Bracken & Novak, 2019). Teachers also play an important role in motivating learners (Bracken & Novak, 2019). Indeed, Zhao (2012) contends that it is particularly important to engage Chinese students by introducing reflective and evaluative tasks that necessitate students to make connections between ideas and concepts that are relevant to their interests. Providing clear and constructive feedback is another vital strategy that is beneficial to all learners alike (Winstone & Carless, 2020).

It is also vital for teachers to understand various cultural norms. Therefore, this study adopts Hofstede *et al.*'s (2010) cultural dimensions framework to ascertain what cultural differences need to be considered when teaching Chinese students. Please see Figure 1 below:

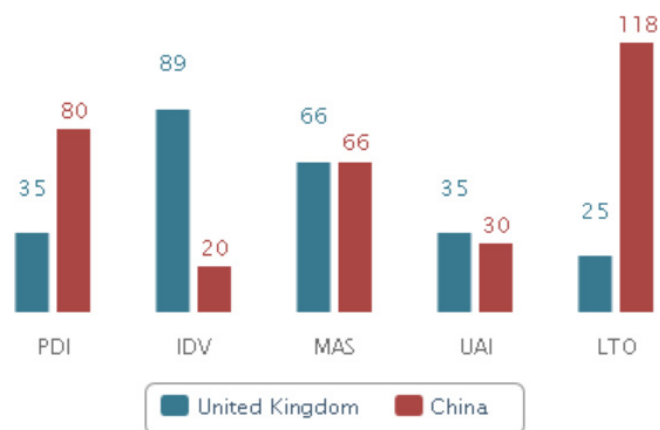


Figure 1: Hofstede's cultural dimensions (Hofstede *et al.*, 2010).

Although this framework has been criticized for over-generalizing and lacking in recency (Venkateswaran & Ojha, 2019), it is nevertheless contended as an appropriate tool to understand Chinese culture, at least in generic terms. Hofstede *et al.* (2010) explain that there are five main cultural dimensions – power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and long-term orientation. Power distance is defined as the level of tolerance for inequality in a country. These findings have discovered that China is more accepting of inequality than the UK due to having a higher power distance figure of 80 (when compared to 35 in the UK). Individualism is high in the UK meaning its citizens generally prefer to work alone whereas China is a more collective society as citizens usually prefer to work in groups. The masculinity of the UK and China is the same, meaning both countries are relatively competitive. Uncertainty avoidance (how a country deals with uncertain and unexpected situations) is also similar. However, long-term orientation is much higher in China than in the UK. This means individuals are generally more focused on the long-term rather than achieving short-term objectives as in the UK. Although it is acknowledged that Hofstede *et al.*'s (2010) work is rather antiquated due to being initially conducted in 1980 it is nevertheless argued as relevant for this study due providing important information about the variances between countries and how to manage them (Chudzikowski *et al.*, 2011).

As Fulmer *et al.* (2019) elucidate, students in China tend to receive direct instruction from teachers with interaction uncommon and often discouraged. Zhao (2012) adds it is common for Chinese students to accept the instruction of the teacher without offering any form of questioning. Therefore, Leach (2016) contends teachers must adapt their teaching style for Chinese students overseas to create an atmosphere that is appropriately familiar, welcoming, and challenging for students to effectively engage in.

The research philosophy and approach will now be explained and justified.

## **RESEARCH PHILOSOPHY AND APPROACH**

This paper adopts an Interpretivist philosophy that will attempt to discover the causes of a lack of engagement in Chinese university learners in a rich and detailed way (Bell *et al.* 2018). In addition, an inductive approach will take place to assemble ideas and strategies on how to build upon current motivation levels (Ibid). To accomplish this objective, qualitative research was carried out by interviewing 16 current Chinese university students. These students were all studying an MBA in Global Business. From this number, 10 were female and 6 were male. Their ages ranged from 21-26 years old. Please see Appendix 2 for more details. Ethical approval (ref. P50877) was granted by the Coventry University Ethics committee in June 2019.

Qualitative research was employed for its ability to examine the values, perceptions, and attitudes of respondents and to explore the issue of engagement in detail (Bell *et al.*, 2018). Semi-structured interviews were used as part of this approach with a script that comprised of 25 questions that focused on 5 areas – Icebreaking questions, Knowledge, Skills and Attitudes (KSA), Culture, Learning and Motivation to Study. These sections were developed because of consulting the literature. It was discovered that KSA (Zhao, 2012), culture (Xu, 2019; Yu, 2019), learning (Wang & Zhang, 2019) and motivation (Fulmer *et al.*, 2019; Liu & Yu, 2019) all play a significant role in engaging Chinese

students. The interview script containing the above categories can be found in Appendix 1. As Bell *et al.* (2018) explain, semi-structured interviews enable the interviewer to use a structured script that can be adapted and reshaped, depending on the replies of the interviewee.

The data collection technique also followed the recommendations of Kvale (1996) who argues it is important for interviewers to incorporate a standardized format and to utilize indirect and direct probing strategies when an interviewee offers an appropriate response. Indeed, it is argued the employment of semi-structured interviews allowed the author the flexibility to investigate specific responses in greater detail. Convenience sampling was used due to there being a maximum of 16 respondents available to be interviewed.

Three pilot interviews demonstrated that there were three unnecessary questions. These were condensed to 1 question (question 17) to create a more structured interview script.

As Bell *et al.* (2018) state, it is vital that appropriate ethical considerations are properly adhered to in every research project. Therefore, each interviewee was formally asked to participate in the study by email and were informed that they were free to withdraw from the interview process at any time they felt uncomfortable. Furthermore, prior to the start of each interview, every respondent was reminded that they could terminate the interview at any time (Bell *et al.* 2018). Finally, to protect the identity of the interviewees, their names were anonymized and coded. These codes can be found in Appendix 2.

The findings and analysis from the research are presented in the next section.

## **FINDINGS AND ANALYSIS**

This section will present the findings and analysis from the study and focus on issues that restrict student involvement. Issues that restrict student involvement. There were three main findings in this section – cultural issues, distractions, and language difficulties.

### **Cultural issues**

Eleven out of the sixteen respondents stated that cultural difficulties were one of the main reasons why they struggled to participate fully in classroom activities. For instance, Interviewee C stated: 'In China we just need to listen to the teacher but in the UK, we have to speak. This is a new experience and not easy for me.'

Similarly, Interviewee F commented that she suffered from culture shock when she was expected to engage with non-Chinese nationalities due to a lack of confidence in her listening skills. Furthermore, Interviewee A stated although the expectations of teachers in the UK were lower than those in China, he found it more difficult to replicate the same results he achieved in China due to a lack of understanding of plagiarism and how to structure written reports.

Thirteen out of the sixteen respondents commented on the lack of examinations in the institution when compared to China. This was seen as another difficulty. For example, Interviewee M said that it was important to remember as much information as possible in China as it was likely to be included on a written examination. However, this respondent argued it was 'often a waste of time' to concentrate fully in class as there were so few examinations and essays tended to include individual research as the main form of assessment.

Moreover, nine out of the sixteen interviewees said that they lacked the confidence in their English language skills to speak to others in group work activities and particularly in front of the class to the teacher. Delivering presentations was found to be especially challenging. For example, Interviewee L stated: 'I don't have much confidence in my speaking ability and don't feel comfortable giving presentations. I also try not to question the teacher because in China this is seen to be disrespectful.'

### **Distractions**

Fifteen out of the sixteen interviewees stated that smartphones and laptops were a major source of distraction in the classroom which had reduced their level of concentration and engagement. Indeed, Interviewee H stated: 'If a lesson is boring, I sometimes check WeChat. In fact, even if a lesson is fun, I will still check my phone.'

In addition, Interviewee K said that he was often only able to concentrate for periods of around 15 minutes per class due to being 'addicted' to checking his mobile phone for texts from his friends. The link between smartphone usage and lack of concentration was also discovered in the responses of other interviewees who commented that it was very difficult to control the urge not to check their mobile devices even if they had been told by the teacher not to. As the university has implemented a digital literacy strategy that requires students to follow classes on their laptop via PowerPoint it was commented that this technique was often abused by students. For instance, Interviewee B stated: 'I know we are supposed to read the slides when the teacher is speaking but I often check QQ (a message board) or RenRen (a Chinese social media website).'

### **Language difficulties**

It was discovered in each of the sixteen respondents that language issues significantly contributed to their lack of engagement in lessons. For example, Interviewee G commented that she found it difficult to pronounce English words and felt conscious of her weakness when speaking in front of others. Furthermore, Interviewee N had a lack of faith in her spoken syntax and preferred to not speak rather than make a mistake and run the risk of being embarrassed: 'Sometimes I am not sure what to say. I much prefer to be quiet and not say anything rather than have other students make fun at my speaking.'

It was also stated by three of the sixteen interviewees that they actually preferred to listen to the teacher and their classmates as this is what they had become accustomed to. For instance, Interviewee A said: 'I am satisfied listening to other students in the class. I can learn from their opinions and improve my understanding.'

### **What motivates students to fully participate in lessons**

The interviews demonstrated that there were two major aspects that increase engagement in Chinese students – praise from the teacher and receiving high grades.

#### *Praise*

Ten of the sixteen interviewees said that they felt more motivated to participate in class when they received praise from the teacher. For example, Interviewee L said: 'It is nice when my tutor tells me I have done well. I feel good and want to try harder.'

Similarly, Interviewee C said that she was more motivated to do better when both her teacher and colleagues praised the quality of her work. In addition, Interviewees D and F commented that they were much more likely to speak if the classroom atmosphere was supportive and friendly. For instance, Interviewee D said he would speak more frequently if a teacher was affable, and the atmosphere was relaxed. These examples all demonstrated that praise was an important motivator in enhancing student confidence and participation with the attitude and ability of the teacher integral in creating an encouraging and upbeat classroom atmosphere.

### *Rewards*

Each of the sixteen respondents said that they were motivated by grades with fourteen of them stating it was important to achieve good results to appease their parents who had supported them both financially and emotionally. For example, Interviewee A said that he was only concerned with getting the highest possible grade to make his parents feel proud. Similar comments were made by thirteen other interviewees who all commented it was important to do well, so that they could improve their 'mianzi' (public image) with both their peers and their parents. On the other hand, two respondents (Interviewee F and Interviewee L) did not make any comment on the importance on impressing their parents but instead of maintaining their reputation as a good student with their classmates by achieving high grades. The acquisition of knowledge was also mentioned by five respondents who stated that they believed it was important to enhance their understanding of a subject to be more employable in the future.

### **Strategies to increase motivation in Chinese learners**

It was discovered that there are three main strategies that teachers can use to increase motivation in Chinese learners – enhancing student self-belief, creating enriching learning experiences, possessing sufficient cultural awareness, and adapting to student needs.

#### *Enhancing student self-belief*

Twelve of the sixteen students commented receiving positive verbal and written feedback was a major factor in improving their motivation. For example, Interviewee D said: 'Teachers are generally strict in China and don't really encourage us. It is much better here.'

Furthermore, Interviewee C commented that she wanted to try harder to please her teacher when she was complimented 'well done.' Enhancing student self-belief was found to be a vital strategy in which to facilitate greater participation and engagement. Students felt more motivated when complimented on their performance and stated that they were more likely to participate when receiving positive verbal and written feedback. Both forms of feedback were found to be equally motivational in enhancing self-belief. This discovery can be aligned to the arguments of Winstone and Carless (2020) above.

#### *Creating enriching learning experiences*

This factor was viewed as an essential aspect in improving motivation in the classroom with teaching techniques in the UK lauded over those implemented in China by Interviewee B: 'I like the way UK teachers try to include everyone and give everyone a chance to speak'

The use of interactive activities and games were also praised with eleven out of the sixteen interviewees commenting studying in the UK was more fun due to the usage of varied teaching techniques and activities. This finding was interesting and can arguably aligned to Hofstede *et al.*'s (2010) analysis who found Chinese citizens preferred to work collectively. Feeling part of a group and included in all activities resonated strongly with those interviewed.

#### *Cultural awareness and adaptation to student needs*

It was discovered that 10 out of 16 students believed it was necessary for the teacher to understand culture to create the best possible classroom experience. Indeed, academics who were able to understand different cultural practices and beliefs were praised whereas those that did not were criticized. For instance, Interviewee G said: 'Some teachers don't treat us as individuals. We all have different English abilities and come from different places, but some teachers speak to us like we are native speakers.'

Furthermore, Interviewee K believed that it was necessary for all teachers to be able to modify their teaching methodology due to the diverse number of nationalities in the university. Surprisingly, pair work and group work activities were not mentioned by any of the respondents as a positive factor in enhancing classroom motivation.

## **DISCUSSION**

### **Intrinsic motivation**

It was discovered that intrinsic motivation was influential for five of the respondents who stated that it was important to develop their communicative ability and understanding of a subject to enhance their employability when they graduated, confirming the findings of Liu and Yu (2019). However, this was the only instance in which intrinsic motivation was viewed to be an influential factor with extrinsic motivation more easily identified. This finding can also be linked to Hofstede *et al.*'s (2010) study which positioned Chinese people as "masculine" and being more competitive in achieving results than many other nationalities. Although the acquisition of knowledge was important for the students interviewed in the study, they were nevertheless motivated more by extrinsic rewards.

### **Extrinsic motivation**

It was verified that every respondent was extrinsically motivated to some extent with each student confessing to being mainly motivated by receiving high grades. Apart from the five students discussed above who were also motivated by knowledge and understanding, the results demonstrate that all of those interviewed were extrinsically motivated. This is because these individuals were more interested in achieving high grades rather than accruing knowledge (although it is recognized knowledge and performance are inherently linked). Interestingly, the interviewees stated they were extrinsically motivated not for themselves but instead to satisfy the expectations of their parents who had supported them both financially and emotionally. Furthermore, it was ascertained that the concept of mianzi (individual reputation) was important to maintain and develop with their peers and parents.

### **Strategies to increase motivation**

There were several relevant strategies identified to enhance the motivation levels of Chinese students. These approaches included enhancing student self-belief, creating enriching learning experiences, possessing cultural awareness, and adapting to student needs.

#### **Enhancing student self-belief**

It was discovered that ten of the respondents believed receiving positive verbal and written feedback was a major factor in improving their motivation levels. Their reasons included the fact that teachers in China are generally stricter than in the UK and that they do not encourage or support their students as regularly. This finding can arguably be connected to the arguments of Leach (2016) who states that it is vital for all teachers to identify ways in which they can increase the self-belief of their learners. Furthermore, it is contended that this result can also be linked to Gao *et al.* (2007) who assert it is important to create a student-centered experience in the classroom.

#### **Creating enriching learning experiences**

This factor was viewed as an essential aspect in improving motivation with teaching techniques in the UK preferred over those implemented in China. The use of interactive activities and games were praised with eleven out of the sixteen interviewees commenting that studying in the UK was more enjoyable due to the usage of varied teaching techniques and activities. It is argued that this finding can also be aligned to Leach's (2016) study which discovered it is essential to create interesting and challenging learning experiences in which students can reach their potential. Moreover, it is important to engage students by introducing reflective and evaluative tasks (Zhao, 2012). This is because students became more motivated when they were tasked to make connections between ideas and concepts that were relevant to them.

#### **Cultural awareness and adaptation to student needs**

It was discovered that 10 out of 16 interviewees believed it was necessary for the teacher to understand culture to create the best possible classroom experience. Indeed, teachers who were able to understand different cultural practices and beliefs were complimented and those that did not were criticized, particularly if they did not adapt the speed of their spoken delivery. Furthermore, it was discovered that it was necessary for all teachers to be able to modify their teaching methodology due to the variety of different nationalities present in each class. This finding also supports the arguments of Xu (2019) and Fulmer *et al.* (2019) who state that students in China tend to receive direct instruction from teachers with interaction uncommon and often frowned upon. The students that were interviewed stated they were often unsure and uncomfortable about speaking in public. As Yu (2019) articulates, it is common for Chinese students to accept the instruction of the teacher without offering any form of questioning. Therefore, as Leach (2016) contends, it is important that teachers adapt their teaching style to create an atmosphere that is appropriately familiar, welcoming, and challenging for all students to effectively engage in. It was also rather surprisingly discovered that pair work and group work activities were not seen as important by any of the respondents as a motivating factor in enhancing classroom participation. Therefore, this finding does not support the arguments of Liu and Yu (2019) who argue that intrinsic motivation formed through participation in activities with others can lead to self-determination and ultimately greater student engagement. Arguably, this may be since the respondents were mainly extrinsically rather than intrinsically motivated.



A conclusion that summarizes the main findings, provides implications for practice, and acknowledges limitations follows below.

## **CONCLUSION AND IMPLICATIONS FOR PRACTICE**

It can be concluded there are three main reasons that prevent Chinese students from fully participating in classroom activities – cultural issues, distractions, and language difficulties.

Cultural difficulties were one of the main reasons why Chinese students struggled to fully participate in classroom activities. A lack of understanding of plagiarism and how to structure written assignments was seen as an issue. The fact that there are few examinations in the UK and essays were the main form of assessment was seen to be a demotivating factor. Many students did not possess the confidence to talk in front of others as they were unfamiliar with this form of interaction.

Distractions were found to be another reason why students did not always engage fully in class. Indeed, fifteen out of the sixteen interviewees stated that smartphones and laptops were a major source of disturbance in the classroom. This issue had reduced their level of concentration and engagement. It was also detected that English language issues significantly contributed to a lack of engagement and concentration in lessons.

The results confirmed that every respondent was extrinsically motivated to some extent with each student confessing to being mainly motivated by receiving high grades. These individuals were more interested in achieving high grades than in accruing knowledge. Intriguingly, the interviewees stated they were extrinsically motivated not for themselves but instead to satisfy the expectations of their parents who had supported them. Maintaining mianzi was another motivating factor discovered in this research.

There are three main implications for practice that have emanated from this study. It is argued that these suggestions should be adopted throughout UK HE. First, it was noted that academics should offer more consistent and positive verbal and written feedback to Chinese students. Praise was viewed as particularly important in enhancing engagement with constructive verbal and written feedback having a significant effect on student self-belief. Secondly, it was discovered that teachers should understand Chinese (collectivist) culture. Cultural awareness training is suggested as an important strategy for universities to adopt. Group work and pair work activities also need to be designed in such a way to maximize participation and encourage interaction with Chinese students and other nationalities. It is vital that all students feel included and part of a group. Finally, it recommended that teachers need to adapt their teaching style to create an atmosphere that is appropriately familiar, welcoming, and challenging for students to effectively engage in. It was essential for teachers to adapt their delivery to include all students and to maximize the learning potential of everyone who they teach. Classroom management training is essential in this regard so that universities are best able to support and inspire the largest international student population in UK HE.

## LIMITATIONS

There are several limitations from this study which should be acknowledged. Firstly, only 16 students were interviewed out of a cohort of 252 students of which 72 were Chinese. This represents 6.3% of the overall student body and 22.2% of Chinese students. Secondly, consideration should be given to the temporal context in which the research was conducted. However, it is asserted that those who participated have been able to add to the literature on the topic, particularly from a UK HE context which is currently under researched. As mentioned in the introduction, this research is important to better understand such an important group of students who contribute a great deal to UK HE and the economy.

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## Appendix 1 – Interview questions

### *Introduction*

1. Which part of China are you from?
2. Are you an undergraduate or postgraduate student?
3. What made you decide to study at the university?
4. How would you describe yourself? (shy? outgoing? etc.)
5. How are you described by others?

### *Knowledge, Skill and Attitudes (KSA)*

6. What are your greatest strengths as a student?
7. What are your main weaknesses?
8. How would you describe your general classroom performance? (Excellent? Good? Average? Poor?)
9. If you had to grade your communication level out of 5 (with 5 being the highest) what would you award yourself?
10. If you had to grade your listening comprehension level out of 5 (with 5 being the highest) what would you award yourself?

### *Culture section*

11. How is teaching in the UK different from teaching in China?
12. What do you think are the qualities of a good teacher?
13. How is studying in the UK different from studying in China? Please explain your answer.
14. What aspects of studying in the UK are easier or more difficult than studying in China? Please explain your answer.
15. Has anything surprised or shocked you about studying in the UK? If so, please explain.
16. Are your expectations of lessons the same or different in the UK and China? Please explain why/why not.

### *Learning section*

17. Are you a visual, auditory, or kinesthetic learner?
18. Do you prefer to study alone or with others?
19. To what extent do you enjoy receiving praise from the teacher? (Such as receiving a compliment when you have done well)
20. What percentage of time are you usually able to concentrate in class? Please provide an explanation with your answer.
21. What distracts you in lessons? (Mobile phones, Facebook, Friends etc.) Why do you think this occurs?

### *Motivation*

22. What motivates you as a student?
23. Are you mainly intrinsically motivated (such as by acquiring new knowledge) or extrinsically motivated? (For example by achieving high grades)

24. What motivates you to come to class?

25. How do teachers motivate students in China? Please explain your answer.

Is there anything else you would like to say that will provide more information on the motivation of Chinese undergraduate students in the UK?

Thank you for your time.

## Appendix 2 – Interviewee profiles

Name	Gender	Age	Course	From
Interviewee A	Male	20	Global Business	Gansu
Interviewee B	Male	19	Global Business	Xian
Interviewee C	Female	19	Global Business	Guangdong
Interviewee D	Male	20	Global Business	Beijing
Interviewee E	Male	18	Global Business	Qingdao
Interviewee F	Female	19	Global Business	Shanghai
Interviewee G	Female	19	Global Business	Tianjin
Interviewee H	Male	20	Global Business	Shanxi
Interviewee I	Female	20	Global Business	Shanghai
Interviewee J	Female	18	Global Business	Hunan
Interviewee K	Male	19	Global Business	Jiangsu
Interviewee L	Male	20	Global Business	Beijing
Interviewee M	Female	18	Global Business	Shandong
Interviewee N	Female	19	Global Business	Henan
Interviewee O	Male	18	Global Business	Shanghai
Interviewee P	Male	20	Global Business	Xian

Aaron Taylor, PhD, is a Principal Lecturer  
at the University of Sunderland.

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# DIGITAL FINANCE: A CATALYST FOR FINANCIAL INCLUSION?

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*Judit Kozenkow & Hannah Grace Norombaba*

**ABSTRACT:** *This article explores the evolving space of financial services due to the disruptive digital technological innovations that are reshaping the sector. Digital Finance synchronizes finance and technology and is highly influenced by the emergence of new FinTech innovations. The traditional financial institutions must adapt and keep up with several highly competitive new actors, as artificial intelligence (AI) and machine learning, big data analytics, social networks and platforms, mobile applications, distributed ledger technology, and cloud computing have been used to generate new services and business models.*

*While the COVID-19 pandemic created opportunities in democratizing financial systems, we ask the question whether a digital payment economy can serve everyone anywhere? Among the core financial functions (payments, market provisioning, investment management, insurance, capital raising, and deposits and lending) payments are considered to be the first step for financial inclusion and prove to be the most rapidly evolving function worldwide. We discuss the move towards a cashless society by looking at the potential gains of involving the unbanked population and analyzing the advantages and limitations of the mobile money transfers. We conclude that Digital Finance is a catalyst for expanding financial inclusion and unlocking the potential to build back better.*

**KEYWORDS:** digital finance, fintech, digital payments, mobile money, financial inclusion.

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Digitalization and new technologies continue to revolutionize and transform the production processes, logistics, consumption patterns, the labor market and more. Among all sectors impacted, the financial services sector, which is estimated at about one-fifth of the total global economy, has been experiencing the most disruption but it also proves to be the most innovative.

The term 'Digital Finance' refers to the impact of new disruptive digital technologies on the financial services industry (European Commission, 2021). While technological innovation in the financial sector is not new, the speed of innovation is accelerated together with increased investment flows in these new technologies in recent years. Artificial intelligence (AI) and machine learning, big data analytics, social networks and platforms, mobile applications, distributed ledger technology,

and cloud computing have been generating new services and business models. The traditional financial institutions must adapt and keep up with several highly competitive new actors. These new entrants, including mobile network operators, payment service providers, merchant aggregators, retailers, FinTech companies, and super platforms, leverage these technologies and alter the competitive landscape for financial services. Mobile applications now become the norm to interact with our bank and make payments, transfer money or make investments in many parts of the world. (European Commission, 2021) The massive digitalization in the past few years results in higher growth rates for businesses, more optimized internal processes, personalized services and broader outreach. Experts estimate that the financial industry will grow to 26.5 trillion USD by 2022 (European Business Review, 2021).

Digitalization presents tremendous opportunities and challenges at the same time. Disruptive technologies and new entrants are radically changing the financial services industry forcing traditional business models to adapt and transform the economics of delivery to benefit marginalized communities. Advances in technology also hold the promise for solving some of the key challenges to achieving full financial inclusion.

A comprehensive study of the World Economic Forum and Deloitte (2015) about the future of the financial services industry identified and categorized these most disruptive technological innovations and their effect on the following six core functions of financial services: payments, market provisioning, investment management, insurance, capital raising, deposits and lending. We believe that the most important first step for financial inclusion lays in payments and it proves to be the most rapidly evolving financial function worldwide.

### **DIGITAL PAYMENTS: TOWARDS A CASHLESS SOCIETY**

In just a few months' time, the COVID-19 pandemic and economic crisis has brought about years of change regarding the way financial services do businesses. The disruptive trends that created immense societal change continue to endure: a cashless society is already underway. PwC analysis projects that global cashless payment volumes are about to rise by more than 80% from 2020 to 2025, and to almost triple by 2030. As of regions, Asia-Pacific is expected to increase the most, with cashless transaction volume growing by 109% from 2020 to 2025 and by 76% from 2025 to 2030, followed by Africa (78%, 64%), Europe (64%, 39%), Latin America (52%, 48%), and North America (43%, 35%) (PwC, 2021).

The growth of digitally enabled products and services offer benefits such as a wide array of information, accessibility, efficiency, and in a pandemic-ravaged society, the ability to socially distance. Cashless payments are quickly becoming the new norm around the globe. However, increasing the scope of these financial services on a massive scale remains a challenge. Adapting services and broadening customer base become a necessity for the traditional financial institutions, particularly in emerging economies. The unserved and underserved are yet to leverage the benefits of FinTech, that would contribute to achieve full financial inclusion. The Global Financial Inclusion (Global Findex) database is the world's most comprehensive dataset on how adults save, borrow, make payments, and manage risk. According to the 2017 Global Findex data, about 1.7 billion adults remain unbanked; nearly half of all unbanked adults live in just seven economies with China accounting for the world's largest unbanked population at 225 million, followed by India (190 million), Pakistan (100 million), and Indonesia, at 95 million adults (Demirgüç-Kunt, *et al.*, 2018).

This phenomenon is widely observed in both emerging and developed countries. Even advanced economies are challenged when it comes to coverage of financial services. A Federal Deposit Insurance Corporation (FDIC) survey shows that in the United States approximately 7.1 million people (about 5.4% of U.S. households) were unbanked in 2019 (FDIC, 2020). The Federal Reserve System states that “the unbanked and underbanked are more likely to have low income, less education, or be in a racial or ethnic minority group” (FED, 2019). As illustrated in Figure 1, about half of the unbanked households identified “Don’t have enough money to meet minimum balance requirements” as the most common reason for not having a bank account (FDIC, 2020). Furthermore, 36% of respondents “don’t trust banks”.

**Reasons for Not Having a Bank Account, Among Unbanked Households, 2019 (%)**

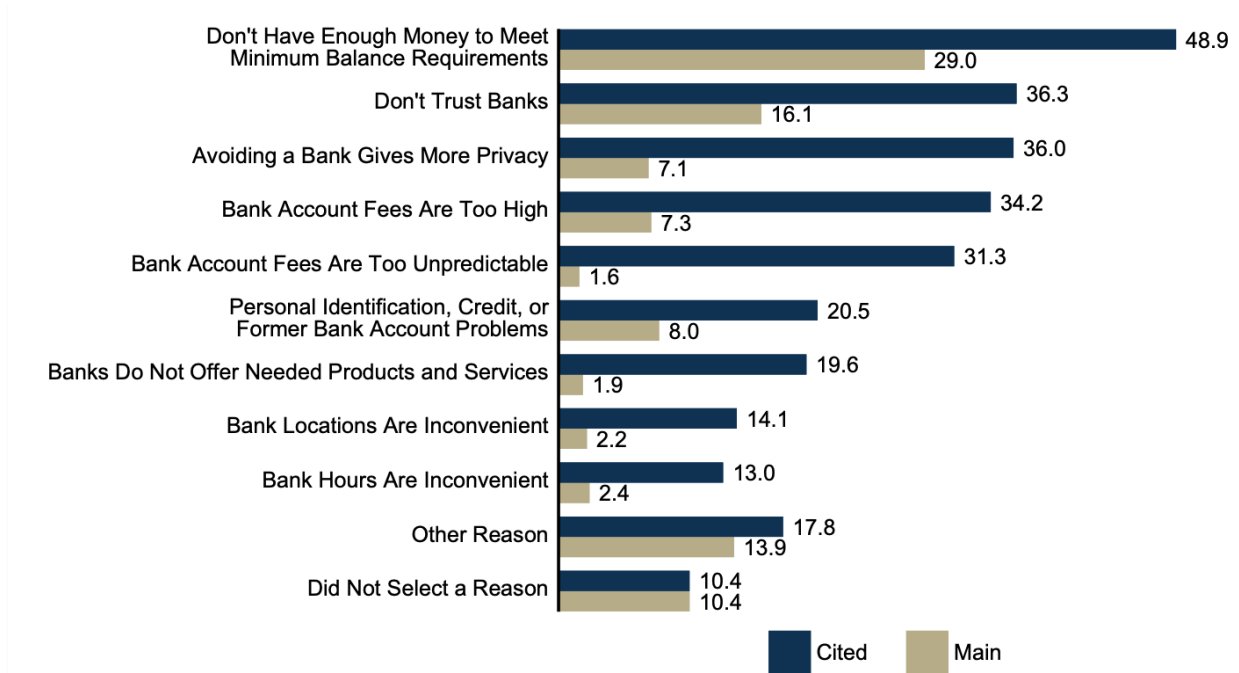


Figure 1: Reasons for Not Having a Bank Account, Among Unbanked Households, 2019 (%). Source: Federal Deposit Insurance Corporation (FDIC).

“It is clear that those who are unbanked and underbanked are also those who may have historically felt shut out of traditional banking” (Birken, 2021). Out of the 1.7 billion adults who are unbanked globally, two-thirds (1.1 billion) of them own a mobile device. “In India and Mexico more than 50% of the unbanked have a mobile phone, in China 82% do” (Demirgüç-Kunt, *et al.*, 2018). The clear disparity between the unbanked and underbanked populations, and the use of mobile phones and the internet to conduct financial transactions reflects the dire need of expanding financial inclusion. Access to digital technology, including mobile phones and internet connection, proves to be lower among women, youth, lower educated people, and marginalized groups.



## MOBILE MONEY: ADVANTAGES AND LIMITATIONS

Mobile money is a system that supports payments from one user to another via a mobile device. A mobile money service can be operated by any company, not only by traditional financial institutions. Technology companies are becoming an integral part of financial ecosystems, providing consumers and businesses easy access to a range of financial services. Examples include network operators, such as MPESA, or online retailers, such as PayPal. The payments can occur in either a fiat currency (USD, GBP, etc.) or in a defined value that is agreed by the central intermediary. In developing countries mobile payment solutions contributes to extending financial services to the unbanked or underbanked. (WEF-Deloitte, 2015)

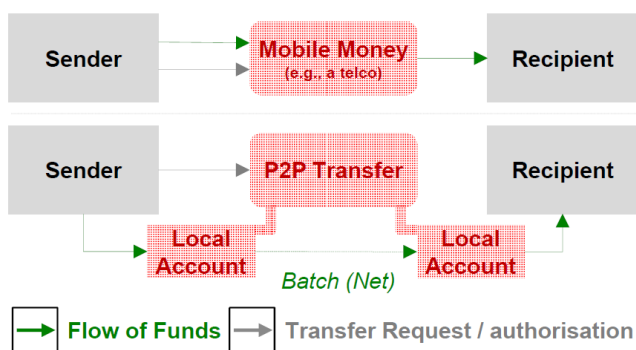


Figure 2: Mobile money system. Source: WEF-Deloitte 2015, p. 46.

Mobile network operators are key actors within the mobile money system worldwide. Safaricom in Kenya, for example, introduced a mobile phone-based payment and money transfer service, M-Pesa, which allows users to deposit money into any account accessible via their cell phones and offers the flexibility to send balances using a simple text message.

Mobile money transfers are executed rapidly within the need to have access to any banks and are highly transparent to both senders and recipients. Transfer costs are very low and fees are highly competitive. These platforms often build in interoperability with other schemes and traditional outlets (e.g., ATM). Users are not necessarily required to open a traditional bank account or have access to a well-established financial infrastructure. It makes them well suited for advancing financial inclusion in all parts of societies.

Mobile money systems advantages:

- Easier access
- Cheaper money transfers
- Improved user experience
- Rapid or real-time transfers

Limitations:

- Availability of the intermediary platform
- Currency exchanges
- Cross border regulatory challenges.

## CONCLUSION

Financial services are the lifeline of an economy. The future of finance is brightest when valuable services are accessible and affordable to the broadest society and the greater economy. In a pandemic-ravaged society, consumers are leaning towards a more convenient and secure way to accumulate, hold, and transfer value. Mobility and connectivity are both key for a cashless society to thrive.

It is true that the COVID-19 pandemic created opportunities in democratizing financial systems, the real question is whether a digital payment economy can serve everyone anywhere. Policymakers would need to adopt a more effective approach that allows cash users to have access to digital payment vehicles that do not depend on traditional bank accounts (Bostic et al., 2020). Although the ramifications include, but are not limited to, privacy, resilience of infrastructure, fraud, and heightened regulations, the future banking experience will be most successful if it were customer driven, seamless, customized, and fully virtual. Its realization requires the collection, analysis and use of relevant data. However, a fintech-led society is not only data-driven, it must include reliable, integrated and streamlined technologies to bring financial services to the larger population. The economic disruption is being felt across the globe but the experiences between the banked, unbanked, and underbanked reflect stark differences. With the ubiquity of mobile devices, financial inclusion could help boost economies, especially in the most vulnerable communities. Digital finance is a key catalyst for expanding financial inclusion.

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Judit Kozenkow, PhD, is a lecturer in Economics at EU Business School, Swiss Campuses.

Hannah Grace Norombaba is a current MBA candidate at EU Business School, Geneva.

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# PROCUREMENT BECOMING INCREASINGLY STRATEGIC: HOW HAS THE GENERAL DATA PROTECTION REGULATION FURTHER AFFECTED THE FUNCTION AND ITS PRACTITIONERS?

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*Taoufik Samaka*

**ABSTRACT:** *The procurement function is becoming increasingly strategic in business organizations. This article explores whether the EU General Data Protection Regulation (GDPR) has further shifted the role and responsibilities of procurement within the privacy framework. This research has been conducted as a cross-sectional study with triangulation as a mixed-methods research design and pragmatism as a paradigm. The study employs a deductive approach on a sample totaling 276 participants, for which the sampling strategy consisted of a combination of the convenience and snowball methods. Data were collected using an online self-completion questionnaire. The survey was administered through the SurveyMonkey tool. Quantitative data were analyzed using IBM SPSS Statistics Version 25, while the qualitative data were analyzed using thematic analysis assisted by NVivo R1.0.*

*The study suggests that the procurement role has become more strategic within the privacy framework following the introduction of the GDPR. The role was found to be more significant within large businesses and firms with a centralized or hybrid procurement setup. The present study aims primarily to fill a gap in the literature by examining how the procurement function has been impacted by the recent changes in the European privacy law. The findings will also help business stakeholders to be aware of the impact of this shift on the procurement role and responsibilities. A few limitations should be mentioned. Firstly, the sampling strategy may raise concerns regarding a lack of generalizability and sample bias. Additionally, the participants predominantly work in large firms operating in the private sector.*

**KEYWORDS:** procurement, purchasing, supply chain management, outsourcing, GDPR, privacy.

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**T**here is a consensus among scholars that the procurement function is becoming increasingly strategic in organizations because of an ever-changing business environment and the emergence of new business concepts and economic trends, such as the outsourcing

and digitalization of business operations (implying the transfer and share of personal data with business partners). At the same time, in the current e-economy, which is mainly driven by rapid technological advances and globalization, privacy has become a growing supply chain concern. However, privacy concerns are not a new phenomenon (Langenderfer & Miyazaki, 2009), but as the evolution of the concept of information privacy has followed the rapid evolution and sophistication of information technology (Langenderfer & Miyazaki, 2009; Smith, Dinev & Xu, 2011), the advent of the information age has increased concerns about information privacy (Ibid).

To strengthen control over the way personal data are used, the General Data Protection Regulation (GDPR) has placed new demands on firms and their suppliers. Scholars have argued that these new requirements and demands add a new dimension to the way procurement fits within businesses, adds strategic value, and contributes to a firm's success.

The present study explores the impact that the GDPR has on the procurement role and its responsibilities and aims to fill a literature gap by analyzing the changing role of procurement from a perspective that is poorly addressed in the literature: the privacy framework. The study also aims to help business stakeholders better understand the impact that the GDPR has on the procurement role and responsibilities.

With the purpose of guiding the research, the following research question was established:

Given the direct obligations (set by the GDPR) on business organizations, and much stricter controls for organizational supply chains (also set by the GDPR), and considering procurement as 'the business management function that ensures identification, sourcing, access and management of the external resources' (CIPS Australia, 2006, p.5), has there been a shift in the functional role and responsibilities of procurement (within the privacy framework) following the GDPR taking effect compared to before its enforcement?

### **Article structure**

The present paper is organized as follows: The author begins with a short introduction to the problem and the purpose of the present research, followed by a literature review in which the author explores and synthesizes the previous work on the main concepts addressed in this research. At the end of the literature review, the hypotheses are presented together with the conceptual framework, which is followed by the methodology chapter. The results of the research are then presented and discussed. Following this, the managerial and theoretical implications of the research as well as the limitations and directions for future research are addressed. In the final chapter, the author shares his conclusions.

### **Research framework**

The approach of this study is deductive because it commences from the supposition that the procurement function has been impacted by the GDPR. Four hypotheses are developed regarding the subsequent impact that the GDPR has had on the procurement function and its practitioners and the extent of this impact. The collection method for gathering the data to test the hypotheses and ultimately confirm or reject them is defined. These steps in the described sequence represent the deductive approach to research. A cross-sectional study design has also been used because the study aims to collect data at a single point in time as the author is interested in identifying

variations among the surveyed population (Bryman & Bell, 2011).

The sample consisted of 276 participants, using a combination of convenience and snowball methods as the sampling strategy. To gather data, the author opted for an online survey using a self-administered questionnaire. The survey was conducted between February 2019 and April 2020 using the SurveyMonkey platform.

In terms of the methodology, a mixed-methods design was selected to assist in data triangulation (concurrent triangulation) and balance the eventual weaknesses of the quantitative and qualitative methods when used separately. The validating quantitative data method was selected over other triangulation methods, as in the research design a greater emphasis was placed on the quantitative method using a structured questionnaire. The findings from the qualitative data (answers to open-ended questions) were used to validate the results from the quantitative method.

The quantitative data were analyzed using IBM SPSS Statistics Version 25, while the qualitative data were analyzed using thematic analysis assisted by NVivo R1.0. To determine the necessary sample sizes to detect medium effects for the performed tests, a priori power analyses were conducted using G\*Power (Version 3.1).

## **PROCUREMENT SHIFT FROM CLERICAL TO STRATEGIC FUNCTION**

There is a consensus among academics that procurement has evolved from a purely administrative and clerical function to a function of strategic importance to businesses. This evolution is well documented in the literature based on scholars' observations during the past two decades (Ellram & Carr, 1994; Gadde & Håkansson, 1994; Spina *et al.*, 2013; Giunipero & Percy, 2000; Humphreys, McIvor & McAleer, 2000; Monczka *et al.*, 2010; Tassabehji & Moorhouse, 2008; Zheng *et al.*, 2007).

Early in the 1970s, scholars stated that purchasing could be described as an administrative rather than a strategic function. The importance of the function gained significant attention in 1973-74 during the oil crisis and related raw material shortage. The 1980s were characterized by a shift in attitudes toward a role for procurement in corporate strategies. In the early 1990s, the focus of scholars shifted toward integration and the way procurement could operate to be recognized as a key contributor to an organization's success. Freeman and Cavinato cited in Ellram, and Carr (1994) suggested that procurement's organization, role, and capabilities must align and follow the firm's evolution. Monczka *et al.* (2010) consider that purchasing has been affected by more changes over the past few years than over the last century. They concluded that the purchasing function in the 21st century will become increasingly important and that the reshaping of its role will continue in response to the changes faced by today's global economy and because of technological advances.

This evolution comes because of the changing business environment and the rise of new paradigms (such as outsourcing; Dhar and Balakrishnan, 2006; Kakabadse and Kakabadse, 2005; Olson and Wu, 2011, Salanta, Lungescu & Pampa, 2011) and the emergence of other macroeconomic mega-trends, for example, globalization, e-commerce, and digitalization. In addition, the growth of the Internet and the sophistication of technology that is advancing at a rapid pace have transformed both the economy and social life, presenting new challenges to business organizations which are experiencing rapid transformation (Giunipero & Percy, 2000; Johnson & Leenders, 2006; Kakabadse & Kakabadse, 2005; Spina *et al.*, 2013; Tassabehji & Moorhouse, 2008; Weele & Rozemeijer, 1996; Zheng *et al.*, 2007).

Therefore, the continuous changes occurring in the business environment and to business practices have had an impact on the role and responsibilities of procurement, hence, enacting a shift from being responsible for operational activities to become in charge of strategic and business critical ones (Zheng *et al.*, 2007). The procurement function has been required to enlarge its scope and be more proactive with broadened skills, with the aims of achieving competitive advantage, adding value to business organizations (Carr & Smeltzer cited in Kineses (2017); Weele & Rozemeijer, 1996; Zheng *et al.*, 2007) and embracing a broader set of objectives.

Weele and Rezemeijer (1996) consider that procurement is required to bring increased value to their organizations because of the ongoing change in the business environment. They recognize a significant shift in the role and position of procurement in many large organizations, causing particularly the primary tasks of procurement, responsibilities, and competences to be redefined.

## **DISPARITIES IN THE EVOLUTION OF THE PROCUREMENT FUNCTION**

### **Private versus public sectors**

Research on the purchasing discipline has historically been dominated by the private sector (Zheng *et al.*, 2007). Scholars have found that procurement roles and responsibilities significantly differ when benchmarked in public and private sector firms, and that the function is poorly recognized in public organizations, though its strategic role is starting to grow as the function moves from being reactive to a more proactive approach.

### **Centralized versus decentralized procurement**

Organizations have different approaches to the way the procurement function should be organized. Centralized, decentralized and hybrid organizational structures are documented in previous research together with their respective advantages. According to Zheng *et al.* (2007), the study by Johnson *et al.* (2002) revealed that the industry context and purchasing organizational structure were related to the strategic role played by purchasing and that the purchasing strategic role declined as procurement became more decentralized.

### **Large versus small and medium-sized enterprises**

Zheng *et al.* (2007) suggested the structure and role of procurement in small and medium-sized enterprises (SMEs) was different to those in large businesses as procurement tended to be fragmented and non-strategic. They recognized a gap in the research on the PSM discipline in SMEs and suggested the function was more structured and better organized in large firms than in SMEs, where the function was generally viewed as a low priority. According to the authors, studies have reported that few SMEs have dedicated purchasing organizations and that the procurement tasks are often included in the owners/managers' duties.

## **GENERAL DATA PROTECTION REGULATION BRINGS NEW CHANGES**

Today's e-economy, mainly driven by rapid technological advances and globalization, has created new challenges for the protection of personal data (Densmore, 2013; Regulation (EU) 2016/679). The scale of the collection and sharing of personal data has increased significantly (Regulation

(EU) 2016/679), making it impossible to imagine that in today's digital age, one could perform any daily online transaction without sharing personal data.

Policy makers around the world, and in Europe in particular, have joined forces with privacy stakeholders to actualize and reinforce the existing privacy laws. The European GDPR, which came into effect on 25th May 2018 and that was described as the most revolutionary privacy law in recent decades, strengthens and sets out in detail the rights of data subjects and the obligations of those who process and determine the processing of personal data (Regulation (EU) 2016/679). The new regulation establishes direct obligations and much stricter controls onto organizations' suppliers – “processors” down the supply chain – without exonerating or reducing the liability of business organizations (‘controllers’) to their customers (Williamson, 2017). According to Williamson (2017), 80% of information breaches occur within the supply chain. Jacobs (2017) shared another number, based on a survey by Opus, demonstrating that over 56% of data breaches in 2017 were caused by third parties.

Under the new law, companies have certain obligations related to their third-party management, for example, conducting due diligence of their suppliers, ensuring that appropriate contract terms are in place, and controlling and monitoring their vendors to ensure that the data processing is in line with the applicable law and the terms of the contract. While business organizations can still outsource personal data processing, they cannot outsource the liability, and thus the strict and close management of third-party relationships is extremely important (Crown Commercial Service, 2017; Ross, 2017; Williamson, 2017).

By setting stricter obligations and requirements, the GDPR redefines the way organizations and the procurement function should manage their supplier bases. As a matter of fact, the procurement function is required to directly contribute to the company's privacy framework through its participation in a Data Protection Impact Assessment (DPIA) by providing relevant supplier information to assess potential risks inherent in the outsourcing. In addition, it must carry out adequate due diligence on the suppliers to check their GDPR compliance, ensure that selected suppliers provide sufficient guarantees to implement appropriate technical and organizational measures that meet GDPR requirements, ensure there are rights of audit within the contract and continuously monitor and audit the suppliers throughout the contact/data processing life cycle to ensure that processing is carried out according to the legal provisions and applicable regulations. The procurement function also needs to identify the recipients of personal data, including sub-processors, and ensure that sub-processing takes place only with the specific authorization of the controller (Crown Commercial Service, 2017; Jacobs, 2017; Williamson 2017;).

In the case of breaches and litigation, parties, and privacy stakeholders (including the regulator) refer to the contract governing the supplier–buyer relationship and the data processing subject of the contract scope. Hence, the contract language has become extremely important, and the reason why the procurement function should ensure that it scrupulously defines each party's responsibilities and obligations and provides clear instructions on the data processing activity to take place.

The emphasis on potential risks from suppliers places procurement in the forefront within the privacy framework for the first time (Jacobs, 2017). Consequently, the GDPR may indeed represent a platform through which procurement further raises its profile.



### THEORETICAL MODEL AND CONCEPTUAL FRAMEWORK

The present study aims to investigate the impact that the GDPR had/has on the procurement function (Fig. 1).

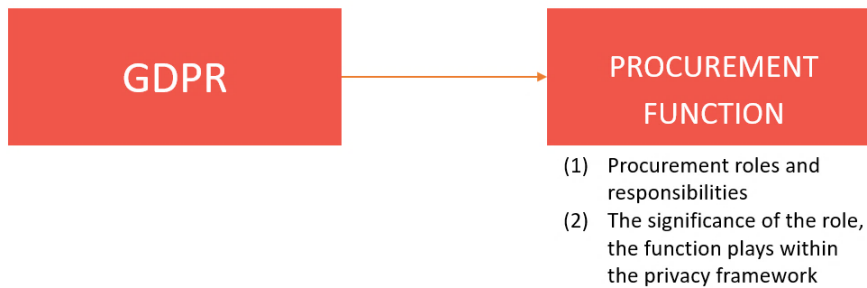


Figure 1: Research theoretical model.

The present study is particularly concerned with the impact that the GDPR has on (1) procurement roles and responsibilities and (2) the importance of the role the function plays within the privacy framework. Figure 2 represents the study’s conceptual framework.

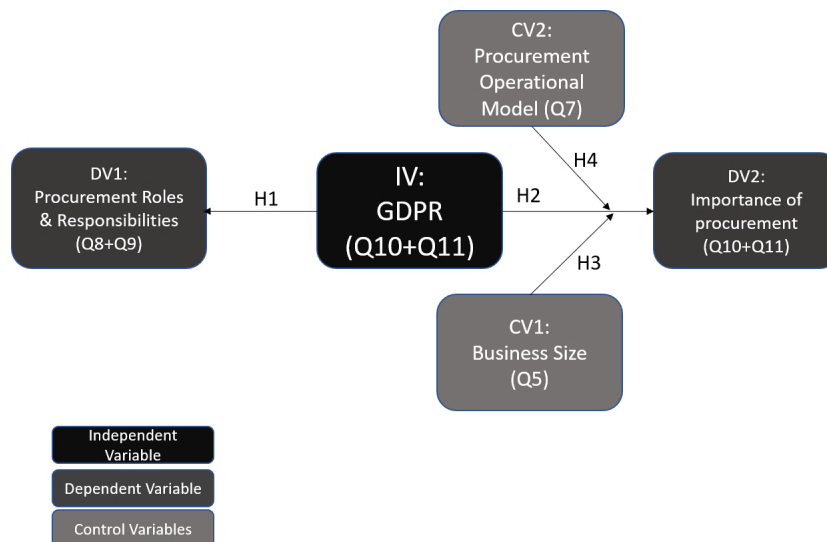


Figure 2: The GDPR and changes in the procurement function conceptual framework.

When investigating these questions, the author considers the differences between large businesses and SMEs, and between the different procurement organizational models adopted by firms, namely centralized, decentralized and hybrid modes.

The author considers the core elements of this research to be the following: (1) procurement is of growing importance and regarded as a strategic activity/function in businesses; however, the author assumes that (2) this was not the case within the privacy framework before the introduction of the GDPR. He argues that (3) the GDPR has created new challenges in the way organizations manage their supply chains, thus, placing new demands on the procurement function. These new demands have had (4) impact on the procurement roles and responsibilities and (5) lifted/levelled up the status of the function within the privacy framework compared to the before the enforcement of the GDPR.

Figure 3 represents the research problem in a tree-view nature.

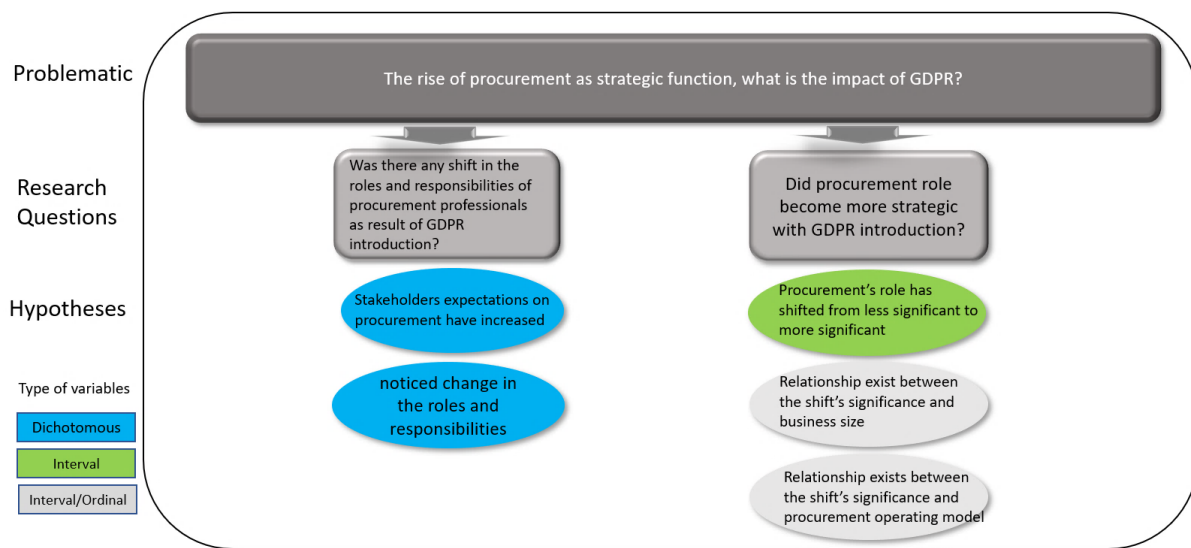


Figure 3: The tree-view nature of the problematic. Source: Adapted from Digout, Senechal & Salloum (2019, p.126).

## THE RESEARCH VARIABLES

### Dependent variables

DV1: Procurement roles and responsibilities

DV2: Importance of procurement role

### Independent variables

IV1: GDPR

### Control variables

CV1: Business size

CV2: Procurement operating model

## RESEARCH HYPOTHESES

Table 1 presents the research hypotheses and the validation method used.

N° Hypothesis	Hypothesis	Validation method
H1	H1a: <u>Roles and responsibilities</u> of the procurement function have <u>changed after</u> the introduction of the <u>GDPR</u> .  H1b: The <u>expectations</u> of the privacy stakeholders of the procurement function <u>have increased after</u> the introduction of the <u>GDPR</u> .	Triangulation (QUANTI+quali), descriptive+inferential statistics
H2	The <u>role of the procurement</u> function (within the privacy framework) has shifted from a smaller to a <u>more important role</u> .	Triangulation (QUANTI+quali), descriptive+inferential statistics
H3	There is a <u>relationship</u> between the <u>shift</u> (in procurement role and responsibilities) and the <u>size of the business</u> (to whom the procurement belongs).	Descriptive + inferential statistics
H4	There is a relationship between the shift (in procurement role and responsibilities) and the procurement operating model (centralized or hybrid vs. decentralized).	Descriptive + inferential statistics

*Table 1: Research hypotheses.*

## ORGANIZATION OF VARIABLES

Figure 4 visually summarizes the operationalization of the study's variables.

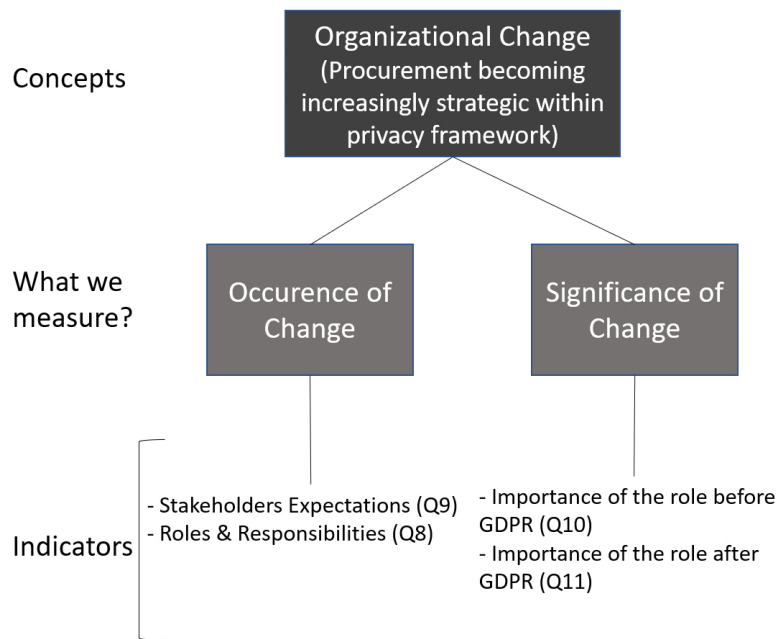


Figure 4: Operationalization of Role, Responsibilities, and Skills variables to measure organizational change. Source: Adapted from Digout, Senechal & Charbel (2019, p.184).

## QUANTITATIVE METHOD

### Quantitative data coding process

To code the collected data, the coding protocol presented in Table 2 was followed.

Table 2: Quantitative data coding protocol.

Question	Code
<b>* 1. Profession: Please specify the function you belong to today</b>	<b>Code</b>
Legal & Privacy	1
IT & IT Security	2
Procurement	3
Audit	4
Sales, Communication & Marketing	5
Human Resources	6
Operations & Project Management	7
General Management	8
several of above	9
Other (please specify)	10

<b>* 2. Industry: Please specify your sector of activity</b>	<b>Code</b>
Telecom	1
Banking, Finance	2
Business Consulting	3
Manufacturing	4
Retail	5
IT Technology	6
Healthcare & Insurance	7
Mass Media	8
Hospitality	9
Education	10
Legal services	11
Several of above	12
Other (please specify)	13

<b>* 3. Seniority Level</b>	<b>Code</b>
I don't have any resource reporting to me	1
I am head of team	2
I am a head of department that consists of many teams	3
I am executive manager (managing many departments)	4

<b>* 4. Geography: Please specify the country where you job is located</b>	<b>Code</b>
Europe	1
Americas	2
Asia	3
Africa	4
Oceania	5
Several or Global	6

<b>* 5. Size of Business: How big is your Company (by number of employees)</b>	<b>Code</b>
0-10 employees (micro business)	1
11-50 employees (small business)	1
51-250 employees (medium business)	1
>250 employees (large business)	2

<b>* 6. Outsourcing: Does your Company outsource personal data processing to a third party? (Could be even by having your data on an external cloud, or by using a third-party IT systems)</b>	<b>Code</b>
Yes	1
No	2
<b>* 7. The Procurement Function in your company: Does the procurement Function stand as separate and independent department (centralized) in your Company?</b>	<b>Code</b>
Yes, Procurement is separate and independent department (centralized)	1
Hybrid setup	1
No, we don't have separate Procurement department, each department handles its own purchases	2
<b>8. In your company, within the data protection framework, did you notice any change in the roles and responsibilities of the procurement function in the recent years?</b>	<b>Code</b>
Yes	1
No	2
If your answer is Yes (you noticed a change), could you please describe it in few words	Qualitative
<b>9. Do you think the expectations that the stakeholders (Privacy, legal, IT Security, Internal Audit, Risk &amp; Compliance functions) have on the procurement function increased after GDPR law introduction?</b>	<b>Code</b>
Yes	1
No	2
unanswered (question introduced after 4 participations)	999
if your answer is Yes, could you describe few new expectations that came after GDPR law introduced	Qualitative
<b>* 10. Which of the below statements is the closest to your view, regarding the procurement role and responsibilities in your company's data protection/privacy framework, if we consider the period before 2016 (before GDPR introduction)</b>	<b>Code</b>
Procurement Played a central and strategic role	5
Procurement role was considered as equal as other contributors	4
Procurement played a less important role than other contributors (for instance compared to legal, privacy, IT security functions)	3
Procurement played a marginal role (provide support upon request)	2
Procurement didn't play any role	1

<b>* 11. Which of the below statements is the closest to your view, regarding the procurement role and responsibilities in the company(business) data protection/privacy framework, if we consider the period after 2018 (after GDPR introduction)</b>	<b>Code</b>
Procurement Plays a central and strategic role	5
Procurement role is considered as equal as other contributors	4
Procurement plays a role that is less important than other contributors (for instance compared to: legal, privacy, IT security functions)	3
Procurement plays a marginal role (provide support upon request)	2
Procurement doesn't play any role	1

Once the data coding process was concluded, the data were analyzed using IBM SPSS Statistics Version 25.

### **STATISTICAL APPROACH**

The statistical approach of this study is presented in Table 3.

*Table 3: Statistical approach.*

Hypothesis/Testing	Variable category	Descriptive statistics	Inferential statistics
H1 a+b	One nominal variable	Frequency distribution	Chi-square test of goodness-of-fit
H2	One nominal variable	Frequency distribution	Chi-square test of goodness-of-fit
H3	Two interval scale variables	Mean, standard deviation	Dependent sample t-Test
H4	One nominal variable x three interval scale variables	Mean, standard deviation	One-way ANOVA
H5	One nominal variable	Frequency distribution	Chi-square test of goodness-of-fit
H6	Seven nominal variables	Frequency distribution	Cochran's Q test, post-hoc test (pairwise comparisons), + Bonferroni correction

For the data analysis, only participants who work for companies outsourcing personal data processing (screening question Q6) were considered (-80). Additionally, four respondents (Table 2) who responded 'Yes' to Q6 provided ambiguous answer to the follow-up questions, therefore, these answers were excluded from the data analysis (-4). Consequently, the final sample consisted of (360 - 80 - 4) 276 participants in total.

To determine sample sizes necessary to detect medium effects for the tests performed, a priori power analyses were conducted using G\*Power (Version 3.1; Faul *et al.*, 2007). The sample size of the current study (N = 276) exceeded the minimum sample sizes for all tests.

### QUALITATIVE METHOD

The qualitative data in the present study consisted of two open-ended questions that served as follow-up questions to the close-ended questions. The two open-ended questions provided the possibility to collect some interesting insights as to why a respondent chose one pre-defined answer option over the others in relation to the close-ended questions. They also provided the respondents with the opportunity to support and discuss their choices. Both open-ended questions were designed in such a way that the participants were able to report their responses freely without space limitations.

To analyze the qualitative data, the author adopted the thematic analysis approach, which is a six-phase approach adapted from Braun and Clarke (2006 in Gray, 2017), assisted by NVivo R1.0. The same sample (276 responses) used in the quantitative method was used in the qualitative method as both data sets were collected using the same instrument. However, it is important to mention that of the 276 respondents, only 157 answered ‘Yes’ to Question 8 (there has been a change in procurement roles and responsibilities), and 190 answered ‘Yes’ to Question 9 (the expectations of privacy stakeholders have increased). The details are presented in Table 4.

Table 4: Distribution of qualitative responses for Q8 and Q9.

	<i>n</i> (yes)	% (yes)	<i>n</i> (no)	% (no)
Change in role and responsibilities of procurement [0 = no; 1 = yes]	157	56.9	119	43.1
Change in stakeholders <sup>1</sup> expectations [0 = no; 1 = yes]	190	69.6	83	30.4

Out of the 157 who answered ‘Yes’ to Question 8, 129 provided an argument through the follow-up open-ended question for their answer, whereas 135 did so for Question 9 (out of 190 who answered ‘Yes’). After cleaning up the data, 116 responses related to Question 8 and 126 related to Question 9 were retained for further coding (see Figure 5 below).

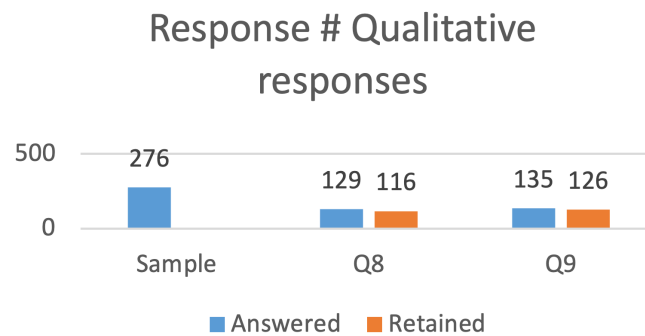


Figure 5: Sample size of collected and retained qualitative answers.



**Qualitative data coding process**

Thematic mapping was used to map and visualize the themes that emerged from the coding process, that is, the themes were organized in hierarchical order under the overarching themes. The validity of the themes was checked against the relationship to the allocated codes, along with whether enough codes constituted/supported the theme. In some cases, themes were merged or broken down into separate themes.

Figures 6 and 7 represent the thematic mapping.

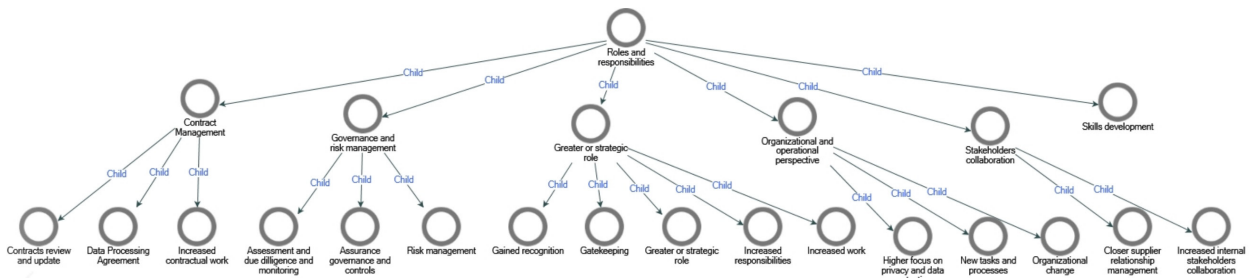


Figure 6: Theme hierarchy under ‘roles and responsibilities’ main category.

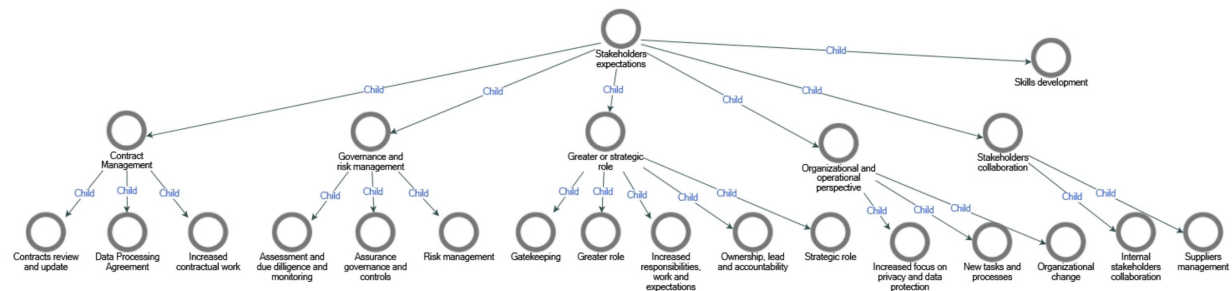


Figure 7: Theme hierarchy under ‘stakeholders’ expectations’ main category.

**RESULTS AND DISCUSSION**

**Demographics**

Two-thirds of the participants worked in Europe (177, 64.1%) or America (56, 20.3%), see Table 5.

*Table 5: Respondents' work locations.*

		<b>Geography</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Europe	177	64,1	64,1	64,1
	America	56	20,3	20,3	84,4
	Asia	17	6,2	6,2	90,6
	Africa	12	4,3	4,3	94,9
	Oceania	6	2,2	2,2	97,1
	Several or Global	8	2,9	2,9	100,0
	Total	276	100,0	100,0	

Most of the participants worked in large businesses (227, 82.2%), see Table 6.

*Table 6: Distribution of respondents by size of business (following OECD's definition).*

		<b>Business_Size</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	micro	13	4,7	4,7	4,7
	small	16	5,8	5,8	10,5
	medium	20	7,2	7,2	17,8
	large	227	82,2	82,2	100,0
	Total	276	100,0	100,0	

In most companies, procurement was centralized (207, 75.0%), see Table 7.

*Table 7: Distribution of respondents by procurement operation model in their respective companies.*

		<b>Procurement_operating_model</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	centralized	207	75,0	75,0	75,0
	decentralized	49	17,8	17,8	92,8
	hybrid	20	7,2	7,2	100,0
	Total	276	100,0	100,0	

**Findings from descriptive statistics**

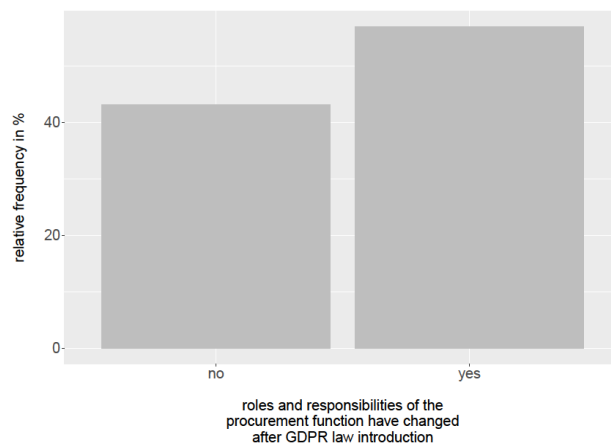
As can be seen in Table 8, the role of procurement was descriptively rated as more important after (M = 3.86) the introduction of the GDPR than before (M = 3.20). More than half of the participants (56.9%) did notice a change in the role and responsibilities of the procurement function.

*Table 8: Univariate descriptive statistics for the main study variables Note. N = 276, 1 N = 273.*

	<i>M</i>	<i>SD</i>	<i>min</i>	<i>max</i>
Procurement role before GDPR introduction [1 - 5]	3.20	1.19	1	5
Procurement role after GDPR introduction [1 - 5]	3.86	0.95	1	5
Change in procurement role (after – before) [-4 - 4]	0.67	1.06	-2	4
	<i>n</i> (yes)	% (yes)	<i>n</i> (no)	% (no)
Change in roles and responsibility of procurement [0 = no; 1 = yes]	157	56.9	119	43.1
Change in expectations of stakeholders <sup>1</sup> [0 = no; 1 = yes]	190	69.6	83	30.4

**H1A: The role and responsibilities of the procurement function have changed after the introduction of the GDPR.**

The findings from the quantitative analysis suggest that the role and responsibilities of the procurement function have changed following the introduction of the GDPR. According to the statistical analysis, a significantly greater number of participants (157, 56.9%) believe that the procurement role and responsibilities have changed (Fig. 8). This finding was confirmed through a chi-square goodness-of-fit test,  $\chi^2 (1, N = 276) = 5.23, p_{\text{exact}} < .05$  (one-sided).



*Figure 8: Percentage of participants who believe that the role and responsibilities of the procurement function have changed after the introduction of the GDPR law.*

This confirms Hypothesis 1a (Roles and responsibilities of the procurement function have changed after introduction of the GDPR).

The findings from the qualitative analysis also support this finding. When searching the words ‘role’ and ‘responsibilities’ by using the text search query in NVivo, the search revealed that words used just before each of the searched terms were ‘procurement gained more’, ‘larger’, ‘more prominent’, ‘procurement plays a major’, ‘procurement has now bigger’, ‘procurement has a leading’, ‘procurement plays a vital’. All these words indicate that the scope of procurement within the privacy framework has been enlarged and that procurement plays a much greater role than before the GDPR enforcement in covering aspects such as compliance with the new regulation, privacy-related clauses in the suppliers’ contracts and supplier due diligence, which are words that were used immediately after the searched terms in the participants’ qualitative responses. The results of the search are presented as word trees (Fig. 9 and Fig. 10).

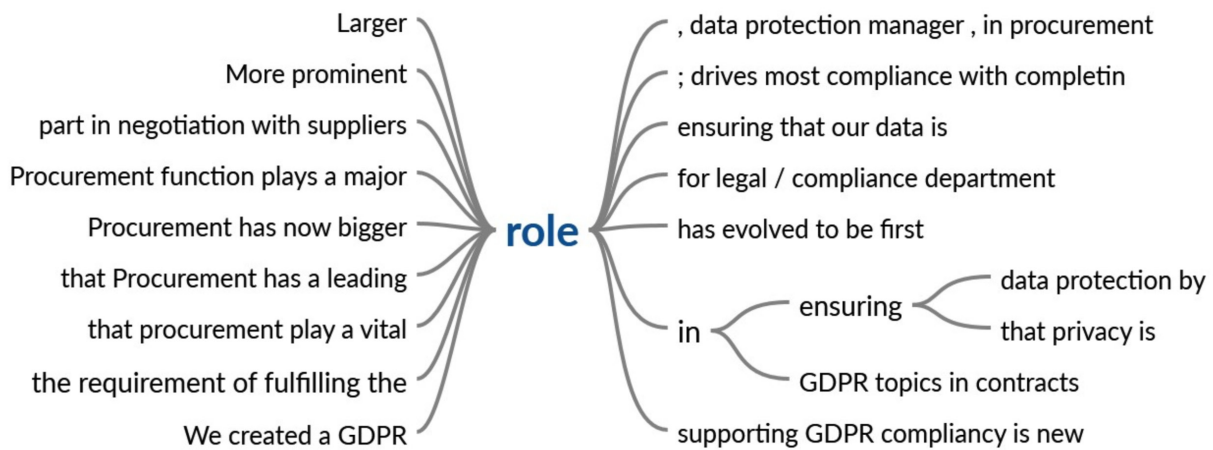


Figure 9: ‘Role’ word tree.



Figure 10: ‘Responsibilities’ word tree.

**Quantifiers search query**

This analysis consisted of examining the quantifier words because they would indicate changes (in roles and responsibilities, as well as in the stakeholders’ expectations) and the direction of those changes. In the 100 most frequently used words, quantifiers indicating small amounts (little, not much, not many, few, etc.) did not appear in the list. To determine that they were not

used by the respondents, a text query was run using each of the quantifiers for small quantities, which resulted in zero references for any of them. This result indicates that if there is a shift, it is not in the negative direction (a change to a lesser role and responsibilities or the expectations of the stakeholders being lowered). Quantifiers for large amounts were also checked (much, more, increase, high, additional, greater, and better). Some of these already existed in the list of frequently used words. In total, 57 quantifiers indicative of large quantities were counted representing almost 2% of the top 100 most frequently used words (Table 9).

Table 9: Sum of the frequencies of use of quantifiers of large quantities.

Row	Quantifier	Frequency
34	additional	16
45	increased	14
49	much	13
75	greater	8
93	better	6
		57

A text query was also run to ascertain the context in which these quantifiers indicating large quantities had been used. The results of the queries are presented as a word tree in Figures 11, 12, 13, 14 and 15.

When looking at the word trees the additional responsibilities or tasks were related to the contractual process, due diligence process, privacy risk/impact assessment, cross-agency coordination, risk management and control of the suppliers throughout the supply chain.

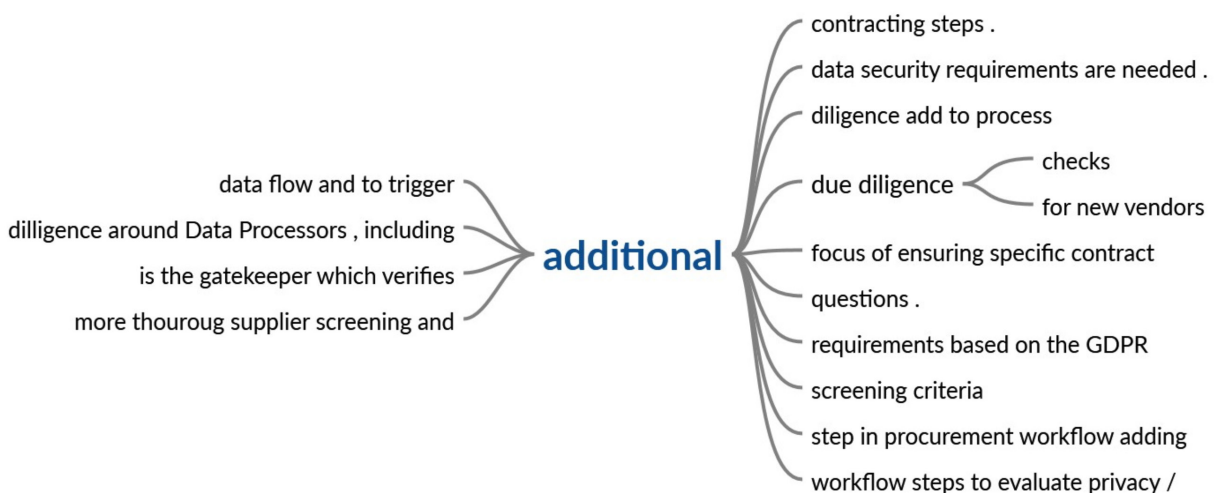


Figure 11: 'Additional' word tree.



Figure 12: 'Increased' word tree.

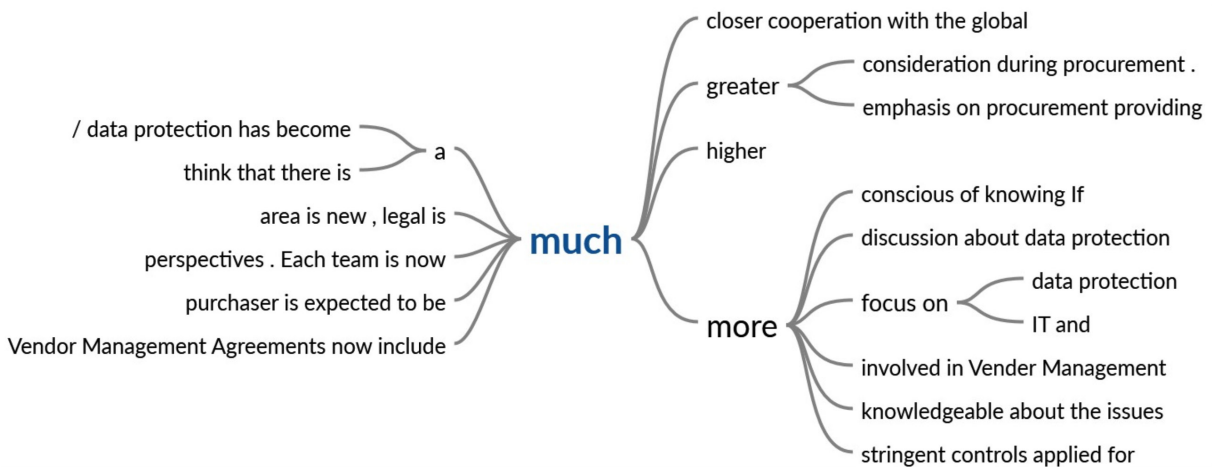


Figure 13: 'Much' word tree.

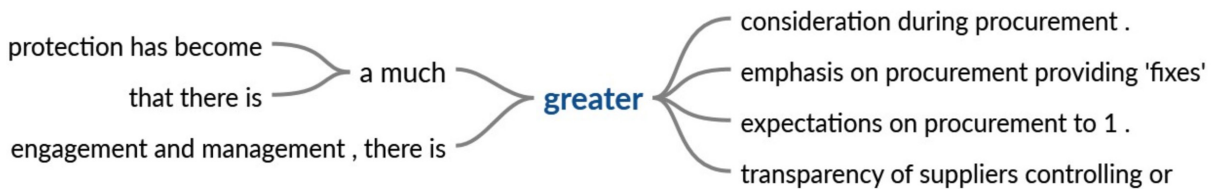


Figure 14: 'Greater' word tree.



Figure 15: 'Better' word tree.

The results from the quantifier search queries and related word trees indicate that the role and responsibilities of the procurement function did contain some privacy-related aspects before the introduction of the GDPR. However, following the GDPR enforcement, these aspects were enlarged; hence, the procurement function now has additional tasks and responsibilities, and more is expected of the function by stakeholders. The answers from the respondents indicated that the shift of responsibilities (under the new law) to the suppliers (data processors) has entailed a shift of internal responsibilities to the procurement function.

From the word tree analyses, it appears that the additional procurement responsibilities or tasks are related to the contractual process, the due diligence process, privacy risk/impact assessments, cross-agency coordination, risk management and control of the suppliers throughout the supply chain. These results also suggest that the shift of responsibilities (under the new law) to the suppliers (data processors) has involved a shift of internal responsibilities to the procurement function.

Williamson (2017) and Ross (2017) detailed the new requirements and demands established by the new privacy regulation as (1) conducting due diligence of the suppliers, (2) ensuring that appropriate contract terms are in place, (3) being obliged to control and monitor one's own vendors to ensure that data are being processed in accordance with the applicable data protection regulations and the terms established in the agreement, and (4) negotiating liability terms. They argued that these requirements added a new dimension to the issue of how purchasing fits within business organizations and how it adds strategic value and contributes to corporate success. This argument is supported by the answers of the respondents in the following paragraphs:

1. Supplier screening and due diligence. Respondent #71: 'More responsibilities, especially concerning due diligence and data processing agreements.' Respondent #30: 'More engaged with suppliers in ensuring the data protection requirements are carried out. Data protection is discussed as a key topic during supplier selection and due diligence.'
2. More contractual aspects and more precisely the ones related to data privacy, such as data processing agreement and negotiation of the liabilities and review of existing contract ensuring they are updated to reflect the new GDPR requirements and obligations. Respondent #327: 'Privacy (data processing agreements) became part of the contract discussions.' Respondent #126: 'More legal contract reviews, data processing agreements, data sharing agreements etc. Also getting involved in auditing data processors.'
3. Greater risk management. Respondent #326: 'More risk review involved, overall, more strategic.' Respondent #316: 'more focus on risk mitigation.' Respondent #141: 'Privacy risk assessment is one of the key components of procurement.'

4. The management, control and monitoring of the supply chain including suppliers and sub-suppliers. Respondent #127: 'Increased involvement with third party processors to assess, negotiate and put in place DP agreements/addendum.'
5. The role also includes new responsibilities related to completing new tasks such as the privacy impact assessment (PIA). Respondent #242: 'New responsibility to perform a PIA' Respondent #317: 'The author are working with Procurement to include a Privacy Impact Assessment as part of their vendor onboarding process.'
6. The new responsibilities require greater collaboration with the stakeholders both internally and externally. Respondent #203: 'More collaboration with data protection stakeholders.' Respondent #330: 'Much closer cooperation with the global IT function.' Respondent #178: 'There is more cooperation between Privacy, Procurement and Legal teams.'
7. The procurement function is required to put in place new procedures and additional steps in the governance as part of its new responsibilities. Respondent #197: 'New procedures and new internal controls to ensure compliance with privacy regulations.' Respondent #207: 'Improved governance/due diligence.'

One respondent also highlighted that the procurement role has increased within the (mergers and) acquisition process to include supply chain compliance with the GDPR. Respondent #284: 'Procurement gained more responsibilities in the acquisition process, responsibilities represented by: need to perform a privacy and compliance check among other KYS (know your supplier) checks, integrate within their process not only legal department but also collect opinion from privacy, compliance, risk, security'.

Studying the word tree related to 'suppliers' and 'vendors' (Figs. 16 & 17), the words used before these words were 'collaboration', 'engagement', 'ensure', 'minimize the risk', 'more engaged', 'communication', 'verify', 'assessment' and 'management', whereas words that followed were 'compliance', 'the GDPR' and 'data protection'. These words indicate the actions that the procurement function is to undertake and what their responsibilities should include or what expectations have been established by the privacy stakeholders in relation to the procurement-supplier relationship. Based on the coded responses, the procurement function is expected to assess and control the suppliers, to manage them, ensure their compliance, and engage and communicate with them closely with the aim of minimizing supplier risk.



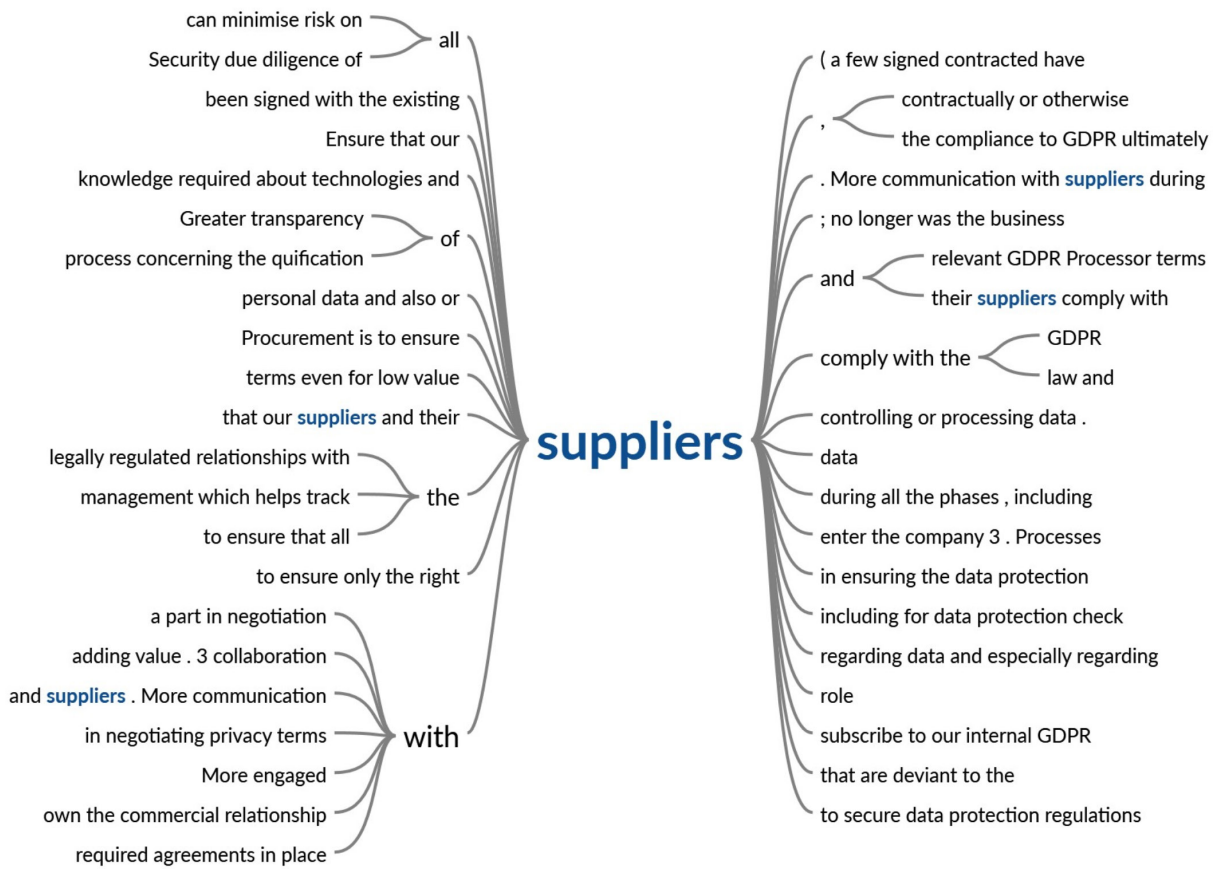


Figure 16: 'supplier' word tree.

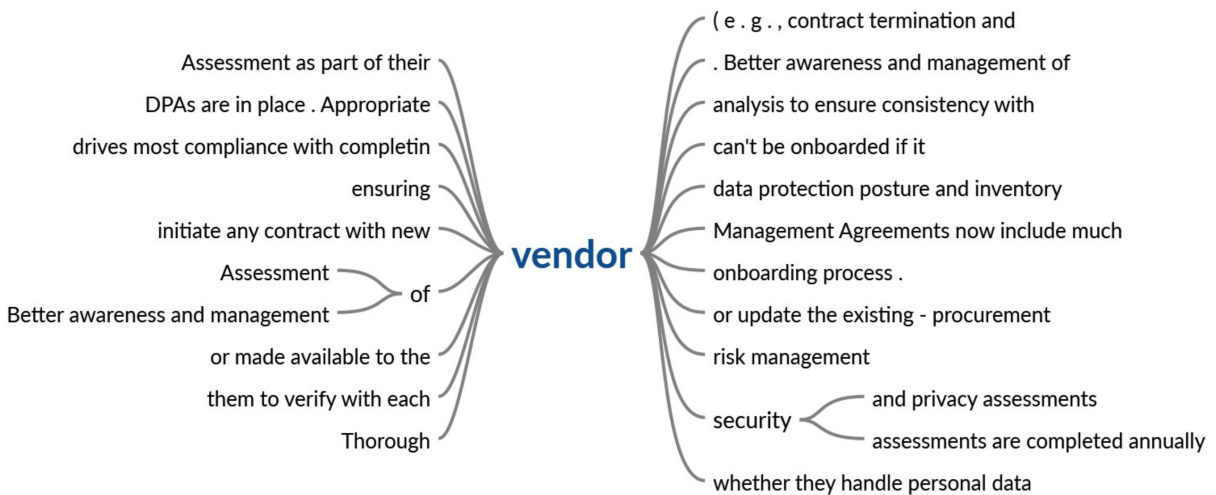
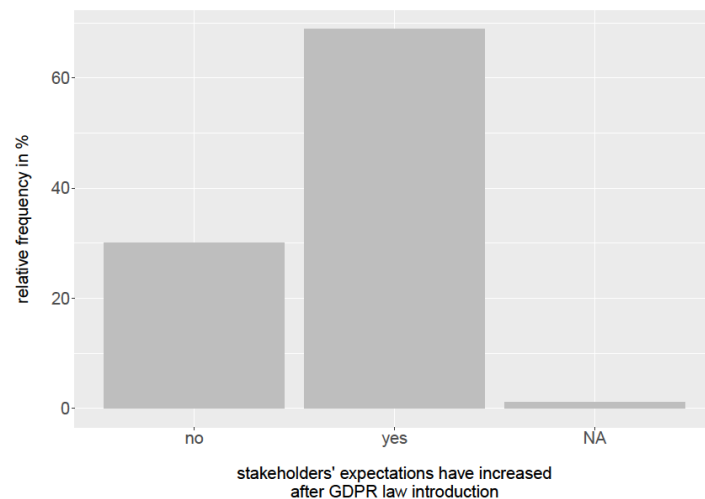


Figure 17: 'Vendor' word tree.

### H1B: The expectations of privacy stakeholders of the procurement function have increased after the introduction of GDPR

The findings from the quantitative analysis suggest that the expectations stakeholders have of procurement increased following the introduction of the GDPR (Fig. 18). As hypothesized, most participants think that stakeholders' expectations have increased (190, 69.6% of respondents perceived expectations have increased). This result was confirmed through a chi-square goodness-of-fit test,  $\chi^2(1, N = 112) = 15.75, p_{\text{exact}} < .001$  (one-sided).



*Figure 18: Percentage of participants who believe that stakeholder's expectations on the procurement function have increased after GDPR law introduction.*

This confirms Hypothesis 1b (The expectations of privacy stakeholders regarding the procurement function have increased after the introduction of the GDPR).

The qualitative data also confirm this finding, as the respondents also highlighted that expectations regarding the procurement function have increased. The function is now required to increase its focus on and involvement in the privacy framework and take ownership and be accountable for specific activities and processes. Respondent #322: 'Definitely more involvement and ownership in making sure that the onboarded vendors are compliant with the data protection requirements.'

Regarding the specific tasks that procurement is expected to perform or activities to be undertaken within the privacy framework, the respondents mentioned privacy-related clauses in the contracts, the negotiation of liabilities and the review of existing contracts and their updates. Respondent #263: 'Procurement own the commercial relationship with suppliers, the compliance to GDPR ultimately falls on procurement. Including the negotiation of liability'. Respondent #163: '(...) privacy-related clauses to be embedded into contracts etc.'. Respondent #91: 'More involvement in terms of analyzing the current contracts, making sure that they are compliant'.

When studying the coded data using NVivo, 'contract', 'agreement' and 'data processing agreement' (DPA) were words used with great frequency by the participants. In total, the three terms were used 140 times, representing above 4.5% of the overall counts for the top 100 most frequently

used words. This high number indicates that the contractual aspects play a central role in the efforts and work that the procurement function undertakes or must undertake within the privacy framework.

When observing the participants' feedback, the author concluded that the central role that procurement plays within the privacy framework has its roots in the recent introduction of two concepts on which the new privacy regulation is placing greater emphasis. These are (1) the PIA implying the assessment and screening of suppliers along with assessing eventual risks related to data privacy and data protection, and (2) the DPA implying additional legal clauses in the suppliers contracts related to privacy: setting the requirements, defining the obligations, and roles and responsibilities of each contracting party. These two concepts are key elements in the privacy framework and form the focal point of GDPR compliance efforts. Accordingly, as procurement is the function that is both managing and responsible for the supplier base inside businesses and considering that now the procurement function is ultimately responsible for ensuring that the DPA is included in the supplier contract and that procurement participates actively in the PIA process, all these elements place procurement at the forefront of the GDPR efforts and make it a compliance guarantor.

The respondents also emphasized that greater transparency in the supply chain and enhanced controls over third parties including the initial assessment, due diligence and the monitoring of their own suppliers and their sub-suppliers are expected from the procurement function. Respondent #310: 'Greater transparency of suppliers controlling or processing data.' Respondent #289: 'Ensure that our suppliers and their suppliers comply with the GDPR.' Respondent#13: 'Better control of sub-processor chains including the location of processing and changes in the chain.' Respondent #294: 'Ensuring vendor security assessments are completed annually and all contractual obligations are adhered to.' Respondent #163: 'GDPR due diligence ahead of signing (contract)'. Respondent #219: 'More thorough supplier screening and additional screening criteria'.

The participants also mentioned the expectation that the procurement function would increasingly focus on risk management. Respondent #188: 'Increased focus on risk management and documents'. Respondent #140: 'Thorough vendor risk management'.

The respondents also highlighted the importance of cross-functional collaboration. Respondent #274: 'More collaboration with legal, a new data processing team and IT'. Respondent #204: 'More collaboration with data protection stakeholders'. Respondent #291: 'More due diligence and collaboration with data security teams is now required'.

When analyzing the qualitative data using NVivo, some of the key verbs used by the respondents just before the most frequently used words are worthy of attention. These were 'expect', 'ensure', 'must' and 'need'. Collectively, they were mentioned 104 times and represented 3.37% of the top 100 references. These verbs were directly connected to the word 'procurement' in the responses (using the word tree functionality in NVivo; see Figures 19, 20, 21 and 22), thus, indicating the strong beliefs and wishes of the 'privacy stakeholders' regarding the actions or steps to be taken by the procurement function within the privacy framework, which are:

1. A high level of due diligence and privacy risk assessment
2. Expertise in contract management
3. Compliance of suppliers

4. Playing a gatekeeper role
5. Becoming more involved in the privacy process
6. Better understanding of the privacy contractual aspects
7. Appropriate privacy contractual documents to be in place

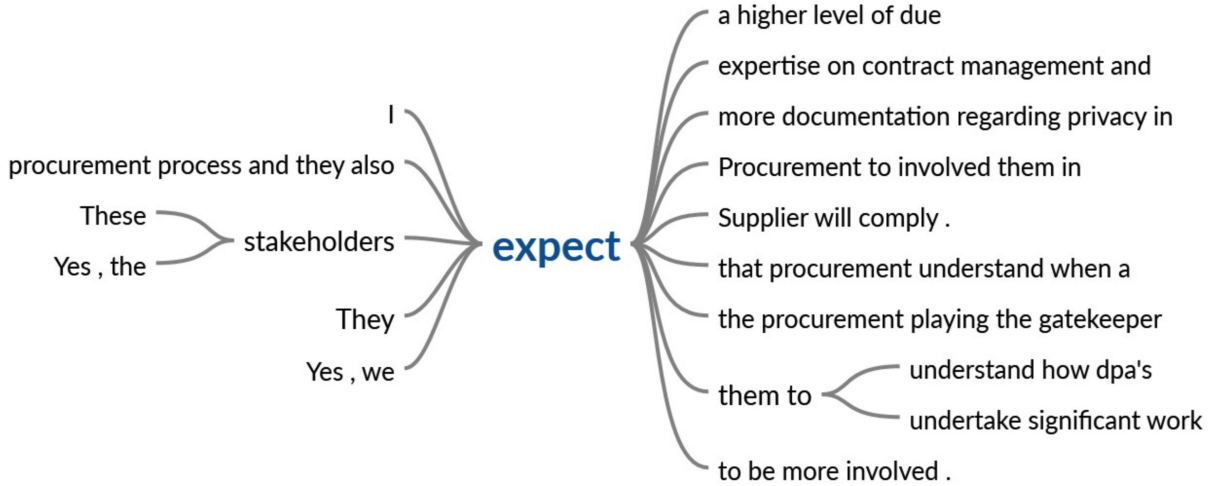


Figure 19: 'Expect' word tree.

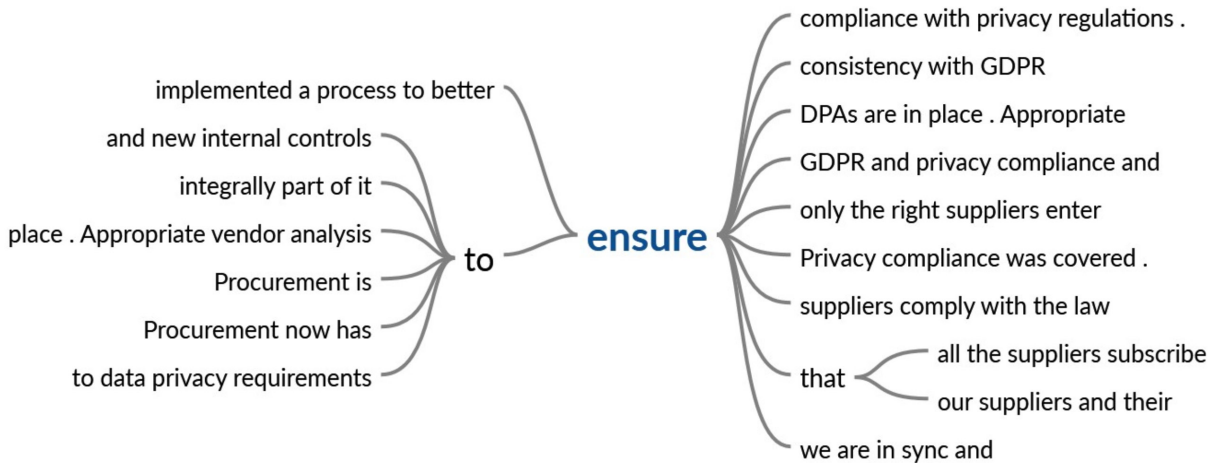


Figure 20: 'Ensure' word tree.

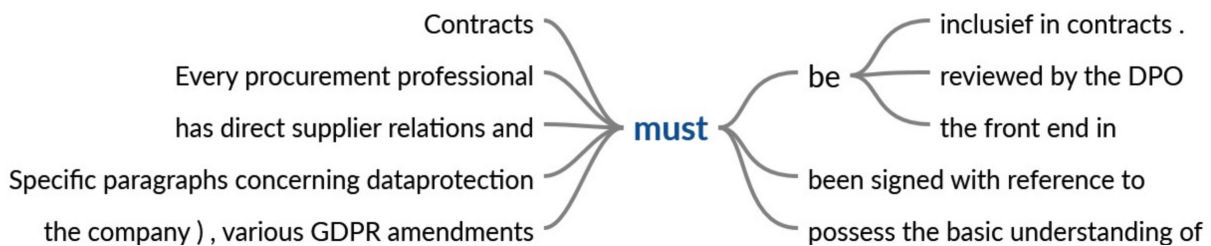


Figure 21: 'Must' word tree.

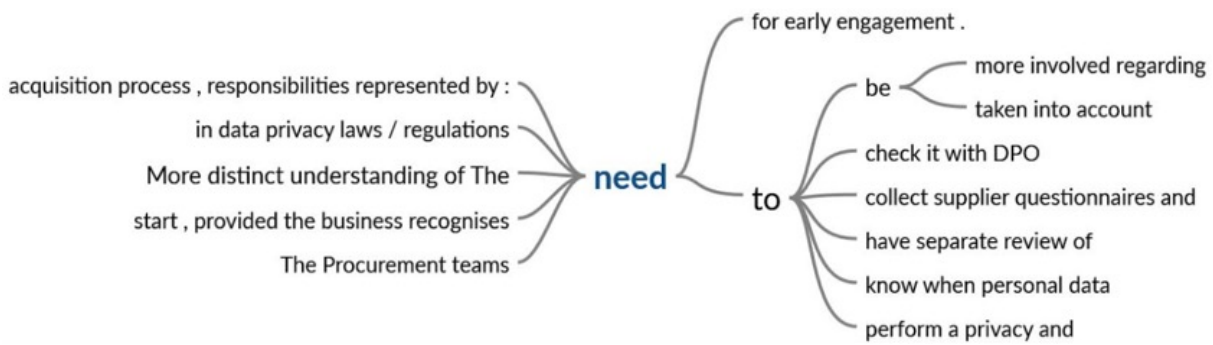


Figure 22: 'Need' word tree.

**H2: The role of the procurement function shifted from a smaller to a more important one**

The results of the analysis confirm the trend that the procurement function is becoming increasingly strategic in business organizations, as the role is perceived by participants to be more important and increasingly strategic after GDPR introduction as compared to before GDPR.

The findings from the quantitative analysis suggest that the procurement role within the privacy framework has shifted from a less significant to a more significant one (Fig. 23), as 75.7% of the respondents perceived it to be more important after the GDPR compared to 49.6% before the GDPR. This finding was confirmed by a Wilcoxon signed-rank test. The role of procurement was rated as more important after (M = 3.86, SD = 0.95) the introduction of the GDPR than before its enforcement (M = 3.20, SD = 0.95). To confirm this, a t-test was performed  $t(275) = 10.48, p < .001$  (one-sided).

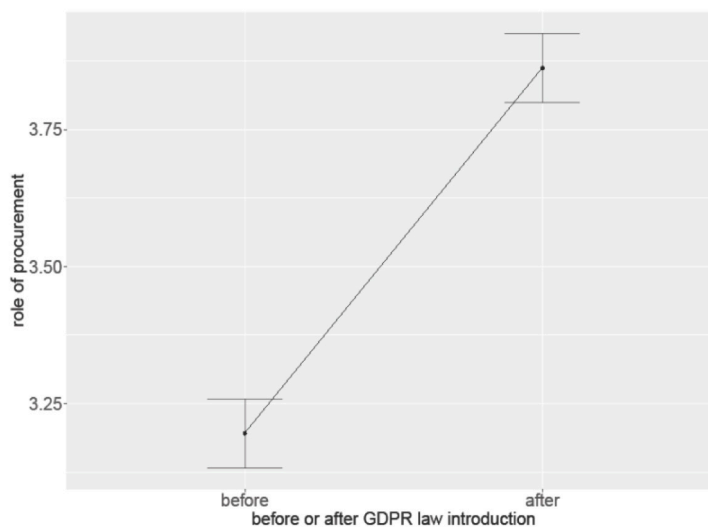


Figure 23: Mean role of procurement before and after GDPR law introduction.

This confirms Hypothesis 2 (The role of the procurement function has shifted from a less significant to a more significant role).

The findings from the qualitative analysis support the supposition that the procurement role has shifted to become more significant than it was before the GDPR. Some of the responses (quotes below) confirm the trend that the procurement function is becoming increasingly important in business organizations, as the role was perceived to have become more strategic by the participants.

The respondents explained that the function is now playing a formal and important role within the privacy framework. Respondent #322: 'The procurement function now is integrated in the data protection control framework, ensuring that the appropriate data protection schedules are in place'. Respondent #328: 'Procurement has now bigger role ensuring that our data is protected, and the author have required agreements in place with suppliers regarding data and especially regarding personal data'. Respondent #9: 'More responsibilities to procurement function: DPA negotiations, understanding privacy legislation, understanding DPIA'

The fact that stakeholders believe and expect procurement to be an integral part of the team developing and implementing the privacy compliance framework and act as a gatekeeper demonstrates the prominent and pivotal role that procurement has and is expected to have within the privacy framework. Respondent #297: 'They expect the procurement playing the gatekeeper of the company'. Respondent #213: 'Procurement is the gatekeeper for ensuring all vendors have been properly vetted'. Respondent #326: 'Part of review process and team developing compliance framework'.

Some participants recognized a more central role for procurement within the privacy framework. Respondent #23: 'Procurement as a source of information (has the) subject matter expertise around the whole supply chain'. Respondent #59: 'The role (of procurement) has evolved to be first line of defense in identifying contracts that may have a data privacy/protection impact'. Respondent #262: 'It is more accepted now that procurement plays a vital role in ensuring data protection by the contractual set-up'.

### **H3: There is a relationship between the significance of the shift in procurement role and responsibilities and the business size**

The findings from the quantitative analysis indicate that the shift in the procurement role and its responsibilities is significantly greater in larger businesses than in micro, small, or medium-sized businesses (Fig. 24). This trend is supported by Zheng *et al.* (2007), who suggested that the structure and role of purchasing in organizations appears to be different between large firms and SMEs.

A one-way ANOVA test indicated that the business size had a significant effect on the change in the procurement role ( $F(1,274) = 484, p < .05$ ). The increase in the procurement role was less within micro, small or medium-sized businesses ( $M = 0.37, SD = 0.88$ ) than within large businesses ( $M = 0.73, SD = 1.08$ ).

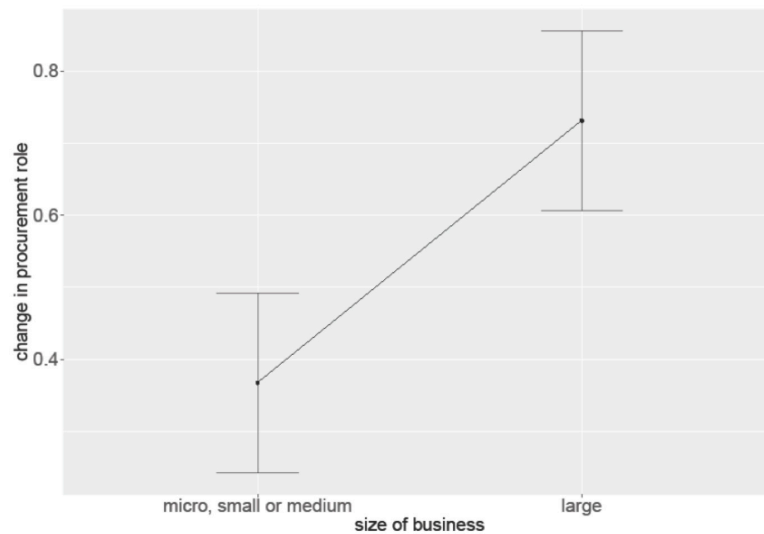


Figure 24: Mean change in the procurement role for micro, small or medium-sized businesses and large businesses.

This confirms H3 (There is a relationship between the significance of the shift in the procurement role and the size of the business).

Zheng *et al.* (2007) mentioned that the structure and role of procurement tend to be more fragmented, non-strategic and viewed as low priority in SMEs compared to large businesses where the function is better structured and organized. The authors emphasized that it was understood from the literature that only a few SMEs had dedicated procurement structures and that purchasing tasks were usually included in the owners/managers' duties.

#### **H4: There is a NO relationship between the significance of the shift in procurement role and responsibilities and the procurement operating model**

The results from the quantitative analysis suggest the existence of a relationship between the importance of the role of procurement and the procurement operating model and indicate that the role is greater when the procurement function is centralized or hybrid than when it is decentralized. This finding was confirmed through a one-way ANOVA test.

- Before the GDPR (Fig. 25): The procurement operating model had a significant effect on the role of procurement before the GDPR ( $F(1,274) = 16.19, p < .001$ ). The role of procurement before the GDPR was more important within centralized or hybrid businesses ( $M = 3.33, SD = 1.14$ ) than within decentralized businesses ( $M = 2.59, SD = 1.24$ ). The effect size  $f = .24$  indicates a small effect (Cohen, 1988).
- After the GDPR (Fig. 26): The procurement operating model has had a significant effect on the role of procurement after the GDPR ( $F(1,274) = 27.53, p < .001$ ). The role of procurement after GDPR has been more important within centralized or hybrid businesses ( $M = 4.00, SD = 0.86$ ) than within decentralized businesses ( $M = 3.24, SD = 1.11$ ).

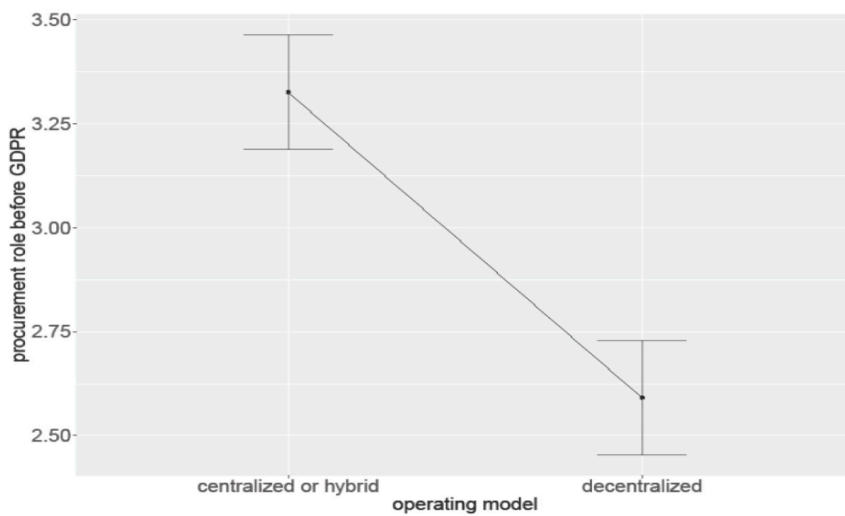


Figure 25: Mean of the role of procurement before the introduction of the GDPR law for centralized or hybrid businesses and decentralized businesses.

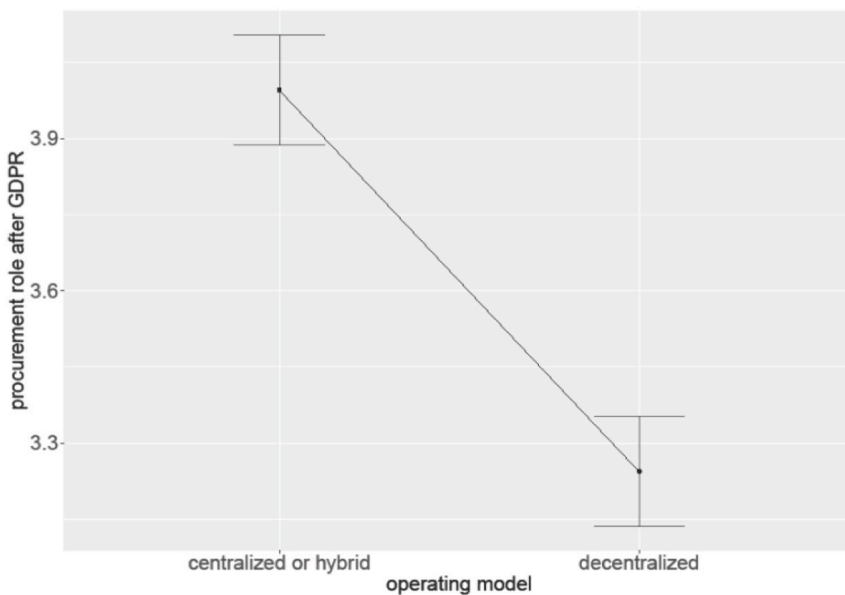


Figure 26: Mean of the role of procurement after the introduction of the GDPR law for centralized or hybrid businesses and decentralized businesses.

However, the quantitative analysis (Fig. 27) indicates the procurement operating model had NO effect on the change (shift) in the role of procurement ( $F(1,274) = 0.01, p = .92$ ). The increase in the role of procurement was the same within centralized or hybrid organizations ( $M = 0.67, SD = 1.03$ ) as within decentralized organizations ( $M = 0.65, SD = 1.18$ ).



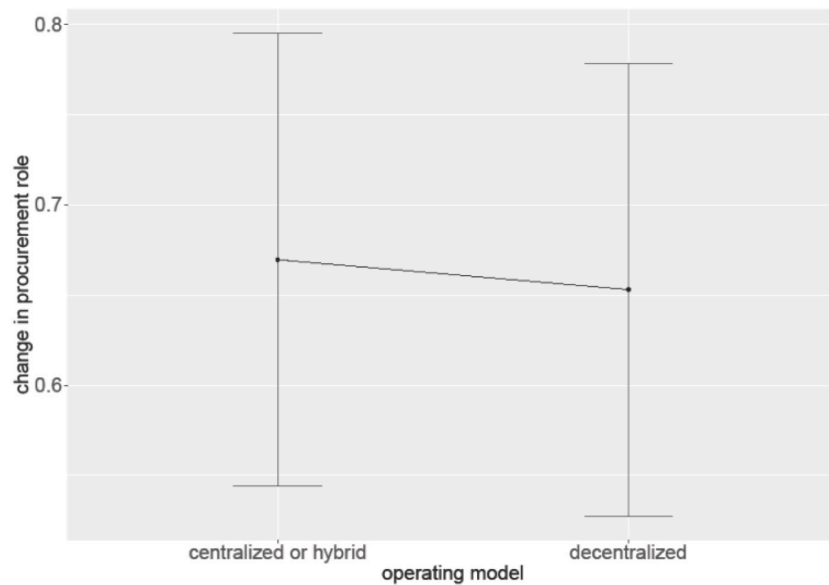


Figure 27: Mean change in the role of procurement for centralized or hybrid businesses and decentralized businesses.

Johnson *et al.* (2002, cited in Zheng *et al.* 2007) found that the industry context and organizational structure of purchasing (centralized, decentralized, hybrid) were related to the strategic role played by purchasing. Their study also revealed that purchasing's strategic role declined as the organizational structure of the purchasing function became increasingly decentralized. The findings from this study support this theory, indicating that the procurement role and responsibilities are significantly greater in centralized or hybrid businesses than in decentralized businesses, however the significance of the shift in procurement roles and responsibilities was found equal independently of the procurement operating model.

### Answering the research questions

The results of the present study (Table 10) support the assertion that the procurement function has been impacted by the GDPR, and that its role has become more strategic within the privacy framework. The practitioners have new tasks and responsibilities, and the expectations of the privacy stakeholders have increased with the introduction of the GDPR. Additionally, the business size was found to influence the significance of the shift in the procurement role and responsibilities, as this shift was more important in large organizations compared to SMEs. Finally, no significant relationship was found between the shift in procurement roles and responsibilities and the procurement operating model.

Table 10: Study results (hypotheses validation).

Hypothesis testing	Variable category	Descriptive Statistics	Inferential Statistics	Quantitative result	Qualitative result	Final result	Remark
H1 a+b (Shift in role and responsibilities + higher expectations)	One nominal variable	Frequency distribution	Chi-square of goodness-of-fit	Validated	Quali supports QUANTI	Validated	
H2- Role became more significant after GDPR	One nominal variable	Frequency distribution	Chi-square of goodness-of-fit	Validated	Quali supports QUANTI	Validated	
H3- Significance of the shift Vs Business size	Two interval scale variables	Mean, Standard deviation	Dependent sample t-Test	Validated	Not possible	Validated	Was not possible to triangulate
H4- Significance of the shift Vs Operating model	One nominal variable x Three interval scale variables	Mean, Standard deviation	One-way ANOVA	Rejected	Not possible	Rejected	Was not possible to triangulate

## LIMITATIONS, CONTRIBUTION, AND DIRECTIONS FOR FUTURE RESEARCH

The present study aimed primarily to fill a gap in the literature by examining how the procurement function has been impacted by the recent changes in the privacy law. It will also help business stakeholders to be aware of the impact that this shift has had on the procurement role and its responsibilities.

A few limitations were identified: Firstly, the sampling strategy might raise questions regarding a lack of generalizability and sample bias. The author strove to address this risk through testing whether the sample was representative of the population by comparing the sample characteristics of the first wave of data collection (2019-02-06 to 2019-06-26) with the second wave (2019-12-07 to 2020-03-02). Chi-square tests of independence revealed that there was no difference between Wave 1 and Wave 2 with respect to all the cited characteristics. Moreover, triangulation was used as a research strategy to increase the reliability and validity of the study. Another possible limitation is that the participants work predominantly in large firms operating in the private sector, future research could investigate the impact that GDPR has had on the function and its practitioners in SMEs and in organizations operating in the public sector.

## CONCLUSION

The present study suggests a more strategic role for procurement within the privacy framework thus positively answering the study's research question (Has there been a shift in the functional role and responsibilities of procurement within the privacy framework following the GDPR taking effect compared to before its enforcement?). This role has proven to be more important in large businesses and organizations with a centralized or hybrid procurement function.

According to the participants, the procurement function is now more highly focused on privacy and data protection than it was before the GDPR was introduced. The function has gained recognition among the privacy stakeholders because it is considered and expected to be both a gatekeeper and privacy guarantor. Privacy stakeholders expect the procurement function to take ownership of and lead specific privacy critical processes. Within the procurement function's

new scope, there is an increased emphasis on the role that procurement plays in identifying and mitigating privacy risks by contributing to the DPIA (often confused with PIA), the thorough screening and selection of suppliers, setting proper governance and controls in place and closely monitoring the execution of supplier contracts.

The procurement function is also required to put considerable effort into the contractual process by reviewing and updating existing agreements, putting in place the DPA that is expected to be an integral part of any future agreement with the suppliers, detailing the responsibilities of each contracting party clearly in the DPA and designing hybrid contracts ex-ante. In this way, any eventual risk of opportunistic behavior by the agent (supplier) during the contract life cycle is mitigated, partly by specifying desired performance outcomes and partly by establishing incentives to the agent and incurring monitoring (and other control activities) costs, and by considering contractual safeguards (governance arrangement) meant to mitigate the eventual risks that might arise from the relationship between the buyer and its supplier. Among the governance mechanisms reported by the survey participants, penalties, and verification procedures, among others, were cited.

Additionally, the study suggests that the procurement function is expected to deepen its collaboration with the internal stakeholders. In his value chain theory, Porter (2001) has already stressed the importance of the linkages between a firm's value activities and how more coordinated and aligned work between procurement and other value activities could impact cost and performance, thus, impacting upon the firm's competitive advantage. It is also important to develop closer relationships with the suppliers with the aim of increasing knowledge of the firm's supply chain and being informed and up to date in terms of critical inputs such as the location of the data processing, subsequent changes taking place in the processor chain, and ensuing privacy breaches. The study findings also broadly support the work of Tunisini and Sebastini (2015, pp. 308-309), who concluded that the role of procurement has gained in influence leading to a broader role for the function and resulting in the emergence of the procurement function as 'a network coordinator responsible for both inter- and intra-organizational business relationships'.

The present study aims to help procurement managers understand how the GDPR has impacted the procurement function and its practitioners. The results of the research should guide those managers and increase their awareness of the evolving expectations placed on procurement by business stakeholders as the purchasing function and the environment in which it operates changes.

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Taoufik Samaka, DBA, holds an international procurement certification (CAPP; IFPSM), PMP-PMI certification and is CIPP/EU and CIPM certified (International Association of Privacy Professionals).

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# THE COST OF POORLY-PLANNED MARKETING CAMPAIGNS IN FOREIGN MARKETS. THE CASE OF DOLCE & GABBANA IN CHINA

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*Evgeniya Ponomareva & Antonia Koumproglou*

**ABSTRACT:** *The nature of business relationships has drastically changed over the last few decades mainly due to globalization processes while at the same time cultural awareness has become a pivotal point in cultural business negotiations and transactions. As a result, we can see that the process of marketing a brand in a foreign market has turned very delicate, and, if not managed accurately, it may lead to serious cross-cultural business issues.*

*This paper looks at the poorly planned marketing campaign of Dolce & Gabbana in China, paying close attention to the strategic and marketing mistakes of Dolce & Gabbana which resulted in subsequent losses as we shall see. We argue that cultural integrity, local understanding and deep focus on the specifics of a particular market of operation are keys to building trustworthy and strong cross-cultural business relationships. We look into accusations of racism, stereotyping, discrimination and sexualisation of female subjects in the 2018 Dolce & Gabbana advertising campaign, which led to a long-lasting brand boycott in the Asian-Pacific market.*

*Dolce & Gabbana were caused of inefficient consideration of cultural nuances, which together with poor post-crisis management damaged severely the brand's reputation. The paper details the strategic and marketing mistakes of Dolce & Gabbana in China. It then analyses the consequent losses experienced by the brand and suggests strategies for improving its local positioning in the Asian-Pacific market. It is noted in the paper that both cultural awareness and adaptive behaviour are considered essential for international marketing. It is argued that cultural integrity, local understanding and deep focus on the specifics of a particular market of operation are keys to building trustworthy and strong cross-cultural business relationships. In our increasingly globalized, interconnected and digitized world, it is imperative for global brands to continue to develop and exhibit cultural sensitivity and responsiveness in order to build long-lasting, mutually beneficial relationships with local markets.*

**KEYWORDS:** international marketing, marketing campaigns, cultural responsiveness, cross-cultural management.

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## **THE IMPORTANCE OF CULTURAL RESPONSIVENESS IN INTERNATIONAL MARKETING STRATEGIES**

The modern business world has been drastically influenced by globalization, which has become an immense world trend. Thanks to scientific and technological advancements, people are now closer to each other than ever before. However, the so-known “togetherness” that has been imposed by globalization has to be in solid balance with cultural identity and diversity (Yi Wang, 2007). Culture is learnt and not genetically inherited trait of human beings (Daramola & Oyinade, 2015) and as result, globalization affects culture. Cultural globalization is the infiltration of foreign culture (Daramola & Oyinade, 2015). However, Swanger (2015) has disclosed that even though cultures borrow and adopt to global features, they often retain their exceptional features. The fact that some unique cultural features exist is why firms going global requires marketing strategies that may be acceptable by their intended customers.

Indeed, learning how to cater to new audiences is the key to scaling business around the globe. Significantly, for a brand to appeal to many varied audiences, it needs to understand the finer nuances of local culture. Since every culture is unique and has its own particularities, every community and nation require an important level of local knowledge and awareness. In order for firms to have a competitive edge in international business, they have to understand the differences in culture, particularly in Asian countries given the contrast between Asian and Western cultures. Especially, China is notoriously the place where many ambitious Western brands have faltered in cultural terms. In the case of Dolce & Gabbana, China is interestingly a big market -the company posted revenue of 1.29 billion euros in the fiscal year ended March 31, 2018, of which 25% came from the Asia-Pacific region, according to Business Insider Italia (Wharton, 2018). The controversy does illuminate the issue of cultural sensitivity in an increasingly global marketplace. China, with its burgeoning economy, accounts for one-third of spending on luxury goods worldwide, according to a study by Bain consultancy.

Culture influences advertising, free trade policies, brand effectiveness, localization and standardization strategy decisions, international negotiation, business relationships, international business management, consumer behavior and international marketing (Darley, Luethge & Blankson, 2013). The cost of a poorly planned marketing campaign, without proper consideration and adaptation of local nuances, can have a very significant negative impact on a company, both financially and reputationally. This is the issue that that was faced by Dolce & Gabbana in 2018. This case, as well as the consequent difficulties experienced by the company seem to illustrate a wide number of common cross-cultural marketing mistakes, starting from poor planning to inefficient post-crisis management and overall lack of cultural delicacy.

### **DOLCE & GABBANA: A GLOBAL FASHION POWERHOUSE**

Dolce & Gabbana is a global luxury fashion corporation initiated by Domenico Dolce and Stefano Gabbana in Legnano, Italy. The company’s main focus is on high-end fashion and luxuriousness aimed to respond to long-term trends. The company has rapidly initiated its international expansion by exporting their fashion products to the U.S. and Japan, launching showrooms in the foreign markets, presenting their collections in various international shows and establishing worldwide distribution. All these activities and operations allowed the company to rapidly establish

its presence across different markets. Nowadays, Dolce & Gabbana has its headquarters in Milan, Italy, with branches also located in Tokyo, Hong Kong and New York. The brand operates and serves customers worldwide, targeting wealthy, “distinguished” and “privileged” consumers who are after more exclusive and unique products.

Dolce & Gabbana’s winning formula is based on engaging local customers and developing localised approaches to nail international flavour and avoid stereotypes. For instance, when developing its video-driven SM campaign in Hong Kong, the brand invited Asian models from the region and featured urban, modern and culture-reflecting locations. Dolce & Gabbana made everyone talk about the campaign even before it was posted online and almost went viral on a global level (Forbes, 2018).



*(Dolce & Gabbana, Hong Kong campaign)*

### **THE DOLCE & GABBANA MARKETING BLUNDER IN CHINA THAT CAUSED THE BRAND \$23 MILLION**

The process of marketing a brand, no matter how well-known and established it might be, can be very risky and even dangerous for the company’s reputation. This is the lesson that Dolce & Gabbana learnt in 2018 in an attempt of warming up its fashion show to be held in Shanghai, China. On November 17<sup>th</sup>, the company posted 3 videos called “Eating with Chopsticks” on its social media platforms, Instagram and Weibo. The videos depicted an Asian woman who was fashionably dressed in Dolce & Gabbana apparel. She was awkwardly using chopsticks in an attempt to eat popular Italian dishes. The woman was acting in a confused manner, while a narrator was speaking to her in the background with lecturing tone and sexually suggestive lines (Stevenson, 2020).





(Dolce & Gabbana' "Eating with Chopsticks" campaign)

Dolce & Gabbana's attempt was supposedly meant to show how two different cultures can come together. However, the videos ended up causing important backlash, receiving heavy criticism and producing a significantly negative effect on the company's relationship with Asian customers. Since the brand was accused of racism, stereotyping, discrimination and sexualization, Dolce & Gabbana decided to remove the videos from their social media channels in China. A few days later, several screenshots of racist and insulting messages written by Stefano Gabbana were posted online (Forbes, 2018). The co-founder of Dolce & Gabbana complained about the removal of the video and insulted Chinese nation. Although the brand claimed that the designer had been hacked, it was already too late (Forbes, 2018).

It should also be noted that Asian countries tend to have a very powerful cancel culture. For this reason, after being so strongly offended by the brand, not only Chinese people but also the Japanese and Koreans followed suit and decided to boycott Dolce & Gabbana. In addition, Chinese celebrities cancelled the fashion show to be held in Shanghai, local brand ambassadors terminated their contracts and the key online stores (including JD.com) removed Dolce & Gabbana products (Forbes, 2018). A few days later, the brand issued an official apology video, saying "We apologize!" in Mandarin. However, sales in the Asian-Pacific region kept declining. What is more, since Chinese customers tend to be the biggest buyers of luxury goods, spending around \$7 billion per year (McKinsey, 2019), Dolce & Gabbana experienced significant losses. Sales in the country were down 98%, as compared to the same period in 2017.

Luxury brand marketing is admittedly at its best when it is outrageous, bold and blustering. The fashion world has always been ground-breaking and forward-thinking, pushing boundaries and perceptions. We can think of, for instance, the 2016 gender-bending Louis Vuitton "The Man in A Skirt" campaign starring Jaden Smith (New York Times, 2016). The D&G campaign was seemingly aiming at some controversy and well-intentioned humor, which ultimately backfired at the brand big time. Marketing analysts insist that the "joke" in this instance should be on the brand itself and that the notorious commercials should portray Italians in China, not knowing how to eat Chinese food. "Sometimes brands want to differentiate by ... being a little bit outrageous

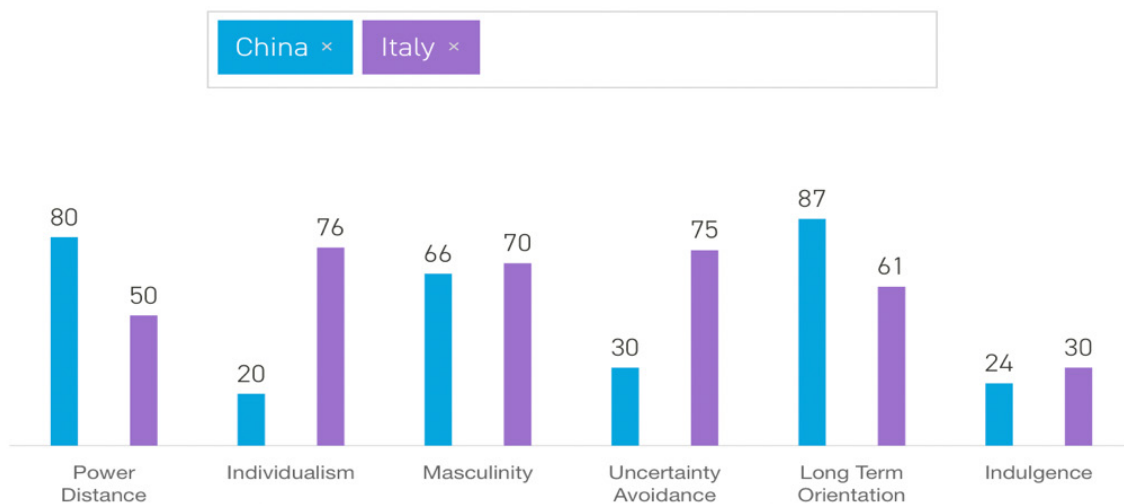
and blustering. Sometimes you can try to get away with that because of the high status that your brand has, but I just can't understand what went through their minds when they were doing this," he noted. "It's like they tried to create the most outrageous thing [without] considering the consequences.... [It's] incomprehensible how this passed any marketing test" (Wharton, 2018).

**Lesson Learned: "What exactly was the brand's mistake"?**

It has been three years since the events took place, but many Chinese stakeholders are still insisting on boycotting the brand, as they feel that it has not repented enough for its mistakes. For instance, a large number of retailers, including Tmall, are still refusing to sell Dolce & Gabbana's products (Williams, 2020). As global luxury brands tend to highly depend on Chinese spend, so the three years long boycott is negatively affecting the company and seems to have no end in the near future, unless proper actions are taken. In other words, Chinese customers have neither forgotten, nor forgiven.

The question one may ask is: "What exactly was the brand's mistake"? Clearly, Dolce & Gabbana could never expect to be so strongly affected by controversies and bad publicity that caused such a serious damage to the corporate image and reputation of the company, thereby making it less trusted, mainly by its Asian customers. The main reason behind this situation was that Dolce & Gabbana is a global brand and as such should be privy to strong local sensitivities. Cross-cultural business issues form an indispensable part of the process, where local nuances of the region or country of operation play a crucial role. Every brand is required to deeply study and understand the local culture.

At this point, it should be mentioned that China and Italy represent two slightly different cultures, with their own specifics and nuances. The graph shown below justifies this assumption.



Source: Hofstede Countries Comparison

Italy and China are two countries with very rich but different cultures. For instance, when compared to China, Italy does not attribute a similarly great importance to the interrelation between culture and business. This country has a higher tendency for perceiving business as an economic affair,

while Chinese people attribute high importance of culture on business relations. These differences also cover business etiquette, where Italian partners tend to seek physical contact and informality for communicating, while China prefers to maintain well-defined distance. These characteristics are clearly reflected in the issue that arose with the “Eating with Chopsticks” campaign.

For this reason, it should be indispensable for the brand to understand that what can be seen as non-offensive and engaging for Italian customers, can easily cause a deep negative effect on Chinese customers. For instance, both cultures consider eating to be a serious and important part of their lives. However, China sees chopsticks as part of their culture, which is respected at all ages, so using them as an attribute of “funny engagement” was definitely not a solution. The combination of humour and cultural stereotypes can be very risky, and the brand would have known about it if it conducted a proper market research (Jas, 2019). In other words, since Dolce & Gabbana was not culturally aware of the historical importance of the process of eating with chopsticks, it presented the topic as a stereotypical and humiliating one for the local community. In this sense, it is crucial to be politically and culturally correct, especially taking into consideration the level of sensitiveness in China.

### **WHAT THE RECOVERY PLAN COULD BE LIKE?**

Despite all that has been said, it is believed that Dolce & Gabbana can still recover its position in China. However, this is only possible by learning from the mistakes committed in the past. The company must place the recovery plan as the top priority for the brand. It should be authentic and culturally aware throughout all its stages. When developing a new marketing campaign, the process should never be based on assumptions but on deep study and feedback from cultural experts, so as to integrate local sensitivities. This rule is the same for any other brand entering a foreign market.

If the internal organizational team cannot ensure deep research, hiring cross-cultural professionals and business ethics experts may be a great solution. Deep knowledge of local cultural nuances and clear understanding of the up-to-date social trends will help to avoid superficial assumptions when developing marketing campaigns for any brand. Since cultural contexts in local communities tend to be very diverse, a deep study of those will avoid causing misinterpretation and offence to foreign stakeholders. It is important to take into consideration that the process of translation goes beyond adapting the language of the campaign. Instead, professional translation experts make sure that the campaign is fully localised, thereby not only adopting to the local language but also to the culture and people of a specific region or country of operation (Innes, 2014).

Coming back to Dolce & Gabbana’s case, the “Eating with Chopsticks” campaign was not the only controversial issue caused by the company. For instance, the brand has already had reputational difficulties after expressing its homophobic ideas and calling IVF children “synthetic” (National Post, 2015). In other words, Dolce & Gabbana adopted morally controversial stances that negatively affected its brand image. The offensive behaviours and improper or late reactions to the aforementioned problems made the company less trusted and respected, which highlights the overall lack of importance given to social and cultural delicacy.

To achieve a wider perspective, it is always great to learn from competitors who are being more perceptive to the trends of modern society. This involves companies being integrative, having a

strong focus on tolerance and equality and engaging with all the customers- including minorities and culturally sensitive groups. To demonstrate this, we could mention Gucci and its campaign for the Chinese New Year or Balenciaga and its collaboration with Hello Kitty (Content Commerce Insider, 2020). A critical review of these campaigns reveals that these companies do not force any cultural preconceptions on the host country.

Instead, they gently incorporate their brand's touch into the local aesthetic. In other words, this is a much more "peaceful" and integrative approach, as compared to Dolce & Gabbana's "Eating with Chopsticks" campaign where the brand aggressively puts Chinese and Italian culture together and shows a certain supremacy of its origins. The delicacy and gentleness in cross-cultural collaboration is seen to be a general advice for any company entering into a foreign market.

In conclusion, the case of Dolce & Gabbana in China clearly illustrates the issues and the consequences that may arise from poor local positioning. It has been seen that both short- and long-term effects of this strategic misconduct may be crucial to building long-lasting and mutually beneficial relationships with local markets. For this reason, cultural sensitivity and responsiveness, which may be strengthened through working with experts or learning from competitors, must be the keys to developing a foreign marketing campaign.

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Evgeniya Ponomareva is a current Bachelor student specializing in Business Administration at EU Business School, Barcelona campus.

Antonia Koumproglu, FHEA, MCMI is a PhD Candidate in Education, University of East Anglia, and a lecturer in management at EU Business School, Online campus.

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# EVALUATING THE EFFECTIVENESS OF ONLINE CORPORATE TRAINING FOR BUSINESS PROFESSIONALS AND ORGANIZATIONAL OUTCOMES

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*Katina Grigoraskos*

**ABSTRACT:** *In our current global situation, the role of the digital world plays a crucial role in the stability of training and development efforts in Human Resource Management. Although there are known benefits and disadvantages of online corporate training, it is important to continue developing such systems for the commitment towards the future growth of online training and improvement of training quality to meet business objectives. Moving forward, it will be essential to measure the effectiveness of these programs in terms of short- and long-term impacts on the learning, behavior and knowledge application of business professionals, in order to enhance the quality and success of these programs and contribute to better performance and attainment of organizational goals (Schmееckle, 2003). Research exploring the utilization of e-learning in corporate training sectors has revealed several vital features to be explored in terms of assessing and evaluating such programs, including learner and trainer perceptions, learning (transfer of knowledge, development of skills and attitudes), behavior and transfer to work performance, results in attaining organizational goals, return on investment (ROI), and content quality (Strother, 2002). Elements to determine factors including quality, effectiveness, benefits, challenges and perceptions associated with e-learning should be further scrutinized and understood in order to improve quality of these tools as effective means of shaping human potential. The proposed research strives to investigate the effectiveness of online corporate training for business professionals, and to uncover effective practices or conditions associated with this type of training in the identified organization. The wider objective of the research is to provide a foundation for effective online learning systems and evaluation of online training effectiveness for future corporate training, particularly as the market demand expands.*

**KEYWORDS:** human resources management, training and development, online training, corporate training, training effectiveness.

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As the current state of the physical and social world increases in both complexity and uncertainty, the role of the digital world plays a crucial role in the stability of training and development efforts in Human Resource Management and organizations. Online platforms can be used for communication and collaboration purposes, as well as for corporate training and organizational development. Although there are known benefits and disadvantages of online corporate training, it is important to continue developing such systems for the commitment towards the future growth of online training and improvement of training quality to meet business objectives. Moving forward, it will be essential to measure the effectiveness of these programs in terms of short- and long-term impacts on the learning, behavior, and knowledge application of business professionals, in order to enhance and ensure the quality and success of these programs and contribute to better employee performance and attainment of organizational goals (Schmееckle, 2003). The paper strives to investigate the effectiveness of online corporate training for business professionals, and to uncover effective practices or associated conditions.

“As human capital becomes the main source of economic value, education and training become lifelong endeavors” (Jokic *et al.*, 2012, p.160) for many professionals. In a rapidly globalizing world, it has become necessary for professionals and organizations to be adaptable and continue developing and expanding skill sets and knowledge. Thus, it is essential that organizations place a stronger emphasis on developing its intellectual capital, as this is becoming a key competitive advantage in this type of global context. Organizations that provide more education and training opportunities for employees build a more qualified workforce and contribute more value to the organization. Being able to train employees within the workplace is an added advantage and solution to common issues associated with training. This can also increase satisfaction of employees and for the organization, it means increased productivity, profit and competitiveness (Jokic *et al.*, 2012).

### **ADVANTAGES AND DISADVANTAGES OF ONLINE TRAINING**

The current and future prospects for online training in the corporate sector are promising, with many opportunities existing in its potential to develop corporate training options and employee development cultures and offer original recruiting strategies and innovative branding and marketing (Dodson *et al.*, 2015). The main advantages of technology-based training focus on cost-effectiveness, convenience, and efficiency. Evaluation of online training is an essential component in presenting it as a practical and more efficient alternative to traditional classroom training. However, both research in this area and online training evaluation methods are limited and there is much yet to prove about the benefits it holds over traditional training methods (Schmееckle, 2003).

According to KPMG (2015), the top advantages of digital learning involve capabilities of global reach, cost, uniformity among participants, and ease of training trainers. From the user perspective, the main motivations involved not having to travel, being able to work at an individual learning pace, and that training was mandatory for employees. E-learning was also perceived as flexible in terms of being able to learn anywhere and anytime, and it is important for career development. The main barriers identified included impact and measurement, and implementation and sustainability of learning. Associated challenges included administrative challenges, technical issues, cost, quality and lack of engagement. Regardless of convenience or cost, the main areas to focus on are learning outcomes and needs to determine effective learning methods and knowledge acquisition in digital learning (Wildi-Yune & Cordero, 2015).

Main benefits identified with corporate training e-learning were reduction of costs and time, increased productivity, customized instruction for learners, consistent course delivery, and organizational benefits, especially regarding meeting the needs of internationally dispersed workforces. Corporate training activities may be synchronous in the sense that they are instructor-led, or asynchronous, meaning self-paced learning. Main limitations of e-learning focused on the lack of face-to-face interaction with peers, software and support resource needs, learner drop out, significant costs involved in developing programs, maintaining and updating content, and assessment of learning (Zornada, 2005).

Challenges with distance learning in the corporate sector must also be investigated and understood in order to make improvements and generate appropriate solutions. These obstacles were explored by Berge (2002), who found a relationship between the level of organizational competence with distance learning and barriers to distance learning. The corporate trainers and educators in institutions which have stronger capabilities in delivering distance education hold a perception that there are less barriers to distance learning, which demonstrate that experience with such online systems contributes to both confidence and more positive attitudes associated with distance learning (Berge, 2002).

Although e-learning has its associated disadvantages, it is more cost efficient in comparison to traditional training methods. Focusing on the Return-on-Investment factor, Wozniak-Zapor (2013) calculated a comparison between both methods and found that online training was less expensive, especially when considering the amount of employees needing training is high. In addition, the researchers found that integrating an e-learning platform into an organization's currently existing platform can produce benefits in terms of providing communication hubs, as well as spaces for employee testing and certification (Wozniak-Zapor, 2013).

Regardless of the pros and cons of online versus traditional corporate training, it is important that organizations examine and analyze these from the perspective of what is most beneficial and necessary for an organization's growth and success (Wozniak-Zapor, 2013).

## **EVALUATING EFFECTIVENESS OF ONLINE CORPORATE TRAINING**

According to Kirkpatrick (2016), the four levels of training include reaction, learning, behavior and results. Reaction refers to trainee engagement and satisfaction, whereas learning refers to acquisition of relevant knowledge, skills, attitudes, and confidence. Behavior translates to the extent to which trainees can apply gained knowledge to their work, and results are the measured outcomes. There are three prime reasons for evaluating training programs. Firstly, evaluation helps to improve the program. Secondly, it increases the transfer of learning into behavior and consequent organizational outcomes. And thirdly, evaluation has the potential to prove the value of the training for the organization (Kirkpatrick, 2016). According to Kingsley (2009), who conducted an in-depth study implementing Kirkpatrick's model, Levels 1 and 2 are the most commonly measured levels, whereas Levels 3 and 4 are much more complicated to measure and oftentimes not included as part of the evaluation process (Kingsley, 2009). Most organizations only evaluate the first two levels of the Kirkpatrick model (Ozturan & Kutlu, 2010). More recently, Level 5, Return on Investment was added to the revised 'New World Kirkpatrick Model, to evaluate the ultimate results of corporate training for organizations, which can be applied to online contexts as well (Kirkpatrick, 2016).



Hamtni (2008) determined that the Kirkpatrick model needs to be reevaluated carefully in order to be applied to e-learning and training. Hamtni (2008) adapted Kirkpatrick's original model to online training and focused on three main areas for evaluation: interaction, learning and results, and identified both characteristics and evaluation models of each. The model considers the influence of the technological interface and points to the need to adapt training methods to be aligned with HR departments of organizations. In this way, learning becomes mutually beneficial to both the employees as individuals and to the greater purpose of the organization (Hamtni, 2008).

Schmeeckle (2003) assessed the effectiveness of online training in comparing an online training group with a classroom training group. The main findings revealed that online training is as effective as classroom training in providing instruction, and more efficient than classroom training. Online training was achieved in a much shorter amount of time (50 percent less time) and at a reduced cost in comparison to its classroom counterpart. The students who engaged in classroom training also reported positive emotions and higher motivation associated with instruction (Schmeeckle, 2003). Conkova (2013) provided similar evidence in drawing parallels between online and traditional methods regarding their perceived effectiveness, efficiency, quality, and knowledge application. To provide ultimate benefit in effectiveness, the strengths of both methods could be combined in a blended learning approach (Conkova, 2103). Such studies provide implications as to the prospective benefits for online corporate training to be used as a supplementary platform or added component to in-person training.

## **EFFECTIVE ONLINE TRAINING PRACTICES AND RECOMMENDATIONS**

Effective e-learning training elements include: an effective online learning strategy, cost reductions between forty to sixty percent, a measurement of the learning process, as well as a standardized input and results of training. Organizations also hold a preference for having control over the learning process and content, as well as it being flexible in terms of schedules and consistently accessible, more so than the factor of reducing costs. Regardless, the flexibility factor of keeping training in-house can help reduce costs. The notion that it can reduce time in terms of employee knowledge and skill acquisition is another desirable aspect. Including videos in e-learning training can add "lifelike" elements to a course and improve knowledge transfer and acquisition (Gavril *et al.*, 2017).

According to KPMG (2015), practices for improving digital learning effectiveness include the creation of a current knowledge map to identify and understand organizational learning needs, capabilities and groups. This can be used as a foundation from which to create a learning and development strategy, as well as plan to measure learning. Another important practice identified was the need for more engaging, high-impact learning experience which utilizes a variety of learning methods catering to a variety of learning styles and motivations (Wildi-Yune & Cordero, 2015).

It is evident that implementing gamification elements, such as leaderboards and point systems, can have a positive influence and response on learners. Harnessing the advantages of gamification has the potential to be more effective in terms of generating responses from trainees in comparison to stimulating enthusiasm and willingness to learn among trainees. Gamification can also have a significant impact on trainee learning and performance (Reynolds, 2020).

It is recommended that findings and insights from the research are implemented and integrated into online corporate training to increase training effectiveness, such as more interactive features to increase participant engagement or means of adjusting attitudes to be more open to online training can be implemented. For professionals and adult learners, it is of utmost importance that training is relevant to professional contexts and that participants gain applicable knowledge and tools which can be applied to professional practice and development. Ultimately, relevance contributes to the value of training (Kirkpatrick, 2016).

It is essential that systems are put in place to train and develop the skills and competencies of trainers, so they are adept at navigating and managing the complexities online training. In an online environment, instruction must be differentiated and engaging. Trainers must facilitate experiences for trainees and guide them through the learning process, rather than lecture and incite monotony. Using questioning techniques, evaluating, and providing meaningful feedback are tools which can assist online facilitators in creating a meaningful learning environment (Burklund, 2020).

Regarding training evaluation, it is strongly advised that professionals, trainers, and organizations engaged in online corporate training develop a strong understanding of the Kirkpatrick Model of Evaluation in order to competently design, deliver and measure effective training in a proper and purposeful way. Books and resources available online can be used for training staff, management, and trainers in regard to the model for the purpose of proper implementation and maximizing the benefit of trainings for both the clients and organizations (Kirkpatrick, 2016).

## CONCLUSION

Through the literature presented, there is sufficient relevant research in this field, which continues to expand, particularly in light of the recent pandemic. It is apparent that online corporate training can provide many benefits to an organization, as well as disadvantages compared to its counterpart, traditional classroom training. Certain practices have been found to contribute to training effectiveness, including personalization, participant interaction, and gamification features. The Kirkpatrick model has been deemed both credible and successful in measuring effectiveness of trainings and their achievement of organizational outcomes. Although there are further areas of improvement in this area, there is great potential for the enhancement of effectiveness of online training for both professionals and organizational outcomes, especially as globalization continues to shift the existing international business paradigm into the virtual world.

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Katina Grigoraskos, Psy.D, is currently an educator and administrator at Wells International School in Bangkok, Thailand. She also lectures and trains at the European International University and London School of Business & Education.

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# ONE MONTH OF “WORKPLACE” AS A SUBJECT IN NEWS, BLOGS AND DISCUSSIONS FROM 2020 TO 2021: SENTIMENTAL, SEMANTIC AND GOTHIC VISUALIZATIONS OF WORDS

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*Deniz Akbiyik, Fatma Guneri & Gülrenk Hayırcıl*

**ABSTRACT:** *This study with the title “One month of ‘workplace’ as a subject in News, Blogs and Discussions from 2020 to 2021: Sentimental, Semantic and Gothic Visualizations of Words” collects online published data about workplace subjects with the help of a web tool called webhose.io. This article analyzes the data from various countries around the world mostly from the USA, Great Britain, Canada, and India dating between 28.12.2020 and 27.01.2021. The analysis is done with a software called R including a Word Cloud, and sentiment analysis, classifications of data source, classifications of words and emotions, classifications of dates and emotions, classifications of space and emotions and sentiment analysis, a semantic approach in a visual version, and Zalgo translations in various levels, such as from minimum to maximum craziness level visualization, and with a specific objective of interpreting very recent situations related to workplaces due to Covid-19. The aim of this study is to present how the usage of different research tools conveys hidden meanings that are mostly ignored and misinterpreted.*

**KEYWORDS:** workplace, Covid-19, semantic, gothic visualization.

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**Research focus:** The authors’ focus is on the workplace in different locations through online media and reveal rational statistics through the text as well as bring a gothic interpretation on them to handle “workplace” subject with another regard than rational.

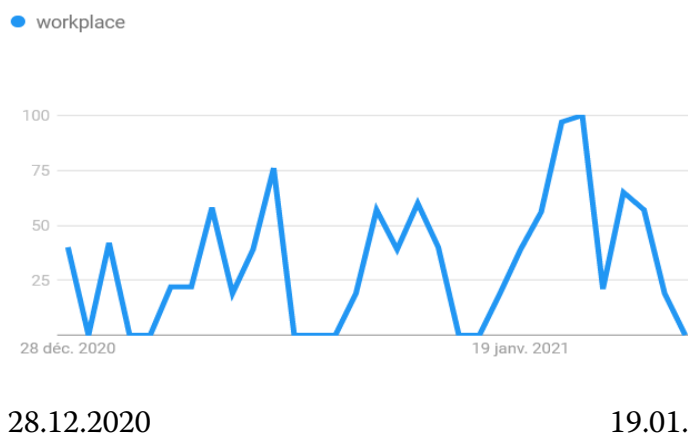
**Introduction:** Words are not just words. Each word empowers a related meaning, emotion, or allusion in language. Especially some words that surround us and are used more often by the individual or his/her environment affects not only the mood of the speaker but also the mood of the listener, as well as the reader. The environment and words that the human being is exposed to a lot is the “workplace” (Güneri & Hayırcıl, 2021; Brakel-Ahmed, *et al.*, 2021). Words related and terminology used often at a workplace are going to shape individual personalities. This study has gathered a body of texts related to the “workplace” and has created a picture of the words that are used recently in order to present a mixed interpretation of actual situations related to the

“workplace”. The research focus is to argue on the perception of recent texts, because workplaces are taking new forms due to the changes in work environments arriving with Covid-19.

### **SECONDARY DATA COLLECTION: NON-ACADEMIC NEWS ABOUT “WORKPLACE”**

According to the analytics of Google Trends “workplace” seems a quite fluctuating topic as a news between 28.12.2020 and 19.01.2021. According the analytics it has been more popular in Canada and in Southern of Atlantic as an issue (Figure 1 and 2, Table 1). The authors should be aware that “workplace” hasn’t been researched in other languages which would strongly change the results of the analytics. Norway, Ireland and Malaysia are the other countries where the topic was spoken in media. This variety in the geographical diffusion of the topic constructed the research questions:

1. What are the geographical locations that the topics frequented more?
2. What are the most associated words to the topic?
3. What are the sentiments behind the associated words?
4. What are the gothic interpretations of the associated word to the topic?



*Figure 1: The evolution of research in this subject according to Google Trends.*

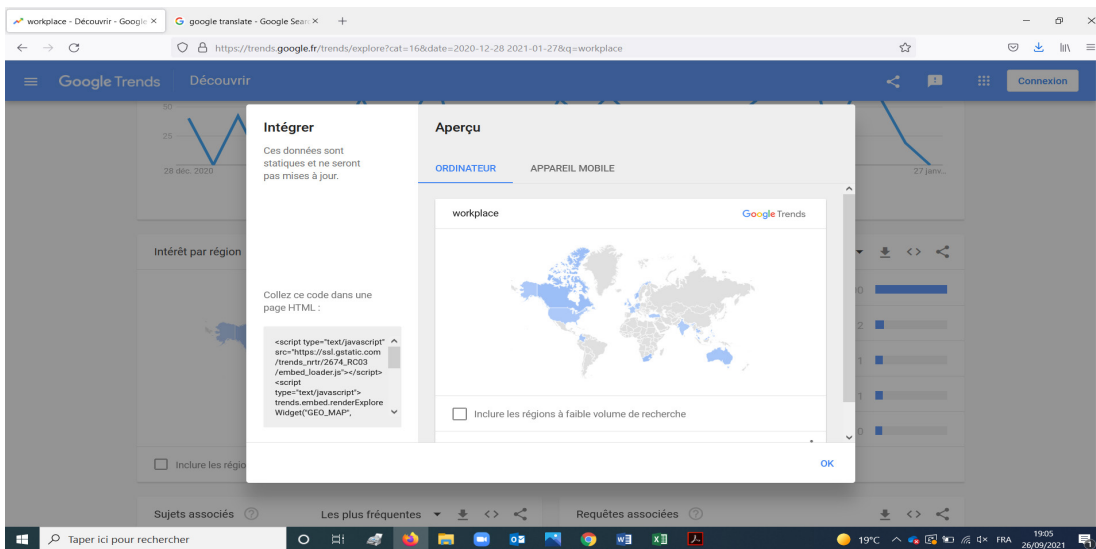


Figure 2: Interests to the subject per region.

Table 1: Frequency of subject “workplace” per region according to Google Trends.

Saint Helena	100
Canada	12
South Africa	11
Norway	11
Ireland	10
Malaysia	9
Australia	7
The Philippines	7
Colombia	4
The United Kingdom	4
The United States	3
Thailand	3
Turkey, India, France, Germany	1

## PRIMARY DATA COLLECTION

The data at hand is a body of 2700 texts (2380984 words) written on the topic of “workplace” and is gathered from online news outlets (29%), forums (1%), and blogs (70%) from 43 countries around the world between 28.12.2020 and 27.01.2021. 80% of the text originates from the USA followed by Great Britain, Canada, and India. The data is collected via webhose.io<sup>1</sup> which is according to

<sup>1</sup> <https://webhose.io/>.





Table 2: Sentiment Indicator Summary.

Minimum	1 <sup>st</sup> Quartile	Median	Mean	3 <sup>rd</sup> Quartile	Maximum
-1.000	0.021	0.038	0.039	0.059	0.500

c) Classifications:

**a. Classification of Data Source:** The Sentiment Indicator were also aggregated on the source of text. The results are presented in Table 3. Although Forum groups roughly a mere 27 texts, the difference in score is evident between texts in a 1-sided conversation context (Blog posts or News articles) and those in a 2-sided conversation context (Discussions). In the blogs writings are more personal and subjective where there is more freedom to exhibit the emotions. In the forums the emotions might be manifested due to the reactions of other sides.

Table 3: Sentiment Indicator per Source.

Text Source	Sentiment Indicator
Blogs	0.0432
Forums	0.0098
News	0.0338

**b. Classification of words and emotions:** Moreover, using the [NRC Word-Emotion Association Lexicon](#), words are categorized into ten emotions, including positive and negative. The Emotion Analysis confirms the results obtained in the Sentiment Analysis, indicating a positive sentiment throughout the texts with emotions such as “positive” and “trust” englobing 50% of the text.

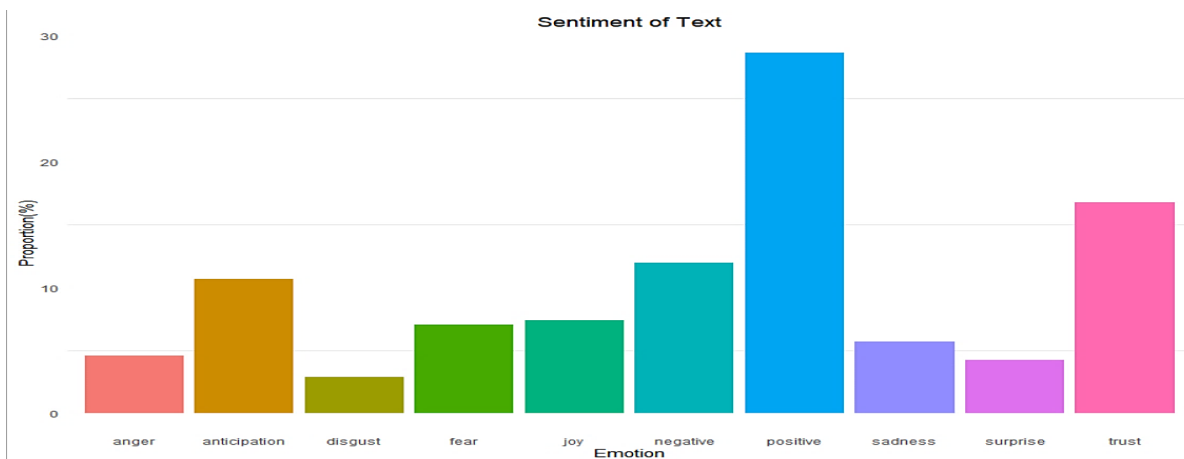


Figure 4: Emotion Analysis.

**c. Classification of Dates and Emotions:** As for Time and Space, the Sentiment Indicator is aggregated on the Date of the publication to generate the average Sentiment Indicator for a given day. Figure 5 shows the fluctuations from day to day, but no trend is recognizable. Day 1 on the figure corresponds to the first date of publication and Day 31 to the last.

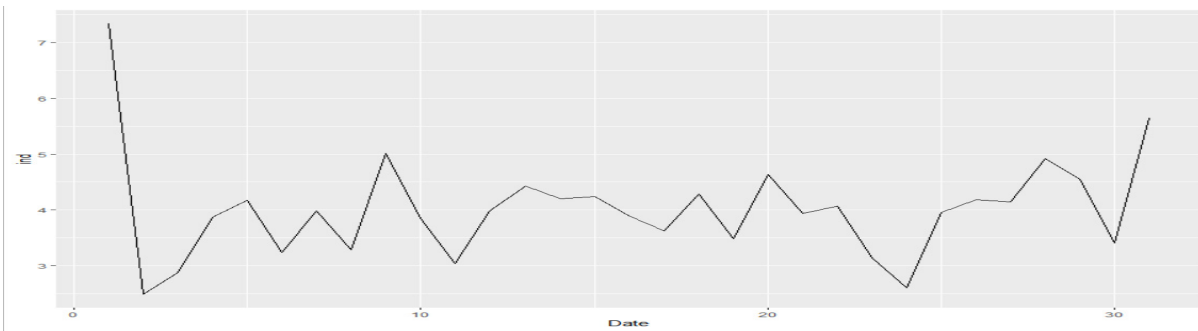


Figure 5: Average Sentiment Indicator between 28/12/2020 and 27/01/2021.

**d. Classification of Space and Emotion:** As for Space, the data is represented over a world map to spot patterns in the average Sentiment Indicator per country. The majority falls between 0.00 and 0.05 points while six countries stand out. In South America, Brazil scores higher than average in comparison to the other countries. Figure 6 gives a close-up of Europe.

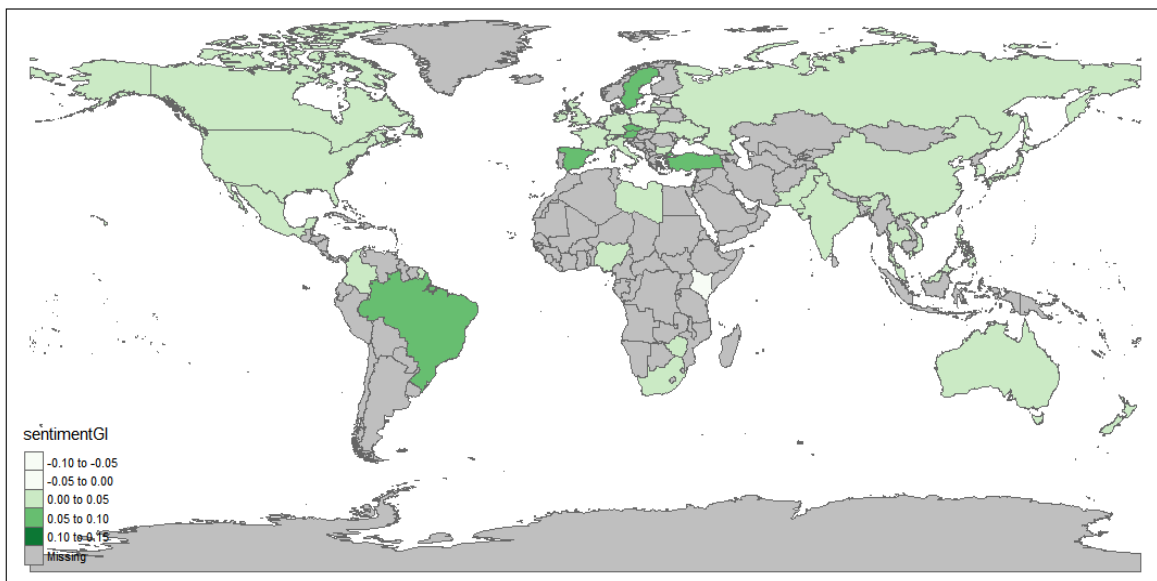


Figure 6: Sentiment Indicator per Country.

Countries of Western Europe fall in the average category while Sweden, Austria, Czech Republic, Spain, and Turkey score above average:

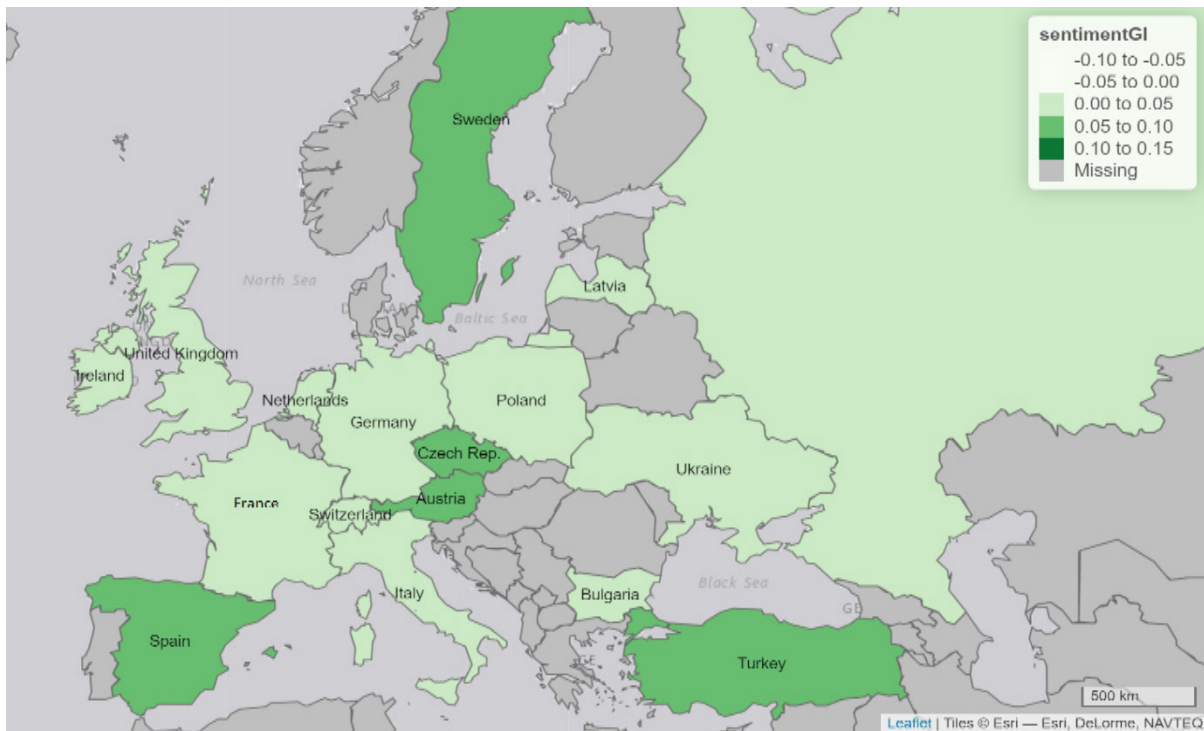


Figure 7: Sentiment Indicator per Country (Europe).

### Semantic Comments

The semantic comments have been written in two steps. First of all the most frequented words of data, analyzed above, are presented by a word frequency visual and are commented. Secondly, these words have been translated in Zalgo and commented. While the first part of semantic comments is semiotic and linguistic-focused, the second part is more subjective and imaginative.

#### *Semantic Comments and Word Frequency Visual*

The depiction of the “workplace” is constructed of the most frequent 53 words of documents running throughout the world. All of the words are single and placed one under the other. There is no punctuation and no use of complete sentences. It is as if the artist depicted a poem constructed of fifty-three single words in one long stanza (Table 4).

The very first word and the queen of the picture/ diagram is the word “more” indicating the increase of something and the need for something followed by the “help”. The “more” people work the more they need “help” from others physically and mentally. The result of “more” and “help”, however, is the “product”. Since the workplaces are focused on the results and therefore the product, the “system” needs “care”.

Still at the very top are the words “system”, “online”, “posits”, “part”, “pornography” and “account” which almost constructs a whole sentence: “The system online posits a part of a pornography account”. This reminds us how excessive work or forced work online is almost perverse. Since the former US president has immensely influenced the lives of millions, it is not a coincidence that

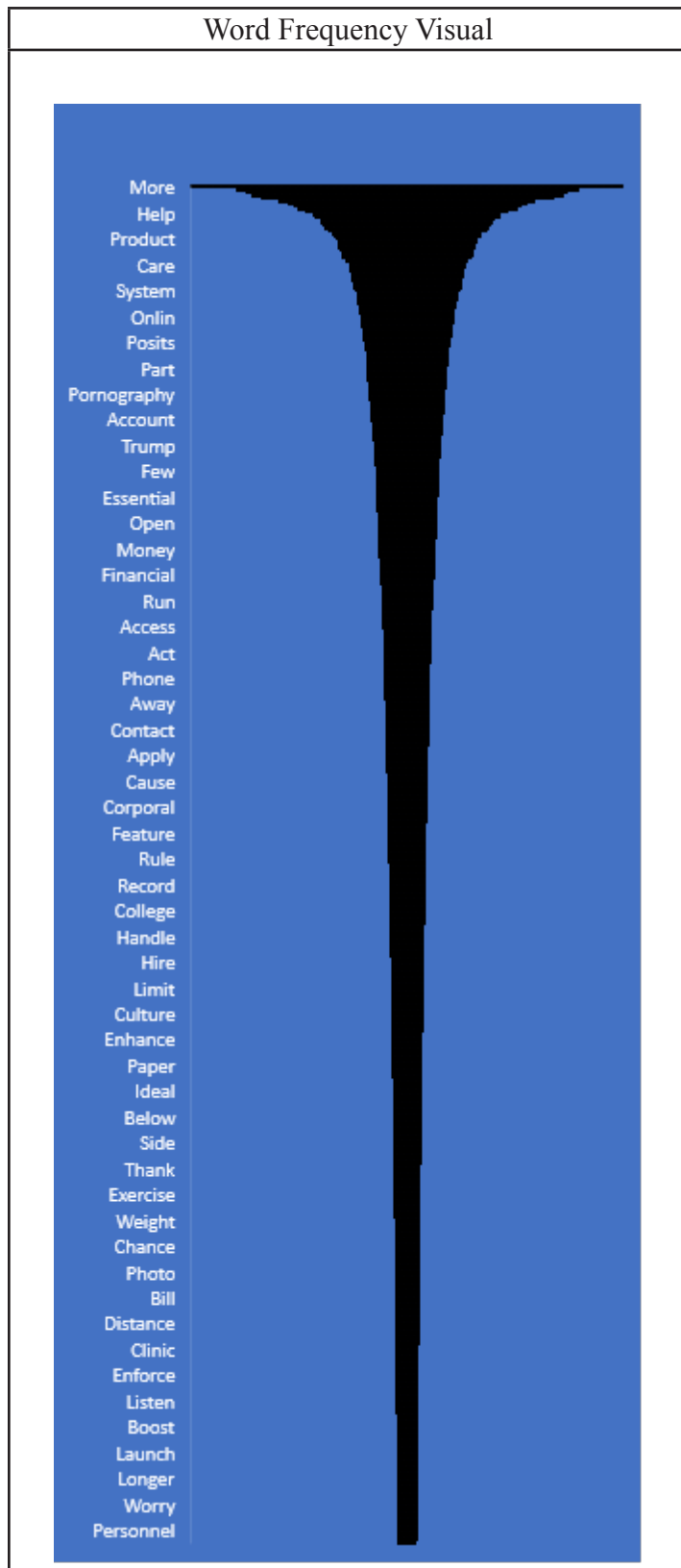
his name “Trump” is used when the text is about the workplace. Another group of words that construct a meaningful sentence is “few”, “essential”, “open”, “money”, “financial”, “run”. It is as if little essential money results in the flow of financial continuity.

In the middle of the diagram, the word “access”, “act” and “phone”, “away” and “contact” present how important communication is at a workplace. Words that are listed next to such as “apply”, “cause”, “corporal”, “feature”, “rule”, and “record” are indicating all a workflow. Whereas “college”, “handle”, “hire”, “limit” and “culture” are words as if describing an employee.

Much below at the list of words is “enhance”, “paper”, “ideal”, “below” and “thank” organizing the office. Very strange that “exercise”, “weight”, “chance”, “photo” and “bill” are next to each other. These words seem to focus again on a person whose physical attitudes are listed. Suddenly there is a coldness of the words: “distance”, “clinic”, “enforce”. The last group of words on the list are ordering something: “listen”, “boost”, “launch” while the next words such as “longer”, “worry” and “personnel” are more humane.

While reading the single words from the start to the ending each word or several words are changing the feeling of the reader. Sometimes some words evoke stronger feelings and remind the reader of several meanings.

Table 4: Semantic comments on most frequented words.



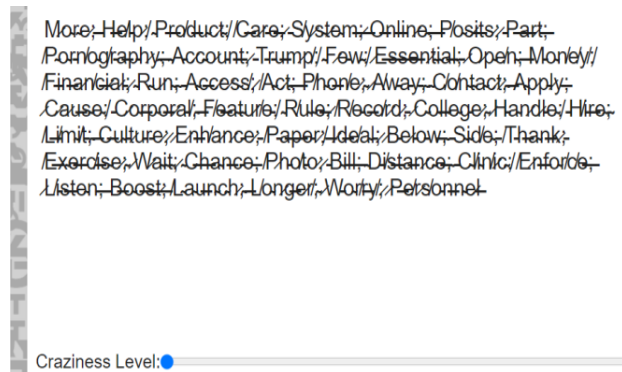
**Translation in Zalgo**

With Zalgo Text Generator<sup>3</sup> the most frequented 53 first words are translated in Zalgo. The generator converts the text into symbols by destroying the letters on various levels. Joseph Crawford notes that Zalgo is mostly associated with a “supernatural being whose presence is marked by the corruption of words and images” (88). In this study, there are only two levels of destruction: Minimum and Maximum Crazyiness.

*Table 5: Translation in Zalgo in minimum crazyiness level.*

**a. Translation in Zalgo in minimum crazyiness level:**

More; Help; Product; Care; System; Online; Posits; Part;  
 Pornography; Account; Trump; Few; Essential; Open; Money;  
 Financial; Run; Access; Act; Phone; Away; Contact; Apply;  
 Cause; Corporal; Feature; Rule; Record; College; Handle; Hire;  
 Limit; Culture; Enhance; Paper; Ideal; Below; Side; Thank;  
 Exercise; Wait; Chance; Photo; Bill; Distance; Clinic; Enforce;  
 Listen; Boost; Launch; Longer; Worry; Personnel



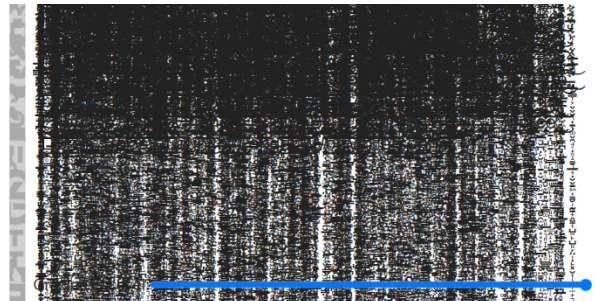
The fifty-three words gathered together filtered through a number of texts throughout the World related to the topic of “workplace” are converted to a Zalgo text. Here the words are not listed singularly but are posted to the generator as a paragraph. However, each word is still separated from the other by a semicolon and at the end of the words, and there is no usage of any punctuation. The level of the distortion is called the “crazyiness level” and is the level of minimum distortions. It is as if all the words listed are crossed out. The viewer has the feeling that the words are wrong and do not belong there. Some of the words regardless of their length are crossed out completely whereas few words such as “Account” or “Trump” are only crossed out halfway. Other such as “run”, “photo” and “few” remain uncrossed. Although these three words do not stand out, with a careful focus on the text the viewer will be able to recognize them. It seems that although the workplace is depicted by wrong words, there are still some remaining presenting the audience the right path.

<sup>3</sup> <https://lingojam.com/ZalgoText>.

## b. Translation in Zalgo in maximum craziness level:

*Table 6: Translation in Zalgo in maximum craziness level.*

More; Help; Product; Care; System; Online; Posits; Part;  
 Pornography; Account; Trump; Few; Essential; Open; Money;  
 Financial; Run; Access; Act; Phone; Away; Contact; Apply;  
 Cause; Corporal; Feature; Rule; Record; College; Handle; Hire;  
 Limit; Culture; Enhance; Paper; Ideal; Below; Side; Thank;  
 Exercise; Wait; Chance; Photo; Bill; Distance; Clinic; Enforce;  
 Listen; Boost; Launch; Longer; Worry; Personnel



With the translation of the fifty-three words in maximum craziness level by Zalgo text generator, the original text turns into a rain of darkness. It is not a coincidence that the words most frequently describing and used by the theme of the workplace are dark. All words are distorted and the audience is unable to read anything. Not knowing and being not able to reach this knowledge creates the feeling of irritation. Many people are not excited to visit their workplaces and hate it. Mondays are a universal phenomenon. The darkness in the picture is overwhelmingly dense at the top whereas this blackness falls down in lines. Therefore, although the lines are on a white background, it does not go much lighter. It is as if the fifty-three words have formed a black cloud and rain down throughout the picture.

## DISCUSSIONS

The geographical difference in the results show how the “workplace” mentioned in different locations in which frequencies. While Google Trends orient the attention to the Southern Africa and Canada, web.io highlights also the frequencies of the topic in the USA, Great Britain and India. This comparison permits authors to observe the results for various states. This is also important impact in the search of sentiments. Even though the authors don’t have the sentiment analysis via Google Trends web.io provides a global information over the world. For example, Canada’s sentimental level about the “workplace” is less than average even the topic was quite popular in the research periods for this study. That might be interpreted as all the trend subjects are not always awakening feelings. That is the reason that the authors of this study come up with a gothic analysis.

As mentioned in the study, words related and terminology used often at a workplace are shaping and influencing both the mood, ideas and the personalities of each individual. Several texts related to the “workplace” created a picture of the words used recently and are related to the workplace. Indeed, this study is successful in representing how the workplaces are taking new forms due to the changes in work environments arriving with Covid-19.

The data analysis of the study is divided in two parts in order to be able to bring two different approaches to the argument. First of all, technical, objective analysis with R is done because text mining studies require the implication of these kinds of software for qualitative research. As



seen in the results, the words are counted, classified, and respectively interpreted in a dictionary-based linguistic frame. However, this analysis misses a deepness. Why are some words more frequent? What are the meanings of them and what kind of compositions they could create to give different messages not provided? This is the reason why the second part of this study focuses on semantic analysis. Although the semantic part is based on the most frequent words, they are interpreted subjectively. Zalgo, as a part of gothic media language, presented the visualization of words without counting them. Finally, while R presents us the workplace with all positive sentiments, which is not the case for all the white collars facing the Covid-19, the semantic and gothic interpretations provide a closer focus to all possible chaos that might actually occur in these environments. As a result, this study, highlighted the necessity of different tools in research and get well-balanced conclusions.

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Deniz Akbiyik is a master's student in Data Science at the University of Lille.

Fatma Güneri, PhD, MBA, is Research Engineer at HEMiSF4iRE Design School and lecturer and thesis tutor in marketing and management at the Catholic University of Lille, at ISTC, at JUNIA, at IESEG and at Skema.

Gülrenk Hayırcıl, PhD, currently teaches at the departments of American Literature, English Literature and Translation Studies in Istanbul.

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# CHINESE TRADE DIPLOMACY DYNAMICS

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*Bora Ly*

**ABSTRACT:** *This work aims to analyze Chinese trade policy scenarios in its framework for foreign policy. Specifically, it looks at China's response to foreign trade activities, the distinction between diplomatic issues with Japan and South Korea, and a trade rivalry with the US. A comparative research method analyzes the differences and critical reasons for China's varying reactions in the case studies. The findings signpost that China's response depends on whether it is engaged in a given situation economically and politically. The multi-layered and dynamic policy-making process in China is profoundly affected by the SOEs' interests and the influential Communist Party individuals, who decide the steps they take in various conflicts.*

*Furthermore, there is evidence of political considerations with partner countries that influence foreign policy's pragmatic operation in China. China's primary goal is to prioritize domestic industries and demand while maintaining its role in the world status quo. Partly because of China's relatively muted reaction to the trade war compared to the politically accused trade conflicts with Japan and South Korea, which had a severe effect even in the short term.*

**KEYWORDS:** Chinese trade policy, SOE, trade diplomacy, trade war, WTO dispute settlement.

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**I**n the past four decades, China's post-reform development has been impressive. The size and effect of this development have been influential both nationally and internationally. Spectacular Chinese economic development has shifted its role globally, thus growing its potential to shape the global market's future course. According to the UNCTAD (2019) World Investment Report, China was the second largest FDI recipient in the world after the US. By 2018, China has now usurped the US as the top global trading nation (Ghosh, 2020). Additionally, "measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2017 stood as the largest economy in the world" (Theodora, 2020, para.1). The rise of China has become a "global economic powerhouse" and a "trading superstate" (Shambaugh, 2013, pp.156-157).

This paper seeks to examine the complexities of Chinese foreign policy as part of the international policy framework. Traditionally considered as a rising power and the second biggest world economic player, China is a member of the World Trade Organization (WTO) and combines a free-market capitalist commercial policy with a strict authoritarian communist policy regime. After changing its economic and foreign policies towards WTO membership in 2001, China has criticized its trading practices. The WTO dispute settlement mechanism was intimate in 43 cases instead of 20 cases brought in by China as a complainant (WTO, 2018a). The Trump

administration recently accused China of unfair trading regulations, including forced technology transfers, violations of intellectual property rights (IPRs) of American companies, unfair state subsidies, and domestic access barriers. Such issues with implementing the adjustment of the trade imbalance between countries materialized in the US trade war in 2018. In particular, President Trump emphasized the disparity of trade regulations with China: foreign trading rules extend to Chinese firms operating within the US, while the US businesses are faced with limited entry to the market and unfair treatment compared to domestic firms. There has also been an indication that China uses trade policy as a political strategy to reach its foreign policy objectives.

This study's primary purpose is to examine the factors underlying Chinese international trade actions and how China responds to incidents on a global arena through its trade policy. China is seen as a rising power to challenge the US's current global status quo, making Chinese trade policy dynamics relevant to international affairs. In other words, understanding the objectives and mechanisms behind Chinese unique trade perspectives could direct to the analysis and prediction of the factors influencing trade with China.

The paper consists of two main sections. The first section discusses how trade policy is applied and through which drivers in China, and which factors determine its scope and objectives. In addition to implementing the core goals of Chinese trade policy and the stakeholders, the various factors contributing to Chinese market behavior are also demonstrated. This article's principal hypothesis suggests that Chinese reaction and trade behavior during international tensions depend on how much China has at stake economically or politically involved with the status quo in question. More importantly, the cost and benefits for China in domestic and foreign trade policy decisions need to be weighed, and it seeks to offer preference to domestic benefits from international trade while showcasing its political implications in the global arena.

This study uses a comparative research method. The comparative section of the study aims to clarify the difference in the Chinese response to bilateral tensions between the US and smaller states by testing the hypothesis with case studies. A critical example of a major trade dispute with China is the existing tariffs on Chinese imports levied by the US since early 2018. Also, observations of minor cases include the political conflict with South Korea over the Terminal High Altitude Area Defense (THAAD) in 2017 and the embargo on Chinese imports of rare earth minerals into Japan in 2010. The hypothesis will be introduced to the cases, and the principal conclusions will be analyzed using sources such as research articles, government policies, trade figures, media reports, and international agencies reports. Although the partner nations differ in size and regional political and economic influence, there is a significant gap in the root cause of the issues investigated. In the ongoing trade conflict, the tension against China was directly initiated by the US and was exclusively connected to trade from the beginning. In other minor cases, the issues have been political and tended to appear unofficially. However, comparing the economic outcomes of diplomatic and trade-related incidents with China is relevant for analyzing Chinese trade policy dynamics and foreign-policy objectives. With such a rising power in the international status quo, foreign trade policies will have an enormous influence on global affairs in the future.

Additionally, the first main section contains the fundamental objectives and scope of Chinese trade policy and details of the country's policy structure. As an export-reliant country, China is rebalancing its country by adjusting to slower and more predictable growth through promoting

its private sector, domestic demand, and foreign investment, through Belt and Road Initiative (BRI) and the Made in China (MIC) 2025. Two different forms of trade-related conflicts, of which China's trade policy can be deliberate in practice, are contrasted in the second section. In the last section of the study, differences in case studies are discussed from the Chinese trade policy standpoint.

## **TRADE POLICY DYNAMICS OF CHINA**

As the second-largest economy globally, the Chinese trade policy puts a significant focus on exports and trade relations at the world stage. Since joining the World Trade Organization (WTO) in 2001, it has incorporated into the global trading network and has become the largest trading nation since 2013, representing 11.4 percent of global trade in goods in 2017 (MGI, 2019). The International Monetary Fund (IMF) agreed in November 2015 to include RMB with a weight of 10.92 percent, only third behind USD and the Euro in the Special Drawing Right (SDR)'s currency basket (Kennedy, 2015). Considering the significance and impact of China's trade policy on the global economy, understanding Chinese trade policy dynamics is fundamental. With its accession to the WTO, China has experienced rapid GDP growth and export volumes due to its export-oriented development policy. Following a brief downturn in 2008 triggered by the global financial crisis and the deepening of eurozone trouble in 2012, its growth rate has slowed (see Figure 1). The accession mechanism consisted of trade liberalization, which essentially integrated into the globalized trading environment while maintaining the domestic SOEs and improving industries' productivity to compete in the global arena (Hilpert, 2014).

Since its accelerated growth and economic downturn, the "Chinese economy entered a "new normal" situation with stable but lower GDP growth" (Zhang, 2017, p.2491). Higher GDP has helped expand the medium to the high purchasing power of the Chinese middle class. To tackle the stagnation and the sustaining and vitalizing of growth rates, the focus has been put on "domestic demand, outward foreign direct investment (FDI), liberalizing its trade and investment regime," and "multilateral trading system (MTS)" has become the main goals of Chinese trade policy framework (Zhang, 2017, pp. 2491-2492). This transformation is known for its export-driven economy and is a sign of a long-term shift in the Chinese economic policy model. In other words, the emphasis has shifted to sustain growth by growing domestic demand and regulating higher supply chains, such as innovation and technologies, rather than depend on low-value exports product.

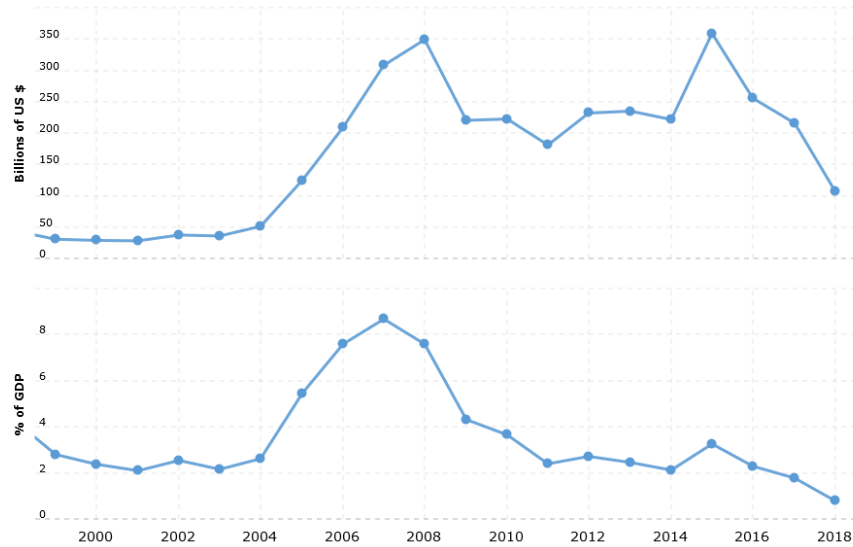


Figure 1: China Trade Balance 2000-2018.

## THE TRADE POLICY OBJECTIVES

It is necessary to analyze the context and factors that contribute to Chinese trade policy—the internal and external players in decision-making processes and elements that affect how Chinese trade policy works. China is a socialist state governed by the Communist Party of China (CPC), whose trade policy position has been growing over the last decades (Naughton, 2016). The Chinese trade policy framework is outlined in national five-year plans based on the Communist Party’s central committee’s recommendations. The latest plan is the 13th Five-Year Plan for 2016-2020 in the “new normal,” which highlights the strategy of “shift from capital accumulation-led growth to innovation-led growth, inclusive development, finance, and SOEs reform, opening up to the world” (Aglietta & Bai, 2016, p.1).

The policy-making process of China is dynamic and fragmented. According to Jakobson and Manuel (2016), there are three central coordination bodies of how the political system functions in China which “the CPC Central Committee is the leading Party coordination body, State Council to which the Central Committee has bestowed the day-to-day administration [...] including SOEs, and the State Council, is the National People’s Congress” (pp.102-103). The CPC Central Committee board leading composing of “25 members is the CPC Politburo, from which the most powerful is the 7-member CPC Politburo Standing Committee (PSC)” (Ibid, p.103). The effort to understanding the Chinese decision-making system is complicated by the presence of Leading Small Groups (LSG) or commissions to advise members about whether they will act on a particular topic of concern (Jakobson & Manuel, 2016). Jakobson and Manuel also highlight the role of personal prestige, and the party lies in the power of each LSG and political body. The higher the person responsible within the LSG and the Politburo, the higher the priority list is assigned to the issue in question (Ibid).

Moreover, each top executive's interests and political stance often relate to the essence of the problems posed. According to Hilpert (2014) states, "trade policy decision-making, negotiation, and implementation are multi-layered processes where functionaries and civil servants – acting rationally in personal and institutional self-interest" (p.22). Besides the high-ranking officials, ministries, and governmental agencies, Hilpert lists SOEs, industry associations, think tanks, and media as inducing influences to form Chinese trade policy. More precisely, "the line ministries and SOEs are the de facto decisive actors for China's trade policy" (Ibid, p.23).

Officially in the Central Government, "the National Development and Reform Commission (NDRC) is in charge of formulating and implementing national economic and social development strategies [...] the NDRC is also responsible for, inter alia: guiding, advancing and coordinating economic system reforms and conducting research on major issues relating to economic system reforms and opening-up to the outside world" whereas "the responsibility of MOFCOM includes formulating development strategies and policies for domestic and foreign trade and international economic cooperation" (WTO, 2018b, p.32). There is some ambiguity about who makes particular decisions in the party, according to Naughton (2016), but it could be inferred that the President has the supreme influence on economic and trade policy in China. However, Premier of the State Council, "Li Keqiang still oversees the day-to-day operation of the government," therefore, "Li has a tremendous influence on the interpretation of policy and the priority given to policies that compete for resources and attention" (Naughton, 2016, p.40).

Hilpert (2014) argues that the significance of trade policy inside the government has declined after China joining WTO, in which the policy-making process has fragmented and poorly structured. More specifically, the voice of the MOFCOM, without the endorsement of the top state and party leaders, has little weight. Because "it lacks authority over the domestically important SOEs, industry, and service sectors, provinces and autonomous regions" and "its function of coordinating trade policy are neither politically still less legally binding" (Hilpert, 2014, p.23). Naughton (2016) claims that there is an "uncertainty and frustration about where decisions are made" that rendered it impossible to develop coherent and concrete policies at the lower level of officials and working groups because of excessive precaution and the lack of resources to enforce the massive economic agenda of the party in action (Ibid, p.42). The other interested agencies such as the Ministry of Industry and Information Technology (MIIT), State-owned Assets Supervision and Administration Commission (SASAC), and National Development and Reform Commission (NDRC), "are all concerned principally with industrial and service companies that are threatened by import competition," and consequently, adopt skeptical liberalization positions (Ibid, p.24). Further, Hilpert (2014) notes that China's struggle to fulfill all WTO accession conditions can be clarified by these variables and the importance of achieving an absolute consensus. In other words, there tends to be a disconnect between political objectives and political decision-making bodies.

The high-level governmental policy actors and local authorities also seem to be disconnecting, determining how policy is implemented in practice. Comparable to the political process in China, Hilpert (2014) contends that individual officials' and local authorities' decisions seem to impact personal and local interests. Notable is China's incapability to regulate policy enforcement's complexities at the local level, which causes difficulty for foreign firms to trust China's authorities in global trade standards, for instance (Ibid).

Based on these results, China's trade-related political dynamics appear to be very fragmented and complex without effective stakeholder coordination. For some instances, the issues concerned differ depending on the individuals in position and the relevant ministries and working authorities, contributing to the divergence between national plans and pragmatism. It renders gauging and anticipating Chinese trade policy and its implementation challenging in practice making it very difficult to examine as a single entity.

The subsequent sections will identify three key initiatives that highlight the Chinese trade policy structure, priorities, and ideology identified by the government in its most recent plan—the Chinese Dream, Belt and Road Initiative (BRI), and Made in China (MIC) in 2025. Finally, more relevant factors concerning Chinese foreign trade policy are discussed, and the criticism China has faced for its actions in global trade.

### **CHINESE DREAM**

Following the introduction in 2012, President Xi initiated large-scale investment in infrastructure and innovation projects as a catalyst to Chinese economic growth. The term “Chinese Dream” appeared in the keynote speech of President Xi for the first time in 2012 as part of a visit to the Chinese National Museum, which is now used as the ideological framework for China's economic reform and foreign-trade policy initiatives. After the address, the term was used continuously to describe the CPC's national vision's central aims and goals. Primarily, the principle highlights mutual benefit, international cooperation, and economic diplomacy's role in fostering peace across nations (Gao, 2014).

Besides, the use of the idea of “opening up” seems to be a significant recurrent element in President Xi's speeches and the texts of Chinese officials. In the speech by Minister Commerce Gao Hucheng, the term is related to Chinese domestic policy reform by further encouraging the process (Gao, 2014). President Xi stressed out that term in his address to the public in the US in 2015, explaining Chinese ambitions to protect foreign investors' rights by adhering to non-discrimination principles through fair treatment of foreign and domestic goods and services. He also stressed China's dedication to protecting IPRs and the value for market participants of a transparent and effective legal system (Xi, 2015). In 2017, his submission to the 19th Chinese National Congress of CPC proclaimed trade and investment development as the government's priority through liberalization. He also emphasized the importance of sharing benefits and respecting different civilizations' diversity (Xi, 2017).

Given the progression of Chinese trade policy and its state economy within a nationally protectionist system, the development of the “Chinese Dream” has indicated a transition to the main course in Chinese trade policy. The concept depicts the primary goal of turning the Chinese economy from a low-value-added goods market to an innovation-driven economy that encourages foreign investment and stimulates economic development through local production and capital to serve its local demand. It was a turning point at the beginning of the century when China witnessed rapid development partially through protectionist and restrictive policies for foreign firms and strongly dependent on demand for its low-cost exports. Considering the complexities in Chinese trade policy systems, this switch in strategy seems to be a complicated mechanism that has yielded different outcomes in action.

## **BELT AND ROAD INITIATIVE (BRI)**

The BRI falls into line with the ideals of the “Chinese Dream” agenda and is becoming ever more prominent within the context of Chinese trade and foreign policy. The BRI was publicized in 2013 in return for China’s international strategy, which affirmed itself as a vehicle for growth and the global economy. This initiative was subsequently publicly adopted into the Communist Party reform blueprint as one of three illustrated governance initiatives until 2020 (Huang, 2016). Additionally, BRI already has more than 150 countries and organizations that make up roughly 70 percent of the global population and more than 50 percent of global GDP (Jizhong *et al.*, 2020).

The AIIB, a multilateral development financing initiative, has been established as part of the BRI. The AIIB was officially launched on January 16, 2016. The BRI and AIIB initiatives will help China find new impetus for growth and achieve economic and diplomatic strategic goals (Cai, 2018). Although the AIIB is vital for the Chinese economy and its geopolitical impact in the region and around the world, the economy is highly subject to the safety of the supply chain, which implies it needs international trust and support (Zha, 2015).

## **MADE IN CHINA (MIC) 2025**

MIC-2025 is a ten-year policy plan. At its core, it has aimed at turning China into a “manufacturing superpower” (Kania, 2019, para.3). By improving the Chinese industry’s productivity and creativity and alleviating Chinese dependency on global technology to 40 percent of necessary materials and domestic components by 2020 and 70 percent reliance on core materials and fundamental elements in spacecraft and machinery industries by 2025 (Morrison, 2019). China assumes that shifting into higher value-added hi-tech sectors will overcome what MIC-2025 “is intended to push the economy through this difficult transition and over the so-called middle-income trap” (McBride & Chatzky, 2019) with the issues of higher wage and reduced productivity. MIC-2025 was motivated by a similar study of the German initiative “Industry 4.0” (Kania, 2019). The ultimate goal is to render China the world’s manufacturing powerhouse in potential high-tech industries. The desire to transcend and displace other advanced economies not only implicitly, but often quite explicitly, to achieve a dominant position in these industrial sectors worldwide (Kania, 2019).

The mechanisms to promote this strategy involve significant government subsidies such as low-interest loans and tax cuts and government encouragement for Chinese companies to invest abroad (McBride & Chatzky, 2019). The strategy is targeted at improving domestic manufacturing and innovation implementation and supporting and increasing domestic demand for Chinese goods and services. Chinese government subsidies can be considered unfair from a global perspective while generating domestic policy benefits. Also, China has been accused at the international level of unfair subsidies to its domestic enterprises and allows exploitation of foreign intellectual property under joint venture regulations with Chinese firms. The formation of joint ventures with Chinese firms led to China importing foreign technologies, which allowed domestic industries to access essential data and copy their operations (McBride & Chatzky, 2019). Equally important, the prevailing opinion of China’s foreign investment policy unfairness, such as Western companies operating in China, has to adhere to rigorous investment legislation and restricted market access, and give up IPRs. At the same time, China offers its domestic firms the opportunity to invest



abroad (McBride & Chatzky, 2019). The WTO analysis confirms the matter by noting that China continues struggling to enforce IPRs, although improvements have been made at the political and judiciary level (WTO, 2018b).

### **CHINESE TRADE POLICY IN PRACTICE**

The above three initiatives illustrate the significant shift in the Chinese trade policy approach. In other words, it can be viewed as supporting domestic production and consumption in order to rebalance the economy and to respond to slowing growth rates. This reform's actual results were varied due to its dynamic, concurrent, multi-level decision-making process and lack of the capabilities to perform major strategies in action. In realistic terms, policy partly follows the vision of the party in some industries. China believes that "the Multilateral Trading System (MTS) plays a leading role in China's process of opening up, and regional trade agreements (RTAs) are viewed as a complement to the MTS," also with a commitment to "the establishment of a new foreign investment regulatory framework" and "the expansion of the Pilot Free Trade Zone (PFTZ)" to facilitate trade and attract foreign investment into the country (WTO, 2018b, p.33).

It is necessary to illustrate the Chinese economic situation's underlying condition, policy-making process, and critical trade policy goals and plans. The de jure trade practices of China are equivalent to those of an emerging economy in the WTO, "the average import tariff rate is not high, and most administrative restrictions, such as quotas and licenses, for both imports and exports have been removed. Trade policies have become increasingly transparent" (Li *et al.*, 2016, p.415). In 2010, more than 30,000 Chinese companies were operating outside China, half of these being SOEs and representing more than 80 percent of China's outward investment (Zhang, 2010). Since China joined the WTO, Chinese SOEs have become more internationalized through overseas operations, foreign direct investment (FDI), and worldwide mergers and acquisitions. However, with the current reform designed to improve corporate governance and SOEs' competitiveness, massive changes have taken place within the Chinese SOEs sector. The share of the gross domestic product (GDP) of Chinese SOEs has declined from more than 50 percent to 25 percent since 2003, accounting for 5 percent of industrial firms in 2018, compared to 18 percent in 2003 (Stratfor, 2018). Although the SOEs have declined, their strength has not diminished. In 2017, the centrally managed SOEs' assets reached about USD10.4 trillion, more than tenfold from 15 years ago (Stratfor, 2018). In the report of Fortune Global 500 in 2019, 129 Chinese enterprises made a list– up from 120 last year, among which the SOEs percentage on the list rose from 76 percent last year to 80 percent and overtaken the annual ranking of the US firms among the biggest in the world (Roach, 2019).

At the beginning of Chinese accession to the WTO, Pan (2015) noted that a non-market economy harms China's foreign trade development. The position also prompted other WTO members to enforce tariffs on Chinese imports and made China vulnerable to anti-dumping proceedings and high margin rates from other WTO nations. However, in response to litigation, Chinese firms faced substantial expenses (Pan, 2015). Because the US and EU market economy standards are difficult to foresee, China will undoubtedly remain in the organization as a non-market economy, which is supposed to have transformed into a market economy position in 2016. One of the factors behind China's efforts to rebalance its economy and adjust its core dynamics could be its stagnation and its inability to meet its multilateral system trade goals. Therefore, Chinese

trade policy is primarily based on bilateral and regional free trade agreements with ASEAN, for example, through BRI (Hilpert, 2014).

Although China has faced criticism through multilateral systems, it was accused of exploiting the global trade mechanism without fair competition on domestic markets and having weak IPR legislation, particularly by President Trump. For China, its trade policy is an integral part of domestic support through sustained GDP growth. China has, on the other hand, to align that external competition with domestic economic interests. China's efforts to enhance IPR protection stem from Chinese firms' demand that fit into one core objective of Chinese trade policy – supporting domestic industries and national economic interest through protectionist practices (Weightman, 2018). Apart from the effect on the Chinese trade policy of the WTO membership and international trade arrangements, the strategy tends to highly protect China's productive and profitable enterprises and the national and political interests (Li *et al.*, 2016). From this perspective, the opening policy, the BRI, and the MIC-2025 initiative can be interpreted to support and open opportunities for Chinese enterprises to invest abroad rather than commit themselves to definite trade liberalization.

### **CHINESE TRADE DIPLOMACY**

Among the other contributing factors mentioned above, there is evidence of diplomatic relations with China influencing bilateral trade. In particular, unjustified trade restrictions against China's partner nations can be related to ongoing diplomatic tensions. The linkage between diplomatic and trade relations with China has developed, for example, in the study of Zhang *et al.* (2011), which showed a positive link between diplomatic relations and trade fluctuations between China and other nations. Key findings show that the trade flows between China and its partner countries have been increasingly affected by political collaboration, historical contacts with Chinese communist countries, and state visits (Zhang *et al.*, 2011). On this basis, Fuchs and Klann (2013) studied the effect of meetings between government representatives of partner countries and Tibetan leader Dalai Lama on trade ties with China. The researchers show that the Dalai Lama's receipt in exports to China has a negative and short-term impact, which it calls the "Dalai Lama Effect" (Fuchs & Klann, 2013, p.170). Other political factors, such as taking an opposing position on human rights issues, maritime disputes, or the one-China policy, have also impacted bilateral trade.

For example, Reilly (2012) discovers the Chinese type of sanction informal in nature, including threats of further impacts, a halt to high-level meetings, and selective purchases. Heilmann (2016) and Reilly (2012) contend that consumer boycotts are another economic tool for China. The sanctions are often combined with high diplomatic pressure and are aimed at a particular country, with only short-term impacts on bilateral trade levels (Heilmann, 2016; Reilly, 2012). China has also used the clause of a vital security interest to pressure the US over arms trading with Taiwan, for example, to prevent repercussions in WTO (WTO, 2012).

China's informal trade restrictions appear to be deliberately crafted to undermine the partner country's economies or portions without adversely impacting the Chinese domestic market. Therefore, politically charged trade sanctions could be seen as a low cost and very effective method of achieving policy objectives quickly. Moreover, informally targeting specific international trade industries would undoubtedly contribute to marginal domestic political costs when the partner

nation is less economically powerful than China. However, Chinese long-term economic sanctions may lead to companies diversifying exports elsewhere in target countries, while Chinese firms lose trade gains (Heilmann, 2016). An important role of China in global supply chains is another constraining characteristic. Because China plays a vital role in global production, it boycotts consumer production and can harm Chinese production dependent on imports and market access (Reilly, 2012). With the MIC-2025 of China and aspirations to promote domestic value chains while reducing dependence on innovation from other countries, this factor may become less critical in the future. In the policymaking of partner countries, another consequence of this action may be expected. According to Reilly (2012), threats of decreasing economic gains from trade with China could result in the company lobbying pro-China policy in partner countries.

### **THE SINO-US TRADE WAR**

China and the US are the two world's leading economies, and trade relations between these two countries have grown since the 19th century. In 2018, US goods imports from China totaled USD 540 billion. Furthermore, US exports to China rose to just USD 120 billion, which it is notable that the US trade deficit with China rose to USD 419 billion in 2018 (Amadeo, 2020). In recent years this trade deficit has existed. After President Trump was elected, he considered this matter and imposed a tariff on importing goods from China. Because he was trying to narrow the gap between foreign trade from the two nations, he accused Chinese companies of cheating US companies of intellectual property and called on Beijing to amend its laws (Farrer, 2019). On July 07, 2018, after already imposing tariffs on steel, laundry machinery, aluminum, and solar panels, the Trump administration slapped USD 34 billion with 25 percent on Chinese goods imports. Beijing promptly repressed the importation of US soya bean, other agricultural products, and vehicles with a tariff of 25 percent (Dollar, 2018). Besides imposing retaliation tariffs on US imports, China filed a complaint with the WTO concerning the proposed American tariffs and initiated dispute consultations on imports of stainless steel and aluminum and other industries affected by the additional US tariff later in August. In addition to oppressive tariffs from partner nations, the United States has lodged a trade dispute consultation in July against China and four other WTO member states (WTO, 2018c). On September 24, 2018, the US intensified the war on trade with China by imposing an approximately USD 200 billion, 10 percent tax on Chinese products, which could be increased to 25 percent by the end of 2018. Beijing replied again to Trump's most recent decision to raise Chinese products' duty through tariffs of about USD 60 billion on US imports (Pramuk, 2019).

The Chinese response could be viewed as relatively modest as opposed to US actions. The Chinese tariff rates were lower than in the US, and Chinese policymakers were reluctant to apply tariffs on the same number of tariff lines as the US because they imported less American goods than vice versa. One of the reasons behind the muted response could be the effect of US tariffs on mainly multinational companies and supply chains, which ultimately led to increased costs for US companies instead of addressing the Trump administration's allegations of IPR theft of Chinese-owned companies (Lovely & Liang, 2018). Most Chinese tariffs also relate to American agricultural imports, which in part could be seen as a subtle strike to strongly republican-supported areas of America.

Since the trade war started in summer 2018, the Chinese MOFCOM published a statement addressing six points. Essentially, China vigorously refuted US allegations of discriminatory trading policies in technology, innovation, and IPR, the lack of Chinese focus on trading differences, and lack of legal ground for countermeasures. Apart from China's needs and the rest of the world, the latter factor was added to justify the Chinese policy reaction to the US's trade war. The statement also directly accused the US of endangering the world economy and highlighted China's view on its trade policy and opening up principles (MOFCOM, 2018a). President Xi also underlined China's emphasis on high-quality economic development through self-reliance in manufacturing, responding to the global market's growing protectionism phenomenon after the trade war (MOFCOM, 2018b). Although his remarks mirrored the critical priorities of the MIC-2025, the growing focus on the self-reliance of China may suggest a reduced political desire to compromise with the US. Instead, based on the "Chinese Dream" rhetoric emphasizing international negotiations, the trade war will encourage China to make concessions to the US and other countries more likely to compromise. Because the US imports more than vice versa from China, Chinese officials cannot implement retaliatory actions to the same degree as the US, which opens an opportunity for negotiations on tariff relief or a different approach to attack the US side. A trade war that involves tariffs makes Chinese goods on the American marketplace more costly and undermines the domestic Chinese economy and employment rate. Because China has little leverage to respond to the Trump administration's actions, China has few options to retaliate without damaging its economy. The trade conflict would undermine all economies in the long run, which gives China more opportunities for reconciliation.

Another explanation for China's moderate response to US tariffs may be US political uncertainty. The trade war is causing uncertainty for China in its stance against the US, making it difficult for China to develop a long-term trade policy. The Trump administration's continuity remains uncertain, preventing China from making drastic improvements to its trading policy with the US. Also, by encouraging diversification for other countries and concentrating on negotiating regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the 16+1 framework in Europe, China can alleviate the trade war's effects by reducing dependence on the US. Alternatively, China could defer its reaction to short-sighted US steps and wait for a new president's election, which takes a different approach to the US and China's trade relations.

China's reaction to this situation is currently mixed up—instead, it has complied with its international institutions and law commitments by seeking support from the WTO. However, it has also introduced retaliatory trade measures against the US, which can be interpreted as an act against WTO regulations. As China has deeply emphasized the importance of multilateral mechanisms and the international order, giving one-sided compromises to the US could work against its "Chinese Dream" initiative and somehow disrupt the international rules-based trading structure. Therefore, potential restraint can be predicted from the Chinese side.

Beyond China's retaliatory and rhetorical reactions, the trade war results seem to have materialized, for example, in the Chinese manufacturing sector, trade flows, and the GDP growth rate. As stated by the National Bureau of Statistics in China (NBS), the Purchasing Managers Index (PMI) for big firms and SOEs have fallen between 51.9 and 50.2 between May and October 2018 (NBS, 2018). The rates were 51.2 and 51.6 for May and October 2017 compared to the previous year (NBS, 2017). Caixin and IHS Markit private companies provided the PMI aimed at demonstrating the

state of economics and the manufacturing environment for SMEs, dropped from 51.5 in January 2018 to 50.0 in September the same year (Caixing, 2018; Ihsmarkit, 2018). The index was above 50 in the second half of 2017, while the index was gradually decreasing throughout the year in 2018, which could have the effect of trade tariffs and increasing uncertainty. Besides, GDP growth dropped marginally to 6.5 percent compared to 6.8 percent and 6.7 percent, respectively, in the first and second quarters of 2018 (Trading Economics, 2020). China's central bank has increased credit support for SMEs, lowered its reserve requirements, and expanded liquidity to the financial sector to encourage the bank's lending and investment to eliminate any adverse effects of the conflict (PBOC, 2018). Chinese exports and production encountered lower demand due to higher costs, possibly due to the trade dispute between China and the US. Nevertheless, increasing volatility can restrict market players to fear more losses.

Despite the exception of the cancellation of China's sorghum tariff, trade wars will most likely intensify in 2019 based on both nations' actions. So far, China's response to US moves has been largely retaliatory and less aggressive than the latter. China most likely to take additional steps to alleviate the impact of the trade conflict, for example, by extending efforts and engaging on a larger scale in the BRI and MIC-2025 framework in order to maintain financial stability under control. The trade rivalry between the two world's largest economies is both a political and economic conflict at the same time and highlights an unfair trading policy and regulations of China concerning foreign firms and investors. Nevertheless, the US has not explicitly outlined its demands for China to end the trade war, which has made the US objectives and demands more ambiguous in the conflict. President Trump has pointed to a trade imbalance in the US, which is hard to address only through Chinese goods. Alternatively, it could be possible to influence Chinese policies in market access for international companies and IPR on the Chinese economy through bargaining. Although adopting a defensive stance on tariffs, China has highlighted its commitments to the multilateral rules-based free trade system since it continues to be a highly protected global market. Likewise, its complex decision-making process adds to the friction between high-level rhetoric and local authorities enforcing Chinese trade policy.

### **JAPAN AND RARE EARTH MINERALS EMBARGO**

A Chinese fishing boat hit two Japanese coastguards in the disputed Senkaku/Diaoyu island in the East China Sea in September 2010. The ship captain was arrested and taken into custody, while the crew was released immediately after questioning. The state media in China has responded to an aggressive response from Japan by warning of disruption to relations of the country (McCurry, 2010). Although Japan proceeded to detain the ship captain, traders reported that the Chinese customs officers in ports had stopped shipments of rare earth minerals to Japan. Nonetheless, China denied all claims that Japan had been officially banned (Bradsher, 2010). The non-official embargo was applied to shipments to Europe and the US that contributed to conflict consultations at the WTO initially demanded by Japan, the EU, and the US (WTO, 2012). Because China is the world's largest supplier of rare earth minerals essential to the technology industry, the complainant countries argued that China unfairly used its power by violating the GATT of 1994 and several paragraphs from China's Protocol of Accession. Chinese leading position in the industry has also made it possible to influence global demand and rare earth pricing, thereby distorting the market. China blocked consultation applications and denied all accusations of discrimination, arguing that China's interest is to protect its natural resources and economic growth (WTO, 2012). The

final dispute report was published on March 26, 2014, and the dispute panel was established on September 24 in the same year (WTO, 2014).

The report's main findings concluded that China imposed stringent export duties and quotas in addition to restricting export rights for firms. China responded by appealing to the General Exceptions of GATT 1994, enabling restrictions on protecting plant life and health when they are needed. The Panel considered that China's counterarguments were not strong enough to justify the restrictions and judged that China's actions intended to achieve policy objectives (WTO, 2014). Even after China's appeals to the Dispute Settlement Board, it remained consistent with its decision and recommendations to China (WTO, 2014). China has committed to abide by WTO rulings and recommendations and vowed to eliminate all trade barriers in rare earth minerals that have been successfully introduced in compliance with the WTO (WTO, 2014).

The incident had a significant impact on trade in rare-earth minerals and affected other Japanese companies by the diplomatic conflict. During the incident, "Japanese companies were susceptible to China exposure; for each percentage point increase in sales to China, cumulative abnormal returns," which are dominated by SOEs in China (Fisman *et al.*, 2014, p.3). As a result, "during the 2010 Senkaku Event, Japanese firms experienced a cumulative abnormal return of -3.7 percent [...] while Chinese firms increased by 1.5 percent" (Ibid, p.18). In Japanese companies with high exposure to China, returns on assets dropped as the individual investors' expectations for the future became more ambiguous.

Senkaku/Diaoyu is an example of the use of economic power by China to achieve foreign policy goals. China is the second-largest trading partner of Japan, accounting for 19.1 percent of the Japanese exports in 2018 (Workman, 2020). China is also the leading supplier of rare earth minerals that are important for the Japanese technology industry. The case seems to follow Sverdrup-Thygeson's (2015) claim and Reilly (2012) that Chinese trade behavior depends on how important the target country is essential for its economy. As the world leader within this sector, China had more leverage to disrupt China-dependent Japanese industries without damaging its markets. Therefore, the economic sanctions in the case of Senkaku/Diaoyu were aggressive. China initially imposed trade barriers at the informal level, but in this case, it could not avoid being engaged as an intimate in a WTO dispute. The incident also demonstrated the political sensitivity of the rare earth minerals trade with China, which lead the Japanese government to invest in diversifying its supplies into other nations (Reuters, 2011).

## **SOUTH KOREA AND CONSUMER BOYCOTT**

In March 2017, South Korea swapped land for a Korean conglomerate Lotte to deploy a Terminal High Altitude Area Defense (THAAD) system opposed by China, referring to its national security interests. China's response was to rapidly report the incident on its state media channels, encouraging the Chinese to refrain from shopping at Lotte outlets (Ide, 2017). Despite a significant decline in sales and the cancellation of agreements with numerous Chinese brands, Lotte closed its outlets in China and eventually withdrew from the market (Chae, 2017).

The boycott spread to the tourism industry after Chinese authorities allegedly banned group tours to South Korea through Chinese travel agencies (Yonhap, 2017). According to the Korea Tourism Organization, incoming Chinese visitors dropped by 40 percent shortly after the start

of the THAAD crisis in March 2017 (Macfarlane, 2017). The diplomatic conflict had a minimal adverse effect on the overall trade flows between countries. According to the Korea International Trade Association (KITA), the volume of the overall exports of goods, particularly in 2017, rose by 16 billion compared to the previous year (KITA, n.d.).

There was no formal complaint in the WTO, but Korea brought proceedings in a WTO meeting by accusing China of a GATS Agreement breach. China reacted by refusing the allegations and did not want to deal with the matter regularly (WTO, 2017). The countries formally announced the restoration of diplomatic relations between the two nations on October 31, 2017, following which the travel ban was partly lifted (Choi & Li, 2017; MOFA, 2017). The incoming flows of Chinese visitors to Korea remained low but moderately higher after the announcement. Since its dramatic decline in figures was evident shortly after the continuing rise in land swaps in 2018, the international situation may be related to China's informal boycott. The unofficial Chinese sanction only seemed to have short-term implications for a small sector of the Korean economy.

## **ANALYSIS AND DISCUSSION**

The trade tensions between China and its partner economies mentioned above illustrate the various factors leading to Chinese economic policymaking and the practical application. In the Sino-US trade war, trade-related issues caused the conflict, whereas, in the two latter cases, a political issue spilled over to trade. There are significant differences in the style and nature of the trade measures imposed and the size and importance of the Chinese economy of the partner country and vice versa. In specific, the study is also applicable to the asymmetry in Chinese bilateral trade relations with the US, Japan, and South Korea. It is essential to consider how China's economic strategy is implemented in different countries and circumstances to distinguish the two different conflict scenarios related to trade.

Consequently, considering the context and the dynamics of Chinese trade policy in the analysis, the Chinese trade conduct in the cases introduced in previous sections can be explained. More specifically, the goals and factors constraining China are crucial to the analysis. Finally, it can provide opportunities to assess the prospects of the Chinese trade policy and its position in the future global trading environment.

Some of the main variations between the two types of disputes related to trade are Chinese style and economic sanction size. In the trade war, the root of the problem was trading, which was triggered by the US, while in minor cases, the intention for the trade problem was the result of diplomatic tensions. The primary distinction is the magnitude of China's reaction –in the trade war, China has behaved relatively constrained while publicly challenging the US's tariffs. However, minor diplomatic conflicts have had drastic consequences due to practical and informal restrictions already implemented in the short term. In Japan's case, there was no official statement on the measures imposed on the exports in question, and during the THAAD conflict with South Korea, the measures were enforced implicitly by manipulating the public using state media outlets. It might assume that the decisions on trade measures were adopted at either the lower, possibly without efficient coordination or the top level of the policy structure and primary trade policy strategy. Additionally, unofficial sanctions have given China an active role in maintaining a diplomatic image when increasing its influence in a short period.

The cost of trade sanctions is another crucial factor in both cases. During diplomatic tensions, sanctions were unofficial at low costs to the Chinese economy, as the initiatives imposed were only succeeded on specific industries or entities and were only applicable for a short period. The US is the leading and most influential trade partner for the export-led Chinese economy, prohibiting the Chinese political elite from making rapid trade policy decisions. Compared to other countries, the estimation of “the share of foreign content in China’s export is about 50 percent” (Li *et al.*, 2016, p.427). It can discourage China from trying to impose more assertive trade measures toward the US. The US tariffs have also been highly criticized and deemed as disruptive for US firms. Implementing tariffs imposed on Chinese firms would also raise domestic costs and contribute to the party’s administrative costs. The Sino-US trade war simulation shows that “China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade” (Ibid, p.1563). However, “China is affordable even though the US’s import tariffs to China are big, which means trade wars will not hurt China’s economy severely. Compared with unilateral tariff measures by the US, China’s retaliation will decrease its loss, so tariff retaliation to the US is a preferential strategy to China” (Ibid, p.1563). Indeed, China’s interest in engaging in a tariff war is significantly lower than the US, which could understand China’s moderate position in the conflict.

One factor that may clarify the variations in response to Chinese trade policy is the partner nation’s economy and the value for Chinese economies in a particular trading sector. Given the country-to-country trade imbalance, China and the US have suitable interconnections, which implies trade measures have consequences on both sides. Although China has taken a defensive position in the trade war, China explicitly sought its foreign policy target through trade measures in minor cases. In minor cases, together with political unrest, the partner country became more dependent on China than vice versa, which gave the latter power to influence the partner economy without distorting its market. Thus, the partner market’s importance to China may be a more decisive factor than the other country’s size, for instance.

Beijing’s response to the trade war varies from its perspective in comparison with the minor cases. In the informal context in the minor cases, Chinese effective trade measures were used to communicate Chinese demands for adjustments in partner country policy in a specific policy issue. China responded moderately in imposing trade barriers in the wake of the trade war and took the initiative to negotiate with the US. It appears to align with the main scope of free trade and international cooperation promoted by the party. The minor cases, however, suggest otherwise. China’s confidence that the other nation would not retaliate partially explains the magnitude of short-term trade barriers caused by its economic and political influence. Like the Chinese policy-making process, this difference indicates that Chinese trade policy is not coherent with different nations and in diverse circumstances.

Given the importance of the US for China, this could suggest that the top-level decision-makers have taken China’s lead in reacting to the trade war. The minor cases indicate that decisions were made at a local level that influenced the respective ports and travel agencies with Japan and South Korea. Furthermore, in trivial examples, sanctions that breached WTO rules had a dramatic short-term impact, which could be used to demonstrate China’s strength in the regional status quo. China’s role concerning the US is different, and it seems that the overall strategy of the relationship is uncertain due to the fragmented Chinese process of policymaking materializing in the trade policy reaction to the trade war. There is also uncertainty concerning US policy choices. Because US presidential administrations change every four years, China may refrain from implementing more robust economic



measures toward the US economy before the forthcoming elections.

Over the long run, the trade war's impact and the rise over protectionism do not align with the robust framework of "Chinese Dreams." Although its global trade policy paradigm has already adjusted to strengthen domestic demand, China remains reliant on its foreign markets exposure. Nevertheless, in addition to negotiations on specific bilateral and regional trade deals, trade wars will result in a more significant dedication to BRI, MIC-2015 strategy, and nationalist ideology as the Chinese dream. Because the conflict has exposed the unfairness of Chinese trade practices, it may also have encouraged China to develop a trade policy that would captivate more foreign investors and enterprises entering the market.

In the case studies, the effects of Chinese trade policy response vary at the political level. Although the minor cases' temporary trade actions were used to attain particular foreign policy objectives and illustrate Chinese influence, China's approach to the trade war can be viewed as cautious and vigilant due to substantial potential economic and political losses. According to Stiglitz (2017), Chinese foreign trade strategy should take a long-term view of compliance with multilateral institutions such as the WTO. China is beneficial to the international system and not only responds to the imposed sanctions that influence its relations with the US, but it also determines the integrity of the WTO and the rules-based international system. It can also be seen in China's prior dedication to multilateral institutions through the previously stated initiatives and its subsequent public reaction, which presented China as supporting globalization and free trade. However, significant initiatives in the field of Chinese trade policy are designed for a long-term effect, which will take more extended periods to come. In minor cases, indeed, the Chinese response tends to accomplish short-term targets. Hence, both types of cases illustrate the magnitude of the powers behind Chinese trade policy development, which makes its experiment challenging as a single entity.

## CONCLUSION

This study is intended to analyze the complexities of Chinese foreign trade policy and what factors affect policy-making's direction and critical goals. Amid the slower growth pace, China has recently initiated rebalancing its economy from a major exporter of low value-added goods to maintaining sustainable growth through supporting domestic demand. More precisely, Chinese trade policy mechanisms appear ambiguous and nuanced. In practice, Chinese trade policy seeks to strengthen its SOEs and appears to be motivated by the personal interests of those in power within the party and the line ministries they manage, rendering the decision-making process fragmented and weakly coordinated. Moreover, evidence demonstrates a correlation between political tension and deteriorating trade with China, illustrated in case studies with Japan and South Korea. When it comes to the main principles for Chinese foreign trade policy, it appears to support multilateralism, free trade, and sticking to the international rule-based structure. In addition to the above factors, initiatives such as BRI and MIC-2025 based on the "Chinese vision" ideology are targeted at emerging through strengthening domestic demand and achieving the highest supply chain levels. However, international companies have faced difficulties in entering the market on a practical level, and IPR allegations due to unfair Chinese subsidies and regulations benefiting domestic firms. The BRI framework has been criticized as the Chinese mechanism of implementing foreign and security policy objectives by achieving power and influence in the BRI countries.

The key results suggest that China's exposure to foreign affairs is influenced by what is at stake for China economically and politically. Thus, China has far reacted to a trade dispute in a constrained form with retaliatory trade measures because of a severe policy reaction's political and economic costs and possibly uncertainty of the current US government. Chinese trade policy is an essential channel for gaining domestic political support, and a dramatic reaction to the trade war could lead to higher domestic costs and a slower GDP growth rate. Since the MIC-2025 and the BRI are applied from a long-term perspective, their substantial economic contributions to China appear to be seen, putting pressure on China to respond to current US administration actions.

China profits from the international trade structure and has embraced multilateral frameworks, including the BRI, which implies that China changes its focus away from the US and its selective involvement in the rule-based global economy. The imposed trade sanctions were informal in political disputes, with short-term effects, to meet particular objectives in the Chinese foreign policy in a cost-effective manner. Although politically influenced and escalated trade disputes tend to use China's influence on a specific country, China may attempt to retain its role in a reasonable response to the global political and economic status quo in the trade war.

This study's objective was to address the Chinese framework of trade policy and examine how it is applied during international tensions in action. The ongoing trade war will likely continue, and its consequences need to be seen. It provides opportunities for further study into China's long-term trade policy reaction to the US and how it manages to achieve a stable growth rate in the light of international market uncertainty. Also, in international relations, considering China's rise as a global power, further research and analysis of the phenomena and its trade policy's application remain crucial.

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Bora Ly, DBA, is a Senior Lecturer in Business Administration at  
Paññāsāstra University of Cambodia, Cambodia.

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# P&L MANAGEMENT: MAKE EVERY RESOURCE TO ROW YOUR BOAT

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*Alexander Antonov*

**ABSTRACT:** *The essay is discussing how a company can benefit from getting clarity on its business model and then use P&L to check the contribution of each resource to improve the functioning of the whole business mechanism.*

*A search for new ways to foster a company's top-line growth starts with strategy and pricing and ends up with the business model revision, i.e., reassessing the value proposition, value creation, and value capturing. Such a zoom-out exercise at the business model level can be useful to show the big picture, roles of different parts of the organization and their interdependencies as well as focus all departments on value creation for the customer.*

*This overarching P&L management approach is further specified in the review of P&L lines to examine how the utilization of each resource contributes to increasing the effectiveness and efficiency of a company's business model. E.g., GTN can be used to enhance value proposition, while improving the effectiveness of promo actions can increase the efficiency of the value delivery to the customer.*

*Finally, the business model can be further advanced by establishing a system of effective fact-based resource allocation avoiding their distribution based on opinions and internal politics.*

*A P&L management 'journey', done systematically, offers managers new insights into their business. A regular application of the tools makes them interconnected and amplifies their effect. This allows the company to improve the effectiveness and efficiency of its business model constantly and consistently, and ultimately build an edge versus competition.*

**KEYWORDS:** strategy, pricing, profit and loss.

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**P**&L management refers to how executives handle their profit and loss statements through controlling revenue and cost. To do it effectively and efficiently, they should acquire certain skills. Managers should understand what drives each item of the report and be able to zoom in to find ways to improve it. However, they should also be able to zoom out to ensure that all resources contribute to achieving common objectives. In other words, to be successful, executives should be confident in their ability to work with a variety of tools driving performance while keeping a big picture in mind.



The proposed approach to P&L management puts the company's business model under the microscope and then explores how each resource contributes to its success. This is achieved by applying business tools to revive and revitalize P&L figures and make them tell a story that is easy to perceive and act on. P&L management is about value creation that is not only limited by identification and proactive handling of the challenges related to the company's performance well before they become a pain but also about revealing new opportunities for business growth.

The approach emerged as a synthesis of initiatives directed to P&L improvement primarily in the FMCG and Pharmaceutical industries. Although some of the tools require adjustments to other industries, it doesn't change the overall method because applying such instruments in a systematic and holistic way from the business model perspective is unlocking great potential in any type of business.

Following this approach resembles a journey, where P&L (presented on the left side) is used as a map to guide to the next step and helps provide insights into the business. The journey starts with studying the waters where business is sailing. This is done with pre-P&L or market analysis, which gives a reference point for all future steps. For example, a company's growth of 10% looks spectacular in a stagnating market but loses all its shine when the market is booming and expanding by 15% a year.

### PRE-P&L ANALYSIS

P&L Before looking into a company, it is worth analyzing major trends from the external environment that influence not only the company but the whole market. Models like PESTEL and Porter's 5-forces provide a framework that helps determine driving forces, make them visible, and use them to advantage. The choice of the model or creating a hybrid of them depends on the situation and trends in the business environment at that moment. The following five-step approach can be used as a guide for the model application.

1. Identification and validation of relevant impact factors.
2. Quantification of their impact and probability.
3. Projection by building scenarios to model them.
4. Planning a respond to most likely scenarios.
5. Implementation of actions on key threats & opportunities.

Identification of change drivers often leads a company to a bifurcation point where it should make a decision that determines its future. When Kodak, a leader in the analog photo industry and the inventor of the digital camera, came to such a point in the 1990s, products, and services connected to analog photo brought most of its \$16B revenue delivering \$2.5B profit. The company preferred to defend its terrain and finally went bankrupt in 2012. On the other hand, Disney went out on a limb and launched its streaming services in 2017-2018 despite undercutting its main business.



The company had even to change its incentive system as the new channel cannibalized sales. Disney is building skills in new technology, increasing its chances to keep its leading position in the fast-changing entertaining industry (Iger, 2019). As it turned out, the strategy has already paid off as the company came more prepared for the Coronavirus crisis.

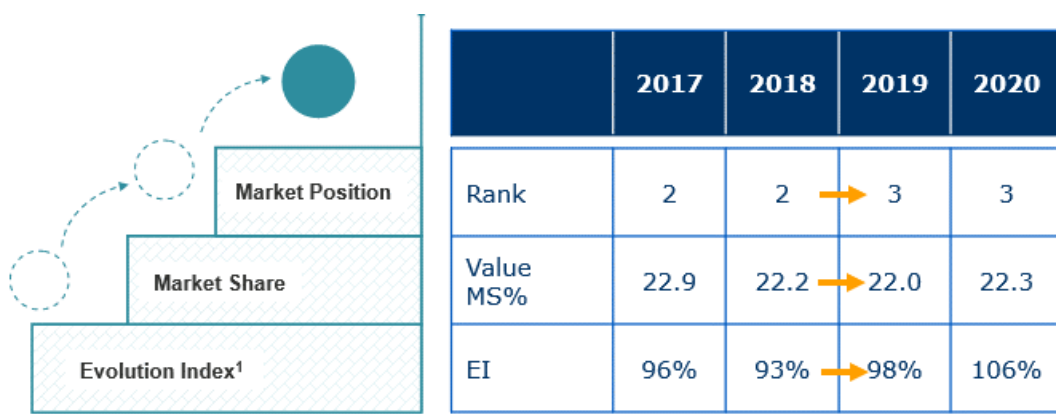
After depicting major trends and driving forces, the next step is to analyze the market dynamics that reflect changing position of the company and its competitors. The evolution index is a convenient indicator to evaluate a company’s (or its business units’ or separate products’) market performance over the years as well as benchmark it against the competition (see picture 1).

Evolution Index <sup>1</sup>	2017	2018	2019	2020
Co A	96%	93%	98%	106%
Co B	102%	108%	104%	96%
Co C	103%	99%	99%	102%

<sup>1</sup> EI = (1+% company Sales growth) / (1+% market growth) in the same period

Picture 1: Competitor market performance measured via Evolution Index.

Trends tell a story; snapshots never do. A gloomy story of Company A in the years 2017-19 ended in the year 2020 when it turned the tide. Zooming in on Company A reveals that this underperformance resulted in losing the market share and company ranking (picture 2 below). The challenge is to dig behind the figures to find out what drives these changes and continue the story. The drivers can be both external ones affecting the whole industry and identified in the environment analysis, moves of competitors, and internal processes within the organization.



<sup>1</sup> EI = (1+% company Sales growth) / (1+% market growth) in the same period

Picture 2: Company market performance measured via Evolution Index, Value market share, and market position.

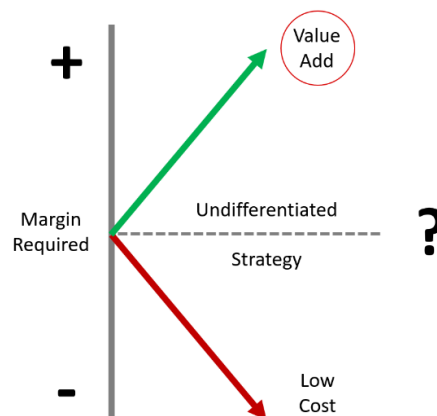
Understanding the market dynamics creates a basis for P&L analysis, which would provide answers to questions posed by in-market performance. To close the gap between external data and management reporting, an interim step is needed. This step is to analyze changes in 'Stock in Trade' (end-to-end supply chain inventory). Its tracking is not only an important control procedure but also a tool to run the business. By saturating the distributor network with inventory before the high season, or before promotion campaigns, a company assures inventory availability for high consumer demand. Also, the company gains an advantage in the competition for limited shelf space in the supply chain. However, the 'art' is to keep the stock in balance and avoid the temptation to increase it even when there is an internal or 'political' need to demonstrate high sales.

Considering the first KPI of managerial reporting, Gross Sales, it is instrumental to split it into two components: the volume of sold goods (see Resource Allocation part), and the price, which is being discussed next.

### PRICING AS A DERIVATIVE OF STRATEGY

Taking Porter's theory on Competitive advantage as a starting point (Porter, 1998), a company can consider price either to be defined by the market and focus mostly on cost leadership to secure its margins or price as a variable that reflects product value.

In the latter case, Porter argues that the company should choose a strategy focused on Differentiation, striving for adding value to consumers. It doesn't mean that by choosing one strategy a company can forget about the other component, e.g., sticking to Differentiation means neglecting the costs. It is rather about being consistent whenever a company is making strategic choices. When pursuing a Differentiation strategy, a company can't compromise on product value, even when it is engaged in cost reduction initiatives.



Picture 3: Two strategies to drive profitability: to grow value or to reduce cost.

### **Hexal Case: Finding a Solution between Differentiation and Focus on Cost**

One of the antibiotics for children of Hexal, Germany had colorful packaging showing funny bacteria with a perforated contour. After taking medicine a child could 'kill' one bacterium by making a hole in the packaging with a pencil. In addition, the package was provided with a convenient dosage device, which allowed preparing a precise dose of medicine. All these features increased the value for consumers and underlined the image of Hexal as a quality producer that takes care of its customers. When Germany introduced a tender system for medicine, the competition unfolded around the price, and companies with a lower cost of production got an edge. In other words, what was a competitive advantage of Hexal product turned out to be a disadvantage as the cost of attractive and convenient packaging was higher than ones of competitor's products. To address this challenge, Hexal kept pursuing a modified differentiation strategy, but span off a new company to compete on price.

## **VALUE-BASED PRICING**

Taking Porte Having committed to the strategy of Differentiation, the next challenge is to estimate product value for the customer, expressed in their willingness to pay, and measured by the price. A company can accept one of the three typical price-setting methods:

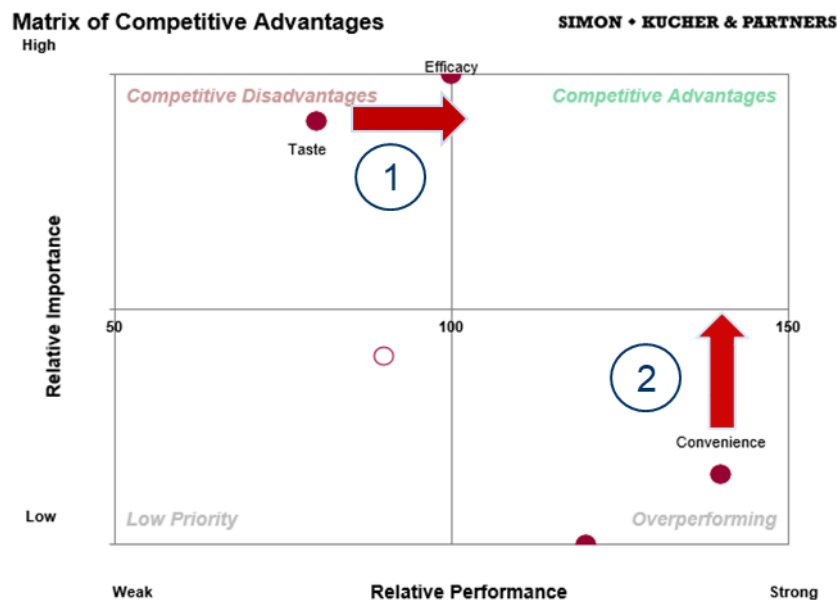
- Cost-plus pricing is the simplest one but done from the internal perspective and hence ignores the market.
- Competition-oriented pricing corrects the previous method's drawbacks. However, in this case, the company "delegates" one of the most important decisions to its rivals.
- Value-based pricing shifts the focus on the customer. It is the most challenging, but potentially the most rewarding price-setting method.

The reward of applying a value-based approach can be manifold:

- Better understanding of what customers value and how they make a product choice allows a company to create products with more value, communicate the value, and capture more of the value delivered.
- Understanding and periodic revision of advantages and drawbacks of own products versus competition from the customer perspective forces a company to permanently work on improving its value proposition.
- Accumulated expertise on factors important for the customer should saturate the work of all parts of the organization and form their objectives. E.g., having received an insight that the customer values on-time delivery over its speed, the Supply Chain department should strive for excellence on deliveries in the agreed timeframe rather than put all efforts into reducing the time between purchase and delivery.

Although most of the insights on product value come from market research, it is worth using a systematic way to structure this information. An example of such a structured approach can be demonstrated with help of the ComStrat tool from Simon-Kucher and Partners that allows estimating and comparing the value of competing products perceived by the customer, e.g., for Over the Counter (OTC) products of a pharmaceutical company in the example below.

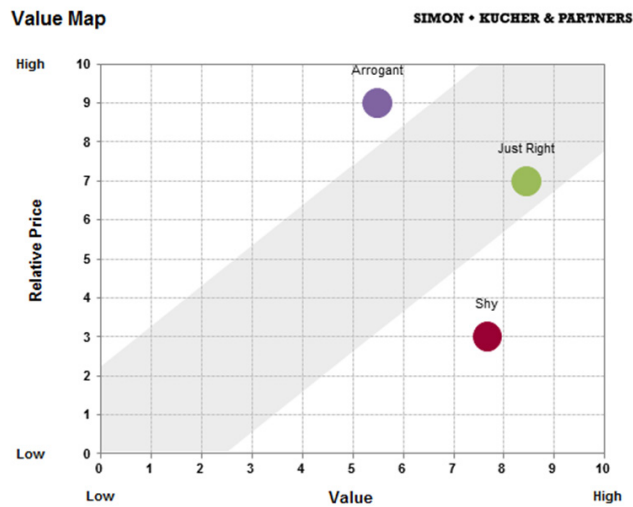
First, factors affecting consumer choice (efficacy, taste, and convenience) are graded by their importance in the consumer’s eyes. Then it is estimated how both the company’s product and its rivals perform on these factors (see picture 4). In this example, the taste of the product is quite important for the customer (scoring second after efficacy), but the company’s product lags behind its main competitor. On the other hand, the company’s product is more convenient in application than competing analogs, but it is not understood and not appreciated by the consumers. Hence, the company can either work on improving the product taste or focus on communicating to consumers the importance of factors where it already has an edge (convenience) or both.



Picture 4: An example of weighing a company’s product attributes from the consumer perspective.

Having calculated the product value (a sum of multiplications of product’s score on each factor by its importance), a company can further “weigh it” by comparing the value with the perceived price and analyze its value-price proposition versus competition in the Value Map view of the tool (see picture 5 below). In the coordinate system “Relative price - Value”, a product can occur in three positions vs. the competition:

1. Balance corridor: price and value are balanced, e.g., a high value corresponds to a high price (product “Just Right”)
2. Overpriced: the price is too high for a product with relatively low value (“Arrogant”)
3. Underpriced: product value is higher than its price (“Shy”).



*Picture 5: An outcome of value-price comparison of competing products from the consumer perspective.*

Although position 3 looks ideal, it is not always the case, as a price is also an attribute of value. For example, Mercedes offered at Hyundai's price would look suspicious and risk damaging to its image and hence losing part of its perceived value. E.g., Dan Ariely describes a case when patients complained about a headache after certain medical treatment and received a 'painkiller' tablet taken from one of the two bowls. Both bowls contained the same placebos but had different price tags (10 cent and \$2.5). In the full-price group, 85 percent of subjects experienced a reduction in pain after taking the placebo. In the low-price group, 61 percent said the pain was less (Ariely, 2010).

On the other hand, if carefully thought through and correctly communicated to consumers, the strategy where perceived product value is higher than the set price is a direct way to success. For example, Lee Iacocca (Iacocca Novak, 1986) gives an example of this strategy application, when Ford launched its first Mustang model. According to marketing research, consumers perceived the car to be 1,000 dollars more expensive than its set price. The company resisted the temptation to increase the price, and the car became a legend.

## FROM PRICING TO BUSINESS MODEL REVISION

Besides providing a method for price setting, value-based pricing has another hidden but even more important benefit: it forces a company to take a strategic view and overhaul its business model.

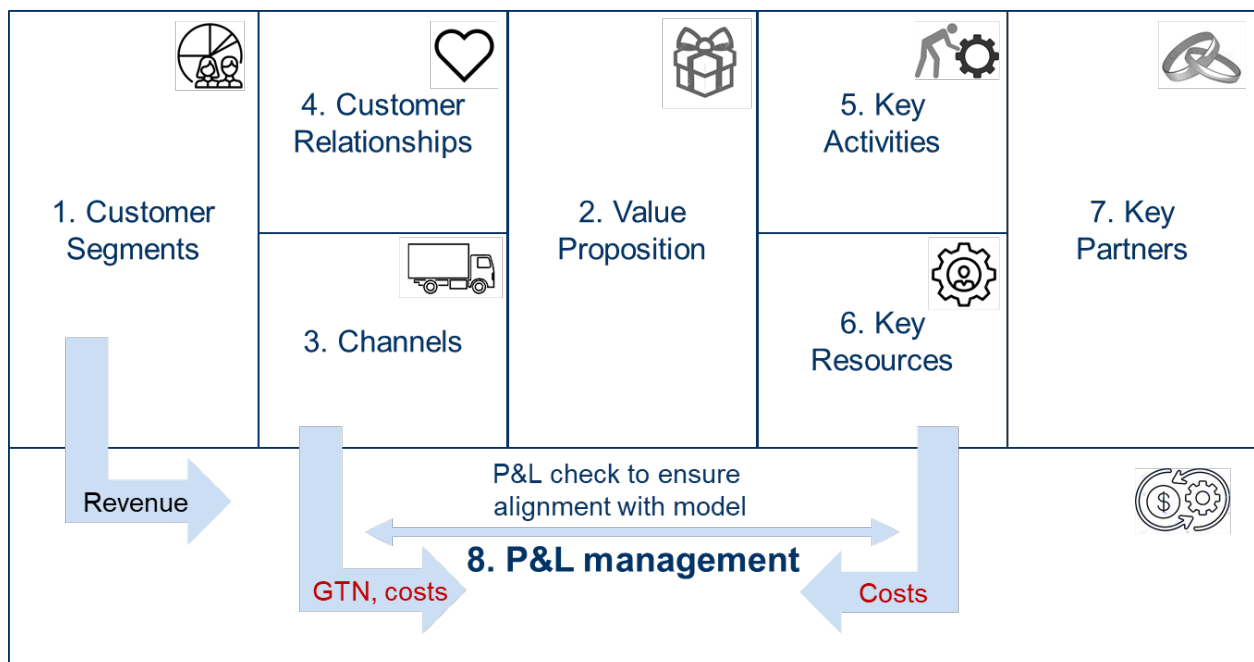
From the strategy perspective, Pricing is part of Value Capturing that deals with the revenue generation streams. As Value Capturing represents the third and the last component of any Business Model, it's impossible to modify it without reviewing two other components of the model: Value Proposition and Value Creation.

In the example described above, a pricing approach for the OTC business of a big pharmaceutical company...

- ...starts with evaluating the firm's value proposition to a customer versus competition
- ...proceeds with searching for new ways to create and communicate value to the customer
- ...and ends with the tools helping find a price matching the value.

Changing the focus from price to value helped the same pharmaceutical company apply most of the already developed tools to the prescription business (where prices are fixed) and concentrate on increasing value creation and value proposition to their customers.

The following approach based on the slightly updated Canvas model of Osterwalder and Pigneur (2010) can be adapted for the business model overhaul.



Picture 6: The modified Canvas model of Osterwalder and Pigneur (2010).

1. Identification and reassessment of all Customer Segments served by the company.
2. Verification of the Value Proposition for each Customer Segment, i.e. check out how the bundle of products and services create value for specific customers by solving their problem or satisfying their need.
3. Revision of all Channels for communicating with and reaching each Customer Segment to deliver a Value Proposition as well as rethinking the Customer Relationships.
4. Overhaul of the Key Resources, Activities, and Partnerships to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

5. The P&L management helps a company improve the functioning of the whole mechanism by finding answers to the following questions:
- a) How effective is an enterprise to generate and capture value for each Customer Segment (potentially by each channel)?
  - b) Does a company allocate resources to create the highest value to customers?
  - c) How efficient is an enterprise performing each activity / utilizing each Resource?

The modification of the initial Canvas model of Osterwalder and Pigneur (2010) is related to merge Revenue stream and Cost considered separately under the P&L management roof, which expands the model application as:

1. P&L view makes a comparison of Revenue and Cost explicit resulting in Profit
2. P&L management moves both Revenue streams and Costs from the passive role of receivers of business outcomes to active participants striving for the model enhancement as it requires improving each part of the model and measures the progress of this work.
3. Besides measuring results for the whole company, it is useful to consider P&Ls for their separate parts, e.g., by customer segment or/and by channel. Dividing the model into its components and zooming in into each of them by applying business tools helps identify and tackle problems and find out new opportunities.

Such a zoom-out exercise at the business model level can be useful to show the big picture, roles of different parts of the organization and their interdependencies as well as find out weaknesses to work on and opportunities for growth.

The stop for the business model review provides additional meaning to the P&L journey: P&L is a convenient tool to check that all company's resources and activities contribute to the common objective to create more value to the customer and more efficient functioning of the business model.

Although not explicitly formulated, a similar approach was already implicitly used by some companies. For example, in the early 2000s Amazon applied a flywheel model to discover and explain its winning formula. The leadership ensured that all elements of the business (where Prime is a good example) should incentivize a customer to spend more money, which drives volumes, so it could lower shipping costs and negotiate new deals with vendors. Then, based on performance analysis, they even shut down centralized marketing and reallocated resources to other means that could spin the flywheel faster. The marketing department was re-opened later but still constantly challenged on the issue of the value delivered to the customer (Stone, 2013).

The proposed P&L management approach doesn't only make a need for such a check an explicit requirement but uses P&L to ensure that all expenses, all resources contribute to the success of the whole enterprise in the most efficient way, which will be the purpose of the rest of the P&L journey.

## USE P&L TO INCREASE BUSINESS MODEL EFFECTIVENESS

The first P&L component that will be used for checking on contribution to the success of the business model is the Gross-to-Net (GTN) adjustment. GTN is a common definition for allowances, discounts, and bonuses, which a company offers to their customers like distributors and retailers, as well as refund them for the goods return. Often, companies pay much less attention to GTN than to the functional costs as they consider it unavoidable, i.e., some kind of market ‘tribute,’ that should be paid to be in the business. In addition, a GTN setup of a big and mature company is quite complicated as it is typically built over years to achieve different and sometimes even conflicting objectives. This makes it obscure and, in some cases, difficult to comprehend for both customers and even people within the company.

Therefore, setting up a system for GTN control and its regular revision from the value-to-customer view gives a company a lever to increase both Gross Sales (by providing discounts for spinning its business model and driving Sales) and Net Sales / Margin (by reducing GTN and hence increasing net price). The technique can be framed into the following three steps:



1. Understand the value of each discount for the customer, and pay the minimum required. For instance, it might be worth exploring whether and how a reduction of volume discount from, for example, the current 5% to 2% would change an incentive for a distributor to buy more from the company.
2. Focus on value-creating discounts and bonuses. It is not only important to give a partner an incentive, e.g., for rendering certain services that add value to the end-customer but set and keep running a system of control how these services are delivered and whether they still produce an intended effect.
3. Embed GTN control and revision into the company’s procedures. Often, even the best working programs for distributors and retailers are losing their effect over time as the counterparties consider them as part of general conditions and gradually slip out of fulfilling their obligations. Therefore, it is not only control but also a regular revision, upgrade, and update of the GTN system produce positive effect on a company’s financial results. For example, one FMCG company has established a monthly procedure of estimating benefits received from discounts comparing with the incurred cost. This triggered regular discussions in the leadership team meetings and periodic revision and update of those GTN elements that benefit from which were systematically lower than costs or didn’t deliver intended results.

Having applied such a system in its Ukrainian subsidiary, a large pharmaceuticals company managed to cut the total GTN from 13% to 6%. This was mainly achieved by substituting a 9% unconditional Sell-in discount with conditional performance-driven bonuses. Moreover, such a project changed the mindset within the company, moving GTN from an ‘unconditional’ and ‘determined by market’ to a ‘choice’ and ‘resource’ area, which should be managed like all other resources.

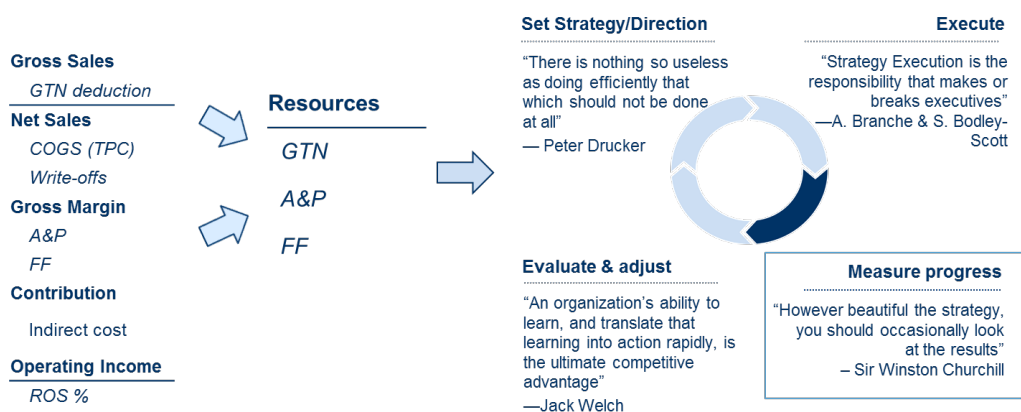


Marginality, the next short step of the P&L journey, is driven not only by Price and GTN, discussed earlier, but also by Cost of Goods Sold (COGS), which are specific for each business and depend on multiple factors, e.g., strategy, technology, forecast accuracy influencing among other write-offs. However, looking from the business model perspective, a company should primarily analyze its way of value creation: what parts can be considered as ‘commodities’ and hence outsourced and what processes should be regarded as a core competence, hence kept in house and fostered. The recent success of companies like Apple, Amazon, and especially SpaceX and Tesla, which strive to produce in-house as much as possible to fully control the value (and cost) chain forced many firms to revisit this topic.

### ORGANIZE EFFECTIVE RESOURCE ALLOCATION



Considering the Functional costs, a company should focus on the effective allocation of its limited resources to improve the effectiveness and efficiency of its business model. Looking from this standpoint can open a new perspective on resource distribution and the budgeting process in general. The task can be done in four stages, starting with setting Strategy of how the company can create and offer the most value to its customers at the least cost, then proceeding to Execution on the Strategy, followed by Measuring outcome, and closing the loop with Evaluating results, learning, and making necessary adjustments (see the picture 7 below). Although each stage is important, and a mistake at any point can lead to disastrous results, this article focuses on progress measurement as a part of P&L management.



Picture 7: Resource allocation process.

Typically, the resources of an FMCG company consist of GTN, spend on advertisement and promotion (A&P), and Field Force (FF). Due to the complexity of the task, the business usually sets up KPIs for measuring each resource separately. Improving outcomes for the utilization of

each resource leads to an improvement in overall business efficiency. It is worth noting that in a KPI setting, it is important to zoom out to ensure that KPIs reflect the effectiveness of the whole business model.

Having set KPIs for Field Force, e.g., Weighted Distribution and Off-take (an average number of products sold by an outlet in a certain period), the next step is to divide them by territory and channel and link them to the incentive system of the responsible managers. One impressive business turn-around, when Evolution Index jumped from 94% to 111% in half a year, was done in the Russian subsidiary of an international pharmaceutical company. A small number of very clear KPIs were set for the whole Sales organization, and management pursued their improvement by implementing a rigorous control procedure. As a result, a substantial positive change was achieved by performing simple small steps, made consistently and in the same direction.

A similar approach based on measuring the outcome can be applied to A&P investments. E.g., the effectiveness of promo actions can be gauged based on Sales uplift and ROI. A successful promotion should not only deliver a Sales boost but also avoid profit loss. Pre- and post-evaluation of promotions with analysis of results and then integrating learnings into rules and guidelines are critical for improving future performance.

The tool shown in picture 8 can be used for the evaluation of promo actions. It measures a difference in sales volume between historic trends (projection of the market and company dynamics from the previous periods), and actual performance versus the market. The volume difference between projection and actual performance vs. market is used to calculate a Sales uplift and change in Profit resulting from marketing activity. In this case, volume data should be taken from an external source (e.g., Nielsen or IMS), while internal data are used for a price, discounts, product margin, and campaign cost.



Picture 8: Tool for evaluation of the effectiveness of promo actions.

### Example of the tool application

Let's assume that a company sells goods priced at €10, sales volume is 1 million pieces per quarter and margin is 50%. During a promo campaign, a company gives a 10% discount and additionally invests €1 million in the promo action. To reach break-even for sales, the company should sell by ca. 11% more goods, while to achieve a break-even for profit, it requires a 50% volume growth (see the table below). Knowing these data is instrumental both for setting a goal for a promo action and for its post-evaluation.

	Pre-campaign period	Promo-campaign period
Gross Price	€10	€10
Promo-discount		10%
Net price	€10	€9
Margin	50%	44%
Campaign cost		€1.000.000
Sales volume in pieces	1.000.000	
Break-even for sales volume		<b>1.111.111</b>
Break-even for-profit volume		<b>1.500.000</b>
External market data		
Market growth in volume	5%	4%
Company product growth in volume	2%	5%
Difference (company vs market)	-3 ppt	+1 ppt
Campaign effect		<b>+4 ppt</b>

The volume change resulting from promotion is estimated based on an analysis of the market data. Let's assume that in volume terms in the period before the promotion the market grew 5% vs. the company's 2% (or -3 percent points vs. market). In the period when the promo activity was performed the market growth slowed down to 4%, while the sales volume of the company's products increased to 5%. So, incremental volume can be calculated as a difference between the actual 5% volume surge and the projected 1% increment (calculated as 4% of the market growth minus 3 percent points taken from the historical trend).

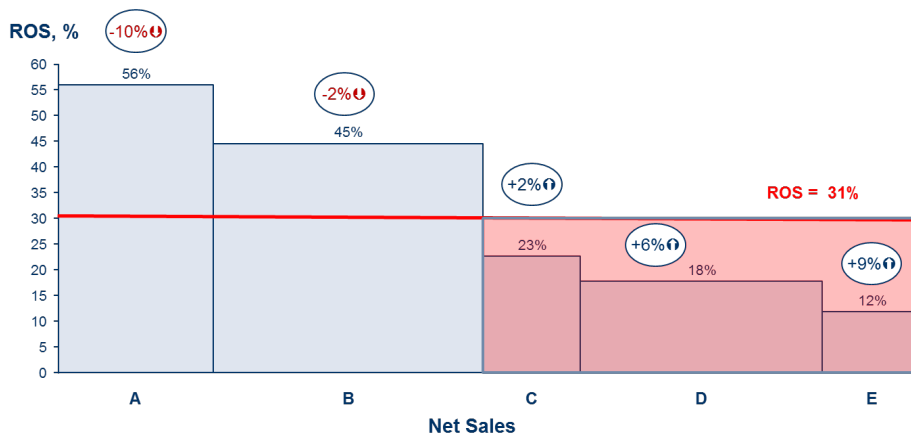
It is critical to use external data for volume changes, which allows reducing the effects of stockpiling of distributors and compare it with total market dynamics that neutralize factors influencing the whole industry.

### LAST STEP: APPLICATIONS OF PROFIT AND ROS

Although profit is a bottom line of P&L, and an ultimate goal of most businesses, a company often seeks a balance between profit maximization, Sales (and/or Market Share) growth, and cash flow or liquidity (including Net Working Capital optimization). For example, for Differentiation strategy and value-based pricing, it is recommended not to capture the whole value surplus against the competition in the price, but rather share it with consumers (Simon, 2015). In this case, the higher price captured by the company contributes to its profit, while residual value surplus helps

the customer choose in favor of company products and hence drives Sales. In the example about Ford Mustang described above, it would mean that the company had a chance to raise the price by \$500, or half from the estimated \$1 000 price delta with consumer perceived value.

Profit, and especially Return on Sales (ROS), can be also used for Resource Allocation as they allow looking at the company performance from a somewhat unfamiliar side. Picture 9 shows the contribution of product groups to the company’s profit. Sales of each group are presented on axis X and ROS on axis Y; hence the rectangle area is equal to the profit contribution of the product group. The sales growth marker at the top of each bar adds insight into dynamics, and when combined it indicates in what direction company profitability is moving. For example, in the presented case product groups with above-average profitability are declining, while growth is coming from the products with the lower margin, which is leading to the deterioration of the company’s profitability.



Picture 9: Resource allocation tool based on product profitability.

Going from one P&L line to another, checking and ensuring that each resource contributes to the success of its business model, the company guarantees the effectiveness of its resource allocation. A fact-based resource distribution with permanent measurement of results gives an assurance of the system’s efficiency and, allows a company to avoid funds distribution hinged on opinions and internal politics. This contributes to the creation of corporate governance, a system of checks and balances ensuring that an organization is stronger than individuals who happen to be leading it at any time.

## RESUME

The article is discussing how a company can benefit from getting clarity on its business model and then use P&L to check the contribution of each resource to improve the functioning of the whole business mechanism.

The journey starts with studying the waters where the business is sailing. This is done with pre-P&L or market analysis using the Evolution Index, which gives a reference point for all future steps.

A search for new ways to foster a company's top-line growth starts with strategy and pricing and ends up with the business model revision, i.e., reassessing the value proposition, value creation, and value capture. Such a zoom-out exercise at the business model level can be useful to show the big picture, roles of different parts of the organization and their interdependencies as well as focus all departments on value creation for the customer.

This overarching P&L management approach is further specified in the review of P&L lines to examine how the utilization of each resource contributes to increasing the effectiveness and efficiency of a company's business model. E.g., GTN can be used to enhance value proposition, while improving the effectiveness of promo actions can increase the efficiency of the value delivery to the customer.

Finally, the business model can be further advanced by establishing a system of effective fact-based resource allocation avoiding their distribution based on opinions and internal politics. To achieve this, a company should set objectives originated from the business model and use tools to measure the results of utilization of each resource.

A P&L management 'journey', done systematically, offers managers new insights into their business. A regular application of the tools makes them interconnected and amplifies their effect. This allows the company to improve the effectiveness and efficiency of its business model constantly and consistently, and ultimately build an edge versus competition.

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Alexander Antonov, PhD, is a lecturer of Corporate Strategy at EU Business School, Munich Campus. He is also an Associate Professor in Corporate Controlling at the International School of Management, Munich/Berlin.

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# TECH-IN-THE-LOOP (TILT): A DIFFERENT APPROACH TO PRODUCT STRATEGY IN TECH

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*Alessandra Scicchitano*

**ABSTRACT:** *Uncertainty of the times, growing awareness about the emerging data protection and artificial intelligence threats, and abundance of technology present in the market require a different approach for businesses to be successful. There is a need for the mindset shift, where we go from human-in-the-loop to tech-in-the-loop and place human beings at the center while technology evolves and revolves around them.*

*Tech-in-The-Loop or TILT is a product strategy framework that brings together human centricity, ethics, DEI (Diversity, Equity, and Inclusion) and innovation to build successful products that stand out in the sea of technology. This short article aims at presenting the framework, introducing the change of the mindset, the different phases to follow, when to involve the users, and what questions to ask.*

**KEYWORDS:** product strategy, human centricity, emerging technologies.

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Since January 2019 we are living in a different world. A world mostly made of technology. The different lockdowns have pushed consumers to mostly shop online and to network by using online tools. Whilst this process was already ongoing, COVID has accelerated the presence of technology in our lives to the extreme.

But not only that, in order to survive businesses had to find alternative ways. Many companies had to pivot from being shops to being e-shops or had to reinvent themselves introducing completely new business models. Even the most resistant companies had to give in to digital transformation which became the most important point on the agenda.

At the same time, emerging technologies are making their way into the business. Artificial Intelligence went from a buzzword to being a commonly used technology in almost everyday business.

As a direct consequence, the abundance of technology present in the market requires a different approach for tech products to be successful.

## PRODUCT STRATEGY

In 1997 Khurana *et al.* (1997) wrote: “Our research suggests that despite their intentions, very few companies have clear product strategies to guide their decisions on new product opportunities. In our sample of eleven companies, we rated only two as outstanding and two as satisfactory, while the remaining seven were seriously lacking.”

20 years later, Florén *et al.* (2017) revisited the above mentioned research to describe the critical success factors in the front end of New Product Development (NDP) in an effort to identify the critical factors in the early stages of a product development process, some of which corresponds to specific phases in the product strategy.

Today product strategy is a well-known tool to ship successful products to markets but the new historic moment and the unprecedented maturity of technology require a revisitation of the elements of the strategy itself introducing an approach that is centered around the end-users as human beings.

Much attention has already been given to the importance of bringing diversity and inclusion to the product development process. In an article published by Harvard Business Review, Chris Genteel (2018) director of Community and Business Inclusion at Google says: “Google’s Community and Business Inclusion team is dedicated to mobilizing our employees to improve equity, diversity, inclusion, and integrity at our company. One way we manifest this is by applying an inclusive lens to create better products and grow our business.”

Different efforts have also been done at the design level. According to the University of Cambridge’s Inclusive Design Toolkit (University of Cambridge, n.d. ), “Every design decision has the potential to include or exclude customers. Inclusive design emphasizes the contribution that understanding user diversity makes to informing these decisions, and thus to including as many people as possible. User diversity covers variation in capabilities, needs, and aspirations.”

Inclusive design means including excluded and diverse communities in the design process itself. It’s not enough to emphasize with them. They should be part of the process (Chang, 2020)

We believe the same concept should be adopted for every step of ideating, developing, and bringing a product to the market. It is of paramount importance in our opinion, to start earlier in the process and make sure that the strategy of the product is in line with a fair representation of all human beings.

## FROM HUMAN-IN-THE-LOOP TO TECH-IN-THE-LOOP

Ben Shneiderman (2020) in his paper “Human-Centered Artificial Intelligence: Three Fresh Ideas” explains human-centered Artificial Intelligence (HCAI) by using a simple but very effective analogy of the Copernican Revolution (Figure 1).

Human-in-the-loop is a concept that comes from Artificial Intelligence where humans give feedback to the machines to improve their learning. Machines are in the center while humans go around providing them support.

HCAI aims at centering the human being by developing AI algorithms that are meant to improve the interactions between machines and humans making it easier and better for humans who are now the center of the interaction.

## Second Copernican Revolution

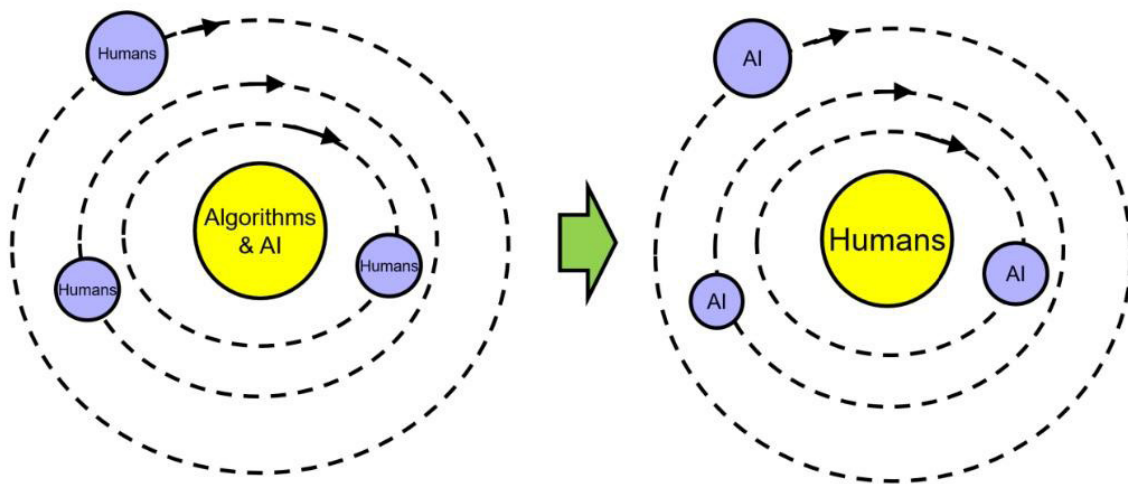


Figure 1: A second Copernican Revolution puts humans at the center of attention [5].

The Tech In The Loop (TILT) Framework follows a similar principle (Figure 2). All technology should evolve and revolve around human beings.

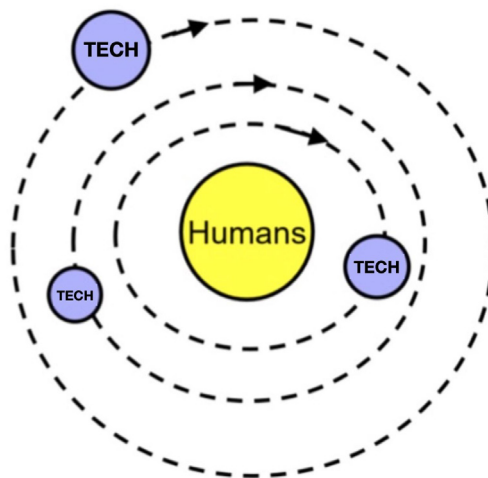


Figure 2: The Tech In the Loop (TILT) Approach.



And by keeping the same analogy, we should approach technology like Neptune. A planet with different satellites. Based on the nature of the technology, the satellites might differ in topics and number, but each satellite still brings in the most important pillars of the human-centered approach.

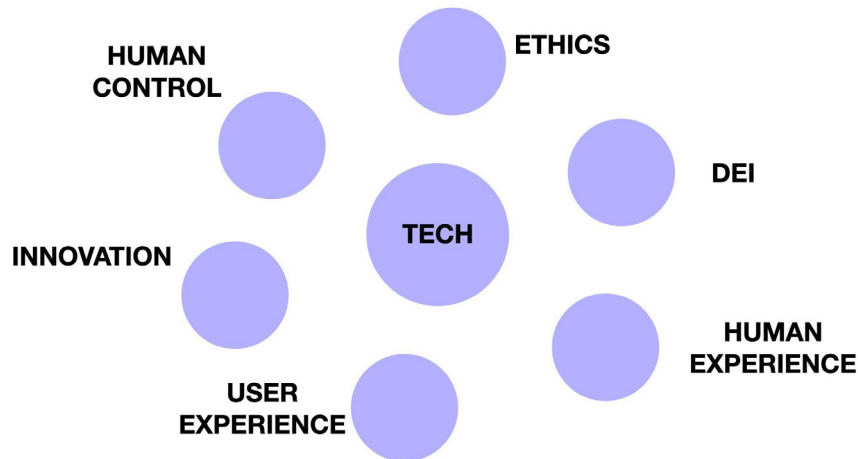


Figure 3: Example of possible satellites.

## THE TECH-IN-THE-LOOP FRAMEWORK

As already mentioned before, the principle behind the TILT framework is to bring a human-centered approach to the most important phases of the product strategy.

In a simplified approach, we can identify 4 major phases in a classical product strategy: Vision, Discovery and MVP, Product Launch. Evolution and Growth.

For the purpose of this paper, we will focus on the first three. We believe these are the ones where bringing in a human-centered approach can make the difference in whether the product will be successful or not.

### Vision

The vision is the thrive behind the evolution of the product. It's important to build a vision that is focused on the end-user instead of the company or the product itself.

By looking at history, some of the greatest products followed a vision that was focusing on humans. Henry Ford's: "We will build a motor car for the greatest multitudes." to democratize the automobile (The Henry Ford, n.d.), Bill Gates: "A computer on every desk and in every home" to build a computer that everyone could afford and enjoy (CNN Business, 2015), or Elon Musk's "to accelerate the world's transition to sustainable energy" for Tesla (Tesla Website, n.d).

They all focus on the future well-being of humankind. They are not just offering a concrete solution to a problem, but one of higher value for everyone. And their visions are naturally diverse and inclusive.

## Discovery and MVP

Product discovery can be defined as the process of iterating around a customer problem to build a solution that is the right one for the audience. A very important part of the process is the iteration on what is known as a Minimum Viable Product (MVP) which consists of a functional product in a primitive state. The MVP is grown and perfected at each iteration to become the final and complete product.

Different variations of the MVP have been introduced in the latest past. Examples are Minimum Lovable Product (MLP) (Merryweather, 2020) and Minimum Marketable Product (MMP) (Denne, 2003). Each of these focusing on different aspects of the product whether it is giving users something they love or building the minimum number of marketable features for the customer to recognize the added value.

In TILT, the discovery process and the MVP planning start instead with identifying the intention behind the need of the human being. Asking why the user lends on the product in the first place. There is always a reason, an intention behind what we do (Ajzen, 1991) and it is of paramount importance to ask the right questions to unveil the intention of the user. The planning and the development of the MVP should focus on supporting this intention.

Moreover, this phase should include targeted questions to reveal all possible biases. Not just the users' ones but the ones of the product team and company themselves. Diversity, Equity, and Inclusion cannot be ignored when building a successful product. In a first effort to make this phase more just, equal, diverse, and inclusive, Teresa Torres in her talk at IndustryConf (Torres, 2021) explains the importance of designing together with the customers because this would make sure that our products embrace diversity of the humankind. In TILT we integrate her approach by suggesting to challenge all possible biases within the product team as well.

## Product launch

The Product launch planning includes identifying the routes to market and go-to-market strategy. The product focus can be business-to-business (B2B) or business-to-consumer (B2C) or a combination of the two (B2B2C). Each of these approaches requires a different go-to-market strategy. It is beyond the scope of this paper to analyze all three approaches but what we want to do is to give an insight into the shift in the mindset that should be brought into this phase. We identified two main shifts:

- A first shift should involve going from the customer as a single entity to the customer as a community. Customers have changed their attitude towards products, especially when buying online. They know that the internet allows them to discover where their peers are. It allows them to exchange information and form groups based on their common interests. The shift represents the effort to understand how the customer relates to the product within the community itself. The rating of and the feedback on products online have become the common standards. And consumers behave like they do in a community or in a pack. They support each other in a common interest: Having the best experience. This needs to be taken into account and has to translate into taking the overall human experience to the highest level possible.
- Consumers need to be in control and informed about the technology that is brought

into their life. Emerging technologies are unknown to most consumers. They know them by name but they don't understand how they work. This generates discomfort especially when the technology should be used in a working environment. Unethical episodes like Amazon's biased AI recruiting tool (Dastin, 2018) or Facebook's misuse of personal information (Liptack, 2018), and the lack of regulation have generated confusion and distrust. Providing knowledge and making the consumer feel in control can mitigate the natural distrust shown towards innovative products.

## CONCLUSION

The Tech-In-The-Loop (TILT) framework aims at introducing a new approach to product strategy in the tech vertical introducing human centricity in the most important phases.

The framework introduces DE&I as fundamental to the success of the strategy and the product itself and focuses on enhancing the human experience to a higher level.

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Alessandra Scicchitano, PhD, is the founder of AURES Consulting. She is the creator of TILT - Tech in The Loop, a framework to build high-impact tech products, a University Lecturer teaching about Digital transformation and Information Systems.

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# TAXATION AND ECONOMIC GROWTH: IDEOLOGY, ECONOMIC EVIDENCE, AND COVID-19

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*Javier Marroquin*

**ABSTRACT:** *Lowering taxes is attractive to a large part of the population, and to some governments. However, the relationship between lower taxes and economic growth remains always controversial. In a world ravaged by a pandemic, taxes have returned to the front page of newspapers, with the aim of governments to reach a global corporate tax of 15%.*

*There are studies for all tastes, there are economic theories such as the Laffer curve, which proposes tax cuts once they have reached an optimal point, since people would rather choose not to work than pay taxes. Other more realistic models argue that the great economic growth of the United States happened from the end of the WWII until the mid-1970s, coinciding with the highest marginal taxes. In my opinion, taxes have two components, an ideological component, and an economic component. This article aims to reflect on the two areas of tax analysis.*

*The ideological component is more associated with the left-right political spectrum, the left being traditionally more likely to increase tax rates, and the right more likely to raise them. In the economic sphere, things are not so clear. The most basic thing in macroeconomics is that the state needs income to be able to spend, and the state can get income through taxes and through public debt. Since the largest percentage of tax income comes from labour income, increase and decrease of tax rates affect consumers income, who are, at the end of the day, the ones who vote. This is where politics and economics mingle, with sometimes confusing and demagogic results.*

**KEYWORDS:** taxation, progressive taxation, macroeconomics, fiscal, economic growth, population, COVID-19.

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The 2008 Nobel laureate in economics – Joseph E. Stiglitz refers to taxes and growth as a rather ideological question, especially when he refers to the large cuts in public spending and taxes that the so-called Reaganomics entailed in the early 1980s. Before Reagan came to power, taxes on wages and the effect of potential GDP growth were not among the star issues in macroeconomics. With the arrival of President Reagan, the idea of cutting taxes gained adherents because, as some macroeconomics books teach, the effects on job supply and GDP growth seemed clear at the time. So much that the economist Laffer drew his curve on a napkin in a bar having dinner with some politicians from the American Administration explaining them the effects of raising taxes in the economy.

Taxes have two components, an ideological component, and an economic component. The ideological component is more associated with the left-right political spectrum, the left being traditionally more likely to increase tax rates, and the right more likely to decrease them. In the economic sphere, things are not so clear. The most basic thing in macroeconomics is that the state needs income to be able to spend, and the state can get income through taxes and through public debt. Since the largest percentage of tax revenues comes from labour income, increase and decrease tax rates affect consumers income, who are, at the end of the day, the ones who vote. This is where politics and economics mingle, with sometimes confusing and demagogic results.

Economic science uses perfect worlds to develop elements of its models or theories. In a competitive market where all individuals are identical, the optimal tax is a lump-sum, a fixed sum for all individuals. If you earn five, you pay two, if you earn twenty, you pay two. This has two advantages, one is that there are no surprises, since you know exactly what you are going to pay. And two, you know that whatever you earn, you pay two. But this is a theoretical economic model. In practice this is not possible for constitutional reasons: it would be unacceptable for voters. This is where progressive taxes come in. Those who earn more, pay more.

As stated before, much and varied has been written about the relationship between taxes and the economic growth of a country, a regional economy, or several interconnected countries. There are basically two schools, or two approaches to the question:

1. The school that defends that raising taxes is a general disincentive to companies and consumers, and therefore is undermining economic growth.
2. The approximation that basically says the opposite, that taxes help economic growth if those taxes are translated into public spending, which contributes to economic growth.

## LITERATURE REVIEW

There is a wide range of studies that relate economic growth to public spending and taxes. The questions to be answered are permanent in macroeconomics: Does public spending contribute to economic growth? Does an increase in taxes contribute to economic growth? As sometimes the case in macroeconomics, there are four questions and five possible answers, all of which are partially right.

For example, the study *Temporal and Spatial Effects of State Taxes on Economic Growth* (Anderson, Bernard. 2017) focuses on a spatial econometric study of the effects of taxes on economic growth of 48 states in the United States during the period 1999 - 2013. The study finds a positive relationship between tax burden and economic growth, depending on the type of tax, with the strongest positive relationship being corporate tax.

*Growth Effects of Income and Consumption Taxes* (Ferretti, Roubini. 2010) explores the effects of consumption taxes and income from income on economic growth. Overall, the study concludes that factor income taxes (human and physical capital) reduce economic growth. The study *Fiscal Structure, Growth and Economic Well-being*, (José E. Boscá, Rafael Doménech and Javier Ferri. 2015), compares the tax rates over GDP in Spain with that of other European economies. Their conclusions are as follows: "The increases in tax rates in Spain generate higher public income but with no free lunches: they do so at the cost of negative effects on economic activity, employment and well-being."

In the work *Taxation in Crisis. Tax Policy and the Quest for Economic Growth* (Dimitrios D. Thomakos. And Konstantinos I. Nikolopoulos. 2012) the editors mercilessly lash out at the idea that taxes lower the income gap. There is where the Great Oxymoron - as they call it - lies: *those that have been pretending to champion the needs of the many are those that are guarding the privileges of the few*. Despite this, some of the studies compiled in the work acknowledges positive effects of taxes and public spending on economic growth.

## COVID-19

What about Covid-19? Let's take the EU. The Union has a plan. The *NextGenerationEU*, ready to flood countries with funds that meet a series of requirements that are summarized in a plan to spend them. But the EU does not have a direct role in collecting taxes, which is a role of the states. These funds will be grants, public debt and future taxes. For the EU taxes must be present, they must be fair and transparent. Companies must pay taxes where they generate profits, through The Common Consolidated Corporate Tax Base (CCCTB) a system to calculate with a single rule the taxable profits throughout the EU.

For the EU, taxes are a key piece towards a green transition of the economy. Given that a country without taxes is not conceivable, for any developed country - or one that wants to develop - the question is: what is the optimal tax rate that distorts the economy the least, and therefore helps economic growth? Well, in the EU the average annual tax revenue is 40% of the GDP. And there is no optimal solution, there is no perfect number. The tax to GDP ratio goes from 22.1% in Ireland to 46.1% in Denmark. Both developed countries. Which percentage is better?

In the meantime, what do the Americans do? Well, according to Gregory Mankiw, Harvard economics professor and economic scholar who developed the cost menu theory for price stickiness, the \$ 3.5 trillion budget in social spending that the Biden Administration plans to use in the coming years seems a bit extreme for him.

The plan covers, in his words, from cradle to grave. There are parts of the gigantic spending plan which the author praises, for example funds intended to reduce child poverty or climate change, but in general he uses the same argument as his teacher A. Okun in his work. The State pushes us to be prosperous in economic terms while urging us to be egalitarian in social terms. Therefore, a lot of social spending tends to equalize the most vulnerable people but at the same time slows down economic growth. And this decision is a political decision. In other words, our decision.

Finally let's talk about population. Population is a key resource for long-term economic growth. In the classical macroeconomic models of economic growth, it is assumed that the population grows at an exogenous and constant rate. We also know something trivial: population is the one that pays the taxes. With proper tax systems, the higher the population growth, the higher the tax collection. But all of this breaks down when population growth stagnates and then declines. This may happen in the coming decades in developed countries and in many developing countries.

According to the UN DESA World Population Prospects, there will be an increase of 26 % in the world's population growth by 2050, and 42 % increase by 2100. But here comes the other side of the coin: the fastest growing populations are happening in very poor countries, women are having fewer babies globally, and the world population is growing older.

So, let's stick to the proverb: there are two inevitable things in life, death and tax... evasion.

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Javier Marroquin is a lecturer at EU Business School, Barcelona Campus,  
and OSCE trainer.



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# DEVELOPMENTS IN THE CENTRAL BANK DIGITAL CURRENCIES (CBDC) – ESPECIALLY THE DIGITAL EURO

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*Christian Bartsch*

**ABSTRACT:** *New technologies have changed the way people use money and interact with each other in society. The digitization of the monetary system is accelerating and ideas for new types of payment infrastructures are increasingly emerging. Central banks feared that the digital cryptocurrencies currently available would weaken their control and regulation of money in their countries. This prompts them to make their own thoughts about digital fiat currencies – so-called CBDCs; also, to avoid financial instability. This short article provides a first overview of developments and further research approaches in areas such as effects on payment transactions, financial stability, functionalities and specifications as well as the underlying technology of CBDCs.*

**KEYWORDS:** digital currency, Central Bank, monetary system, Euro, cryptocurrencies.

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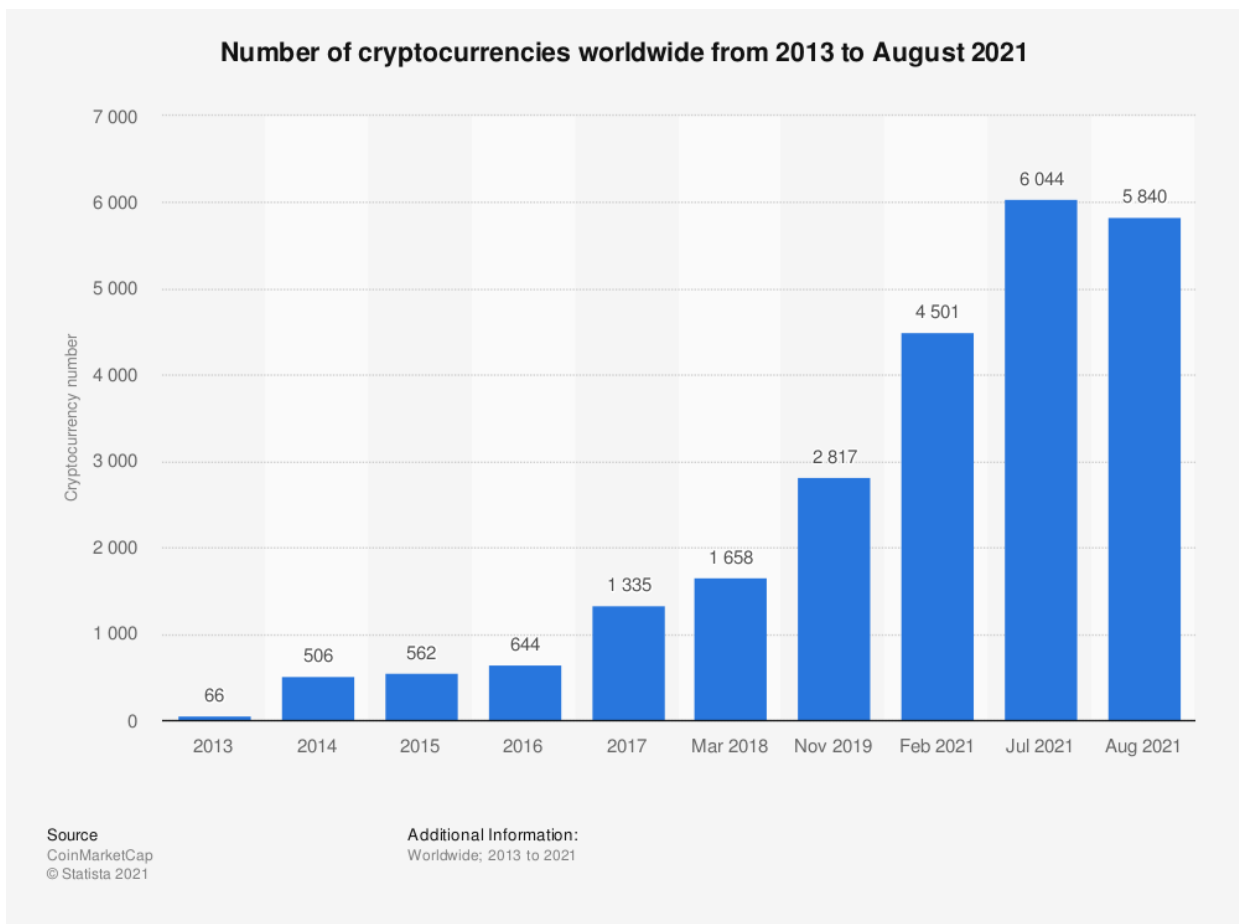
## MONEY IS BECOMING DIGITAL

**M**oney is an essential part of people's everyday lives. However, new technologies have changed the way people use money and interact with each other in society. The importance of cash is declining and new technologies have also changed the forms of money that people use in their daily lives (see also Table 1).

*Table 1: Study on the payment attitude of consumers in the euro area (SPACE), page 20, ECB, December 2020.*

<b>Share of cash transactions at POS in the euro area 2016 and 2019, by country</b>			
	<b>2016</b>	<b>2019 (Germany *2017)</b>	
Malta	92	88	in %
Cyprus	88	83	in %
Spain	87	83	in %
Italy	86	82	in %
Portugal	81	81	in %
Greece	88	80	in %
Austria	85	79	in %
Germany*	80	77	in %
Slovakia	78	74	in %
Slovenia	80	73	in %
Ireland	79	70	in %
Latvia	71	68	in %
Lithuania	75	68	in %
France	68	59	in %
Belgium	63	58	in %
Luxembourg	64	54	in %
Estonia	48	48	in %
Finland	54	35	in %
Netherlands*	46	34	in %

The financial system must adapt to this. Central banks have monetary policy objectives and regulate the money supply, while commercial banks in turn ensure that money is safe, convenient to use and available to everyone.



*Figure 1: Number of cryptocurrencies worldwide from 2013 to August 2021, CoinMarketCap, August 2021.*

The digitization of the monetary system is accelerating and ideas for new types of payment infrastructures are increasingly emerging. So it is not surprising how many cryptocurrencies are already on the market (see Figure 1)

The role of the world's central banks is to take these new technological developments into account and to respond to them. They are working on it and want to make sure that digital and electronic currency forms are available to everyone so that they can pay and be converted into cash (Bianco 2020).

Central Bank Digital Currency (CBDC), also known as digital money base or digital fiat currencies, are new digital forms of central bank money equivalent to physical cash. Central banks feared that the digital cryptocurrencies would weaken their control over the management and regulation of money in their countries. This prompted various central banks to develop ideas for their own CBDCs in order to avoid financial instability, as cryptocurrencies are currently usually not yet regulated by law.

## CURRENT EXAMPLES OF USAGE

China, the Bahamas, the Marshall Islands, Sweden and the monetary union in the Eastern Caribbean are pioneers of the digital currency (Gross, 2020). In 2014, China's central bank formed a special task force to test the effectiveness and efficiency of various CBDC prototypes. China has developed its current DCEP wallet for digital currencies, which is currently in use. The use of cash in China is declining, instead people prefer to use digital currencies. The industrialization of the RMB is another factor contributing to the growth of the CBDC in pioneering countries, including China. Sweden uses a CBDC known as an e-crown. This form of digital currency was introduced in 2017 (Fernandez *et al.*, 2020). Many people in Sweden have also switched from cash to e-kroner. The respective Swedish authorities are informing people about the importance of using digital currencies and the use of the e-krona. The use of cash for transactions in some parts is not accepted due to the Covid-19 pandemic, which is also affecting Sweden.

The Sand Dollar is the Bahamas' CBDC project. The prototype was initiated by the Central Bank of the Bahamas in December 2019. However, there were significant gaps in the Bahamas' financial system. This has made the use of cash in the Bahamas higher than the use of digital currencies. In countries like the Bahamas, economic monitoring is required for effective CBDC operations (Fernandez *et al.* 2020). The DXCD, on the other hand, is the monetary union of the Eastern Caribbean. The central bank in the Eastern Caribbean allows people to use the DXCD digital currency without a bank account. This has made it easy for people in the Caribbean to use digital currencies to conduct transactions. Most countries in Europe consider digital currencies to be the next way to conduct monetary transactions.

## THE DESIGN OF DIGITAL CURRENCIES

The individual design of CBDCs varies, but the following aspects can be generalized. CBDCs use block chain technologies that allow people to store money in their digital wallets and digital banks. CBDCs are the same as cash; The only difference is that cash is on paper, while CBDCs are virtual, digital funds. Central banks produce the CBDCs – they can be distributed directly to the client or passed on through commercial banks under the supervision of central banks.

CBDCs are issued by central banks to enable the regulation of money. They are token-based and generally accessible, allowing users to open and store their money in their digital wallets and at the central bank. Central banks have reserves for digital central banks, where people's deposits are stored digitally. CBDCs are legally recognized means of payment. CBDCs are just as trustworthy as cash, which is regulated and printed by central banks around the world.

## THE ADVANTAGES AND BENEFITS OF CBDCS

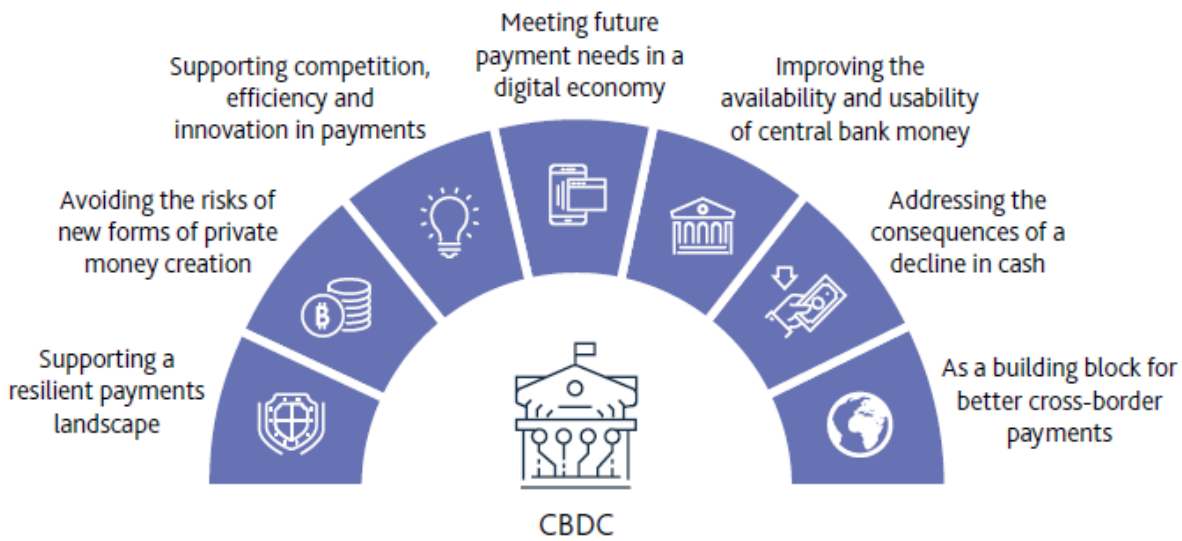


Figure 2: Opportunities for CBDC to support monetary and financial stability, Bank of England, March 2020.

CBDCs are beneficial in different ways. First, CBDCs allow central banks to better monitor and visualize most economic activity in a country. Central banks have no insight into financial/monetary transactions involving cash. With digital currencies, central banks can view the financial transactions made by people and thus easily manage the currency, since they have, for example, the data of a country's imports and exports (see also Figure 2).

CBDCs make it possible to make payments cheaper and faster because, unlike cash, there are no delays in processing.

CBDCs also contribute to tax compliance as they do not allow people to evade taxes when most transactions are visible in the central bank's database (Kwon Lee & Park, 2020). Business transactions processed with cash have no records in the central bank's databases. Thanks to digital currencies, the relevant government agencies can ensure that people comply with government regulations and pay their taxes after carrying out monetary transactions. This helps reduce financial risks as central banks ensure that all transactions are taxed.

On the other hand, digital currencies offer a great opportunity against money laundering. Physical cash enables anonymous payments used by criminals who receive and exchange large sums of money with each other. CBDCs contribute to the possibility of detecting dubious money flows. According to a survey conducted by the US, money laundering accounts for almost five percent of global GDP (Bhushan & Agrawal, 2020).

After all, CBDCs are the future of money, as CBDCs like "analog capital" generate interest income over time and this leads people to store their funds digitally through central banks (Kwon Lee & Park, 2020).

## LESSONS LEARNED FROM THE CBDC PIONEERS

CBDCs offer good and effective ways for money transactions – in contrast to cash - to achieve a higher level of security.

The issue of privacy has been challenged in countries that use CBDCs (Bhushan & Agrawal 2020). A digital currency is beneficial because the central bank can collect information about cash flows, but this can also lead to them receiving private information such as account balances.

The simplification of payments and investments are advantageous, but can also lead to a decoupling with regard to the classic banks. No intermediary may be required in the future.

However, it is precisely the simplification and acceleration of payment flows that can also lead to the risk in the event of a banking crisis. With physical money, there is a certain limitation on how much money you can withdraw. In the case of CBDCs, this is omitted.

All of these individual aspects have led CBDC countries to set restrictions, including CBDCs limits that a person can have in their wallet and at the banks.

## THE CURRENT SITUATION WITH THE DIGITAL EURO

The European Central Bank (ECB) plans to introduce and use the digital euro. Christine Lagarde, President of the Central Bank of the European Union, said that the EU is finalizing its plan to make the digital euro available to Europeans in the coming years. She explained that the EU's governing council will decide whether the European Union will continue to use the Euro as a currency in its current form. Lagarde also said that the EU is addressing important issues related to CBDCs. First, CBDCs can reduce profitability in the banking sector if most people convert their savings into digital currencies (Schilling *et. al.*, 2020).

Europeans must have confidence as the transition to the digital euro is a fundamental change that citizens must support. In addition, Christine Lagarde explained that the digital euro must improve the system instead of breaking it. People should not be afraid of CBDCs, and it is the job of the Central Bank in Europe to ensure that CBDCs are free from activities such as money laundering and financing terrorist activities (Schilling *et. al.*, 2020).

## SUMMARY AND OUTLOOK

In summary, the central bank's digital currencies (CBDCs), also known as digital money base or digital fiat currencies, are new digital forms of central bank money equivalent to physical cash. Central banks feared that the digital cryptocurrencies currently available would weaken their control and regulation of money in their countries. This prompts them to make their own thoughts on digital fiat currencies – such as the digital euro; also to avoid financial instability.

China, the Bahamas, the Marshall Islands, Sweden and the monetary union in the Eastern Caribbean are pioneers of digital currency. In 2014, China's central bank formed a special task force to test the effectiveness and efficiency of various CBDC prototypes.

Especially since CBDCs with the opportunities and risks represent a very new and thus unexplored field, research should start here and examine aspects such as effects on payment transactions, financial stability, functionalities and specifications as well as the underlying technology. The Bank of England has already raised very interesting further research questions in a discussion paper (2020).

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Christian Bartsch, DBA, is a lecturer in Finance and Family Business Management at EU Business School, Munich Campus.

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# INDIA'S INSOLVENCY REGIME AT CROSSROADS: COMMERCIAL WISDOM GONE AWRY?

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*Rajat Malhotra*

**ABSTRACT:** *India introduced an Insolvency and Bankruptcy Code ("Code") in 2016 with the intent to cause early resolution by change in management. On commencement of insolvency under the Code, a committee comprising the financial creditors of the company (ordinarily banks and institutional lenders financing the business) ("COC") is constituted, and whose commercial wisdom reigns supreme during the process and in its choice of resolution plan.*

*However, in two recent cases - Sterling Biotech and Siva Industries, the COC has accepted offers from ousted management while taking large haircuts on their dues. In Siva Industries, the COC accepted a haircut of 95% when approving a plan by the erstwhile promoter. In Sterling Biotech, an account in the value of INR 9000 Crore (USD 1.2 Billion) was settled by the COC against a proposal of INR 3110 Crore (USD 410 Million) (66% haircut) from the ousted management. Applications seeking reversal of insolvency proceedings in these cases have put the two guiding principles of the Code - 'early resolution' and 'resolution through change in management', in conflict with one another. The application in Sterling Biotech, in fact, came to be rejected by court as the ousted promoters were found to have entered through a backdoor despite the Code barring their participation in the resolution process. However, in appeal this decision has been reversed as 'early resolution' basis collective commercial wisdom of the COC has been found to reign supreme.*

*While India's Supreme Court in earlier judgements has held COC's commercial decisions to be unassailable, this supremacy has not yet been tested when inducting erstwhile promoters that drove the company to insolvency in the first place. Through these two cases, the author explores the limits of commercial wisdom vested in the COC, and whether it can be permitted to reign supreme and defeat the provisions of the Code itself.*

**KEYWORDS:** Insolvency and Bankruptcy Code, COC, India.

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**T**he Insolvency and Bankruptcy Code was enacted in 2016, to serve a dual purpose; to consolidate the myriad legislations that dealt with the process of insolvency, and to make a unified mechanism for the timely resolution of insolvency proceedings, in a manner that is fair to all stakeholders. The code replaced the colloquial British era legislation and the earlier half-baked attempts at resurrections of failed industrial units (Sick Industrial Companies Act,



1985). The IBC was one of the key columns on which the current NDA government sought to create a business-friendly environment in India. Prior to the introduction of the IBC in 2016, India languished near the bottom of the World Bank's Ease of Business rankings, with a rank of 130 out of 190 countries. However, the very next year, India's rankings jumped 30 positions to reach 100 in 2017 and as the IBC regime in India has matured, so has India's rank in the index, reaching an all-time high of 63 in 2020. The IBC has been one of the key factors in the development of India as a more amicable destination for businesses, but it is far from a mature legislation as of now, as companies and creditors have found loopholes in the legislation to gain advantages that might be termed as unfair, and which are against one of the primary purposes of the code, i.e., a mechanism for resolution that is fair to all stakeholders.

The legislation permits for either a creditor or the company itself to present an application for the commencement of insolvency before a forum, namely the National Company Law Tribunal (NCLT). The petition once admitted (or presented), the insolvency shall be deemed to have commenced and all financial creditors of the company (largely banks & institutional creditors that had lent to the business) come together constitute a Committee of Creditors (CoC). The CoC guides the insolvency resolution process through an administrator (Resolution Professional) who runs the company as a going concern till a resolution plan is accepted by the CoC.

Therefore, the underlying premise of the legislation was that the original promoters had failed, necessitating a change in management. Further that the financial creditors of the company are best suited to ascertain the way forward by choosing the new management and accepting the resolution plan submitted by such resolution applicant. If, however, the resolution plans received did not satisfy the collective wisdom of the CoC, or in case none were presented within the specified time period, the company shall be liquidated by stripping off its assets and distributing the proceeds therefrom among creditors, employees, and towards government dues.

The commercial wisdom of the CoC has been held to be paramount, and the court in *ArcelorMittal India Private Limited v. Satish Kumar Gupta* has reasoned that, the commercial wisdom of CoC has been given paramount status without any judicial intervention, for ensuring completion of the stated processes within the timelines prescribed by the I&B Code. There is an intrinsic assumption that financial creditors are fully informed about the viability of the corporate debtor and feasibility of the proposed resolution plan. They act on the basis of thorough examination of the proposed resolution plan and assessment made by their team of experts. The opinion on the subject matter expressed by them after due deliberations in CoC meetings through voting, as per voting shares, is a collective business decision. The legislature, consciously, has not provided any ground to challenge the commercial wisdom of the individual financial creditors or their collective decision before the adjudicating authority. That is made nonjusticiable<sup>1</sup>.

When the code was enacted, there was no bar on who could be propose a resolution plan, and as such it provided the promoters of the ailing corporate entity an opportunity for a backdoor entry. This oversight in the original act was remedied by an amendment which inserted section 29A to the Act in 2017. 29A<sup>2</sup> determines the eligibility of the resolution applicant, and most notably bars the promoters of the corporate debtor from becoming a resolution applicant. This section was prominently used to bar the promoters of Jaiprakash Associates Limited, commonly known as the Jaypee Group, from becoming the resolution applicant for JIL (Jaypee Infratech Limited), in

<sup>1</sup> 2018 SCC ONLINE SC 1733

<sup>2</sup> Ss. 29A, The Insolvency and Bankruptcy Code, 2016.

the case of *Chitra Sharma v/s Union of India*<sup>3</sup>.

While this issue raged, another issue came to the attention of courts in India, wherein after an order commencing CIRP had been passed by NCLT, the parties entered into a settlement agreement with the CoC. After a settlement had been reached, the parties would seek a withdrawal of the application for the CIRP, however there was no provision in the original act which allowed for withdrawal of the application for CIRP after its admission. To overcome this lacuna, the National Company Law Tribunal would often pass orders under Rule 11 of the NCLT Rules, 2016<sup>4</sup>. Rule 11 gives the tribunal inherent powers to pass any order that may be necessary for meeting the ends of justice. In cases such *Lokhandwala Kataria v/s Nisus Finance*<sup>5</sup>, *Mother Pride Dairy v/s Portrait Advertising*<sup>6</sup>, and *Uttara Feeds v/s Mona Pharmachem*<sup>7</sup>, where the corporate debtor and the creditors have reached a settlement, and where the NCLT has refused to exercise its powers under rule 11, the Supreme Court has used its powers under Article 142<sup>8</sup> to pass relevant orders. However, the court in *Uttara Foods* suggested that the relevant rules should be amended to include such inherent powers, to allow for matters where a settlement agreement may have been reached.

In the Insolvency Law Committee Report, 2018<sup>9</sup> it was observed that multiple judgements had given permission for withdrawal post admission of a CIRP application, after a settlement is reached between the corporate debtor and the applicant creditor. In light of this, and keeping in mind the objectives of the code, which seeks resolution in a manner that is fair to all stakeholders, the committee recommended that the rules be amended to allow for a withdrawal application after the admission of the CIRP, if the CoC approves it.

Thus, Section 12A<sup>10</sup> was inserted into the act through an amendment in 2018. 12A originally allowed for the withdrawal of applications for the initiation of CIRP, if an application was made by an applicant which receives the approval of more than 90% of the Committee of Creditors. It was specified in rule 30A<sup>11</sup> of the IBBI regulations that such an application could only be permitted if it was submitted before the issuance of the expression of interest. However, in the case of *Swiss Ribbons v/s Union of India*<sup>12</sup>, where the constitutionality of section 12A was brought under consideration, the SC preserved the constitutionality of the section and reasoned that in exceptional circumstances, an application under 12A could be allowed even after the issuance of the expression of interest. The court also held that an application for withdrawal could be brought to the NCLT before the CoC is formed, and the tribunal can use its inherent powers under Rule 11<sup>13</sup> to allow such applications. In view of this ruling, the rules were amended, and an application for withdrawal was permitted both before the formation of the CoC, and even after the constitution of the committee, provided the applicant stated the special circumstances for the withdrawal of the application.

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<sup>3</sup> 2018 SCC ONLINE SC 874

<sup>4</sup> Rule 11, National Company Law Appellate Tribunal Rules, 2016.

<sup>5</sup> 2017 SCC ONLINE SC 1715

<sup>6</sup> 2017 SCC ONLINE NCLT 433

<sup>7</sup> 2017 SCC ONLINE SC 1404

<sup>8</sup> Art. 142, The Constitution of India.

<sup>9</sup> 'Withdrawal of CIRP Proceedings Pursuant to Settlement', Insolvency Law Committee Report, 2018.

<sup>10</sup> Ss. 12A, The Insolvency and Bankruptcy Code, 2016.

<sup>11</sup> Reg. 30A, Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Person) Regulations, 2016.

<sup>12</sup> 2019 SCC ONLINE SC 73

<sup>13</sup> *Supra* 4

In light of these facts, it is necessary to critically examine a practice which has been developing post the introduction of section 12A. It was recently reported that in the insolvency resolution proceedings of Videocon Industries, the Committee of Creditors had taken a nearly 95% haircut to the original claims of nearly 61,000 crores, recovering only about 2,900 crores. Similarly in the resolution proceedings of Siva Industries, the CoC took a haircut of nearly 94% to the original claim of Rs.4863 crores, recovering only about 323 crores. It is common for resolution plans to provide a haircut in the final payment. This effectively entails that a resolution applicant will pay a part of the total dues, and the remainder would be written off. According to data from the Insolvency and Bankruptcy Board of India (IBBI), in at least 363 major NCLT resolutions since 2017, banks have taken an average haircut of 80%.

### **Siva Industries**

In the Siva Industries case, the erstwhile promoter of the company, C. Sivasankaran proposed a one-time settlement deal, in which the recovery would only be around 6% against the original claim, and the CoC would take a haircut of nearly 94%. This settlement deal was approved by the CoC, and a withdrawal under Section 12A was initiated. However, this OTS plan was rejected by the Chennai Bench of the NCLT, reasoning that the OTS plan submitted by the erstwhile promoters was not a simple settlement plan but rather a business restructuring plan. Moreover, since the plan did not mention any final offer, the ambiguity surrounding the entire OTS plan makes it ineligible to be covered under section 12A.

### **Sterling Biotech**

In the case of Sterling Biotech<sup>14</sup>, the NCLT rejected a one-time settlement deal by the erstwhile promoters, on the grounds that the promoters were ineligible to present a resolution plan under 29A<sup>15</sup>. However, this decision was overturned on appeal, and the NCLAT held that 29A is not applicable when an application is made under 12A.

## **CONCLUSION**

The juxtaposition of 12A and 29A is brought to the fore with such one-time settlement deals. While 29A is intended to keep out the old promoters from the resolution processes of their businesses, 12A favours resolution over liquidation at any cost, even if it means bringing back the old promoters. After the insertion of 12A, it is clear that the essence of 29A has been severely diluted. It is evident that if such deals are approved, it will allow other faulty promoters to secure similar deals with the CoC, and to retain the control of their corporations. However, it is also evident that in some cases, such one-time settlement deals may be a better alternative to liquidation. The IBC favours resolution, and as such any business, if it goes to liquidation, is a failure. Thus, a hasty resolution through a one-time settlement deal is a victory for the creditors, even though it comes at a great cost.

12A and 29A bring into conflict the very objectives of the IBC itself. On one hand there is a timely resolution, while on the other, there is resolution in a manner that is fair to all stakeholders. Any resolution to this conflict requires an incredibly precarious balancing act. To give primacy to

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<sup>14</sup> 2019 SCC OnLine NCLT 9760

<sup>15</sup> 2019 SCC OnLine NCLAT 1403

either one would substantially alter the objectives of the IBC, but to keep the sections as they are presently makes 29A redundant. The IBC is still a maturing legislation, however gaping loopholes such as the one created by the juxtaposition of 12A and 29A, and the complete autonomy that the CoC enjoys, imperil the same problems that the IBC sought to address. These ambiguities have attracted the consideration of the executive, as the Parliamentary Finance Committee's Report on the IBC<sup>16</sup> proposed an amendment to regulate the unchecked powers of the Committee of Creditors, and to make the insolvency process more transparent. While it is not a certainty that the juxtaposition of 12A and 29A can be rectified with such an amendment, it is pertinent that any proposed amendment embraces the fine balance between the supremacy of commercial wisdom and one of the primary purposes of the IBC, which is to provide a mechanism for resolution that is fair to all stakeholders.

<sup>16</sup> 'Implementation of Insolvency and Bankruptcy Code- Pitfalls and Solutions', 32<sup>nd</sup> Report of the Standing Committee on Finance, August 2021.

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Rajat Malhotra, B.A, LL.B (Hons) is a commercial disputes lawyer based out of New Delhi, India.

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