Driving Change from Within: The Power and Necessity of Local Business Standards Activism

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Most reports and analyses of high profile cases on emerging markets business standards focus on the impact Western multinationals, grassroots groups and activist organizations have or can have on improving the standards in those markets. Although government regulation - to enforce and promote those standards - is regarded as an ideal complement to the work of the aforementioned parties, there seems to be little expectation that those governments or even local companies will, themselves, lead the pace of change[1]. Western multinationals are often the preferred targets of most activist organizations. The high profile of these companies guarantees a level of international visibility that a campaign against a smaller, local company will not receive. However, implicit in this strategy (of targeting multinationals as opposed to local companies) is the assumption that changing standards in the multinationals is the most effective way of promoting change in local business standards and in business standards in emerging markets in general.

This paper will question the veracity of that assumption. Do standards, in fact, "trickle-down" from multinationals to local companies? Ideally, sustainable development cannot be imposed but must rather be embraced and propagated by the populations it aims to develop. When local companies begin to create and enforce better business standards it indicates that the ethos of development and improvement has caught on in the country and among the local population. Ultimately, this is better for business, the society and the environment. This paper will first examine some of the assumptions in the existing literature in regard to local companies' ability to lead change in their business standards. It will briefly analyze some of the factors that typically prevent local companies from leading change on their own. It will then examine the power of local firms to dramatically change business standards and opportunities in their own countries using a Vietnamese taxi company as a case study. Finally, it will conclude by examining the role that activist groups and non-profits can play in spurring local firms to lead the process of change in their countries.

The most popular cases on emerging markets business standards in recent years have been those on Nike and the Gap and their use of sweatshops in Asian countries. In both cases the Western company initially claimed it was actually improving the lot of workers by paying them more than they would receive at a local factory. In response, local and international labour groups typically protested that it was the responsibility of the multinational to introduce new, Western standards of labour and business to the foreign subsidiary or contractor and, by extension, to the country. The onus is on the multinational corporation to proselytize a better way of doing business in the marketplace. In both cases, activist groups lobbied the government to enforce better laws. However, there was little mention of effective lobbying of local companies to raise the bar across all firms. In fact, there seemed to be few expectations and therefore requirements that local companies also improve their model. This is a common thread throughout most of the literature on emerging markets business. The underlying

[1] There is a powerful trade lobby that seeks to make US trade agreements with developing countries contingent upon minimum labour standards. However, the uneven application of these policies and the industries in which they tend to be focused indicate that these linkages may be protectionist in spirit. Due to the wide debate around this issue we generally do not refer to these efforts for the purposes of this paper.

assumption is that multinationals will eventually (either through direct interaction or simply by their presence) transfer technology and knowledge to local companies. In this variation of the trickle-down theory, we assume that knowledge and improved standards (labour, environmental etc.) will trickle down to the local owner and company. However, we know that this transfer is not automatic.[2] In fact, transfers between multinationals and local companies are more likely to occur when those local companies have already developed a certain amount of infrastructure and human capital.

The infrastructure and human capital development that is required for local firms to improve is largely a factor of the policies those firms implement domestically and of the emphasis that government places on the development of its people. By setting standards for the development of its people, governments can trigger goals for standards in business. A more educated and sophisticated population is better able to ask for certain conditions as well as develop those conditions on their own. Yet we read little in those particular cases of campaigns by activist groups to lobby government to change its policies or to enforce standards that already exist in the law books. In reading the analysis around Nike in Southeast Asia, we learned about much of the activism of labour groups in regard to Phil Knight, but there was little to no mention of lobbying of the governments or local factories, in the countries in which Nike did business, to require better working conditions or to develop standards of their own. In the US, when activist groups wanted to prevent dolphins from being killed in the tuna fishing industry, they launched boycotts of major companies and an extensive lobbying campaign against the US government. They also targeted smaller firms and retailers. All of these actions were widely documented and covered. Why is that in emerging markets most of the burden to change seems to be placed on the multinational? Is this just a coverage issue-do we simply not hear about local lobbying attempts? Or is it assumed that governments in these countries will not respond to lobbying and that the local firms will not respond to the pressure? Is something larger afoot? When the US government (responding to pressure by environmental groups) began to demand that countries like Venezuela and Mexico enforce stricter fishing standards to prevent the killing of dolphins in their nets, both countries claimed that maintaining those standards would make their industries less competitive and effectively price them out of the market. Do we assume then that a moratorium on generally accepted business standards compliance should be granted to emerging markets until some time in the future when they become more competitive?

The questions raised above in many ways form the basis for why local firms and domestic governments may not lead change in their countries. Anne Harrison's paper on labour standards in Indonesia puts this issue in even greater relief. She examines the impact of both grassroots organizing and direct government lobbying on the labour standards of foreign and domestic firms in Indonesia. She finds that when pressured, the Indonesian government created minimum wage laws but that domestic firms did not enforce those laws. By and large, only foreign firms actively complied with standards because their visibility and threat of enforcement was greater. Activist groups tend to target the low hanging fruit, and those are Western multinationals and, to a lesser extent,

[2] Harrison, Anne. Overview Chapter UC Berkeley and NBER. Doing Well by Doing Good casebook p. 243

large domestic companies. The lack of threat of enforcement or consequence (due to boycott or negative publicity) is certainly a compelling reason why local firms do not promote better business standards themselves, but that is only part of the story. There are also market reasons that impede this development from happening internally. Michael Fairbanks and Stace Lindsay, in their book "Plowing the Sea," relate better business practice to better business standards and examine some of the market forces that prevent local firms from improving in both areas themselves. The seven patterns they describe and the resultant opportunities are listed below:

Pattern	Opportunity
1. Over reliance on basic factors of advantage	1. Develop more complex sources of advantage
2. Poor understanding of customers	2. Invest in knowledge about more demanding and sophisticated customers
3. Ignorance of relative competitive position	3. Understand and improve relative competitive position
4. Failure to forward integrate	4. Study opportunities for forward integration
5. Poor interfirm competition	5. Improve interfirm competition
6. Defensiveness	6. Engage in productive reasoning
7. Paternalism	7. Control the strategic levers in your business

The most referenced pattern in the discussion of emerging market business practice tends to revolve around cheap labour (Pattern 1). One of the most commonly used methods to promote business development in emerging markets is protectionism (Pattern 7). These two practices in particular along with the other patterns listed above underlie many of the reasons why local firms do not undertake business standards reform on their own and are the basis for the assumptions raised earlier in this paper. Specifically, many local firms in emerging markets believe that their price advantage is their competitive advantage, and base their business model on this premise. They perceive improved business standards simply as a cost and price raising mechanism that will place them out of the market, as opposed to a quality enhancement mechanism that can justify, demand and receive a higher price in that same market. By the same token, governments justify lower business standards by claiming they will not be competitive without it. They seek to protect industries in their countries on this basis.

The irony is that by continuing to rely on these relatively short term factors of advantage (there is always a cheaper market) and by not addressing the other 5 patterns referenced above, they fail to develop more competitive businesses. The view that developing countries require a ramp up time during which labour and business standards are not enforced or implemented and during which businesses compete solely on price is not the province of misguided governments in those countries. Jagdish Bhagwati writes in his Free Trade and Labour essay "Poor countries also move on, getting richer, and they withdraw from labour-intensive into skills and capital intensive exports, thus "absorbing" the new suppliers' exports." This view might be referred to as the "trickle-across" theory, whereby after a period of time, poor countries and local firms begin to develop business standards as they get on their feet. The issue of course is predicting when this changeover should occur. Any analysis of global economy shows clearly that some countries seem to have gotten this right (India, China) while others (Latin America) have gotten it wrong. Latin America was the provider of cheaper goods until China came along and changed the way the world sourced and produced goods. India has revolutionized the service industry by providing highly skilled, low cost workers to the global marketplace. Both countries lead on innovation and cost in the industries where they are most prominent, yet despite the well-documented success of both countries, they still face very real poverty and development challenges. Their respective abilities to transform the employment opportunities for all of these people will eventually determine the success of their business model.

To this point we have looked at the challenges that impact local application of business standards in emerging markets. We turn now to a success and to an examination of the power of the model when it succeeds.

The Vinataxi Company in Vietnam is one example of a local company leading its own efforts at business standards improvement. The company is not a multinational but was started by a Hong Kong businessman who frequently did business in Vietnam. The proprietor in this case had an advanced degree from a regional MBA program and had run a successful business in Hong Kong previously. The firm is considered local because it did not plan to expand internationally in the near future and because it employed a largely Vietnamese management team. The company entered the Vietnamese taxi market in 1994 with the aim of revolutionizing the transportation sector in that country. Other local operators were only interested in extracting profit from their business and paid little attention to customer service and employee training. Corruption, passenger harassment, and theft were daily realities for drivers and clients of the cities' existing taxi services; unreliability, crowded and unsafe conditions, and inefficiency defined the other transportation options (buses, motor scooters, bicycles). Vinataxi's approach was to offer a safe, recognizable and efficient brand of taxis to the travelling public. They correctly determined that it was a service that was needed for Vietnam's growing business community that would also be leveraged by local commuters who wanted reliable transportation from one city port to another. They aggressively trained and screened for dishonest and unsafe drivers and designed an entire rewards and compensation system that recognized safe, courteous, reliable service. Operators were rewarded for how many calls they successfully placed, drivers were penalized for passenger complaints and rewarded for passenger praise, new hires underwent a 3 month training/screening probationary period. All employees were required to wear clean uniforms.

The result of this was that Vinataxi raised the bar for local taxi transportation in Vietnam. Other operators quickly tried to imitate Vinataxi's model. While these attempts were ultimately futile (they did not succeed in taking market share from Vinataxi), they did improve the general taxi service for the commuting public. The strength of Vinataxi's service also assisted it in lobbying the government to prevent government grants of unfair concessions to politically favourable competitors. The quality of Vinataxi's service offered it some protection in this instance because the taxi service became a necessary part of Ho Chi Minh's city business development. Vinataxi enjoyed enormous leverage because their service model was not easily replicable and because they provided a necessary service to Vietnam's emerging business traveller. Despite the fact that other companies resorted to violence in an attempt to intimidate Vinataxi's drivers, Allan Ho, the founder and general manager, continued to take the higher ground. The strategy paid off. In 2003, Vinataxi was awarded the Ho Chi Minh taxi company of the year by that city's daily financial paper. In that same year the company was sold to ComfortDelGro, the second largest transit provider in the world and the owner of transit companies in Singapore, Malaysia, UK, Ireland, and the People's Republic of China.

Vinataxi has been an exceptional success, and in recounting its story we cannot make light of the very real challenges most local companies face in emerging markets when seeking to develop and enhance their markets. Vinataxi had a great management team and strong financial backing. These are things many local firms do not have access to. However, neither of these factors was the ultimate cause for Vinataxi's success. What led to Vinataxi's success was the commitment of their management team to build and maintain a better business model. Allan Ho had an unrelenting dedication to service, quality and honest business dealing. It was these three factors that set his company apart and that ultimately ensured that he reaped the rewards he did. His exposure may have enabled him to perceive an opportunity in the Vietnamese marketplace (his travels meant that he knew there was another model for taxi service) but activist groups who target local firms that do not employ good business practice can also reveal this opportunity. Large firms targeted by activist groups for their environmental transgressions have created an opportunity for environmental service firms, or for firms that simply transact their business in a more environmentally responsible way, to emerge. Similarly, targeting smaller firms can have the same impact, encouraging new providers to enter the space by answering the business issues identified by grassroots groups or - even more ideally - by government enforced regulations and standards.

There is room for activist groups to become more proactive in catalyzing change in local firms and governments of emerging countries. When successful, such change can be one of the most powerful ways of leading reform across the marketplace. It makes standards and good business practice accessible to all and shows that such practice is achievable and can be practical for small, local firms as well as for large, corporate multinationals. The assumptions that activist groups make and the reasons that local firms give for not aggressively pushing for or quickly adopting better practices and standards may have some elements of truth to them. However, they are not a reason to ignore the very important role these firms can make in leading development of stronger economies and marketplaces in these countries. It is contingent that the catalysts for change in this arena (governments, multilaterals and NGO's) implicate all of the players in the drive for change.

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