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## Chapter 9

# Lobbying of Commercial Diplomats: Institutional Setting as a Determining Factor

Elena Bondarouk and Huub Ruël

### Abstract

The aim of this research is to contribute to the understanding of how commercial diplomats lobby for public procurement contracts. The institutional environment has ramifications for the manner of lobbying and for the practice of commercial diplomacy. This research brings together these streams of literature, and a conceptual model is developed. By means of an in-depth, single-case study, investigating the lobbying activities of EU diplomats in Indonesia, the study aimed to illustrate the model and draw the list of lobbying activities applicable for commercial diplomats. The findings reveal that in a weak institutional development environment, the diplomats focus on informational lobbying and rely heavily on their networks. If the decision-making powers are decentralized, the diplomats target more decision-makers. If diplomats do not have an access to decision-makers then 'voice' lobbying is applied. If the decision-makers are not elected, the diplomats do not engage in constituency-building lobbying. The findings illustrate the plausibility of the introduced conceptual model. They also suggest that domestic factors, such as interest in the host country, priority status of the host country and historical bilateral ties can positively influence the lobbying activities of the diplomats as well.

### Introduction

The role of commercial diplomats is slowly changing. The Internet epoch makes it possible for companies to conduct their own investigations of the market characteristics and opportunities in a country of interest; such gathering of intelligence was historically one of the tasks of a commercial diplomacy unit. Nowadays, the

added value of commercial diplomats revolves more and more around their expertise and contacts in the host country. Especially in emerging countries where the political, economic, legal and social environment tends to change unpredictably, companies find themselves relying increasingly on the commercial diplomats to explain the rules of the game to them and what channels should be used for the business start-up and promotion.

At the same time, despite the difficulties companies might face in emerging countries, these countries also offer a lot of opportunities for them to grow and expand their market. The population is young and demanding the same standards the developed countries enjoy whether it comes to, for example, mobile phones, computers or hospitals (Egan & Ovanessoff, 2011). One of the sectors where companies from developed countries can seize great opportunities is infrastructure, as in most of the emerging countries airports, harbours, and roads, which could meet the developed countries' standards, are yet to be built (Wooldridge, 2010).

Because of these opportunities in these countries, public procurement becomes an interesting subject for a closer examination. It is through public procurement that a company can contract itself to, for example, building roads, railways, dams, or other projects. In foreign countries, it can be challenging to get a public procurement contract because companies might not be aware of the local rules and procedures. Moreover, foreign companies will be disadvantaged compared to domestic companies because they will not have proper connections which could ease the process. This is where the commercial diplomats' familiarity with the host market and its regulations can play a crucial role. As one of the responsibilities of commercial diplomats is the establishment of good relations with the authorities in the host country, they manifest themselves as essential players that can assist a firm in acquiring a public procurement contract and can channel the company through their networks to a successful result.

Despite its obvious practical importance, little is known about how commercial diplomats assist companies in successfully acquiring such contracts. One of the ways to influence the authorities responsible for public procurement is by lobbying them. But *how* do commercial diplomats lobby? How do they build their network? What lobbying techniques are used? Article 3 of the Treaty on the Functioning of the European Union lays down EU competence in external economic policy. Having a framework in which the countries are obliged to work together, do European diplomats lobby in a similar way? What determines the lobbying techniques of the commercial diplomats? The current literature on lobbying or commercial diplomacy does not provide for answers to these questions.

Most of the research on lobbying is done on interest groups and other non-state actors (e.g. Ihlen & Berntzen, 2007; Miller & Harkins, 2010). Little is known about how states themselves engage in lobbying activities (Panke, 2012). There is no knowledge on how commercial diplomats lobby. The existing literature on lobbying points out that the institutional setting of a country has ramifications for the manner of how groups lobby (e.g. Eising, 2007; Hamada, 2007; Holyoke, 2009; Lowery, 2002; Lowery, Poppelaars, & Berkhout, 2008). Kostecki and Naray (2007) also determined that the commercial diplomats' activities depend on the host country

characteristics of the institutional setting. Hence, the following research question emerges:

*To what extent does the institutional setting of a host country determine the lobbying activities of European commercial diplomats in the case of public procurement contracts in emerging countries?*

Such theoretical question calls for a large-scale empirical research. However, the current state of knowledge on the lobbying activities of commercial diplomats is incomplete, making it difficult for such research to be conducted. Consequently, it is necessary to explore these activities first. A single case-study design is chosen to accommodate this need. At the same time it provides for an opportunity to see whether there is any plausible link between institutional setting and lobbying activities at all. Hence, the aim of this research is twofold: (1) drawing a list of lobbying activities applicable for commercial diplomats and (2) illustrating the plausibility of a link between the concept of institutional setting and lobbying activities of commercial diplomats.

The study is presented in the following sections. The literature review section identifies the streams of literature and ties them into a conceptual model. The section on methodology explains how the data on lobbying activities was gathered, and how the model is examined. The findings are presented in the results section, followed by conclusions and a reflection on the research.

## **Literature Review**

This section identifies the streams of literature that are relevant to the central research question. The objective is to construct a research model which will frame the concepts and guide the research in its empirical stage. Academic databases were used to track the literature on the basis of keywords. Backward and forward referencing was applied to locate other sources of information. This amounted to a vast pile of literature resources, which enabled assessment of the *status quo* on the subject and revealed theoretical gaps.

In order to answer the research question, there is a need to establish (2.1.) what is implied by commercial diplomacy. As the activities of a commercial diplomat are uncovered, it will bring the subjects of (2.2.) public procurement contracts and (2.3.) lobbying to the surface. (2.4.) The institutional setting will then emerge as a possible shaping factor of the lobbying activities. (2.5.) The conceptual model will be introduced to guide the empirical part of this research. (2.6.) At last, the propositions about the model will be derived in conclusion.

## ***Commercial Diplomacy***

Commercial diplomacy has been receiving more attention in the academic world in the past few years (e.g. Busschers, 2011; Naray, 2008; Okano-Heijmans & Ruël, 2011;

Reuvers, 2012; Ruël & Zuidema, 2012; Visser, 2011). It has been identified as one of the ingredients of economic diplomacy (Buschers, 2011; Okano-Heijmans & Ruël, 2011; Potter, 2004; Reuvers, 2012; Ruël & Zuidema, 2012). While economic diplomacy is a broad term covering different economic means available to diplomats when seeking foreign policy goals (Haan, 2010; Muller, 2002; Okano-Heijmans, 2008), commercial diplomacy is a more specific term reflecting the support that diplomats can offer to the business sector by facilitating specific commercial gains through export promotion, attracting inward investment and preserving outward investment opportunities (Kostecki & Naray, 2007; Mercier, 2007; Naray, 2008; Potter, 2004). It is important to note that this research will use a broader conceptualization of diplomats in order to answer the main question. It will depart from the usual assumption that diplomats are government representatives with a diplomatic status, and will include the local staff working in the economic department of the embassy without diplomatic status into the definition.

Buschers (2011) presents an overview of the activities performed by the commercial diplomats that have been outlined in the literature. The common ingredients identified by different authors seem to be (1) the provision of intelligence, which implies gathering and disseminating market information to the firms, (2) establishing relationships with the authorities which can help companies in their search for projects and partners, (3) promoting home country products and services via different channels of communication and trade fairs and (4) assisting companies in disputes.

Governments have different reasons to invest in commercial diplomacy (Naray, 2008). Although the Internet has made a lot of intelligence publicly accessible, there are still *missing markets* where reliable and neutral business information can only be accessed by the diplomats due to their special relations with the country. Sukiassyan and Nugent (2011) argue that especially in transition economies, it is difficult for companies to operate due to unstable and unclear market conditions. Hence, the knowledge and experience of commercial diplomats in these countries prove to be indispensable. Commercial diplomats contribute to strengthening the commercial ties with the host country by establishing and maintaining *a country image*, which plays a role when a domestic company is recommended to the host country business and government. *Networking opportunities and partner search* which the commercial diplomats can offer to the companies form yet another reason why commercial diplomats are indispensable. Their 'local knowledge is particularly useful in helping business people to participate in trade fairs, trade displays, store promotions, social receptions for local leaders, trade and technical symposia' (Naray, 2008, p. 5). Large companies rely on the important contacts that commercial diplomats can offer when it comes to complicated markets where useful networks are essential. Commercial diplomats are familiar with the judicial system of a host country and can assist in *conflict resolution*. The preparation of *business and government delegation* is usually something that commercial diplomats are responsible for. By helping the businesses, the commercial diplomats contribute to the competitiveness of domestic economies and export growth (Naray, 2008; Ruël & Zuidema, 2012). This rationale for commercial diplomacy becomes especially relevant when considering the support

provided by the diplomats to the companies that engage in large contracts, where the national image counts (Naray, 2008).

### ***Public Procurement Contracts***

One area in which commercial diplomacy can have special relevance is public procurement contracting. Public procurement can be defined as the process of 'public purchase of goods and services from the private sector' (Weiss & Thurbon, 2006, p. 703). The outcome of such process is a 'business arrangement between a government agency and a private entity in which the private entity promises, in exchange for money, to deliver certain products and services to the government agency or to others on the government's behalf' (Ya Ni & Bretschneider, 2007, p. 533). Public procurement represents 'one of the sources of demand for companies in sectors such as construction, health care and transport' (Edler & Georghiou, 2007, p.950).

The public procurement market is immense. At the end of 20th century, it amounted to 82.3% of international trade in goods and services (Kommerskollegium, 2011). The Organisation for Economic Co-operation and Development (OECD) has estimated that its members' spending on public procurement amounts on average to 12–25% of their GDP (2011). In developing countries it amounts to 14% of their GDP (Kommerskollegium, 2011). The OECD expects that the percentages will only grow: due 'to the economic downturn, many countries have launched fiscal stimulus programmes that include a large procurement component, often related to infrastructure projects' (OECD, 2011, p. 148). Therefore, public procurement presents lots of opportunities for companies.

Public procurement is known to be a complex arrangement because there are many demands the company must fulfil in order to get the contract (Ruël, Vehof, & Telgen, 2012). A company should take into account the different political goals and many stakeholders' different objectives when answering the public procurement call (Telgen, 2007). Companies should be aware of the cultural setting of the country, different rules and organizational procedures at the various levels that apply in public procurement contract appointment (Telgen, 2007). Moreover, different long-term relationships of the government with the country's business sector should be considered (Telgen, 2007).

The need for information about these demands, different rules, and culturally and politically sensitive intelligence which plays a role in whether a company gets the public procurement contract or not brings the subject back to the rationale of the existence of commercial diplomacy. One of the responsibilities of commercial diplomats is the establishment of good relations with the authorities in the host country. Therefore, they manifest themselves as essential players that can assist a firm in acquiring a public procurement contract and can channel the company through their networks to a successful result. And for that reason, the knowledge, experience and network of commercial diplomats constitute valuable assets for the companies striving to get the public procurement contracts.

Despite its practical importance, little is known about how commercial diplomats assist companies in their successful acquiring of such contracts. One of the ways to influence the authorities responsible for public procurement is by lobbying them. The current literature on commercial diplomacy has been oblivious to the lobbying literature. The next section attempts to set this straight.

### **Lobbying**

A wealth of research has been done on lobbying. Most of it focuses on interest groups and other non-state actors (e.g. Ihlen & Berntzen, 2007; Miller & Harkins, 2010). Little is known about how states themselves engage in lobbying activities (Panke, 2012). And this is fundamentally different from business groups. For example, the diplomats do not have a budget which they can use to make a donation in order to persuade the decision-makers to assign the public procurement contract to a particular company. A study on public procurement in the United States has shown that companies that made political donations were more likely to receive the public procurement contract (Hogan, Long, & Stretesky, 2010). Neither can commercial diplomats capture the fields of sciences, civil society and the media completely due to budget constraints (Miller & Harkins, 2010). Moreover, the usual stage where lobbying is examined is the US congress or the EU institutions (e.g. Coen, 2007; Mack, 2005; Mahoney & Baumgartner, 2008). Another important aspect of this stream of literature is that lobbying is usually performed to influence a policy outcome, regulation or other legislation (e.g. Gray, 1989; Lowery, 2002). And as public procurement competition is not about changing a policy but about who is getting the contract, the lobbying activities will differ. Yet another stream of literature on lobbying focuses on the personal characteristics of a lobbyist which can make lobbying successful (McGrath, 2006; Nownes & DeAlejandro, 2009; Spencer & van Schendelen, 2002; Van Schendelen, 2002). This section attempts to distil the lobbying aspects which are relevant for this kind of lobbying, concentrating on state actors who do not target policy change, rules or other legislation.

Lobbying is defined as a strategic activity of providing information to legislators (Hojnacki & Kimball, 1998; McGrath, 2007), ‘contacting government officials or elected politicians to influence their decisions on matters of interest’ (Mack, 2005, p. 340). Ihlen and Berntzen (2007) define it as ‘influencing political decision-making in the interest of a group by communicating with publics relevant to the political process of a certain issue’ (p. 236). And Vining, Shapiro, and Borges (2005) define it as ‘all attempts to communicate information to political actors’ (p. 151). Panke (2012) defines it in a similar way: ‘lobbying is an informal pathway to influence policies in arenas or bodies in which lobbyists themselves have no formal decision-taking competencies’ (p. 130). The combination of these definitions results in the following synthesis, where the concept of lobbying for this research captures *all attempts by the commercial diplomats to communicate information to host government officials in order to influence their decision about whom to assign a public procurement contract to.*

Although lobbying effectiveness is very difficult to measure due to its concealed nature in the process of decision-making (Lowery, 2002; Svendsen, 2011) and the great variety of ways the lobbying takes place (Lowery et al., 2008; Van Schendelen, 2012), it has empirically been shown that it does have an effect on the outcome of a lobbied concept (e.g. Baron & Hirsch, 2012; Gawande, Krishna, & Robbins, 2006; Gawande, Maloney, & Montes-Rojas, 2009; Husted, 1991; Kee, Olarreaga, & Silva, 2007; Panke, 2012; Vining et al., 2005). Lobbying plays an important role as it can shape the decisions that are taken, make sure that a *status quo* prevails and influence the attitudes of decision-makers by moulding the political agenda (Baron & Hirsch, 2012; Gawande et al., 2009; Hojnacki & Kimball, 1998; Svendsen, 2011). The pursuit of economic benefits is usually the reason for lobbying (Crosby & Orsini, 1996; Mack, 2005). And although this could be considered a negative motivation (Van Hulst, 2011), it does not necessarily have to be denoted that way as it is another way of interest representation and assurance that the government officials take decisions that are not mismatched to society's needs (Eising, 2007; Ihlen & Berntzen, 2007; Mack, 2005; McGrath, 2005). For example, in the case of lobbying for a free-trade agreement between countries, tariff-barrier-lifting measures or access to the foreign market agreements, lobbying even benefits the consumers by lowering the prices through facilitating intensified competition and thus improving welfare (Gawande et al., 2006; Husted, 1991; Kee et al., 2007; Solis & Katada, 2007). Hence, even though the commercial diplomats will be driven by the interest of their home countries' firms, the outcome of their lobbying does not necessarily harm the host country.

Lobbying involves a lot of preparation which is indispensable for success (Van Schendelen, 2012). Different relevant documents are studied for stakeholders, their position on the matter, and when and how they are likely to intervene, and the time frame which is prescribed by procedures and agendas (Gray, 1989; Van Schendelen, 2012). The literature identifies several methods and techniques lobbyists can use to best achieve their goal (Furlong & Kerwin, 2005; Nownes & DeAlejandro, 2009; Schlozman & Tierney, 1986). However, the lists of such techniques and methods are not directly applicable to the lobbying of commercial diplomats and especially not in the case of lobbying for public procurement contracts. This brings the matter to the first aim of this research: the identification of lobbying techniques that are applied by the commercial diplomats. Even though the literature does not provide such list of techniques, it helps to identify different elements of lobbying which the commercial diplomats have to be aware of. It will also serve as a guide in the search for lobbying activities that commercial diplomats use. Hence, the remaining part of this section will outline different aspects of successful lobbying which are relevant for the commercial diplomats.

Lobbyists need to make a selection of priority projects they want to focus on, as they have limited financial and human resources (Crosby & Orsini, 1996; Panke, 2012; Vining et al., 2005). Domestic interests can play a role, but also the host country's needs are to be considered. When a lobbying group chooses a project which reflects popular and salient matters, for example lobbying for the need to build a new public transport system which will lessen congestion and contribute to a healthier environment, it will have a better chance of getting through (Klüver, 2010a, 2010b; Lowery, 2002).

The notion of salience draws attention to the timing of lobbying, one of its most vital aspects (Crosby & Orsini, 1996; Gray, 1989; Mack, 2005). A delay could result in somebody else getting the public procurement contract, at the same time ‘lobbying an issue before it has become salient to the decision-maker will cause it to fall on deaf ears’ (Crosby & Orsini, 1996, p. 2). Therefore, if lobbyists want to address an issue the public is not familiar with yet, they need to make it salient and attract attention to it. They have to plan their actions to be timely and anticipate the trends.

Once the issue is chosen, there is a decision to be made on how to structure and present the message (McGrath, 2007). Vining et al. (2005) identify three major categories of lobbying argumentation. *Fact and science* arguments are crucial in the fields where technical knowledge is indispensable like health and environment issues. *Economic efficiency* arguments focus on the notion of maximizing social surplus, and *equity* arguments have strong persuasion powers when they can be described in terms of big losses to large groups of society. Thus, the lobbying commercial diplomats can use their technical intelligence and present the arguments differently depending on the matter and the goals.

The decision-makers need this technical intelligence in order to design policies and justify the decisions that are taken (Bouwen, 2002; Crosby & Orsini, 1996). Lobbying groups employ informational lobbying to shape the decision-makers’ opinion on the subject (Gawande et al., 2009; Heitshusen, 2000). The lobbyists can disseminate to the relevant decision-makers’ informational materials containing different technical data and arguments (Gawande et al., 2009; Sukiassyan & Nugent, 2011). They can provide information about the positive and negative consequences of the decision or measure to be taken, or even draft legislation or amendments (Heitshusen, 2000; Hojnacki & Kimball, 1998). In this way the lobbyists can mould the point of views of decision-makers in their favour.

Along with technical intelligence, there is a need for political intelligence in order to accomplish successful lobbying. A lobbying group should monitor what is going on in the relevant government ministries. It is important to meet regularly, formally and informally with the decision-makers (Haug & Koppang, 1997; Hojnacki & Kimball, 1998; Mack, 2005). The ability to have frequent meetings with the decision-makers is essential for successful lobbying (Hamada, 2007, Nownes & DeAlejandro, 2009). Nownes and DeAlejandro (2009) explain why organizing personal meetings and receptions with decision-makers are so effective. It provides an opportunity to listen as well as to speak. In this way the lobbying party can find out about the upcoming calls for public procurement and other projects, for example. Frequent meetings allow lobbyists to build close relationships with decision-makers. And finally, it works because ‘government officials and their staffers like them’ (Nownes & DeAlejandro, 2009, p. 449). The level of familiarity with the decision-makers and their agenda has a positive effect on the lobbying success (Eising, 2007; Holyoke, 2009). So if there are ties that were historically formed due to a long bilateral relationship between the domestic and host country, it will benefit the lobbying because the lobbying group will know how the government works, and in turn the government will also be familiar with it (Panke, 2012). Such networking and acquiring of an influential mass of befriended stakeholders determine the effectiveness and efficiency of lobbying, as

lobbyists can rely on their influential network when required (Mack, 2005; Van Schendelen, 2012).

Lobbyists have to identify with whom they will cooperate, as different authors have indicated that the ability to form a coalition is one of the most important determinants of successful lobbying (Furlong & Kerwin, 2005; Klüver, 2010a, 2010b; Nownes & DeAlejandro, 2009). And although lobbying for public procurement signifies a singular national interest, there are possibilities to form coalitions with domestic groups, such as businesses and associations. This is also referred to as constituency-building lobbying, where lobbying can persuade decision-makers by offering them the proof that the lobbyists' demands are supported by a large group in society or key players in the domestic industry (Haug & Koppang, 1997; Hojnacki, 1997; Hojnacki & Kimball, 1998; Holyoke, 2009; Vining et al., 2005). Hence, the earlier mentioned equity arguments would be effective. Collective lobbying can also lead to economies of scale, and hence efficiency, as different groups will merge resources to obtain the desired outcome. At the same time the lobbying group should be aware which other countries will be lobbying and keep an eye on their activities (Holyoke, 2003).

There are different lobbying strategies such as 'access' driven or 'voice' driven, where the former relates to direct lobbying of a decision-maker through appointments and meetings, and the latter relates to indirect lobbying through, for example, media attention, campaigns and grassroots lobbying<sup>1</sup> (Bergan, 2009; Bouwen & McCown, 2007; Vining et al., 2005). If possible the lobbyists will always try to have appointments with the decision-makers, i.e. 'access' lobbying. The literature shows that influential committee members or decision-makers who are responsible for the decision-taking will always be targeted (Eising, 2007; Heitshusen, 2000; Hojnacki & Kimball, 1998; Holyoke, 2009; Mack, 2005). The lobbyists will also lobby their allies or decision-makers who will be likely to favour them (Austen-Smith & Wright, 1996; Hojnacki & Kimball, 1998). When the group wants the matter to be put on political agenda, then again they will lobby their allies, providing them with more information tools to convince other decision-makers (Eising, 2007; Hojnacki & Kimball, 1998).

When a lobbying group cannot get access to decision-makers, it will engage in indirect lobbying — 'voice' lobbying. However, lobbyists can also apply indirect lobbying when there is a need to strengthen their direct lobbying efforts. Media lobbying is one of such indirect ways to lobby, where the lobbyists try to shape the decision-makers' opinion through newspaper articles or journals. When using media for lobbying, the lobbying group should avoid too much confrontation with the decision-makers by pointing out the flaws or suggesting that other ways different from what the decision-makers have chosen are better. The ability to keep the 'license to operate' is most important when it comes to lobbying, hence the lobbyists should frame their information well (Ihlen & Berntzen, 2007; Van Schendelen, 2012).

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<sup>1</sup>Grassroots lobbying refers to the mobilization of the members of the lobby group, or the members of the political party, to contact a policy-maker to influence the desired outcome (Bergan, 2009).

When projecting the lobbying literature on the field of commercial diplomacy, it emerges that commercial diplomats need to make a selection of priority projects to lobby for and ensure that the projects trigger the host country's public interest. Commercial diplomats can structure their technical intelligence into different types of arguments for their *informational lobbying*. They must acquire political intelligence, be closely familiar with the rules, and *establish networks* with the influential members of the public procurement committee and officials who are likely to back their candidates. At the same time they should be aware of other countries lobbying the same committees and people. *Constituency building* can be a powerful way to persuade decision-makers. That is why the diplomats could choose to ally with domestic actors as much as possible. Overall, the diplomats can engage in both '*access-driven*' (direct) and '*voice-driven*' (indirect) lobbying, depending on the access they can get to the decision-makers.

### ***Institutional Setting***

Many of the lobbying aspects depend on the political structure and institutional setting of the country. The literature identifies that the institutional environment has ramifications for the manner of lobbying (Eising, 2007; Hamada, 2007; Holyoke, 2009; Lowery, 2002; Lowery et al., 2008; Messer, Berkhout, & Lowery, 2010; Nownes & DeAlejandro, 2009; Sukiassyan & Nugent, 2011; Vining et al., 2005). Kostecki and Naray (2007) also determined that the commercial diplomats' activities depend on the host country characteristics of its institutional setting. Buschers (2011) showed that in a less developed institutional setting, the SMEs consult commercial diplomats more often than in more developed ones. Telgen (2007) draws attention to the importance of the institutional setting of the host country for the public procurement contracts. Chan, Isobe and Makino (2008) have also recognized that businesses will behave differently in different countries depending on the institutional structure. As a lot of authors devote attention to the institutional setting in these streams of literature, the following section will classify different aspects of the institutional setting that can have ramifications for the lobbying of commercial diplomats for the public procurement contracts.

'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction' (North, 1990, p. 3). The role of the institutions is to reduce uncertainty by providing a stable framework of how humans operate in a particular society (Hall & Taylor, 1996). Hence, acquiring knowledge of the structure of an alien part of the world ensures a reduction in information costs and provides an opportunity to engage in international trade (North, 1991). As Hodgson (2006) points out, it is important to be aware of the formal and informal institutional aspects, as the former relates to 'political and (judicial) rules, economic rules, and contracts' (North, 1990, p. 47) and the latter concerns 'codes of conduct, norms of behaviour, and conventions' (North, 1990, p. 36) — i.e. the social institutions (Chan et al., 2008).

When the formal institutions do not evolve, economies tend to be less productive and not live up to their potential (Campos, 2000; North, 1991; Scully, 1988). At the same time, countries with better institutions tend to trade more (Dollar & Kraay, 2003). And with the trade comes economic growth and development (e.g. Rodriguez & Rodrik, 2001). Better institutions, or strongly developed institutions, indicate that the rules are respected, in a sense that the government and public obey these rules, which also means that in case of violation of rules there are certain measures to be taken. Hence, strong institutional development ensures certainty that the rules are conformed to, which leads the companies to conclude that it is safe to do business in a country.

There are different kinds of this (un)certainty. Political uncertainty, or political instability, which refers to the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means (Kaufmann, Kraay, & Mastruzzi, 2010) has less of an effect on the decision of a company to trade in certain countries (Knack & Keefer, 1995). Knack and Keefer (1995) argue that property rights protection and other forms of legal certainty play a more crucial role when it comes to the size of foreign trade and investment in a host country. Campos (2000) also showed that the rule of law is one of the conditions for the economic development and growth of a country. For example, if a company is sure that it has legal protection when it comes to ownership and property rights in a specific country and thus the risk of being deceived and losing money is low, then this company feels safer to trade in this country. Hence, such institutional environment can be denoted as friendly for the foreign companies. Corruption, which refers to capture of the state by elites and private interests (Kaufmann et al., 2010), can stand in the way of this legal certainty, because it makes it possible for some companies to disobey the rules as long as they can capture the state. When it is accepted that the rules are disobeyed by some companies, it becomes difficult for other companies to anticipate how the market operates and they refrain from doing business in this country or even entering this market (Tsui-Auch & Möllering, 2010). When the rules are disregarded, it indicates that institutional development is weak.

Accordingly, commercial diplomats seeking to promote businesses in a country with a weak institutional development — where information is difficult to obtain due to pliable rules, corruption and a lack of transparency — are likely to engage in ‘market-preparation’ measures first. These measures would be directed at helping the country to strengthen its institutions, before lobbying for specific business interests. The efforts will also be directed at creating a level playing field, where all companies have to play by the same set of rules. For example, the diplomats would try to contribute to improvement of rules by suggesting different policy designs, or other check-and-balance tools that could ensure that the rules are obeyed in a country. As a result, the institutional development will improve and it will become more attractive for companies to trade with the host country. On the other hand, if the institutional development is weak, a lot depends on personal networks (North, 1991). Hence, diplomats would have to rely on their personal networks when assisting companies. In countries where institutional development is strong, the commercial diplomats would not have to engage in such ‘market-preparation’ measures and can assist companies in their specific needs more.

One of the important decisions in lobbying is the decision of whom to lobby. The answer can be found when looking at the institutional structure of government. This variable can be conceptualized two dimensionally, as it can involve a lot of different layers of government and different interest group consultation mechanisms. The decentralized structure of the government signifies that there are many interacting decision-making levels of government among which the authority and responsibility is distributed. Thus, it implies that not only central government bears the responsibility for decision-making, but different committees or other public authorities and regional or municipal levels of government are also involved in the decision-making process. Hence, the more decentralized the government is, the more levels of the government the diplomats would have to address in their lobbying strategy as more people are involved in the decision-making process (Eising, 2007; Heitshusen, 2000; Mahoney & Baumgartner, 2008). If the decision-making process moves slowly, lobbyists will take advantage of it to lobby more decision-makers (Hojnacki & Kimball, 1998). Also, when the lobbying group needs a majority of decision-makers to approve the candidacy, the lobbyists are likely to target more people (Hojnacki & Kimball, 1998; Mack, 2005; Vining et al., 2005). Accordingly, when the government structure reflects centralized government, the diplomats would engage in less extensive lobbying as the number of decision-makers will be smaller.

When looking at whom to lobby, it is also interesting to see whether there is any interest group consultation mechanism in a country. If the system reflects corporatist structures, which means that there is room for negotiations between organized interests of civil society and decision-makers (Schmitter, 1974), the lobbying group will be able to work closely with the decision-makers, as the system allows for an opportunity to target the decision-makers directly (Lowery, 2002; Mahoney & Baumgartner, 2008). On the other hand, if the system reflects totalitarian structures, where there is no room for interest group consultation mechanism as there is only one body taking decisions, the lobbying diplomats will have to ‘devise creative ways to get the attention of decision-makers and have their message stand out from the cacophony of lobbying communications’ (Mahoney & Baumgartner, 2008, p. 1266). When it comes to whether a lobbying group is used to the system of interest representation — due to the resemblance of the host and domestic institutional structures — Eising (2007), against his expectations, found that it does not have an influence on the success of lobbying. Hence, the lobbying diplomats will not be disadvantaged if they come from a different institutional structure when compared to the host country. At the same time, Hamada (2007) also found that the flexibility of the lobbying diplomats to adapt to different environments is a better determinant of success.

Another aspect of institutional setting that has an effect on the manner of lobbying is whether decision-makers are elected or not. Decision-makers who are elected are more responsive to the wishes of their constituency, as they recognize their electoral vulnerability (Mahoney & Baumgartner, 2008). If the decision-makers can be held accountable for their actions through (re)elections, then lobbyists will engage in coalition building and acquiring of as much support from the decision-makers’

constituency as possible in order to persuade decision-makers of their outcome preference (Mahoney, 2007). On the other hand, as the positions of the appointed decision-makers are not dependent on the results of election and thus are not sensitive to constituency pleasing, they will be 'more attuned to information about policy feasibility and direct communications about policy details' (Mahoney & Baumgartner, 2008, p. 1264).

Summing up, when the institutional development is weak, the companies will not feel as safe to invest and trade and thus may stay away from the market. In such cases the commercial diplomats will likely try to engage in 'market-preparation' measures first. These measures would be directed at helping the country to strengthen its institutions, before lobbying for specific business interests. A weak institutional development is also characterized by a dependence on the networks. Thus, diplomats would have to rely on their personal networks when assisting companies. In countries where institutional development is strong, the commercial diplomats would not have to engage in such 'market-preparation' measures and can assist companies in their specific needs more. A system which is characterized by corporatist structure will offer more opportunities to lobby the public procurement decision-makers directly ('access' lobbying). If there is no such mechanism (in case of a totalitarian structure), the diplomats would be forced to lobby in other — creative and probably indirect — ways ('voice' lobbying). If decision-making powers in a public procurement process are decentralized, diplomats would have to lobby more people to be effective. Accordingly, when the government structure reflects centralized government, the diplomats would engage in less extensive lobbying as the number of decision-makers will be smaller. And finally, whether the officials are appointed or elected will determine whether diplomats will engage in coalition building and acquiring of as much support as possible for the diplomats' outcome preference.

### ***Conceptual Model and Conclusion***

Based on the literature, there is support that the institutional setting influences the lobbying style of commercial diplomats (Fig. 1).

By linking these streams of literature, different perceptions about the relationship between the concepts emerge.

When the weak institutional development of the host country creates an environment where international companies do not feel safe, the commercial diplomats will direct their efforts at informational lobbying of the decision-makers in order to persuade them to invest in institutional development. In such an environment, the commercial diplomats are likely to rely on their network and their influential mass of befriended stakeholders and invest in good relationships with them. Due to the weak institutional development leading to a lack of information and transparency of the system, the commercial diplomats are also likely to have difficulties with getting the timing of their lobbying actions right. On the other hand, if the institutional development is strong, the commercial diplomats can focus more on lobbying for specific commercial interests.

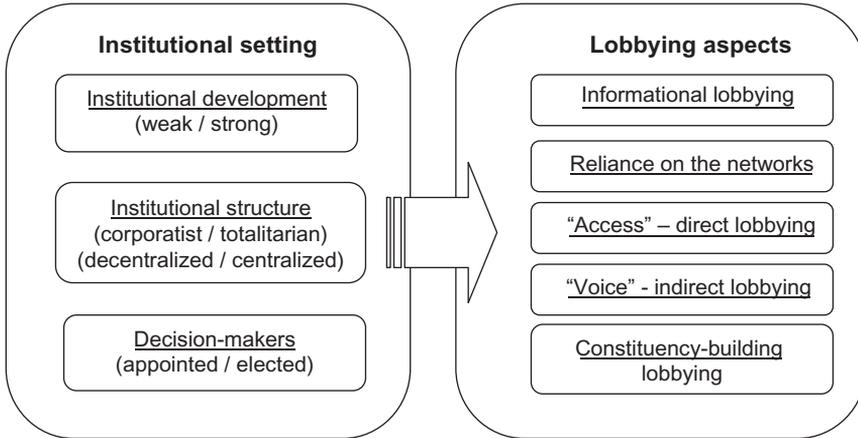


Figure 1: Conceptual model.

If the institutional setting reflects corporatist structures, the commercial diplomats are likely to have more direct and frequent contact with the decision-makers responsible for public procurement. Their lobbying activities are likely to correspond to an ‘access’-driven strategy, where they focus their lobbying directly on the authorities. If the decision-making powers are dispersed and there are many levels of decision-making, the commercial diplomats are likely to target them all. Moreover, they are likely to target even more people if the decision-making process takes a lot of time. Accordingly, when the government structure reflects centralized government, the diplomats would have to lobby fewer decision-makers. If it is difficult to gain access to the authorities due to totalitarian structure, the commercial diplomats are likely to focus more on a ‘voice’-driven strategy, where they would have to find other ways to get noticed and indirectly influence the decision of the decision-makers.

When the decision-makers in the public procurement committee are elected, the commercial diplomats are likely to pursue constituency-building lobbying. When the authorities are appointed, the commercial diplomats are likely to focus on informational lobbying.

The following sets of propositions are derived from the conceptual model.

**P1.** If commercial diplomats find themselves in a weak institutional development environment, they are likely to focus on informational lobbying and rely heavily on their networks. If institutional development is strong, commercial diplomats are likely to focus on lobbying for specific commercial interests.

**P2.** If the institutional setting reflects corporatist structures, the commercial diplomats are likely to focus on ‘access’-driven strategy. If it reflects totalitarian structures, the commercial diplomats are likely to focus more on ‘voice’-driven strategy.

**P3.** If the institutional structure of the decision-making body is decentralized, the commercial diplomats are likely to engage all levels of it in their campaign. If it is centralized, the commercial diplomats are likely to concentrate on lobbying of only few decision-makers.

**P4.** If the decision-makers are democratically chosen, the commercial diplomats are likely to pursue constituency-building lobbying. If the decision-makers are appointed, the commercial diplomats are likely to focus on informational lobbying.

## **Methodology**

The reviewed literature indicated how the institutional setting can influence lobbying. Important scientific contributions of this research involve applying this literature to commercial diplomacy and examining the plausibility of a link between the lobbying activities of the commercial diplomats and the institutional setting, as described in the conceptual model of the previous section. However, the literature on itself does not provide all the necessary tools to examine the model. So far, it has only been possible to distil certain determining aspects of lobbying and not uncover specific lobbying techniques that are relevant for the commercial diplomats. Therefore, this study aims at another scientific contribution: identifying the practice of commercial diplomats' lobbying that could be translated into measurable indicators of lobbying activities. With such contribution, this research intends to build a foundation for larger scale research on the topic.

### ***Research Design***

A single-case study approach was selected as a means of uncovering the so far unknown lobbying activities of the diplomats. Siggelkow (2007) argued that 'research involving case data can usually get much closer to theoretical constructs' (p. 22). Therefore, it allows for a certain depth to explore the still unmeasured lobbying activities of the commercial diplomats. At the same time it provides for an opportunity to see whether there is any plausible link between institutional setting and lobbying activities at all. A single case cannot prove causality; it can only exhibit a link (Siggelkow, 2007). Hence, such design allows for a 'pilot' illustration of the introduced conceptual model and understanding of its mechanism (Eisenhardt, 1989; Gerring, 2004; Gschwend & Schimmelfennig, 2007; Siggelkow, 2007; Swanborn, 2010).

It is important to pay attention to the criticism of a single-case study approach, where it is argued that it does not provide for the possibility to generalize upon the results (Bennett, 2004; Gerring, 2001; Grix, 2004, Yin, 2003), its internal validity can be weak (Bennett, 2004; Siggelkow, 2007; Yin, 2003), and construct validity and reliability are threatened (Gerring, 2001; Yin, 2003).

Swanborn (2010) notices that ‘*all* research boils down to comparison’ (p. 15), which facilitates the ability to generalize from the findings, thus also a single-case study is no exception. Gerring (2001) and Bennett and Elman (2006) explain that external validity does not have to be jeopardized if the case is selected well: if it represents a typical case<sup>2</sup> then representativeness can be high as there is an indirect comparison with other cases (which have a peripheral position in the research design). At the same time, a single case relies on the within-case comparison (Gerring, 2001; Swanborn, 2010). Hence, this study chose a typical case of an emerging country: Indonesia (OECD, 2009). It employed within-case comparison of the units of analysis — i.e. the commercial diplomats. Internal validity is increased by employing pattern-matching logic, where the expectations from a theoretical model are reflected on the findings (Bennett, 2004; De Vaus, 2001; Yin, 2003). The data was analyzed for possible alternative explanations (Siggelkow, 2007; Yin, 2003), like the interest of the home country in the host country. By choosing the case not on the dependent variable, the internal validity is increased as well (Geddes, 2003). Construct validity is warranted by using different sources for data collection. The reliability of the research is safeguarded by the case-study protocols (Gerring, 2001; Yin, 2003).

### ***Data Collection***

Semi-structured interviews were chosen to research the lobbying activities of the commercial diplomats, as they provide an opportunity to explore the subject of the still unknown lobbying activities. Interviewing suits the purpose of the study well, as it allows a certain degree of flexibility and leaves room to consider unexpected lines of enquiry (Fontana & Frey, 2000; Grix, 2004). The aspects of lobbying that were identified in the literature guided the questions. Despite the advantages of such interviewing, the replicability of such research may be low; to counteract this challenge, this study provides a detailed protocol.

In Jakarta, there are 19 embassies of the members of the EU. The interviews were conducted with the commercial diplomats of 12 embassies. No response was received from four embassies. One embassy no longer has a commercial/economic department in Jakarta, and no appointment could be scheduled with two embassies due to the diplomats’ busy agendas. Additionally, three interviews were conducted with commercial diplomats from two chambers of commerce and one commercial diplomat from the EU delegation. This was done in order to increase the scope of understanding of the commercial diplomats’ lobbying activities from a third party. In total, this amounted to 15 interviews.

The data for the institutional setting is collected from different sources: Worldwide Governance Indicators (WGI) research project index and recent reports on the public procurement system in Indonesia. The former identifies governance as institutions by

<sup>2</sup>This approach seeks to find the most usual case in a particular population.

which authority in a country is exercised, thus political institutions.<sup>3</sup> Chan et al. (2008) developed an institutional development index for the years 1996–2001 for different countries and found that political institutions have the highest correlation with the development index, when compared to economic and social institutions. Hence, this index suits this study when it comes to making conclusions about institutional development.

WGI reflects the statistical compilation of 31 sources such as surveys on the quality of governance given by many enterprises, citizens, experts, think tanks, NGOs, and other international organizations (Kaufmann et al., 2010). It covers more than 200 countries. It identifies six dimensions of governance: voice and accountability (VA), political stability and absence of violence (PV), government effectiveness (GE), regulatory quality (RQ), rule of law (RL) and control of corruption (CC) (Kaufmann et al., 2010). The range of possible scores differs from –2.5 (weak) to +2.5 (strong) governance performance. The index also uses a percentile ranking of the countries.

To learn more about the public procurement system in Indonesia, its institutional structure, the most recent reports were studied: TI-USA, and CIPE, and TII (2011) and Attström and Ismail (2010). They were chosen because of the independence of their authors. The document presented by Attström and Ismail (2010) evaluates an Australian aid project given to the government of Indonesia in order to help it to strengthen its public procurement institutions. At the same time, it also evaluates the progress the Indonesian government has booked so far. TI-USA et al. (2011) assessed the extent to which the APEC<sup>4</sup> procurement transparency standards in Indonesia reduced corruption. Thus, these reports also shed light on its institutional structure and on the decision-makers.

### ***Data Analysis***

In order to analyze transcribed interviews, the constant comparative method (Boeije, 2002) was applied. Open coding is a first stage where in a single interview ‘interactions are compared with others for similarities and differences. They are also given conceptual labels. In this way, conceptually similar interactions are grouped together to form categories and subcategories’ (Corbin & Strauss, 1990). This presented the core of the interview content. The next stage was to compare the categories between the interviews to come up with a typology, the so-called axial coding (Boeije, 2002). The typologies of activities were then categorized along the lines of the theoretical model: informational lobbying, reliance on the networks, ‘access’ lobbying, ‘voice’ lobbying, and constituency-building lobbying.

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<sup>3</sup>Kaufmann et al. (2010) specify further that governance concerns ‘the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them’ (p. 3).

<sup>4</sup>Asia-Pacific Economic Cooperation.

The WGI was analyzed for the scores that Indonesia has on the six dimensions and the relative ranking of the scores among all countries. In order to draw conclusions about its institutional development, the scores and the ranks were compared with other emerging countries — Brazil, Russia, India, China and South Africa — to see how the institutional development of Indonesia scored in its own group. The average scores and average rankings of the six dimensions were computed per country to make the comparisons possible. Moreover, the information of Indonesia was compared to the scores and ranks of 12 members of the EU whose commercial diplomats were interviewed, to see how the host countries' institutional development differs from the domestic one. Again, the comparisons relied on the individual scores and also on the means per country and per group. This put the scores and ranking of Indonesia in perspective of the participating commercial diplomats, and thus it provided more insights into how commercial diplomats themselves could perceive the institutional development.

The reports on the public procurement system in Indonesia were studied for the institutional structure of the system: whether it is decentralized or centralized, and whether the system allows for interest group representation (corporatist or totalitarian structures). Moreover, the documents were studied for how the decision-makers gain their post and to whom they report.

The final step of data analysis was bringing the information acquired through interviews, indices, and reports together in order to see whether the model illustrated the findings. The propositions were examined, and the findings were also discussed in terms of how influential the interest of the home country in the host country is on the lobbying activities the diplomats undertake.

## Results

This section first presents the lobbying activities, then the findings on the institutional setting are laid out, and finally, it concludes with applying the conceptual framework to the findings.

### *Lobbying Aspects*

The interviews provided rich insights into how commercial diplomats lobby in Indonesia. The conceptual categories of the lobbying aspects gained a more practical meaning. This is summarized in [Table 1](#).

**Informational lobbying.** Lobbying activities were categorized as informational lobbying, if they captured activities that are aimed at informing the government officials of the consequences of their measures, pointing out the need to change some regulations as they are disadvantaging certain groups, and cooperating with the government officials on certain policies. Typically, this was exhibited in printed communication.

Table 1: Lobbying activities of EU diplomats in Indonesia.

Lobbying aspects	Activities <sup>a</sup>	Frequency score <sup>b</sup>
Informational lobbying	<ul style="list-style-type: none"> <li>• A joint committee on some field of cooperation [<math>H_{p1}</math>]</li> <li>• Distribute advanced leaflets to top sectors of government or potential partner companies [<math>C_{p5}, J_{p2}, O_{p1}</math>]</li> <li>• Responsiveness to the disadvantageous measures [<math>A_{p2+p4}, B_{p6}, D_{p4}</math>]</li> <li>• Close cooperation on trade and investment policies in the EU framework [<math>A_{p4}, B_{p6}, C_{p12}, E_{p5}, F_{p1}, G_{p5}, H_{p3}, I_{p1+p3}, J_{p4}, N_{p6}</math>]</li> </ul>	12
Reliance on the networks	<ul style="list-style-type: none"> <li>• Introduce the companies to the contacts of the acquired network [<math>A_{p8+p9+p13}+B_{p3}+C_{p3}</math>]</li> <li>• Answer the invitations of associations, government events [<math>A_{p1}, C_{p1}, F_{p1}, I_{p2}</math>]</li> <li>• Organize informal lunches and receptions [<math>B_{p8}, C_{p1+p2}</math>]</li> <li>• Invite government officials to the home country (otherwise advise home companies to invite them) [<math>C_{p2}, F_{p1}, M_{p1+p4+p6}, N_{p3}</math>]</li> <li>• Organize visits of home countries' high-level people (royal, ministers, president) [<math>C_{p5}, D_{p13}, J_{p2}</math>]</li> <li>• Business trips, trade missions [<math>B_{p4}, E_{p1+p3+p4}, M_{p1+p2}, N_{p3}</math>]</li> </ul>	10
'Access' lobbying	<ul style="list-style-type: none"> <li>• Different levels of government are contacted on a frequent basis [<math>A_{p1}, H_{p2}, M_{p1+p4+p6}, N_{p2+p3+p5}</math>]</li> <li>• Explanation meeting after publication of the public procurement tender [<math>G_{p1}</math>]</li> <li>• Organize business lunches with government officials [<math>C_{p2}</math>]</li> </ul>	6
'Voice' lobbying	<ul style="list-style-type: none"> <li>• Organize theme seminars on a frequent basis [<math>A_{p3+p7}, B_{p4}, C_{p5}, D_{p11}, E_{p1+p3+p4}, F_{p1}^+, I_{p1+p3}, J_{p1+p2}, M_{p1+p2}, N_{p2+p3+p5}^+, O_{p1}</math>]</li> </ul>	11

Table 1: (Continued)

Lobbying aspects	Activities <sup>a</sup>	Frequency score <sup>b</sup>
	<ul style="list-style-type: none"> <li>• Invite country’s national champions to attract other players [<math>E_{p3}</math>]</li> <li>• Invite journalists to events organized by the embassy [<math>C_{p5}</math>]</li> <li>• Frequent section/columns in newspaper [<math>A_{p7}, B_{p8}, I_{p1+p3}</math>]</li> <li>• Matchmaking events [<math>A_{p19}, B_{p2+p3}, C_{p10}, I_{p1+p3}</math>]</li> <li>• Business to business events [<math>J_{p1+p2}</math>]</li> </ul>	
Constituency building	Involve host country’s civil society organizations or associations in the campaign [ $D_{p10}, H_{p3}$ ]	2

<sup>a</sup>Capital letters refer to different commercial diplomats;  $p$  numbers refer to the number of the paragraph of the transcribed interview where the reference can be found; a plus refers to special importance given by the diplomat to the activity.

<sup>b</sup>Frequency score tells how many diplomats have practiced the activities of a particular category.

Almost all diplomats (12) indicated they were involved in close cooperation on trade and investment policies in the EU framework. Every month the commercial diplomats are invited to the EU delegation to discuss pressing matters and the progress the EU has made in its talks with the Indonesian government. The diplomats are welcome to raise issues of concern, so that the EU is aware of any problems and could channel the information to the Indonesian government in the appropriate manner. The EU delegation collects these complaints in order to make a credible case towards the Indonesian government.

**G.** ‘With EU embassies we have once a month (even more usually) economic council meeting, and sometimes there are subgroups for food, pharmacy, logistics — it depends on the issues. Then there is a political council meeting, the development council meeting [...] and the EU delegation is very active. We for sure meet and cooperate, give input to each other, inform on the state visits, so what are they organizing’.

Sometimes it is more effective to present a complaint from a big investor company than have diplomats deploring about it for a long time:

**D.** ‘It is much more impressive if a CEO of such a company says such a thing, when compared to civil servant or even EU ambassador saying the same thing’.

However, there were also diplomats who were having bilateral talks with the Indonesian government. This is done in order to stress how important the matter is.

A. 'Usually there will be letters sent, in some cases it is done under the EU authority. In addition to that, we also talk to the relevant actors. The decision to point something out on behalf of the EU depends on how important the issue is'.

Fewer countries had joint committees in a certain field of cooperation. Another important aspect is that the diplomats have to be very careful not to criticize the Indonesian government in public. If they do disagree with the Indonesian government, it is important to present solutions and present the home country as a partner without being too aggressive.

A. 'You always have to think what is the best strategy to approach the matter, and in this country you have to be very careful. If you would seek confrontation too obviously it would bounce back and work against you. Loosing face or damaging somebody's image is here very sensitive. So it is not done to demand something in the papers or something like that. You would lose immediately then'.

An interesting observation by the EU delegate was that some other countries, like China, Japan or Australia, engage in financing of advisory committees to the decision-making body. In this way they can influence the policy formation at an early stage, for example what Indonesia would regard as standards for green ecological cars. Japan has different standards than the EU, so it can be disadvantageous for the EU companies if Japan advises on these standards. Hence, EU countries should also use these opportunities to influence the rules and standards in their favour. According to one diplomat:

D. 'The embassies and people that work here all deliver great job. What they could do is lobby to get more money for the offensive interests, so that we could indeed finance a parliamentary committee here for. It is just a simple example, but there are lots of things where you could think of different cooperation. Last year, we did something interesting with the postal industry; we invited European regulators for a workshop to explain to Indonesians the postal reform (liberalization) in Europe and how can you make it work. This kind of contact is very important. While the EU does not have the budget to invite people to do this, we are dependent on the member states' willingness to send somebody'.

**Reliance on the networks.** Lobbying activities were categorized as reliance on the networks, if they captured different attempts where diplomats make use of their network in order to get the results (e.g. introduce the company to a decision-maker), and different ways in which the diplomats attempt to strengthen the ties by attending different events, or inviting different people, which would strengthen the relationship between the countries. It was usually exhibited in a lot of face-to-face communication.

Almost all diplomats (10) indicated that they work on their networks, building relationships with relevant decision-makers and using these contacts whenever it is

helpful for the companies (e.g. introducing them to relevant decision-makers or influential parties).

**A.** ‘For a part it [list of contacts] indeed comes from the network that we have built up through the years, and then we often know that if we bring the company in contact with that person then most likely that person will be able to guide them further and introduce them to other people. [...] So usually we go to a person who knows people and how things work, and of course he should be willing and prepared to help us. Next to it, it comes down to calling around. You start with a few people that you do know and then go further. We call them and tell about the matter, ask whether he knows anybody whom they should talk to, etc. And then you call those people and go on and go on. So it is very labour intensive, but this is the way how it works, especially in this country where you do not have good databases, directories or sort alike’.

The diplomats made sure they showed up at the different events they were invited to by different Indonesian authorities, in this way showing them respect by paying attention to their cause:

**A.** ‘That is why all the meetings and sessions to which we are invited are not always directly interesting for us, but from this perspective they are very important to attend to. So your presence is usually noticed and appreciated. So if you do such a gesture then people are more prepared if you asked them for something to help you and do their gesture in return’.

The diplomats also organized different informal events to which important stakeholders were invited. Some diplomats effectively managed to invite Indonesian officials from different levels and committees of the government to their home country to show different examples of progress in their industries. Some have suggested to the companies they assist to invite certain people to their country and to show them in practice what the companies are talking about. It is much easier to persuade decision-makers if they can be shown the achievements. What many diplomats acknowledged, although not everybody was able to practise it, is the importance of having top people from their own government pay a visit to Indonesia. They explained that this strengthens the relationships between the countries, which usually lead to more interest in the things the diplomat’s country has to offer. An example of a diplomat who answered whether political interest from high-level officials of his country would have been helpful for the businesses:

**G.** Absolutely, yes, definitely! In this type of country the government is very important. Because, first you send a MOU [memorandum of understanding] on whatever: a technical cooperation, scientific cooperation, commercial cooperation. Then they start trusting you because they know that the government is behind the private — the business initiative. So first you have to open with a memorandum. And then the business can easily come and do business. [...] If you have big companies they can go absolutely by themselves, they do not need us even to reach

a minister — no problem. But because my country is more composed of SMEs they do not have the strength, the means to go alone by themselves. So this is for whom such political actions would help a lot’.

Business trips and trade missions have the same effect on the relationship with the country, indicated diplomats. The existence of historical bonds certainly helped the diplomats in their work because the Indonesian authorities were familiar with them or knew what the diplomat’s country had done for Indonesia in terms of investment. Hence, the interest was easier to trigger.

**‘Access’ lobbying.** Lobbying activities were categorized as ‘access’ lobbying, if they captured the direct attempts of the diplomats to contact government officials with the aim to discuss different measures and propose different ideas. This was typically exhibited in a lot of formal meetings and exclusive appointments.

These historical bonds might also be the reason why only a few diplomats were able to have direct appointments with the Indonesian decision-makers on a frequent basis.

A. ‘My country has then the advantage that we have a very good access to the government and ministerial level, as we still have a very special relation. Especially when you compare it with other European countries. [...] And of course we try to take the full advantage of it’.

Diplomats acknowledged that the direct lobbying intensifies if the host country is a priority for the home country. And not all EU countries see Indonesia as a priority in the international economic relations. At the same time, there were diplomats indicating that Indonesia has an extremely difficult institutional environment, which makes it difficult for diplomats to have direct meetings with the officials. One diplomat referred to having appointments with the Indonesian authorities as a challenging task:

G. ‘It is really based on personal relationship so if you get to know somebody because of any reason, it is easier. If you just ask for an appointment they usually do not answer. You have to find your own way to get a network or people in every ministry that can help with what you need. Maybe you meet at seminars, exhibitions, conferences. It is good then to invite them if you organize something, or to keep in touch because when you need to get to the right level [...] if you know somebody inside an organization it is helping a lot. Usually face to face contacts work the best’.

At the time the interviews were conducted, there was a government reshuffle, some ministers were appointed to another function and some were replaced. This made the cooperation and appointments with the government officials more difficult. In general, some have also indicated that it was virtually impossible to get through and arrange an appointment.

**‘Voice’ lobbying.** Lobbying activities were categorized as ‘voice’ lobbying, if they captured the indirect attempts of commercial diplomats to attract the attention of the decision-makers, by organizing different events where businesses meet, by inviting decision-makers to join such events and hold speeches, and publishing in newspapers, journals etc. This was displayed in a lot of creative ways to attract attention.

All diplomats with sufficient capacity engaged in organizing different seminars. Only two embassies could not because they do not have enough staff and little commercial competence from their home governments. Two other diplomats even indicated that organizing such seminars was the best way to attract attention. It is important to have such events planned throughout the year and hold them consistently and organize them in a coherent way, paying a lot of attention to whom to invite:

C. ‘We usually try to take to bring a non-business actor from our country, an expert from some academic institution who will present that, for instance, in this city we did this and this and this, and it worked out very well, without mentioning the specific company. But people understand that it is about business but then the politicians might get inspired. It is then not so pushy’.

The diplomats made sure to invite representatives of different levels and committees of the Indonesian government. They also organized different business and match-making events. What was noticed by most of the diplomats was that competition is fierce in Indonesia. A lot of Chinese companies get contracts. The EU diplomats suspect that Chinese companies are backed by their government, and they present factual information in a better light than it actually is when applying for a project. This gives them a competitive advantage when compared to the European companies, which do not have financial backing from their governments. Therefore, it becomes important when organizing such events to invite different banks and try to erase the advantage of Chinese companies by offering opportunities for the companies to network with the banks about the possible financing of their projects. When it comes to media promotion, some had sections in the newspapers or journals about, for example, industrial innovations and solutions in their countries:

A. ‘Every once or twice a year we publish in the *‘Now Jakarta’* a whole section on our country. And there we make sure to highlight some interesting sectors in more detail. Minister of Economic Affairs has agreed to write a passage for the annual report of Oxford Business Group, and then we link it also to this newspaper on the topic of bilateral relationship’.

Although most of the diplomats were pleased with how they organize such events, chambers of commerce expressed that these events were not always organized in a consistent way. For example, sometimes a follow-up was missing after a big event, which is crucial for making some business proposals concrete. The seminars are great in facilitating network opportunities for the companies, but without a follow-up, some companies would be just left with promises from their counterpart without

any specific business proposals. Especially smaller companies need that. It was noteworthy that not all diplomats were fully aware of what other European diplomats were doing and organizing.

**Constituency building.** Lobbying activities were categorized as constituency building, when they captured the attempts of diplomats to ally with host countries' important business associations or civil societies.

The diplomats did not involve many civil society organizations or business associations in their lobbying. Chambers of commerce found it regrettable that some diplomats did not involve them, especially because they have good networks with the host country's business associations. One diplomat especially did recognize the relevance of involving Indonesian stakeholders:

D. 'It is once again a very intern-oriented country. This also means that the Indonesian ministers will be more inclined to listen to KADIN [Indonesian chamber of commerce], or APINDO [employees association], than when compared to a Dutch company or EU delegation, as an example. So about lobbying, what we have learned here is that, if there is a problem then we should look whether we can find Indonesian champions which have an interest in European pleas. That is always a bit tricky, because if we cannot find the Indonesian counterparts who would lobby with us, then I think there is little sense to lobby at all'.

**Miscellaneous findings.** Through interviews it became apparent that diplomats invest a lot of their time in directly assisting companies, as opposed to indirect support through lobbying. Legal assistance was found to be very important: diplomats often engaged in explaining the rules of the country or stood by them in courts. One pointed out that it is very important that their companies understand the business culture in Indonesia, as it differs from what some of them might be used to. For example, the business culture is not that direct and straightforward. There is a legitimate need to invest in building personal relations with the Indonesian companies, and showing respect for the country's traditions.

G. 'Indonesian market is not very easy, because if you want to have success you have to stay here, you have to cultivate your relations on a regular basis, etc.'

The diplomats thus guide the companies in the process of selecting their channels of promotion, encouraging them to come here if they are serious about doing business in Indonesia. They also conduct sector analysis and market scans for the companies, and even search for possible partners for them. Some countries have specific conditional funds for the companies if they engage in development cooperation, or would like to participate in exhibition fairs.

Most of the diplomats stressed the importance of the home companies being interested in Indonesia. Therefore, they invest a lot of time in ensuring that companies back home are aware of the investment and trade opportunities. Some have special websites where they update the information regularly about the public tenders and

procurement projects. At home, different events are organized to raise the awareness of the attractiveness of the host country — Indonesia. In this way they hope to trigger the interest of the companies. If there is no interest, the diplomats cannot do that much. Despite all the efforts to provide companies with fresh information, some diplomats pointed out that they are not always successful in bringing useful information to the firms, either because they already know of existing public procurement tenders or the time frame scheduled for the application is too narrow to apply. The diplomats often suspect that the winners have already been selected before the tenders are published because the application deadline is too short, making it impossible for many companies to apply.

### ***Institutional Setting***

To find out more on the institutional setting of Indonesia, the data from the WGI and the reports on public procurement system of Indonesia were examined.

**The Worldwide Governance Indicators.** The WGI gives insights into institutional development of a country. The WGI data on the countries was examined on six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. Each country has an estimated score of governance performance on each of the dimensions, ranging from  $-2.5$  (weak) to  $+2.5$  (strong), which indicates the level of institutional development. Such score is then put in perspective of the scores of other 200 countries in the percentile rank. Hence, it clarifies what the individual estimated score signifies when compared to other countries' results. For each country an average of the six dimensions per estimated score and per ranking was computed. This gives an indication of overall score and ranking of a country. The scores and ranking of Indonesia were compared to the scores and rankings of other emerging countries, such as Brazil, Russia, India, China, and South Africa, and the scores and rankings of 12 members of the EU whose commercial diplomats were interviewed.

Table 2 summarizes the data from the WGI on emerging countries. The computed average for Indonesia is  $-0.478$ . This suggests that institutional development is rather weak, especially if comparing Indonesian score with the other 200 countries: Indonesia ranks in the 35th percentile. Together the group of emerging countries has a score of  $-0.289$ , and ranks in the 42nd percentile. This indicates that Indonesia scores fourth within the group of six emerging countries, scoring better than Russia and China. Within its scores, Indonesia scores best for the VA dimension with  $-0.055$ , placing Indonesia in the 48th percentile on this dimension. This suggests that Indonesian citizens are able to some extent to elect their government, and to express their freedom of expression and association. However, it is still very limited, as in more than half of the other countries the citizens can do it better. Emerging countries score as a group very low on PV with an average score of  $-0.639$ , putting them in the 27th percentile. From all Indonesian scores, RL and CC score very low,  $-0.630$  and  $-0.727$  respectively. This suggests that legal certainty is low in Indonesia.

Table 2: The Worldwide Governance Indicators 2010: emerging countries.

Country		WGI						
		VA	PV	GE	RQ	RL	CC	$\mu$
ID	Estim <sup>a</sup>	-0.055	-0.887	-0.195	-0.375	-0.630	-0.727	-0.478
	Rank <sup>b</sup>	48.341	18.868	47.847	39.713	31.280	27.272	35.554
BR	Estim <sup>a</sup>	0.499	0.048	0.071	0.189	-0.002	0.056	0.144
	Rank <sup>b</sup>	63.507	48.113	56.938	55.981	55.450	59.808	56.633
RU	Estim <sup>a</sup>	-0.945	-0.887	-0.394	-0.395	-0.784	-1.074	-0.747
	Rank <sup>b</sup>	20.853	18.396	41.627	38.278	26.066	12.919	26.357
IN	Estim <sup>a</sup>	0.424	-1.315	-0.007	-0.393	-0.058	-0.517	-0.311
	Rank <sup>b</sup>	59.242	10.849	55.024	39.234	54.502	35.885	42.456
CN	Estim <sup>a</sup>	-1.650	-0.766	0.123	-0.231	-0.347	-0.603	-0.579
	Rank <sup>b</sup>	5.213	24.057	59.808	44.976	44.550	32.536	35.190
ZA	Estim <sup>a</sup>	0.526	-0.025	0.339	0.391	0.097	0.094	0.237
	Rank <sup>b</sup>	65.403	44.340	65.072	62.679	57.820	60.766	59.347
$\mu$	Estim <sup>a</sup>	-0.200	-0.639	-0.011	-0.136	-0.287	-0.462	-0.289
	Rank <sup>b</sup>	43.760	27.437	54.386	46.810	44.945	38.198	42.589

Source: WGI retrieved from [www.govindicators.org](http://www.govindicators.org)

VA, voice and accountability; PV, political stability and absence of violence; GE, government effectiveness; RQ, regulatory quality; RL, rule of law; CC, control of corruption; ID, Indonesia; BR, Brazil; RU, Russia; IN, India; CN, China; ZA, South Africa.

<sup>a</sup>Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance).

<sup>b</sup>Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank).

Table 3 presents the data on the European countries and Indonesia. The ranks of Indonesia become even less flattering if they are compared to the average of the 12 European countries, which is a group score +1.145 and are ranked in the 82nd percentile. PV scores of the EU members are also the lowest within their scores on six dimensions. The best score of Indonesia,  $-0.055$  for VA and accordingly its ranking in the 48th percentile, is very low compared to the EU average:  $+1.197$  (84th percentile). Where Indonesia scores  $-0.630$  for RL and  $-0.727$  for CC, EU scores in average  $+1.242$  and  $+1.155$  respectively. Such comparison suggests that Indonesian institutional development could be perceived by diplomats as very low, as most of the scores of the EU are more than double higher when compared to the Indonesian scores. Hence, when classifying the institutional development of Indonesia, these scores suggest that it is very weak.

**Reports.** The examined reports, along with revealing how the public procurement system works in Indonesia, strengthened the findings from the index.

Indonesia changed its governance system in 1999, ‘enacting two laws that significantly decentralized government power and established regional autonomy’ (TI-USA et al., 2011, p. 12). In 2001 a wide range of functions was assigned to districts and municipalities. There are 33 provinces divided into 508 districts and municipal government, each with its own administrative unit responsible for the provision of government service and thus also public procurement. Government services included ‘public works, health, education and culture, agriculture, transportation, industry and trade, capital investment, the environment, cooperatives, and manpower’ (TI-USA et al., 2011, p. 12).

Indonesian public procurement has a tradition of being regulated through presidential decrees. Unlike the procurement guidelines of the World Bank, which encourage following the principle of economy, efficiency and transparency, the presidential decrees had other objectives strongly influenced by the government policy of that time, ‘for example efficient use of the State funds, promotion of domestic product and services, equity and social justice’ (Attström & Ismail, 2010, p. 6). The ambiguity of such objectives was disadvantageous when it came to implementation, as they were subject to personal interpretation.

In 2006 the procurement units (ULP) were introduced that would be established at all levels of the government agencies. They would take over the tasks of an *ad hoc* tender committee of BAPPENAS (National Development and Planning Agency) which had few resources and an unclear mandate, and be responsible for the tendering process, ‘starting from preparing tender schedules, cost estimate of the tendering package, advertisement, bid evaluation, and proposing bid winner’ (Attström & Ismail, 2010, p. 6). In 2007 the Indonesian Public Procurement Agency (LKPP) was established with a mandate to ‘(i) develop public procurement strategy, policy, and regulation; (ii) conduct monitoring and evaluation; (iii) implement e-procurement; (iv) strengthen the skills of procurement officials; and (v) provide advice, recommendations and complaint resolution’ (TI-USA et al., 2011, p. 16). That organization’s early years have been marked by recruiting staff and developing its infrastructure. Its ability to improve the regulatory and institutional environment of

Table 3: The Worldwide Governance Indicators 2010: interviewed European countries.

Country		WGI						
		VA	PV	GE	RQ	RL	CC	$\mu$
NL	Estim <sup>a</sup>	1.494	0.934	1.733	1.794	1.809	2.145	1.652
	Rank <sup>b</sup>	96.209	79.717	94.258	98.086	97.156	97.608	93.839
AT	Estim <sup>a</sup>	1.441	1.087	1.888	1.525	1.796	1.643	1.563
	Rank <sup>b</sup>	95.735	88.679	97.608	93.301	96.682	92.345	94.058
SE	Estim <sup>a</sup>	1.583	1.076	2.016	1.720	1.948	2.251	1.766
	Rank <sup>b</sup>	99.052	88.208	98.565	96.651	99.526	99.043	96.841
FR	Estim <sup>a</sup>	1.226	0.699	1.441	1.338	1.524	1.394	1.270
	Rank <sup>b</sup>	89.100	70.755	89.474	87.081	90.521	88.995	85.988
DK	Estim <sup>a</sup>	1.581	1.010	2.167	1.901	1.878	2.374	1.819
	Rank <sup>b</sup>	78.673	84.434	99.043	100	98.578	100	93.455
IT	Estim <sup>a</sup>	0.927	0.473	0.515	0.848	0.382	-0.043	0.517
	Rank <sup>b</sup>	75.829	62.264	67.943	77.033	62.559	57.416	67.174
BG	Estim <sup>a</sup>	0.486	0.377	0.007	0.607	-0.080	-0.183	0.202
	Rank <sup>b</sup>	62.560	57.547	56.459	71.770	53.080	52.153	58.598
PT	Estim <sup>a</sup>	1.123	0.680	1.038	0.818	1.041	1.031	0.955
	Rank <sup>b</sup>	84.834	69.811	81.818	75.598	83.412	81.340	79.469
PL	Estim <sup>a</sup>	1.033	0.999	0.706	0.974	0.687	0.447	0.808
	Rank <sup>b</sup>	81.042	83.491	72.727	79.426	69.194	70.335	76.036
ES	Estim <sup>a</sup>	1.141	-0.177	0.984	1.191	1.195	1.011	0.891
	Rank <sup>b</sup>	85.782	39.151	79.426	84.211	86.730	80.861	76.027
UK	Estim <sup>a</sup>	1.313	0.404	1.561	1.745	1.770	1.482	1.379
	Rank <sup>b</sup>	91.943	58.019	92.344	97.129	94.787	89.952	87.362
CZ	Estim <sup>a</sup>	1.018	0.973	1.008	1.237	0.953	0.307	0.916
	Rank <sup>b</sup>	78.673	82.075	80.861	85.167	80.095	65.550	78.737

Table 3: (Continued)

Country		WGI						
		VA	PV	GE	RQ	RL	CC	$\mu$
$\mu$	Estim <sup>a</sup>	1.197	0.711	1.255	1.308	1.242	1.155	1.145
	Rank <sup>b</sup>	84.953	72.013	84.211	87.121	84.360	81.300	82.326
ID	Estim <sup>a</sup>	-0.055	-0.887	-0.195	-0.375	-0.630	-0.727	-0.478
	Rank <sup>b</sup>	48.341	18.868	47.847	39.713	31.280	27.272	35.554

Source: WGI retrieved from [www.govindicators.org](http://www.govindicators.org)

VA, voice and accountability; PV, political stability and absence of violence; GE, government effectiveness; RQ, regulatory quality; RL, rule of law; CC, control of corruption; NL, the Netherlands; AT, Austria; SE, Sweden; FR, France; DK, Denmark; IT, Italy; BG, Bulgaria; PT, Portugal; PL, Poland; ES, Spain; UK, United Kingdom; CZ, Czech Republic; ID, Indonesia.

<sup>a</sup>Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance).

<sup>b</sup>Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank).

public procurement depends on the 'political support, mandate and the capacity of the organization to define, communicate and realize its role in the procurement system' (Attström & Ismail, 2010, p. 1). Hence, the authors concluded that the development of a good infrastructure for the agency depends highly on political willingness and stability.

On 1 January 2011, the new Presidential Regulation 54/2010 came into effect. The main achievement is that it divides the administration tasks within the procurement system into three separate units. 'The first [unit] is charged with planning and carrying out procurements (the 'Budget Authority'); the second is charged with determining the implementation of individual procurements, such as defining tender specifications, evaluating bids and awarding contracts, and monitoring the implementation of contracts (the 'Procurement Services Unit' or 'PPK'); and the third is the Project Result Receiver Committee in charge of evaluating contracted outcomes' (TI-USA et al., 2011, p. 17).

Several challenges for public procurement in Indonesia were identified by Attström and Ismail (2010) and TI-USA et al. (2011). There is a lot of ambiguity in terms of the legal framework: there are conflicting regulations, missing guidelines, and no national procurement law which could take precedence above other regulations. Moreover, the highly decentralized system resulted into many local officials not being familiar with the new regulation, and they avoid enforcing it (TI-USA et al., 2011). Attström and Ismail (2010) acknowledge that LKPP's success depends on building alliances and a constituency to convince others of its usefulness and benefit, as the organization itself does not have enforcement powers. However, little has been done to include the participants of the system in commenting on the proposed regulations: even the Indonesian Chamber of Commerce and Industry (KADIN) and the Association of Indonesian Employers (APINDO) are sometimes left out (TI-USA et al., 2011). Additionally, while the new regulation 'allows bidders to file a protest, there is no clear protest handling mechanism and no clear sanctions for violation of the procurement procedures' (TI-USA et al., 2011, p. 17).

The organization also requires more professionalization. 'It will require organisational development, skills development of procurement professionals, establishment of incentive systems and career paths etc.' in order for the procurement bodies to function well (Attström & Ismail, 2010, p. 8). Attström and Ismail (2010) found that there is little staff turnover anticipated in LKPP; therefore, the individual knowledge will stay in the organization. At the same time, there is no mechanism to ensure the knowledge transfer within the organization and other deputies.

Another challenge to an effective public procurement system is the high level of corruption and lack of transparency. 'According to a survey conducted by Indonesia's Procurement Watch in 2010, 89% of companies said they need to bribe public officials to get a contract. The government estimates that corruption in Indonesia's public procurement is responsible for US\$ 4 billion in losses every year' (TI-USA et al., 2011, p. 14). There is hardly any mechanism which could prevent such corruption. Civil society organizations lack effective access to information which could allow monitoring of the government (TI-USA et al., 2011). When it comes to bidders, the information is available but only for the ones who are familiar with the

system. ‘Sometimes the rules are changed in the middle of the procurement; other times the deadline is shortened or extended. Winners are publicly announced but it is rare that procurement officials provide technical or economic reasons for the choice’ (TI-USA et al., 2011, p. 28).

In conclusion, reports and scores of the WGI index point out that the institutional development of Indonesia is low. The WGI scores suggest that Indonesian institutional development is especially low when it comes to rule of law and control of corruption. Hence, legal certainty is low as well. The reports indicate that the institutional structure is highly decentralized: there are a lot of levels involved, and a lot of actors are determining the course of actions. At the same time the reports reveal that the system reflects to some extent corporatist structures. The WGI score for voice and accountability dimension also suggests that there is some room for interest representation mechanism in Indonesia. However, the interest representation mechanism does not facilitate the participation of the interest groups — i.e. civil society organizations and business associations — as much as the transparency standards of APEC would call for. At the same time it has to be noted that the public procurement body in Indonesia is young. There are still a lot of institutional challenges to be met. Along with a lack of experience, the body also suffers from corruptive malpractices and lack of transparency. This is also supported by the WGI scores. Inefficiency and gaps in the regulation identified in the reports strengthen the idea that institutional development is not high. The reports suggest that the decision-makers in the public procurement system are not elected but appointed. Nevertheless, they need stakeholders’ approval to be effective.

### ***Conceptual Model, Propositions and Findings***

According to the WGI index, the reports and even some of the interviews, the institutional development of Indonesia is weak and faces a lot of challenges. Under such conditions, the first set of proposition (P1) derived from the conceptual model predicts that diplomats will focus on informational lobbying in order to persuade the decision-makers to invest in institutional development as it would benefit the European companies. At the same time the diplomats will rely heavily on the networks they have acquired.

Indeed, the majority of diplomats engages in informational lobbying and relies and invests in their networks. There are a lot of issues that need improvement in order to make the Indonesian market more attractive for European companies. This is what the diplomats try to achieve with their informational lobbying. A lot comes down to personal relationships and favours. This is also what the diplomats experience as they rely heavily on their network in order to assist the companies. Hence, P1 is illustrated.

With the institutional structure that characterizes the Indonesian public procurement body, where there is no clear interest representation mechanism and decision powers are decentralized, the conceptual model would prescribe ‘voice’ lobbying targeting different levels (P2, P3).

It is also observed in Indonesia. The diplomats make sure to invite representatives of different levels and committees of the decision-making body. Hence, P3 is illustrated.

As only a few are lucky to have direct appointments with decision-makers, the majority of the diplomats engages in indirect attempts to influence the decision-makers' preference and opinion through seminars, different receptions and other events.

This is the point where findings complement the model. It became apparent that direct 'access' lobbying is a luxury that only the diplomats from countries with historical close ties to the host country can enjoy. It does not mean that for the remainder of the diplomats, it is impossible to make an appointment with the decision-makers, but it does complicate the matter and makes it more difficult. At the same time, the diplomats that could engage in 'access' lobbying also engaged in 'voice' lobbying to strengthen their efforts. Along with historical ties, the priority that the host country has in the home country's external economic policy determines how extensive the lobbying can be. If there is room for extensive lobbying, i.e. 'access' and 'voice' lobbying combined, then the diplomats would engage in both. Some of the diplomats pointed out that they do not have enough means, for example human resources, to extensively lobby Indonesian decision-makers, because their country does not consider Indonesia a priority in their economic relations. This usually implied that the diplomats from these countries did not have enough budget or staff to afford labour- and capital-intensive lobbying. Hence, such diplomats had only restricted room for lobbying, which limited their activities. As Indonesia is not a clear example of corporatist, or totalitarian structure, P2 could not be illustrated, as both 'access' and 'voice' lobbying was also applied.

The issue of priority leads to another aspect of the findings. The diplomats found it very important for their lobbying activities to have companies from their home countries that were interested in Indonesia. Therefore, they spent a lot of time making companies aware of the business opportunities in Indonesia. Often, if Indonesia was not a priority country for the diplomat, then there was usually also little interest from the home country.

The decision-makers in the Indonesian public procurement body are appointed. According to the conceptual model, the diplomats would not invest in constituency building but rather would rely more on informational lobbying and providing factual information (P4).

This is also shown in practice: the diplomats did not invest much energy in constituency-building lobbying. Instead, they focused on informational lobbying. Hence, P4 is illustrated.

Therefore, the findings reflect the model and at the same time complement it.

## **Conclusion and Discussion**

The research question was: to what extent does the institutional setting of a host country determine the lobbying activities of European commercial diplomats in the case of public procurement contracts in emerging countries? In order to answer the research question, two research aims were formulated. The first aim of this research has been to contribute to the understanding of how commercial diplomacy is practised and, more specifically, derive a list of techniques used by the commercial diplomats to lobby for the public procurement contracts for the companies which

they assist. The second aim has been to illustrate the plausibility of a link between the concept of institutional setting and lobbying activities of commercial diplomats.

The literature identifies that the institutional environment has ramifications for the manner of lobbying and for the practice of commercial diplomacy. However, the research which would combine these three concepts has not been conducted yet. Therefore, this study brought together these different pieces of the puzzle. The institutional setting was framed by institutional development, institutional structure and whether the decision-makers are elected or not. Lobbying aspects that are relevant for the commercial diplomat were identified as informational lobbying, reliance on the networks, 'access' — direct lobbying, 'voice' — indirect lobbying, and constituency-building lobbying.

The mechanism between the two concepts was expected to reflect the following link. In a weak institutional development environment, the diplomats are likely to focus on informational lobbying in order to persuade the decision-makers to invest in institutional development as it would benefit the home companies which operate in the host country. At the same time, the diplomats are likely to rely heavily on the networks they have acquired. If institutional structure reflects totalitarian structure and decision-making powers are decentralized, the diplomats are likely to engage in 'voice' lobbying, targeting different levels of the decision-making body. If the decision-makers are elected, the diplomats are likely to engage in constituency-building lobbying. If that is not the case, the diplomats are likely to rely more on informational lobbying.

Indonesia has been chosen as a study case to illustrate the conceptual model and come up with a list of lobbying activities used by the commercial diplomats, which could facilitate larger scale research on the topic. Table 4 lists the lobbying activities which could be translated into measurable indicators for a larger scale study.

The findings indeed illustrated the plausibility of the model to some extent. The weak institutional development of the country necessitated informational lobbying and network reliance by the commercial diplomats (P1 is illustrated). As decision-making powers were decentralized, diplomats attempted to target different levels of decision-making body (P3 is illustrated). Indonesia does not have a clear interest representation mechanism. Both 'voice' and 'access' lobbying were applied by the commercial diplomats (therefore P2 is not illustrated). And as decision-makers were not elected, the diplomats almost never engaged in constituency-building lobbying (P4). These findings therefore would lead to the conclusion that the institutional setting of the host country indeed can have ramifications for the lobbying activities of the European commercial diplomats in the case of public procurement contracts in emerging countries.

However, the findings also revealed that the institutional setting of a host country could not be the only determining factor. The domestic factors of the commercial diplomats also play a role in how they lobby. The business interest of the home country in the host country determines whether there is lobbying at all and how extensive it will be. If there is little interest in doing business in the host country, then the commercial diplomats do not lobby intensively. This interest is also related to the priority the host country enjoys in the home country's external economic

Table 4: Lobbying activities.

Lobbying aspects	Indicators
Informational lobbying	<ul style="list-style-type: none"> <li>• A joint committee on some field of cooperation</li> <li>• Distribution of advanced leaflets on top sectors at government or potential partner companies</li> <li>• Responsiveness to the disadvantageous measures</li> <li>• Close cooperation with host government on trade and investment policies</li> </ul>
Reliance on the networks	<ul style="list-style-type: none"> <li>• Introduce the companies to the contacts of the acquired network</li> <li>• Answer the invitations of associations, government events</li> <li>• Organization of informal lunches and receptions</li> <li>• Invite government officials to home country (otherwise advise companies to invite them)</li> <li>• Organize visits of home countries' high-level people (elite, ministers, president)</li> <li>• Business trips, trade missions</li> </ul>
'Access' lobbying	<ul style="list-style-type: none"> <li>• Different levels of government are contacted on a frequent basis</li> <li>• Explanation meeting after publication of the public procurement tender</li> <li>• Organization of business lunches with government officials</li> </ul>
'Voice' lobbying	<ul style="list-style-type: none"> <li>• Organization of theme seminars on a frequent basis</li> <li>• Invite country's national champions to attract other players</li> <li>• Invite journalists to your events</li> <li>• Frequent section/columns in newspaper</li> <li>• Matchmaking events</li> <li>• Business to business events</li> </ul>
Constituency building	Involve host country's civil society organizations or associations in the campaign

policy, as it determines what tools the commercial diplomats have at their disposal. It may concern financial but also human capital means, a lack of which undermines the commercial diplomats' ability to engage in labour- and capital-intensive lobbying, such as organizing expensive events and direct lobbying. Moreover, the historical bilateral ties between the home and the host country can positively affect the lobbying, by making it easier to lobby directly and even attract attention in general.

At the same time, it is fair to state that these domestic factors are likely to play a role in the whole existence of commercial diplomacy. If not for the economic interest of the home country, would there be commercial diplomacy? The assumption emerges

that the priority of the host country and historical ties will always intensify the bilateral relationship. Hence, it is only natural that the diplomats from these countries have an advantage over others. This advantage is then transferred to their lobbying power.

Coming back to the second research aim, this study provided the first illustration that the institutional setting can influence the lobbying activities of the European commercial diplomats for public procurement contracts in emerging countries. At the same time, the study suggested a legitimate assumption that domestic factors, such as interest in the host country, priority status of the host country and historical bilateral ties, can positively influence the lobbying activities of the diplomats as well.

### **Limitations and Further Research**

The research was limited in the beginning by the absence of measurable indicators for the lobbying aspects. Therefore, a small-scale, extensive, qualitative study was needed before being able to test the model on a larger scale. This involved a risk of having findings that were not generalisable. Only one study case was chosen to illustrate the model — Indonesia. However, Indonesia represents a typical emerging country (OECD, 2009), and therefore the damage to external validity has been avoided in this sense as much as possible. At the same time,  $N = 15$  is rather small, and even though the aim was to illustrate the plausibility of the conceptual model, the findings could be exaggerated because of such a small scale. Thus, future research should test the model, with the introduced indicators, on a larger scale. Moreover, the future research should also include different types of institutional settings, for example countries with weak institutional development and countries with strong institutional development, to make stronger conclusions about the mechanism of the model possible.

In this study the assumption emerged that the priority of the host country and historical ties will always intensify the bilateral relationship. It is only natural that the diplomats from these countries have an advantage over others. This assumption would be interesting to test in further research providing some empirical evidence. Surveys backed by institutional indices and reports on the institutional setting will suit the purpose of expanding this research to a larger scale.

Regarding practical implications, further research is needed on the effectiveness of lobbying in commercial diplomacy. The winners of tenders could be approached and interviewed about the role the commercial diplomats played in their public procurement contract and how they think this role can be improved. Such research, instead of focusing on the process of lobbying, would focus on the outcome and provide suggestions of what makes lobbying successful in commercial diplomacy. A stream of literature on lobbying identifies several personal characteristics of a lobbyist that can make lobbying successful. Such research on the personal characteristics of a commercial diplomat would also contribute to the understanding of successful lobbying in commercial diplomacy. The literature also suggested that effective

lobbying involves knowing what other competitors are lobbying for (and how). The findings of this study revealed that diplomats often did not know what the other embassies were organizing. If two embassies organize an event on the same theme during the same period of time, it might decrease the effectiveness of such events. Hence, further research is justified to measure the awareness of commercial diplomats of how other competitors are lobbying.

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