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Executive Summary

Evaluation of Federal Funding for the German Foreign Chambers of Commerce, Delegations and Representations (AHKs)

Client:

Federal Ministry for Economic Affairs and Energy

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[1] Evaluation and Approach

This executive summary sets out the results of the evaluation of federal funding allocated to German Foreign Chambers of Commerce, Delegations and Representations (AHKs). Based on an indicator-based evaluation, a scientifically founded method, an in-depth ex-post assessment was undertaken of the federal funding allocated to AHKs. In addition, the evaluation team developed a concept for an on-going monitoring of achievements, and conducted an ex-ante assessment in terms of a strategic audit. Based on the overall findings of the analyses concrete recommendations for action are derived for the future embodiment of federal funding.

The **ex-post assessment** was divided into several analytical steps: The first step examines the target system underlying the allocation of federal funding for the AHK-network. The second step provides an analysis of the **AHKs' service portfolio**, as well as their **capacities with regards to performance and efficiency**. In order to compare the German AHK-network to similar promotion agencies the third step presents a **benchmark-analysis** incorporating export promotion agencies from France, Great Britain, Japan, Austria and Switzerland. Subsequently, step four and five examine the direct and indirect benefits of AHK promotion for internationally oriented companies, as well as organizations working in German foreign trade promotion sector by means of an in-depth **efficacy and impact analysis**.

The evaluation is based on both **qualitative** and **quantitative surveys and analysis methods**. In the course of the investigation, the evaluators conducted interviews and workshops with a total of 326 people in Germany and on-site visits to 21 AHK locations in 14 countries. In the course of the evaluation the team spoke to representatives of the BMWi and DIHK, AHK specialists and executives, AHK board members and representatives of AHK member companies, as well as representatives of cooperation and network partners (German diplomatic missions, DZT, GIZ, GTAI etc.) and of internationally oriented companies that are neither customers nor members of AHKs.

In the framework of the quantitative analysis, four data collection tools were applied. Using standardized questionnaires, data was collected from 79 AHKs, 1,265 internationally active companies, 242 cooperation and network partners, as well as 14 foreign trade experts.

[2] Evaluation Results

- ▶ The evaluation results indicate that the AHKs achieve the **primary objectives** mentioned in the approval letter in a **satisfactory manner**. However, the general, broadly defined objectives and missing quantitative targets make it difficult to prove the said achievement.
- ▶ On a **positive** note, the evaluators wish to point to the **high level of commitment and the entrepreneurial attitude** of AHKs. The **networking** of the AHKs with various German cooperation and network partners, as well as political, economic and social institutions of host countries **is strong**. The incorporation of companies, as well as the representation of interests is also well pronounced. Therefore, the AHK-network achieves its objective, to serve as a platform to support German trading abroad, and to establish contacts between politicians, business representatives and institutions from Germany and the respective host countries.
- ▶ The collaboration among AHKs and the other players of the German export promotion sector places a **considerable achievement of personnel and financial synergies** against the resources used. Estimates of the said synergies amount to 17.2 million Euro plus 734 staff members (FTE), which cooperation and network partners would have to invest if it was not for their cooperation with local AHKs. From the viewpoint of the public sector, these synergies are appreciated because they help reduce the funding requirements of other publicly (co-)financed institutions of foreign trade promotion.
- ▶ AHKs offer a range of services to assist German companies in the creation of new bi- and multi-lateral business opportunities. However, the **emphasis on foreign market entry and expansion of SMEs is considerably less pronounced** than is to be expected, given the approval letter. It is the view of the evaluators that more focus should be given to the support and promotion of SMEs – also for the sake of regulatory considerations. In addition to this, AHK services seem to center implicitly less on export promotion in a narrow sense. **AHKs concentrate their operational and human resources on the promotion of exports and investment projects** in the host country (Outgoing). After a review on business level, it has to be stated that German companies looking for foreign direct investment opportunities in the target country (own sales and service facilities) are more likely to avail of the AHK service catalogue. In comparison, companies focused exclusively on export are far less likely to do the same. If in future, the objective is to focus more on export promotion in a narrow sense then institutional instruments need to be tightened.
- ▶ Overall, the AHKs achieve a **high level of client satisfaction** amongst German companies with regard to services provided for the support of foreign market entry and expansion. These findings confirm the outcome of previous customer surveys conducted by the DIHK. In general, the AHKs' cooperation and network partners are **satisfied with the quality** of the provided services, however there are **critical voices too**. The ongoing task is to ensure high-quality services worldwide and this has to be a priority on all sites.
- ▶ At least **one third** of the respondents have confirmed that AHK services have resulted in **concrete business benefits** on company level.

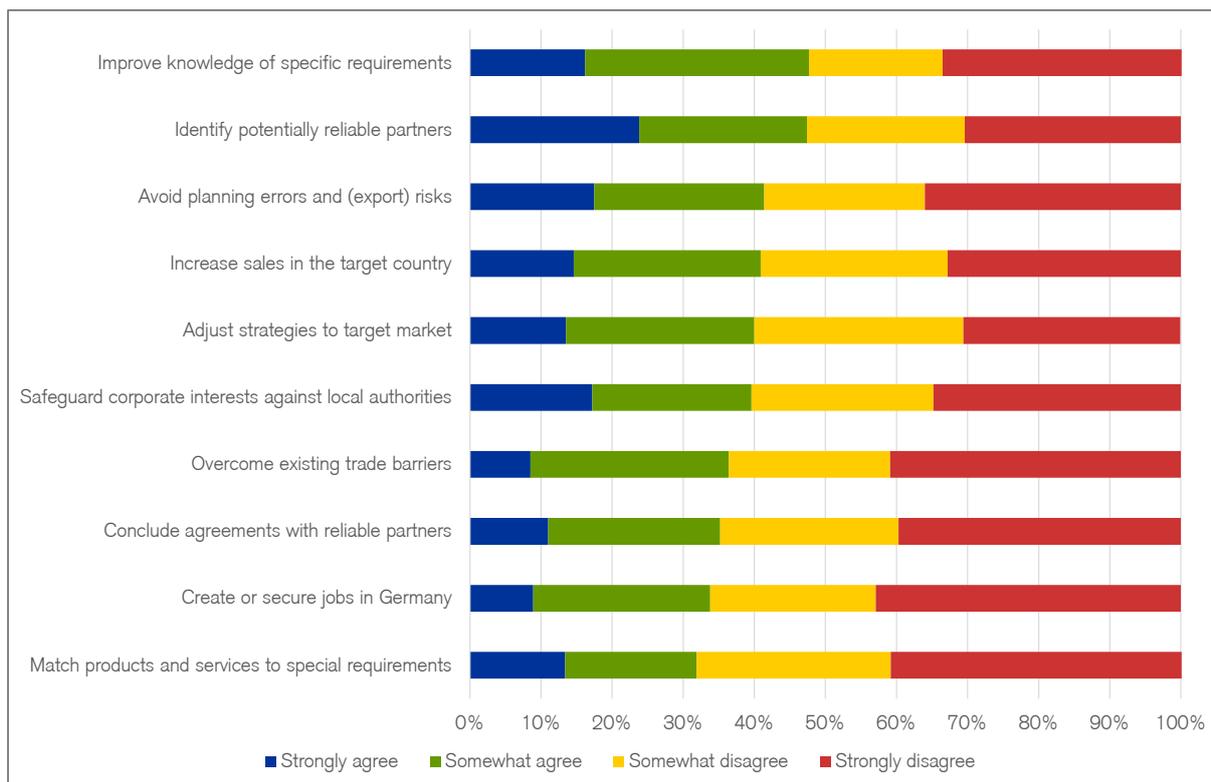


Figure 1: Customer assessment of AHK services – business benefits

- ▶ **Based on the self-assessment** of the companies the use of AHK promotion helped **create or secure roughly 219,000 jobs in Germany**, of which approximately 41,000 jobs were created and nearly 178,000 secured. However, econometric analysis does not substantiate that this impact on employment was indeed caused by the AHK promotion.
- ▶ According to the other institutions of the German foreign trade promotion sector, **AHKs are the most important partner within the network**. There is an intensive exchange between AHKs, diplomatic missions, GTAI and IHKs. For German diplomatic missions, GTAI and IHKs, the AHKs are the principal cooperation partner respectively. It is apparent that AHKs not only play an important role in the network of German foreign trade promotion institutions, they are also dominant in the four thematic areas, “outgoing”, “incoming”, “representation of interests” and “location marketing”. The AHKs play a vital role in the network of foreign trade promotion institutions, which – without AHKs – would reveal considerable gaps.

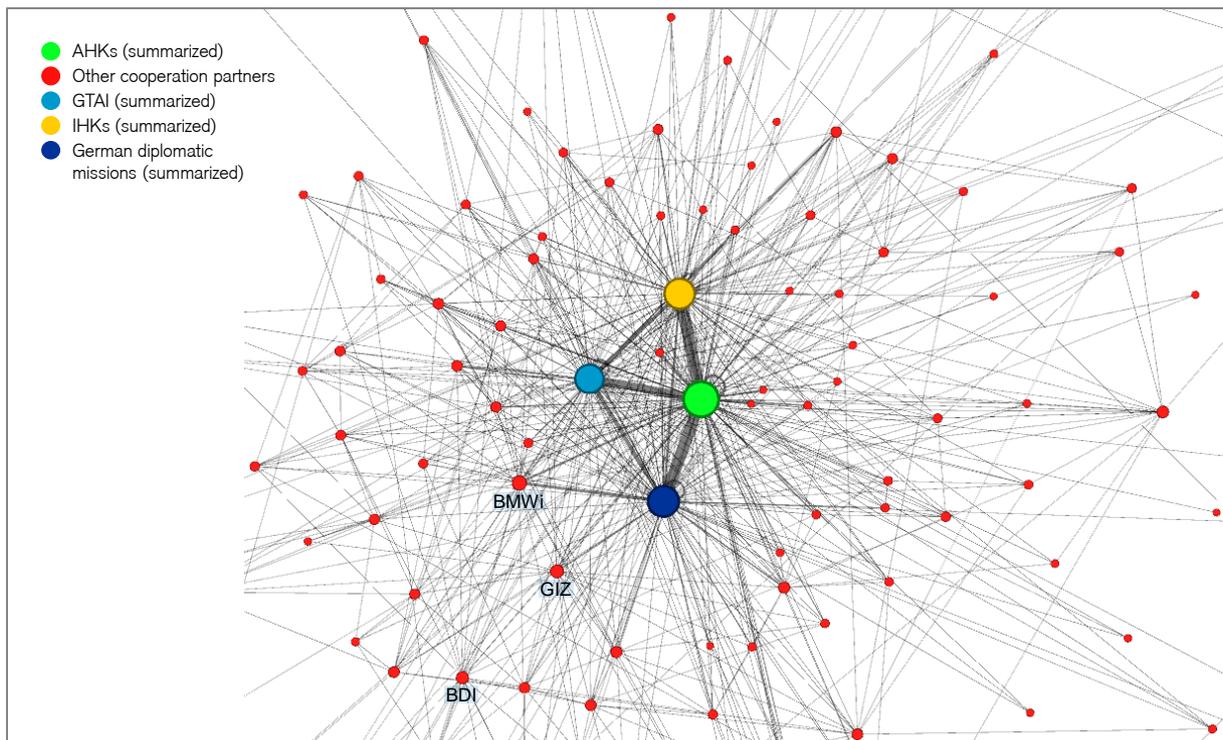


Figure 2: Network of German foreign trade promotion institutions (aggregated view)

- ▶ The **cooperation** between AHKs and several cooperation and network partners **has been expanded and improved** over recent years. The signing of partnership agreements between AHKs and various institutions has contributed significantly to this development. As a whole, even though AHKs may be in direct competition with a number of cooperation and network partners, offering a similar service portfolio (e.g., with diplomatic missions in the field of representation of interests; with sector associations in the field of consulting for internationally oriented SMEs; with GTAI, DZT and representatives of German Länder in the field of marketing Germany as a location for business/tourism), the collaboration is working. **Critical voices** on the distribution of tasks amongst the individual institutions of the total network **are the exception**, however they do exist.
- ▶ As a whole, the **funding system seems appropriate**. When compared with other evaluated export promotion agencies the federal funding allocated to the AHK-network is to be classified as **cost-effective** from the point of view of public finances. However, the **general, broadly defined objectives**, as well as the **absence of a clearly defined scope of services** complicate any assessment of the adequacy of the finance systems (federal funding and own resources). It should further be noted that because of the limited financial contribution, the prospects of federal management and control is limited too.

[3] Recommendations

Based on the findings presented here, the evaluators propose to the BMWi the following recommendations for actions:

Recommendation 1 – Refine and operationalize objectives: Today there is ample scope for interpretation on how the public interest underlying BMWi's financial contribution can be translated into solid actionable strategies. The approval letter issued by the BMWi in its capacity as funding body only provides general and broadly defined strategic guidance. Substantiating detailed objectives, including operational objectives and target figures, would help state more precisely the purpose and objective to be achieved with the allocated federal funding. This would help facilitate the target achievement and performance review and is a vital requirement for any systematic performance and impact assessment. For this purpose, the tasks that are financed by federal funding should be specified. With regard to future development of the control system and the funding objectives, the evaluators suggest the following two options:

Option 1: Global goals and targets at the level of DIHK. Objectives are to be further specified and both qualitative and quantitative targets set at DIHK level. The BMWi would then assess the achievement of objectives on a consolidated basis across all AHKs and at the same time move away from the management of monitoring achievements of individual AHKs. Irrespective of this, the control of the proper administration of the federal funding would still be carried out by the BMWi, for example by means of on-site audits.

Option 2: AHK specific detailed objectives to complement economic plans. The BMWi would define detailed objectives for individual AHKs (taking into consideration the respective proposed objectives, bottom-up process). These detailed objectives aim at further specifying the general objectives named in the approval letter and would complement the economic plans. The review of the achievement of goals would happen at AHK level, without primarily focusing on the achievement of financial goals.

In the light of the current practice, option 2 is the preferred one. However, option 1 would take into account that the BMWi does not enter a direct legal relationship with any respective AHK.

Recommendation 2 – Introduction of a systematic performance and impact assessment: During the evaluation a concept for an on-going monitoring of achievements was developed. It is recommended that the current approach that is strongly focusing on financial aspects is to be complemented by means of a systematic performance and impact assessment. The use of such a means of systematic success monitoring has established itself worldwide as best practice. The basis will be formed by the objectives set by the BMWi as the funding body, to be operationalized in individual performance indicators. It should be noted here that it is vital that both quantitative and qualitative objectives are defined, in order to prevent disincentives ("you always get what you pay for"). Performance and impact assessment is a strong motivational factor and can help ensure that the AHK-network adopts the priorities of the BMWi more stringently. Thereby the indicators should be set in a manner, which further promotes networking and cooperation within the AHK-network. A proper definition of the tasks will not only help

demonstrate which activities the federal funding covers but also show which tasks will require additional funding.

For the implementation of the on-going monitoring concept, DIHK/AHKs as recipients must be included in the detailed development. For AHKs to be able to help shape their management culture, it is advisable to implement the associated new target and indicator system gradually. The time, personnel, and finances needed for the implementation of the on-going monitoring concept should not be underestimated. Ensuring the on-going operations of the accompanying success monitoring and the structural arrangement, an estimated 1 million Euro is required. The evaluators are convinced that this amount is justifiable, given the anticipated benefits and assuming a vigorous implementation of the system.

The benchmark-analysis has shown that CRM-systems are vital for an effective performance and impact assessment. Moreover, it is a key instrument for performing day-to-day business successfully. The consistent documentation of client histories help develop targeted services and save resources, as client interactions with the AHK-network are being traceable. CRM data will also help document the development of a company (client) and hence any (long-term) effect of the allocated federal funding can be substantiated. It is the view of the evaluators that the AHK-network can benefit from a relaunch of a CRM-system across the network. As a first step, all client contacts of German companies in the field “outgoing” should be recorded systematically (DEinternational). In this context, it is important to obtain the consent of the companies that they can be contacted for the performance and impact assessment. With the help of CRM-systems, AHKs could optimize client management services and hence (further) improve their efficacy.

Recommendation 3 – Refine and strengthen the focus on SMEs: It is recommended that the special focus on SMEs, explicitly mentioned in the approval letter, is further specified and strengthened. During the empirical analysis a clear focus of the AHK promotion on the support of SMEs did not become apparent. For regulatory considerations, it is recommended that a stronger focus is given to SMEs. Due to their size, SMEs consider themselves at a competitive disadvantage when attempting to enter and develop foreign markets, a disadvantage they are often only able to overcome with the help of public support. In contrast, large companies have ample internal resources available to them, to assist them in resolving many of the hurdles associated with entering and developing foreign markets. A stronger focus on SMEs could be achieved by SME-specific offers and a targeting of SMEs with special marketing campaigns or a SME-specific pricing policy. One option would be to restructure the allocated federal funds into consultancy services, especially tailored to SMEs (e.g., market entry studies) and then reimburse the AHK for this service (e.g., “voucher system”). This is already taking place within the scope of market development programs, as well as the export initiative on renewable energy sources. In order to facilitate SME access to the extensive network of German foreign trade promotion institutions an additional approach can be developed to closely accompany and assist interested SMEs (“network navigator”). This approach should aim at making the connection between regionally based IHKs and the AHKs more transparent for the SMEs in the field of foreign trade promotion.

Recommendation 4 – Clearly define the scope of the initial free consultation: The initial free of charge consultation and general information on either the host country or Germany is a key service provided by AHKs with help of the allocated federal funding. The evaluation has shown that AHKs do not have a common approach to the services covered by the initial free consultation. Especially for

German export beginners this frequently leads to misunderstandings and confusion. To improve the transparency and consistency of the global service catalogue, the scope of the free initial consultation needs to be clearly defined. The standardization efforts undertaken under the service brand “DEinternational” can serve as a good example here, as well as in other areas. However, in order to raise the awareness of an initial free of charge AHK-consultation amongst SMEs, it has to be ensured that the AHK brand is clearly communicated to SMEs and other third parties, to avoid confusion due to an existing vast brand diversity.

Recommendation 5 – Creation of cross-AHK competence centers: An increasingly complex globalized corporate world requires AHKs to retain expertise. The evaluation found that the ability of AHKs to develop and retain specialized resources and capabilities is difficult to realize because any in-house (industry) expert would not be utilized to capacity. With the creation of cross-AHK competence centers, the said expertise can be attained and financed. This assumes an active participation on the part of AHKs. A strong focus on autonomy precludes this, in part. However, the network philosophy may be strengthened with the help of financial incentives. The BMWi could support the creation of competence centers as an integrated approach across the AHK-network with start-up funding. In this context, a review of strategic AHK projects – such as the specialization in cross-AHK competence centers – could be listed in the approval letter, associated with earmarked funding for this specific purpose. For the development of the said centers, further funding is required. This specialization approach could assist AHKs, which so far do not have the advantage of either size or competitive differentiation (“stuck in the middle” dilemma).

Recommendation 6 – Promoting the strengthening and tightening of the AHK-network: Strengthening and tightening the AHK-network is paramount for maintaining its systemic performance and efficiency. The better the AHKs succeed in working out synergies in related services by adapting to one another and learning from one another, the more international and efficient the entire network will become. Thus, the coordinating role supported and (co-)financed by the IHKs through the DIHK is key to the success of the AHK-network. Current efforts to promote cooperation and the exchange of experiences amongst the AHKs are to be welcomed. This needs to be further strengthened on an operational level too. The cross-AHK cooperation helps the network absorb political trends and developments in the corporate world faster and more effectively. Moreover, exchanges within the network can trigger new solutions, services etc. Alongside exchanges, which take place at events and face-to-face meetings, the networking should be further facilitated with modern means of communication (e.g., enterprise social networks). The challenge will be to promote the development and tightening of a decentralized network amongst the AHKs without sacrificing the ability to ensure a cohesive service delivery worldwide.

Recommendation 7 – Strengthen the performance and efficiency of the AHK-network: The evaluation has shown differences in quality when it comes to the performance and efficiency of individual AHKs. Some AHKs are exceptionally competent and efficient while others fall short. In order to strengthen the performance and efficiency of the AHK-network it is vital for both the BMWi, as well as the DIHK, to quickly recognize and remedy any deviations from the (planned) path. This is where the recommended systematic performance and impact assessment can provide valuable insights. Repeated

failure to achieve the mutually agreed upon targets should not be ignored, as this may have a negative impact on the motivation of the entire network.

Recommendation 8 – Improve employer attractiveness of the AHKs: As the employer and independent economic institution responsible for the coordination of the AHK-network, the appointing of managerial positions is the sole responsibility of the DIHK, without consulting outside parties including the BMWi. The evaluation has shown that systematic staff retention programs and training are rare within the AHK-network. The career development opportunities within the network are limited. The absence of binding, regulated lengths of stay in a given host country complicates the creation of (career) plans for directors and young executives. Medium and long-term perspectives for middle-management executives are in many cases not established. Benchmark organizations recruit university graduates to be tied long-term to the organization and be further trained with so-called junior management development programs. This creates clear development prospects for young executives. The evaluators deem the development of clear career paths for the AHK as important. The consistent implementation of the system of rotation is a vital part here. This will strengthen both the cross-AHK network philosophy, as well as the attachment to Germany. In addition, it will contribute to a further exploitation of the cooperation and synergy potential between the IHKs and AHKs and promote the recommended actions as outlined in point 5 – 7. These are all vital steps in achieving the objectives set by the federal funding, for example a stronger focus on SMEs. At the same time, the system should remain flexible and accessible for suitable lateral entrants from business and industry because the network thereby gains valuable know-how and expertise. One possibility is for three quarters of the leadership positions in the AHK-network to be filled with a core workforce, rotating between the various host countries and Germany and temporarily reinforce the staff by a quarter of selected persons from the business community.