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PERFORMANCE MEASUREMENT IN COMMERCIAL DIPLOMACY

Piotr Hajdecki
Ex-commercial diplomat of Poland [1]

Commercial diplomacy is an important part of diplomacy. It is likely that in post-COVID-19 times, it will become even more important as a means contributing to faster economic recovery of countries. Performance measurement has been gaining importance in commercial diplomacy practice. It is not only about controlling people, identifying weak points and dysfunctions, and possible repressions, but also serves many positive purposes (e.g. improving operations, building trust with stakeholders, or enabling data-based advocating for higher budgets). The article will discuss what metrics can be used to measure performance in commercial diplomacy.

The recent trend is clear: Commercial diplomacies make greater efforts to measure the impact of trade support services and to use formal performance indicators and targets[2]. Performance measurement in commercial diplomacy is on the rise.

This trend is accompanied by an increasing role of commercial diplomacy[3] and a shift in expectations of business towards commercial diplomats[4]. In post-COVID-19 times, commercial diplomacy will most likely be appreciated even more as a means to get out of the economic crisis faster. The current situation makes countries more concerned about their national economies. It will inevitably result in increasing protectionism, promotion of "made in" products, and preference for domestic suppliers and contractors, creating a big challenge for commercial diplomats. It will most likely bring in increased importance of public aid/public support for market success. This, in turn, will increase the role of lobbying, public affairs, and government relations. In diplomatic world, one could hear that some countries have already been preparing additional corpus of commercial diplomats to fight for economic interests of their country in post-COVID-19 times.

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1 The author presents private opinions accumulated by over 15 years' experience in commercial diplomacy and private sector. The opinions and positions presented in the text are not the opinions of the author's current or previous employer or any institution he cooperates with.

2 *A Guide to Commercial Diplomacy,* International Trade Centre: Geneva 2019, p. 5.

3 D. Lee, H. Ruel, *Introduction: Commercial Diplomacy and International Business: Merging International Business and International Relations*, [in:] H. Ruel (ed.), *Commercial Diplomacy and International Business. A Conceptual and Empirical Exploration*, Emerald Group Publishing Limited: Bingley 2012, p. xv; O. Naray, *Commercial Diplomacy: A Conceptual Overview*, Conference Paper at 7th World Conference of TPOs, The Hague, The Netherlands, 2008.

4 Compare: M. Kostecki, O. Naray, *Commercial Diplomacy and International Business, Discussion Papers in Diplomacy*, Netherlands Institute of International Relations "Clingendael", April 2007, ISSN 1569-2981, pp. 8-9.

There is also a shift in expectations of business towards commercial diplomats, which has been clearly expressed by Arancha González, the executive director at International Trade Centre, in her foreword to the *Guide to Commercial Diplomacy*: "In a rapidly changing trade landscape, those who support businesses to trade need new ways of working, new skills and new partnerships".[5]

In diplomatic world, one could hear that some countries have already been preparing additional corpus of commercial diplomats to fight for economic interests of their country in post-COVID-19 times

Another stimulus coming from the business world is an increasing awareness and assertiveness of business representatives who know what to expect from commercial diplomats and how to assess their work using corporate standards. They are ready to complain to the ministry, go to mass media, or express their disappointment on social media if they do not like the standard of commercial diplomacy service. This all means that modern, well-designed, objective, and methodologically valid performance measurement is a must in today's commercial diplomacy. And it should not cause any fear or resistance among staff if we realise that potential benefits outweigh the threats.

Why Measure Performance in Commercial Diplomacy?

Commercial diplomacy needs metrics for many reasons:

1) The most expensive resource. Diplomats are the most expensive category of public servants, as they are paid not only salary but also overseas daily allowance, travel expenses, cost of residence, etc. As they are the most expensive human resource in public sector, their performance should be measured diligently.

2) Physical distance between headquarters and diplomatic missions. This makes direct supervision impossible. One can imagine a situation when the ministry is located in Europe and a diplomat is posted in Australia or North America. Due to time difference, it is challenging to have even a Teams conversation during office hours. Performance metrics recorded in an electronic system enable following the performance of diplomats in foreign posts on an ongoing basis.

3) Increasing public scrutiny requires evidence that resources for commercial diplomacy are well spent. Citizens and business are increasingly aware and assertive when it comes to the quality of public services. Metrics help to respond to such inquiries and critics, and build trust in public service.

4) Need for adequate metrics and reward criteria. Compensation policies should motivate staff for good performance and rewards should be granted to those who make impact and really contribute to achieving organisational goals. This need is illustrated by the following example: Experience in a foreign service has been usually recognised as the criterion for years-in-service allowance. However, in times of digitalisation, dynamic development, technological disruptions, and rapidly emerging new business models, it cannot be taken for granted that a diplomat with the longest experience brings the most value. A system using years in service as a reward criterion does not reflect the

5 *A Guide to Commercial Diplomacy*, n2.

actual value of work and contribution of an individual employee. Rewarding a person for surviving in the organisation is not reasonable.

5) Need for accurate response to actual business needs. Performance measurement helps to identify actual business needs and their geographical patterns and to respond to them accordingly, e.g. by allocation of relevant resources in the global network.

Measuring performance is not only about controlling people, identifying weak points and dysfunctions, followed by possible repressions, but it also serves many other purposes. A classic article by Robert D. Behn of Harvard University names eight purposes of measuring performance: evaluating if the agency is doing well, controlling if subordinates are doing the right things, deciding on budget allocations, motivating the staff, promoting achievements and impact made by the agency, celebrating successes, learning what is working and what is not, and improving performance[6]. Translating these general purposes into the specific commercial diplomacy context, performance measurement allows:

- To follow the process of goal accomplishment, identify problems, and launch improvements in commercial diplomacy operations;
- To apply for budgets, substantiating application with relevant quantitative arguments;
- To show the results of commercial diplomacy, unit, or a single diplomat to citizens, journalists, constituencies, and other stakeholders;
- To build trust and accountability of foreign service;
- To motivate and reward the staff more effectively based on objective criteria.

Definition of Commercial Diplomacy

Commercial diplomacy is a governmental service for the business community, which aims at the development of socially beneficial international business ventures[7]. Commercial diplomats perform their activities in the host country and are usually staff members of a diplomatic mission, trade promotion organisation (TPO), or investment promotion agency (IPA). Commercial diplomacy is the work of diplomatic missions (and other agencies) to support the home country's business sector[8]. Its functions are sometimes performed by a trade representative with non-diplomatic status or by local staff, citizens of the host country, with non-diplomatic status.

A comprehensive set of potential commercial diplomacy activities has been compiled by Shirin Reuvers and Huub Ruel[9] and grouped into four categories: network activities, intelligence, image campaigns, and support business.[10]

6 R. D. Behn, *Why Measure Performance? Different Purposes Require Different Measures*, "Public Administration Review", September/October 2003, vol. 63, no. 5.

7 Kostecki, Naray, n4, p. 1.

8 *A Guide to Commercial Diplomacy*, n2, p. 12.

9 S. Reuvers, H. Ruel, *Research on Commercial Diplomacy, A Review and Implications,* [in:] H. Ruel (ed.), *Commercial Diplomacy and International Business. A Conceptual and Empirical Exploration*, Emerald Group Publishing Limited: Bingley 2012, p. 8.

10 Oliver Naray provides an alternative classification of commercial diplomacy activities, naming: business intelligence, country image, networking and partner search, conflict handling, support of business and government delegations and strategic concerns. See: Naray, n3.

Challenges in Measuring Performance of Commercial Diplomacy

While designing performance measurement systems, some issues should be considered and addressed. They are briefly described below.

- Non-tangible service. Diplomacy offers a non-tangible service; thus, it is not easy to measure its performance.
- No overall control. The ultimate outcome of commercial diplomacy's efforts is determined by many different factors, some of which are out of control of commercial diplomats – commercial diplomacy service is usually a fraction of forces determining the final outcome.
- Non-obligatory follow-up from companies. Both commercial diplomacy customers and partners in the host country are not obliged to report the final outcome (impact) of the diplomatic service. As a result, it is challenging to track the impact.
- Diversity of domains and services. A performance measurement system is determined heavily by the domain of commercial diplomacy services – different metrics can be relevant for export promotion, inbound investment promotion, tourism promotion, or enhancing R&D cooperation, for certain type of service, or depending on chargeability/non-chargeability/subsidised-chargeability for services.
- Diversity of host countries' characteristics. The importance of certain commercial diplomacy services depends heavily on the host country characteristics; e.g. networking services (high-value connections) are important in such countries as China, Turkey, or Poland, whereas they have minor value in Scandinavia, where it is relatively easy to access relevant people and initiate dialogue.
- Need for integrative approach. Commercial diplomacy operates in a broader system consisting of diplomats in foreign posts, officials in the headquarters and other ministries, public export credit agencies, export financing institutions, and regional business development centres. Commercial diplomacy metrics should optimally be integrated with the metrics of the other agencies to stimulate synergies rather than cultivating the silo effect.
- Need for complexity. Metrics focus the attention of the personnel. People do what is measured and what they are rewarded for: "What gets measured, gets done". Thus, a good measurement system should consolidate the entire scope of desired behaviours.
- Measurement should not be burdensome. The measurement process should be easy and seamless for the staff. Measurement cannot consume the resources for operational activity.
- Insightfulness. The measurement system should provide a comprehensive insight into commercial diplomacy operations. The metrics reported in an electronic system should also inform about the profile of the customer, type of service, topic of inquiry, category of expertise used, follow-up. Such knowledge helps to better plan resource allocations in the global network and to optimise its operations.

What to Measure?

Commercial diplomacy models vary significantly country-by-country, which makes copying the performance measurement system from one country to another hardly possible. However, some of the metrics can be universal (or applicable after some adaptation). The article suggests nine metrics that can be used (after some adaptations) for performance measurement in commercial diplomacy.

Number of cases served

Companies in a phase of foreign expansion need information, intelligence, advocacy, and lobbying. The number of such cases correlates with desired future outcomes – the more knowledge and efforts diplomats share with the customer, the more likely the customer's success in the host country would be. So, the first metric to be used is the number of cases served by a diplomat.

In order to reduce the risk of creative reporting, it is advisable to provide a clear definition of what a case means for measurement purposes. Cases are not the same. There are minor cases, like checking records in a national business register; medium cases, like drafting a list of distributors of certain profile; and large cases, like drafting a market entry strategy for the customer. That is why it is advisable that the cases are standardised based on the time spent into three categories, e.g.:

- Minor cases – up to 3 working hours,
- Medium cases – up to 24 working hours,
- Large cases – up to 40 working hours.

Standardisation eliminates the risk of dividing the task into smaller cases in order to get better numeric results. The above numbers are only exemplary, as each diplomacy should consider the time caps for services for one individual company and annual time spent per one company regarding, e.g., available resources, volume of demand for its services, and commercial diplomacy strategy.

Number of business opportunities activating home country companies

A recent trend in commercial diplomacy is focusing on proactive work on spotting high-value opportunities, rather than only responding to enquiries[11]. Home country companies expect commercial diplomats to identify meaningful business opportunities in the host country.

> ***Commercial diplomacy models vary significantly country-by-country, which makes copying the performance measurement system from one country to another hardly possible***

However, opportunities themselves are worthless if they are not attractive for or addressed by home country companies. That is why the number of opportunities identified should be accompanied by a metric showing if an opportunity attracted meaningful interest of at least one home country company (of course, the more activated companies, the better). Meaningful interest of customers should be recognised based on objective facts, e.g., proposal submission, start of negotiations, signing letter of intent, etc. The number of activations is a comprehensive measure, as it reflects both the diplomat's knowledge of the offering and interest of the home country business, value of the opportunity for the company, but also the effectiveness of the diplomat in communicating the opportunity to the home country companies.

A key for success of this metric is a clear definition of the terms "business opportunity" and "activation" as well as setting some quality standard for business opportunities. The basic standard for a business opportunity should require some background: actual need of an individual business, sector, or economy of the host country; objective facts confirming the

11 *A Guide to Commercial Diplomacy*, n2, p. 19.

business need; relevance for the profile of the home country offering; and financing feasibility (sound financial standing of the buyer, guarantee, grant, or loan). In order to meet the standard, a commercial diplomat should do some business opportunity verification work.

> ***The number of introductions is a comprehensive measure, as it reflects also the ability and motivation of a diplomat to build and cultivate relationships and connect people***

Because a diplomat, being a source of the opportunity, has an interest in accounting the business opportunity and activations, he or she can be self-biased. That is why it makes sense to appoint a person in the headquarters who qualifies all business opportunities and activations vis-à-vis objective criteria and set standards.

Introductions

One of the most important services of commercial diplomacy is door opening, establishing high-value connections and referrals (as an umbrella term: "introductions"). Diplomats, due to their status, well-established networks, and reputation are a good source of introductions. Again, a precise definition of an "introduction" and a quality standard set for it helps to avoid creative reporting. The number of introductions is a comprehensive measure, as it reflects also the ability and motivation of a diplomat to build and cultivate relationships and connect people.

Number of expert meetings

The key diplomatic asset is knowledge. Knowledge is usually localised beyond the walls of the embassy's premises (if information is available online, it means it can be accessed from the home country). If a diplomat wants to obtain knowledge, he/she should "leave the building" and interact with experts. Like in the business world, the knowledge should be recorded in a knowledge management system in order to make it available to the organisation (e.g. CRM, databases, or similar).

Meetings should be methodologically planned regarding the anticipated needs of the home country's companies rather than be a blind "hunting for business cards" to record them in a CRM system and to get the score. To ensure that expert meetings are meaningful, the metric should require reporting the meeting in the system and showing the potential application of the knowledge gained. Again the definition: It is advisable to define precisely what is meant by "expert meeting" for measurement purposes.

Number of media hits

Presence in social media and traditional media is an important and usually free-of-charge channel for sending a message. It is also a tool for building the image of the home country, its achievements, cooperation opportunities, etc. Metrics should incentivise diplomats to be active in the media. One metric can be the number of media hits.

However, media differ by audience, content, range, and even reputation, as well as the form of media presence can be different (interview, comment, article, social media post, etc.); thus the metric should be built regarding the characteristics of the media landscape vis-à-vis diplomatic needs. The metric should motivate the diplomats to use the right channel to reach the relevant audience. Media monitoring and analytics tools can be used to measure the media presence.

Customer satisfaction rate

It is potentially easy to report a lot of cases and a lot of introductions, but they can be of poor quality. Commercial diplomacy is getting more and more customer-centric. Customer satisfaction matters. That is why it is advisable to put on top of the three above metrics an additional one – the level of customer satisfaction. Monitoring and evaluation that does take place is often based on customer satisfaction surveys[12]. Depending on methodology and scale adopted, the minimum level can be set, e.g., at 75%. It is advisable that customer satisfaction measurement is based on surveying larger numbers of customers in order to statistically eliminate personal antipathy or random mistakes.

Ghost shopping (mystery shopping)

Ghost shopping (mystery shopping) is a concept taken from marketing, being a tool that helps to obtain unbiased information. This procedure is used to measure and assess the quality of actual services rendered to customers: A quality controller acts as a regular customer contacting the service provider and asking for service[13]. Based on this interaction and following a script/questionnaire, the quality controller assesses the performance and drafts a report commenting on key service quality aspects. Ghost shopping quality control can be outsourced to specialised agencies. In the case of diplomacy, ghost shopping should measure the quality of content and response time.

Time spent on a client (electronic timesheet)

One of the possible metrics is a number of hours spent per customer (specifying type of activities). Like in consulting companies, a diplomat completes an electronic timesheet at the end of each week, reporting how much time he/she spent on certain activities for each customer. Such information can be used for many purposes:

- It informs which company gets support and in what amount (which is important for fair and equal treatment of customers and helps to respond to the occasionally raised argument that commercial diplomats help only their friends and cronies[14]).
- It provides evidence showing how much time diplomats spent on helping companies (provided that time is spent effectively, it can be helpful for trust- and image-building of commercial diplomacy).
- Using a timesheet can also show the relation between the time spent on internal procedures and meetings and the time actually spent on serving business needs, and can give a clue for optimisations.
- A timesheet informs what services are most time-consuming in the commercial diplomacy network and in certain localisations, which can be an insight for automation or training for diplomats.
- A timesheet helps to find out what services are most popular by country,

12 J. van Barnevelt, W. Vullings, M. Rijnders-Nagle (ed.), *Benchmark Standardisation. Practices from DE, DK, FR and UK*, Report by Technopolis Group for the Dutch Ministry of Foreign Affairs, April 2014, p. 11.

13 A similar concept, named "Export Support Performance", has been proposed by Gorazd Justinek; see: G. Justinek, *Measuring Export Support Performance, [in:] H. Ruel (ed.), Commercial Diplomacy and International Business. A Conceptual and Empirical Exploration,* Emerald Group Publishing Limited: Bingley 2012, pp. 141-150.

14 The criticisms for abusing diplomatic power for personal benefit or for that of a diplomat's cronies has been raised in: Kostecki, Naray, n4, p. 3.

region, or globally; what companies use the commercial diplomacy's service most; and what sectors are most active (which, in turn, can prompt training needs as well).

However, deploying this measure can result in disadvantages and risks. A timesheet does not stimulate increasing effectiveness of work (as it focuses on hours instead of the result); it can annoy the personnel and result in distrust. As commercial diplomats are sometimes just public servants and generalists with no previous experience in business, the customers – comparing the number of hours spent and the output – can criticise commercial diplomacy for low effectiveness. On the other hand, it can motivate a revision of commercial diplomacy effectiveness and reforms.

Revenue or virtual revenue

In the case of diplomacies, which charge for their services, the principal metric can be the revenue from services, followed by the customer satisfaction rate. It is easy – if the service is of poor quality, the customer will not come again or will claim money refund.

It requires issuing to companies a "virtual voucher" for commercial diplomacy services. In order to implement the system, diplomats should be attributed with individual hourly rates based on the total cost of their work

The same logic can be used also in commercial diplomacies not charging for their services. It requires issuing to companies a "virtual voucher" for commercial diplomacy services. In order to implement the system, diplomats should be attributed with individual hourly rates based on the total cost of their work divided by the standard number of working hours in a period.

Home country companies are granted a virtual voucher (virtual money limit) that they can spend on commercial diplomacy services in the global network.

Example: A home country company is granted a virtual voucher amounting to 5,000 EUR, which can be spent on commercial diplomacy services in the global network in 2020. The hourly rate of a trade counsellor in a certain location is 200 EUR, a secretary's is 150 EUR, an attaché's is 120 EUR, and a local advisor's is 80 EUR. That means that the company can get five hours of work of a trade counsellor, 20 hours of an attaché's, and 20 hours of local staff. If the company expands to a few foreign destinations, it can use a part of the voucher amount at any post in the global network. As the company has limited resources, it executes an effective utilisation of the hourly rate.

Provided that the service will be of a quality relevant for the hourly rate, such a virtual voucher system has many advantages:

- It shows the monetary value of the service to companies;
- It shows the monetary value of working time to diplomats;
- It focuses staff attention on value-creating activities instead of internal/administrative work;
- Different hourly rates incentivise for rational delegating and optimal allocation of human resources;
- It helps to estimate the cost-value relation in commercial diplomacy.

The voucher system is associated with a risk that companies, even not prepared for foreign expansion, can request commercial diplomacy just not to lose virtual money. This challenge can be addressed by prequalification of companies in the home country institutions (headquarters or regional development agencies)[15]. This approach would help to prepare the companies for internationalisation and ensure the provision of commercial diplomacy services only to companies ready for foreign expansion.

Commercial diplomacy is an important part of diplomacy. It is likely that in post-COVID-19 times, it will become even more important as a means contributing to faster economic recovery of countries. Performance measurement has been gaining importance in commercial diplomacy practice, as it is not only about controlling people, but also serves many positive purposes (e.g., improving operations, building trust with stakeholders, and enabling data-based advocating for higher budgets).

Even if commercial diplomacy models vary significantly country-by-country, which makes copying performance measurement systems hardly possible, some metrics can be universal. The number of cases served, the number of business opportunities activating home country companies, establishing high-value connections, the number of expert meetings, the number of media hits, customer satisfaction rate, time spent on a client, and revenue are among them.

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15 The issue of customer preparedness as a determinant of commercial diplomacy effectiveness has been raised by Huub Ruel and Lennart Zuidema in: H. Ruel, L. Zuidema, *The Effectiveness of Commercial Diplomacy. A Survey among Embassies and Consulates*, Discussion Papers in Diplomacy, No. 123, March 2012, Netherlands Institute of International Relations "Clingendael", ISSN 1569-2981, pp. 10-11.

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