ICQI’2004
Pakistan’s Eighth
International Convention on Quality Improvement
At PCSIR Auditorium, Lahore on August 21-22, 2004

Innovation & Competitiveness in the Post WTO Scenario

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Introduction

Pakistan had agreed to join the WTO in 1994 and has been slowly and gradually inching towards the final deadline of January 2005 when the agreements under WTO will become fully effective. As stated earlier WTO will have its impact on all areas of trade and commerce. On one hand it provides an equal opportunity to every participant country to compete in the global arena. On the other it also aims at helping the least-developed and developing countries to improve their trade and commerce and ensures that they are not left behind. The free, fair, smooth and predictable principle of WTO helps implementing the multilateral trade system that some say is the form of globalization of trade.

A cultural change at the organization level and amongst all its employees /stakeholders is necessary to meet the new challenges. Quality has not only to be built in the system it rather has to be ingrained in every activity. Organizations in the post WTO scenario do not have a choice but to emerge as quality organizations. Quality practices should now be routines rather than a “fad” that management and consultants talk about.

The paper aims at assessing the impact of WTO on organizations and identifying opportunities for those that have a willingness to innovate and compete in the global arena. Organizations that view quality as a means to an end rather than mere logos and certificates displayed on boards and letterheads.

What is WTO

World Trade Organization (WTO) is the international organization dealing with the global rules of trade between nations. Established as a consequence of Uruguay Round Negotiations (1986-1994) on the 1st of January 1995 with a present membership of 146 countries, its main function is to ensure that trade flows as smoothly, predictably and freely as possible. The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they can use. Producers and exporters know that foreign markets will remain open to them. The result is also a more prosperous, peaceful and accountable economic world. By lowering trade barriers, the WTO system also breaks down other barriers between peoples and nations.

At the heart of the system—known as the multilateral trading system—are the WTO’s agreements negotiated and signed by a large majority of the worlds trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody’s benefit. The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters and importers conduct their business.

The Goal is to improve the welfare of the peoples of the member countries.

The Organization.

Smooth, fair, free and predictable flow of trade is the overriding objective of WTO. It achieves its objective by:

- Administering Trade Agreements.
- Assisting as a forum for trade negotiations.
Settling trade disputes.

Reviewing National Trade policies.

Assisting developing countries in trade policy issues, through technical assistance and training programmes.

Cooperating with other international organizations.

The multilateral trading system that is the basis of WTO was developed under GATT and since its formation in 1995 negotiations are continuing to arrive at a more liberalized and free flowing smooth and predictable trade throughout the world. These negotiations and the agendas for continuing meeting have focused on issues of non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy trade facilitation, transparency in government procurement, intellectual property and difficulties faced by developing countries in implementing the WTO agreements.

The deadline for the negotiations is January, 1, 2005. This is the time when WTO agreements will be fully implemented by all member states.

Areas Covered by WTO agreements:

To ensure that trade is as fair as possible, and as free as is practical rules and agreements between the members are as a result of negotiations that started in 1986. The General Agreement of Trades and Tariffs (GATT) forms the basis of the WTO agreements. GATT is the WTO’s principal rule-book for trade in goods. The Uruguay round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement, and trade policy reviews. The areas covered under these agreements are:

Goods. Since 1995, the updated GATT has become the WTO’s umbrella agreement for trade in goods. It has annexes dealing with specific sectors such as agriculture and textiles, and with specific issues such as state trading, product standards, subsidies and actions taken against dumping.

Services. Principles of freer and fairer trade for banks, insurance firms, telecommunications companies, tour operators, hotel chains and transport companies appear in the new General Agreement on Trade in Services (GATS). WTO members
have also made individual commitments under GATS starting which of their services sectors they are willing to open to foreign competition, and how open these markets are.

? **Intellectual Property.** The agreement on intellectual property amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated – circuit layout designs and undisclosed information such as trade secrets- “intellectual property” – should be protected when trade is involved.

? **Dispute Settlement.** Countries bring disputes to the WTO if they think their rights under the agreement are being infringed. Judgments by specially-appointed independent experts are based on interpretations of the agreements and individual countries’ commitments. The system encourages countries to settle their differences through consultation. Failing that they can follow a carefully mapped out, stage by stage procedure that includes the possibility of a ruling by a panel of experts, and the chance to appeal the ruling on legal grounds.

? **Policy Review.** The Trade Policy Review Mechanism’s purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting, and to assess their impact. All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO secretariat.

? **Development and Trade.** More than seventy five percent members are developing and or least developed countries. All WTO agreements contain special provisions for them, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities, provisions requiring all WTO members to safeguard their trade, interests and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards. A WTO committee on trade and development, assisted by a sub-committee on least developed countries, looks at developing countries’ special needs. Its responsibility includes implementation of the agreement, technical cooperation, and the increased participation of developing countries in the global trading system.

? **Technical Assistance and Training.** The WTO organizes around 100 technical cooperation missions to developing countries annually. It holds an average three trade policy courses each year in Geneva for government officials. Regional seminars are held regularly in all regions of the world with a special emphasis on African Countries. WTO has also set up reference centers throughout the world especially in the capitals of least-developed and developing countries for facilitation of government in accessing and getting assistance from the WTO and its secretariat.

**Overriding Principles of WTO**

The trading system should be...

- **Without discrimination** — a country should not discriminate between its trading partners (they are all, equally, granted “most-favored-nation” or MFN status); and it should not discriminate between its own and foreign products, services or nationals (they are given “national treatment”);
- **Freer** — with barriers coming down through negotiation;
- **Predictable** — foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures) should not be
raised arbitrarily; more and more tariff rates and market-opening commitments are “bound” in the WTO;

- **More competitive** — by discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share;
- **More beneficial for less developed countries** — by giving them more time to adjust, greater flexibility, and special privileges.

**Future – Focused Pakistan**

**Innovate and Compete**

A SWOT analysis of the impact of WTO on our organizations would reveal that a combination of strategies would be required to not only survive in the international competitive playing field but to succeed with flying colors. Pakistani organizations must identify their Strengths and Weaknesses. They should be using their strengths to overcome the threats that they are likely to face e.g although an agreement on the farm subsidies has recently been reached at the Conference yet if American and European farmers have their goods subsidized may they be by any name (Blue Box subsidies or Green Box Subsidies) Pakistani farmers must be able to compete through innovative, quality pursuits.

**The Globally Competitive innovative Organization**

The globally competitive innovative organization will need to focus on the Five Ps. These five Ps are Purpose, People, Products, Processes, and Productivity. Applicable to any organization these five P's are more essential for the Pakistani organization to focus on. Innovative methods focusing on quality will greatly enhance our capabilities to survive and excel in any environment. The discussion of these elements along with the ensuing recommendations of this paper will focus on the governmental as well as the organizational interventions and undertakings.
Purpose

The number one criteria for a healthy company are that it creates a purpose, a sense of belonging and a direction for its employees. We have seen that companies throughout the world especially in our part of the world are developing purposes and missions as a routine using high sounding words and jargons that have no real meanings. These words and phrases may be good enough for display in the foyers, offices and training rooms but they lack the real spirit. “Maximizing share holder value” shouldn’t and can’t be a substitute for a legitimate mission based on an authentic organizational purpose. Making money for your shareholders is merely a by product of achieving success through a clear cut mission. Profits are not goals, but outcomes just like happiness is not a goal but an outcome. Purpose represents a life theme for the organization not just something mundane.In my experience of consulting I have seen that companies in Pakistan rely more on the language prescribed by the consultants and templates available rather than defining a real purpose or mission for their own organization. The corporate song writers use modifiers to already existing purposes. These modifiers are...
restrictive and lack the conviction thus making the purpose useless and unachievable statements that stay displayed on plaques and frames. Ironically every individual in the organization is asked to remember these words without actually understanding the meanings. If we are to compete in the global arena we must be realistic in defining our purpose with specific emphasis on the post WTO scenario. Rather than mere words we must identify what Pakistani organizations must do, why should they stay in the arena? In what areas should we compete? A rethinking of either establishing new set-ups or doing away with some old ones will help us focus not only our energies but resources in the right direction. Organizations at their own levels need to identify the opportunities and reorient themselves. Simply stated the purpose must be very clear in defining and highlighting what we really want to do. Even as a prerequisite for certifications and other standard requirements deliberate thought and effort must go into defining the real purpose and mission. The present develops the foundation for the future. Just a few simple questions relating to the present and the future will help us in developing our purposes and subsequent strategies for the globally shifting competitive landscape:

- What will the marketplace landscape look like?
- Who will be our biggest competitor?
- What strengths will we be able to offer our customers?
- Will our culture support the changes that may be needed?
- Do we have the appropriate core competencies?
- Can we anticipate the change and redefine our purpose?
- Is our culture capable of changing to meet the demands of our purpose?

The new thought is that we have a hierarchy of Purpose which leads to strategies focusing on development and continuous improvement.

![Diagram showing the hierarchy of Purpose](chart.png)

**People**
The people I refer to are the stakeholders in an organization and these stakeholders not only include the shareholders but the customers (both internal and external). However, the major emphasis will be on the internal customer or the real people that matter in an organization:

*A product with a distinct edge over the competition will lose this edge within a couple of months when comparable or even better products come into the market, at comparable or better price, quality and delivery schedules. It therefore goes to prove that its’ competitive edge does not lie in its technology or product, but in its people and what they can achieve.*

Maximizing shareholders value is definitely the important aspect for which organizations exist, however, to achieve this particular objective a focus on not only satisfying the customer but delighting them will provide the competitive edge. To deliver value in the marketplace will greatly depend on:

- What kinds of people form the workforce?
- What capabilities currently exist within the organization?
- What capabilities will be required for succeeding in the competitive global environment?
- How do/can we align capabilities with business strategies?

The underlying question remaining that is our culture accepting change and the risks associated with it. Do we need to think outside the box. As Dave Ulrich puts it: People professionals will have to deal with many related questions, including:

- How do we unlearn what we have learned?
- How do honor the past and adapt for the future?
- How do we encourage the risk taking necessary for change without putting the organization in jeopardy?
- How do we determine which people management practices to change for transformation and which to leave the same for continuity?
- How do we engage the hearts and minds of every one in the organization to change?
- How do we change and learn more rapidly?

For us to compete in the global market, we will need to attract and retain the best, have systems for measuring competencies and enhancing the intellectual capital. The future focused organization will compete aggressively for the best talent. Successful firms will be those most adept at attracting, developing, and retraining individuals with the skills, perspective, and experience sufficient to drive businesses globally. We will have to do away with our age old practices of hiring and firing indiscriminately, hiring at lowest wages, poor working conditions. We will also need to develop all streams of the workforce right from the highest level to the lowest levels. Our managers have to be global managers capable of competing with the best in the world. Our leaders will have to think globally, they need to understand the dynamics of the global marketplace, the driving and restraining forces of competition. In an era of fierce and ruthless competition, our leaders will have to develop capabilities and visions of global leaders. Leadership capable of transforming organizations. The examples of Pakistan Tobacco Company, the State Bank of Pakistan, The Central Board of Revenue, and many more provide us an insight into what leadership can do. Leadership in a future focused organization will
play more of a partnering role with the workforce rather than the isolated, non-available, autocratic Boss.

Another important area of the people focus is the customer; Pakistani organizations exporting products have seen the customer power. It is because of customer requirements that most of our organizations are forced to go for different kinds of certifications. We need to constantly focus on anticipating, expanding, and redefining our customers need. Changing cultures, lifestyles and opportunities being offered demand a customer focus as part of our people’s strategy.

Once we talk of the people we must not forget the suppliers, the vendors and the distributors. It would be very easy for our raw material to find buyers outside the country paying premium prices causing our own manufacturers to raise prices or the government subsidizing. In any case a close attention to the needs of suppliers and partnering with them would give improved results. The distributors also will have to be integrated properly into the system.

**Products**

The world is now open. All products, goods and services will be traded in the arena of multilateral trade. We have our hands full with Chinese, Turkish and Malaysian products coming into our markets. Innovative quality products at highly competitive prices will provide the edge. The world is opening out which means that for every country the market will grow in size exponentially. For Pakistani Organizations the doors to a neighboring market of almost half the population of the world provides tremendous opportunities, however it also poses a threat of the influx of goods and services from these neighboring countries.

Samuelson’s concept of “**Comparative Advantage**” is being put to test in the globally competitive environment where the world has shrunk to the size of a hand held laptop connected to the internet. Distances have lost their meanings, Raw Materials, Labor, Goods and Services traveling across continents may be much cost effective then movement within. Organizations now have a choice to produce anything anywhere in the world. The underlying fact that it considers is the profits. China is a case in point as it has ventured into areas in which it does not have the natural resource or the raw material. It has affected the world market by buying materials like Iron and Steel thus causing acute shortage and an increase in prices.

Products can now be manufactured anywhere in the world. Ownership now has no boundaries. In this scenario an opportunity exists for those organizations that identify:

? Which product features and goals will provide the optimal benefit for the customer?
? What is needed so that design can be delivered without deficiencies?
? Which product provides us the competitive advantage?
? What means are available to provide and deliver the product on a continuing basis?
? What quality will be delivered persistently and consistently to meet the goals?
Innovation is the key. Delivering products that delight customers at a competitive price consistently, demands a very high degree of innovation. Innovation in products can be achieved through:

- Benchmarking.
- Market Research.
- Creativity & Experimentation.

Peter Drucker writes

“The second major approach asks: What are the opportunities for the greatest economic results. The best illustrations of the maximization of opportunity are the two men who, independently of each other created the electrical industry indeed our electrified world of today: the German Werner von Siemens (1816 – 1892) and the American Thomas A Edison (1847 – 1931). Together their impact on the world we live in has been a good deal greater than any other. One answer to the question “What did Siemens invent? Is: the first electric generator. But one can also answer; the electric apparatus industry. To the question: “What did Edison invent?” one can answer; the electric light bulb. But one can also answer: the electric power and light industry. More than anyone else they developed methods of technological research. These men were the first real “innovators.” They systematically defined the opportunity for new knowledge and new capacity to achieve – that is, the capacity for innovation. Then they set to provide new knowledge, capacity and technology. They were also, it should be said, the first genuine “system designers.”

**Process**

Organizations have many interconnected activities that enable them to reach their goals; these are the business processes of that organization. Inputs (material, capital and people) are used, deliverables (products and services) are produced and customer satisfaction and/or feedback are used to continuously improve things.

Historically, most organizations have been structured on a vertical, departmental or functional model. However most processes within the organization flow across the organizations that is horizontally, passing from department to department or person to person. It is not surprising therefore; that the external customer very often does not receive what was requested. We can liken many business processes to a relay race, with the baton passing from person to person within the organization. A sin a relay race the problems are more likely to occur at the changeover points where the baton is more likely to be dropped.

Every organization has critical processes that account for the success of that organization. These critical processes need to have certain basic attributes, like:

- They are few in number.
- They are linked, both horizontally and vertically.
- They can be mapped or diagrammed.
- They can be measured.
- They can be standardized and controlled.
They can be improved.

To be competitive we need to develop these critical processes, unfortunately efforts to develop these systems and maintain quality in these system/processes has stalled in many organizations because these organizations have tried to deploy the concepts of quality customer satisfaction, empowerment, teaming and so on, as critical systems, rather than as critical cultural systems.

The same thing has happened in developing systems in isolation, lean manufacturing, process control, supply chain management, QFD etc. Although TQM is one of the solutions yet if this is not deployed properly it will backfire. A simple example is that empowering people without putting the system or process in place will not work.

This paper will not go in the details of the basics of process development and deployment however we must understand how a process is identified, analyzed, implemented and measured/evaluated.

A good example is illustrated through a simple model of TQM developed and deployed at Galileo Electro-Optics Corporation, Massachusetts. The main features of this model are:
In our context we consider certifications as an end rather than means to an end. Only those organizations have been successful that have integrated quality into the Systems and processes. As stated earlier the new environment is highly competitive, we need to identify the critical success factors for succeeding in this competitive environment. Continuous improvement in all processes and application of Total Quality Management should keep us in good steed.

Through the model illustrated above we seek to improve business performance in every aspect of the business. Stakeholder’s success is dependant on perfection in quality, agility, flexibility and responsiveness, value-added customer services, and business performance. Customer success is achieved by bringing the philosophy to life (people, integrity, innovation, perfection, and reward).
Within the execution process are breakthrough improvement and continuous improvement. This is the collection of process reengineering, prevention based TQM tools and techniques, and facilitation skills that employees have received through formal education program. These skills are the employee’s tools of the trade that enable ongoing revolutionary and continuous improvement that ultimately leads to stakeholder success.

Productivity

“Achieving results” is the objective of all the strengthening actions. Our final “P” defines the total outcome of the organization. We may have a truly meaningful and real purpose., spend a lot of effort on our people, improve our processes through application of the Total Quality concepts and make products that are really innovative. Yet it all boils down to one final question, “are we productive? Is our output value added to an extent that it is cost effective and results in profits. How do you know when you have been successful? Evaluation is not something that can wait until the completion of performance improvement activities. Productivity enhancement is not any one singly activity but a partnership of many forces and perspectives dedicated to self sustaining improvement.

Productivity improvement is a blurred responsibility in many organizations. They have not made up their minds and fail to realize the consequences of indecision and blurred accountability. The problems and issues faced by corporations of today are frequently bigger and more complex than any other organization can assess. Productivity in the post WTO scenario will not only be a focus of organizations and corporations but more specifically of the nations. A country that must increase productivity that recognizes the role of education as the gateway to opportunity that has been shocked by deficits and trade imbalances should use tax policy, educational research, and reporting of economic indicators to stimulate productive action. Farmers are rewarded for growing crops. The most important crop of any nation is its people. Raising productivity is like climbing stairs, not like riding an escalator--- it requires work and hard-work. Nothing is automatic without the collective will to shape our tomorrows in the ways that are open to us.
Vast new human potentials are being unleashed by the swift removal of barriers, the opening of walls, both real and self-imposed. Geography, alliances, and relationships are being rearranged not just on maps, but more important, in our minds — in how we think about ourselves and others. We are moving toward a world of far fewer boundaries — a fact which will require special attention and rewards for those who think, plan and act in ways unfettered by yesterday’s limitations.

**Conclusion**

The future is here and is demanding immediate actions. We need to be proactive to not only be prepared for it but rather create our own environments to excel in the future. WTO is here and now, it is for us to view it as a threat and taking the pessimistic view of things allow the course of events take its own turn or considering it an opportunity and challenge reach forward to seize upon the opportunities and improve ourselves to compete.

In the fierce competition that we will be encountering we need to be not only innovative but highly competitive. Innovations in defining our Purpose, developing our people, bringing those products to the market that give us the advantage, through quality driven processes aiming at productivity in all spheres of organizational output.