

BUSINESS CONSULTING PROJECT (BCP)

BCP TOPIC: ADAPTATION OF INDUSTRIAL MNE BUSINESS TO LOCAL MARKET
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Problem Statement / Research Question:

How to expand market share of a Multinational Enterprise (MNE – Emerson Process Management) in industrial sector of Azerbaijan through support of “business environment transformation” initiative and adaptation of corporate business rules and procedures to local market specificities?

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1. REPORT OBJECTIVE

The objective of present Business Consulting Project (Report) is to provide Emerson Azerbaijan Company's management with solutions and recommendations which helps to secure a future expansion of Emerson's market share in Azerbaijan. The main idea implies adaptation of corporate business rules to local market specificities through improvement of local business environment involving different economy institutions and organizations operating in Azerbaijan. A separate chapter of the report assesses overall future attractiveness of the local market and evaluates the annual opportunity growth up to \$ 35 million by 2020. Vast majority of information utilized for this assessment was extracted from company's internal reports. Solution may seem not feasible at a glance; however, experience of other countries proves an opposite assumption.

2. EXECUTIVE SUMMARY

This Business Consulting Report provides an analysis of the overall situation in global market of process automation industry, in order to give reader an idea about the field Emerson Process Management operates in. The further analysis and assessment of future market opportunities for the client in Azerbaijan helps to justify offered subsequently solutions and recommendations on expansion of the company's business in the market.

The data applied for this research was collected from various sources of information, including Emerson's internal analysis materials and reports, attached to this paper. In order to perform a comprehensive analysis the comparison of, observed for Azerbaijan, facts with findings in neighboring and international markets was applied. Whole analysis covers examination of the company's international business policies and rules, marketing approach and cultural aspects of the Azerbaijan market, as well as the positioning of client's business in it. As a result, the main weaknesses and, caused mainly by them, threats were explored and emphasized in different chapters of the report.

Contradictions between business ethics perception in Azerbaijan's society with the client's rules on ethical behavior urges Emerson, a Multi National Enterprise with international business policies, to apply strict compliance requirements to local companies in Azerbaijan. This approach causes irritation among customers and harms "client-market dialogue" significantly. In result, it affects company's local image negatively and lowers its competitiveness in the market, since competition is much more flexible in this aspect. Moreover, signs of unethical behavior, among the local companies, prevent the market growth and sustainability. This chain of issues has been identified as a target which is to be addressed by the solution offered in this consulting report.

The offered "business environment transformation" solution involves international business community, represented in Azerbaijan by organizations from various fields of business and economy, and Azerbaijan state authorities. A role of Emerson in it is limited to raising the initiative, development of general concept of the solution (project) and further possible support and process monitoring. Having a big experience working with state authorities in Azerbaijan, American Chamber of Commerce is identified as a best fit candidate to lead this project and

preliminary project-government interface map is provided in the report. Thus, initiating this project, Emerson will address identified threats a) solving the business ethics issue, through promotion of best transparency practices in local economy and b) creating prerequisites for sustainable future of the industrial market, as result (a & b - business environment transformation); c) adapting its rules to Azerbaijan market specificities once the business environment is improved; d) improving the company image, what improves company's competitiveness in its turn.

A main threat which reduces feasibility of the project may be caused by government. It may reject to adopt changes to law 'On Commercial Secret', which are required for creation of transparent business environment. AMCHAM will be able to raise this question in front of "Milli Majlis" stressing the successful implementation of such approach in international economies and the positive effect on anti-corruption commitment Azerbaijan have in front of Europe.

3. ANALYSIS OF CLIENT BUSINESS

3.1. Market overview.

Historically, the industrial automation has been built on electric-pneumatic mechanisms and quite complicated logic schemes. A panel with a plenty of lights, buttons and switches on it was the interface between the operator and the control system. Today it is a digital industrial automation which can be defined as a set of hardware and software to allow monitor and control industrial processes independently and as precise as its technology allows to be. Depending on the industry, application, technical requirements and many other factors, industrial automation can be divided in two main types: discrete (factory) and process automation.

Discrete automation uses mainly programmable logical controllers (PLC) and electrical, pneumatic or hydraulic drives for control and operation of electric-mechanical skids of factories. It is more typical for robotized assembly lines, bottling and packaging processes, metal and mining and other similar industries.

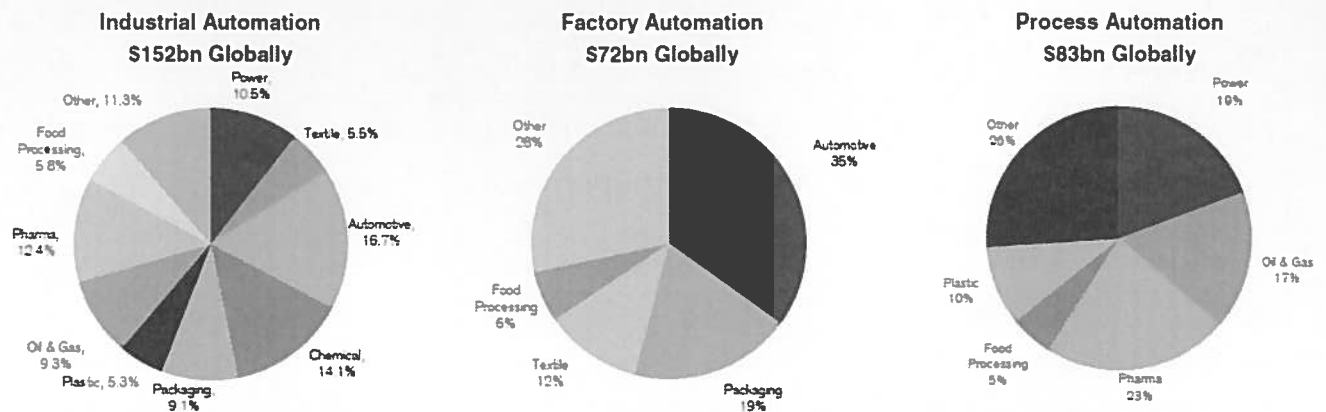
The Industries like Oil and Gas, Refinery, Petrochemical, Pharmaceutical, Food and Beverage where technologic process is to be controlled continuously are related to process automation. The production site which uses not only "0" and "1" but takes into consideration the area between these two digits in automation of its continuous production technology falls in to process automation segment. Here the operating logic is built mainly on integrated control and safety systems (ICSS) and distributed control systems (DCS), process parameter are measured by instruments and analyzers and final control is performed by devices such as control and on-off valves (regulators), dampers, servo-motors.

As per estimation of research analytics of "Credit Suisse" reflected in "Global Industrial Automation"¹ research dated as 14 August 2012, the total value of global industrial automation market is about \$152 bln. Taking into account overall stability of this market over the past years

¹ Credit Suisse (14 August 2012). Global Industrial Automation. Retrieved from: https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=994715241&extdocid=994715241_1_eng_pdf&serialid=hDabUewpvOqQcRiLxK7rxIQJZZ8TPLDrYHs47S97OOI%3d

and fluctuations happened in global economy recently this information can be considered as quite up to date.

Exhibit 3.1: Industrial automation market.



Source: Global industrial automation research of Credit Suisse analytics group, 2012.

The industrial sector is developing and the trends show that demand in process automation market is growing. The analysis from the same source forecasts about 6% growth in process automation solutions market from 2014 to 2020 and “forecasted to reach global market revenue of \$180 billion by 2020”. Energy efficiency, optimization of asset utilization, cost efficiency, reduction of engineering time are some factors that are increasing the popularity of process instrumentation and automation amongst the key players of industries.

3.2. Company profile.

Emerson Process Management (Emerson) is a subdivision of EMERSON (HQ: ST. LOUIS, NYSE: EMR) and a leader in the production of process automation equipment for chemical, oil and gas, power, pulp and paper, food and other industries. Company brands are Rosemount, Fisher, Micro-Motion, Daniel, Ovation, DeltaV, Bristol, ROC, etc. The widest range of measurement instruments like transmitters of Pressure, Temperature, Flow, Density, Ph, Conductivity, analyzers of gas composition and quality of liquids, control devices as pressure regulators and control valves, ICSS, PLC and DCS allows to cover up to 90% of customers’ potential field needs in process automation applications. The combination of superior quality products and technologies with industry specific, engineering, consulting, project management

and maintenance services is a distinctive feature of the company's business and the core value that it delivers to customers.

Manufacturing facilities of the Emerson Company are located in different countries and the total number of factories is about 300. Each factory is specialized in producing a certain type of products and technologies. Regional sales offices and distributors/LBPs (Leading Business Partner) place intercompany orders directly with factories based on CPT or ExW delivery terms². Research and development centers live in synergy with factories mostly and have the same location. Engineering, service and education centers execute regional projects (101 project service locations with 5933 personnel) of Emerson across the globe and serve customers' routine needs providing after-sales, lifecycle support and education services (336 service centers with 3405 engineers and 84 dedicated educational centers with 428 instructors) for engineering staff on customers' sites. Majority of them are located and operate at big regional branch offices in close cooperation with sales and support departments.

As per annual report for financial year 2014, the company revenue exceeded 9 billion US dollars which means 7% sales growth comparing to that of 2013 (Exhibit 3.2). Almost half of the company's global business is generated by Oil and Gas industry (Exhibit 3.3) and due to the oil price decrease in the world market the revenue is expected to be lower in 2015.

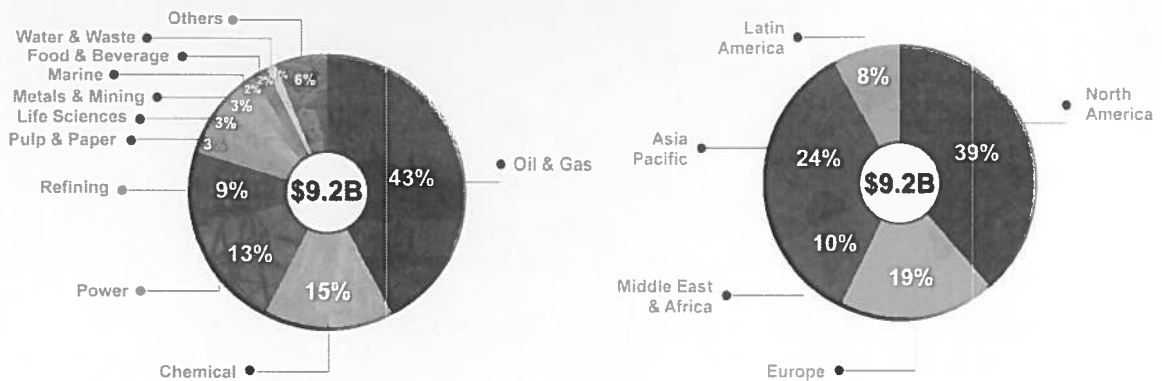
Exhibit 3.2: Emerson Process Management financials

(DOLLARS IN MILLIONS)	2012	2013	2014	CHANGE '12-'13	CHANGE '13-'14
Sales	\$7,899	8,610	9,189	9%	7%
Earnings	\$1,599	1,809	1,918	13%	6%
Margin	20.2%	21.0%	20.9%		

Source: EMERSON 2014 annual report, Business Segments article.

² International Chamber of Commerce (2010). The "Incoterms" Rules. Retrieved from: <http://www.iccwbo.org/products-and-services/trade-facilitation/incoterms-2010/the-incoterms-rules/>

Exhibit 3.3: Emerson Process Management sales by geography and industries.



Source: Emerson Process Management internal reports.

3.3. Global presence.

As a company founded in the USA, initially Emerson focused on America market. The company started its diversification in process automation market with the acquisition of Rosemount brand in 1976 and Fisher Controls in 1992 (both US companies). Finally in 2001, the company named its automation business “Emerson Process Management”.

The collapse of USSR and other geopolitical changes in global market opened a lot of opportunities for western companies and it was a right time to start business globalization. The company started mainly with a series of strategic mergers and acquisitions of European brands. It allowed Emerson Process Management, which by that time focused exclusively on industrial automation market, to diversify its product portfolio while gaining a low-risk global market penetration. Even in Russia the company decided to implement the same strategy and acquired the most popular brand METRAN in order to address a main requirement of the local customer – “Made in Russia”.

The company’s 39% of revenue is still generated by North America market. In this highly competitive market, the revenue is generated mainly through LBPs. Emerson Process Management provides them with staff trainings, tools, monitors partner’s activity and supports overall business development. The business is driven by force of obligations from both sides.

The business works through regional sales and support offices in other world areas. They used to operate as representatives of the head office in Europe before but business localization is one of the main requirements of the majority of emerging markets nowadays. Acting as a local legal entity, the regional office of the company gets the opportunity to use local currency in trading, to deliver goods on DDP delivery terms, to benefit from state support programs and to participate in local projects.

The main competitive advantage of the company is the widest range of process automation equipment and solutions. It allowed the company to transform business from equipment manufacturer to position of a turnkey solution provider in the global market, so called Main Automation Contractor.

Main competitors of the company are ABB Ltd. (Switzerland), Honeywell International Inc. (U.S.), Rockwell Automation Inc. (U.S.), Invensys/Schneider Electric SA (France), Endress+Hauser (Switzerland), Siemens AG (Germany), Yokogawa Electric Corporation (Japan). The exact information on global market share between these competitors is not available; however, estimated market share information for Azerbaijan industrial market will be observed in chapter 4 of the report.

3.4. Client corporate business standards and rules.

Emerson Process Management, after many years of business, has adapted certain corporate business rules that are based on strict policy of adhering of highest ethical standards in relationships with customers, employees, representatives and government agencies. This policy is valid for all company employees including directors and executives. Especially developed to ensure understanding and maintain compliance with this policy among employees “Emerson Business Ethics Program” is distributed in form of an employee handbook inside of the organization and is open for its customers, suppliers and partners. In addition, there is a separate “Code of Ethics for Business Partners” and Emerson requires all business partners, integrators (third parties) and customers to adhere this code. The same topics are covered in both codes with a slight difference in details.

Besides general ethic standards, compliance with laws and regulations the “conflict of interest” is emphasized as a case which may appear in many directions of employees’ activities like relationships with customers, suppliers and competitors, where the company’s employee may potentially get paid for provision of additional services (consultancy). In case of any personal interest, as a representative of the company, the employee may act unfairly and the company tries to avoid this type of situations and protect its business.

The company urges to deal fairly and follow antitrust/competition laws in relationships with customers, partners as well as competitors. The price, terms and conditions, or any other competitive information, shall not be disclosed to competition.

Financial reporting must be performed completely and accurately. Any financial information may be used by internal or external persons unfairly so it can’t be disclosed unless it officially becomes public information. The leakage of financial information may affect a company strategy negatively or give advantage to competitors.

Being originally from the USA and international company at the same time Emerson requires its employees to comply both USA and local laws/regulations worldwide. The gift policy is one of examples and shall be regulated by local rules or special internal policy of the organization. The relationship policy with government representatives in this perspective is even more restrictive. Also, it is prohibited to participate in economic boycotts according to USA laws. Foreign Corrupt Practices Act³ of USA (FCPA), regulations of which cover almost all local regulations in general, is one of the main requirements the company tries to be consistent with in its international business.

One of the most important aspects of business the company focuses on is export control. The U.S. control exports of goods, services and technical data by implementing regulations under Export Administration Act, the Arms Export Control Act and several other Acts. The strict trade compliance policy of Emerson is to comply with all applicable U.S. export control laws and regulations as well as applicable laws of other countries. These rules are applicable to the Company’s most offices (in and out of the USA), operations and subsidiaries. The information

³ FCPA Professor (2015). Retrieved from: <http://www.fcprofessor.com/fcpa-101>

about embargoes under USA laws is delivered to the company staff involved in international business. The business partner is strictly required to follow export regulation rules Emerson complies with. If the company fails to comply export regulations it may harm its image and may cause the loss of export license for Emerson product or brand to global market. It can be a fatal outcome for a sales-driven global organization which Emerson actually is.

The listed above policies, rules and requirements are called to protect the company's international and local businesses. However, it affects sales performance of the company outside of North America market negatively. Actually not all markets tend to accept such business approach of Emerson and there may be plenty of reasons. The reasons may be related to culture, perception and traditions of business relationships, inconsistency in state regulations, etc. For example, most of Asian countries and China in particular have a completely different perception of gifts, especially in business. The market of China offers a huge potential for American international companies but strict gift policies which they are forced to follow is an obstacle on the way of building relationships with the market. American Chamber of Commerce performed a survey there in 2011 among 318 US companies and they argued that there was significant dissatisfaction with corporate governance in China. Companies were concerned about inconsistency in regulatory interpretations or unclear laws (42%), corruption (30%) and national protectionism (28%)⁴. There are special comments and recommendations in FCPA for multinational companies on the way to address Chinese tradition of gifts⁵. It supports adaption of international businesses to Chinese market to some extent but still there are lots of contradictions with their local "Guanxi"⁶.

As per recent information provided by regional corporate legal counsel of Emerson, ISO (International Standards Organization) is going to implement "Anti-bribery management

⁴ Bloomberg Business week, 2nd May 2012, The Great Fall of China. Available at: <http://www.businessweek.com/articles/2012-05-02/the-great-fall-of-china>

⁵ F. Joseph Warin, Michael S. Diamant, Jill M. Pfenning (2010). FCPA Compliance In China And The Gifts And Hospitality Challenge. Retrieved from: <http://www.gibsondunnlaw.com/publications/Documents/Warin-Diamant-FCPAComplianceInChina.pdf>

⁶ Journal of Business Studies Quarterly (2013). Doing Business in China: What is the Use of Having a Contract? The Rule of Law and Guanxi when Doing Business in China. Retrieved from: http://jbsq.org/wp-content/uploads/2013/06/June_2013_4.pdf

systems” ISO/CD 37001⁷ in 2016. ISO’s series of measures and controls are to help prevent, detect and address bribery consequences which can be catastrophic for the infrastructure, economy, education, quality, health, and safety. A wide range of organizations will be able to adapt this anti-bribery management system. It will allow markets to address the bribery issue which is considered as one of the greatest challenges to international development nowadays. It will open new opportunities for Emerson to reduce strictness and increase competitiveness in economies where the standard will be widely implemented.

Working in USA and Canada markets Emerson doesn’t meet such high risks since state regulations control local companies’ activities precisely. Here as an OEM (Original Equipment Manufacturer) Emerson isn’t responsible for full compliance with FCPA and export control of its customers and partners. Therefore, sales processes are simplified and for distribution of general categories of products the company even establishes long-term relationships with LBPs.

The situation is completely different in other countries where Emerson operates. All activities of Emerson, its subsidiaries and partners in South America, Europe, Africa and Asia are precisely controlled mainly by corporate legal and trade compliance departments.

In order to lower risks of working with third party sales channels, the company decided to minimize the number of LBPs, distributors and got signed legal agreements of high-commitment to Emerson’s “Code of Ethics for Business Partners” with those whom the company couldn’t acquire or get rid of. The agreement with a business partner is some sort of limitation of liabilities for parties but it doesn’t relieve Emerson of the responsibility for business behavior of party authorized to officially present its products and brands. Therefore, legal and trade compliance departments mainly monitor and audit operations of corporate partners periodically.

Emerson prefers to realize its global sales activities (out of US & Canada) through regional representative, branch offices and subsidiaries. Of course, depending on specificity of the market, probably it is not an optimal approach and the company can’t gain from economy of scale on SG&A for instance but it allows to arrange, maintain and control its own sales channels

⁷ International Organization for Standardization (2015). News/ Progress on anti-bribery standard. Retrieved from: http://www.iso.org/iso/home/news_index/news_archive/news.htm?refid=Ref1967

fully. Thus, the company secures its global presence in the frame of strict corporate policy of highest ethical standards and trade compliance in international business relationships.

State regulations and business environments differ across countries and thus, it wouldn't be reasonable to apply same requirements to all countries. Emerson uses many sources of information to assess the market in a country as precisely as possible and adjust the level of control accordingly.

One of the main indicators is the level of corruption in a country. The company doesn't have its own resources to research market and analyze the information that is why this type of services is outsourced. The sources are to be approved on corporate level for implementation by legal and trade compliance departments. For instance, there are plenty of links to the information provided by "Transparency International" (TI, a research organization) in Emerson's corporate materials about business ethics.

The most recent "2014 Corruption Perceptions Index" (CPI) research of TI has been performed for 175 countries⁸ (Exhibit 3.4). The information provided by independent institutions specializing in governance and business climate analysis as World Bank, Economist Intelligence Unit, Institute of Business Ethics and Bertelsmann Foundation are also used for research and analysis at TI. It measures the level of prevalence of bribery and the extent of impunity of corruption in the public sector and ranks countries from 0 (perceived as a highly corrupted) to 100 (perceived as a very clean).

As an example, neighboring countries Georgia and Azerbaijan can be reviewed. As of 2014 CPI map ranked Georgia as 50 with score 52 versus Azerbaijan's rank 126 and score 29 (Exhibit 3.5). In 2002, the difference in their ranks was negligible so we may say that Georgia improved tremendously comparing to Azerbaijan. It is obvious that the recent reforms performed there contributed positively. The difference in Emerson's dealing with Georgian companies is quite tangible. Emerson corporate rules and policies are not so strictly applicable for Georgian companies unlike for Azerbaijan's market where the company can't be so flexible due to such poor rank.

⁸ Transparency International (2014). Corruption Perceptions Index. Retrieved from: <http://www.transparency.org/cpi2014/results>

Exhibit 3.4: Corruption perceptions index geography.



Source: Transparency International <http://www.transparency.org/>

Exhibit 3.5: Corruption perceptions index Georgia versus Azerbaijan.



Source: Corruption perceptions index geography 2014 <http://www.transparency.org/>

World Bank Group's "Doing Business" project analyzes and compares economies' business regulations for local companies. This year's annual report covers 11 types of indicators of 189 economies⁹. Doing Business divides indicators in two main categories: those that broadly measure the complexity and cost of regulatory processes and those that measure the strength of legal institutions.

⁹ World Bank Group. Doing Business/ Economy Ranking. Retrieved from: <http://www.doingbusiness.org/rankings>

This research helps to analyze the general business environment in a country. It doesn't reflect the level of bribery and corruption prevalence but analysis of overall business situation may help to assess the market quite precisely. Again the result of comparison of same countries is not in a favor of Azerbaijan. In spite of slight decreases in most of its indicators Georgia leaves its neighbor far behind with "Easy of Doing Business Rank" 15 versus Azerbaijan's 80 for year 2015. This is a red flag for Emerson in Azerbaijan therefore the company is urged to check counter parties more precisely here in order to minimize risks and secure future business sustainability.

International competition of Emerson is actually urged to follow the same rules regardless of the organization's country of origin. Noncompliance to international policies may generate significant costs through penalties by government(s) and may negatively affect a company image harming the goodwill of any organization. As a most distinguished example the case with Siemens can be observed. The company was fined for total amount of \$1.6 billion in 2008¹⁰. Half of the fine was paid in Germany and the second half in criminal and civil penalties in the U.S. for accounting falsification of \$1.36 billion in bribes and questionable payments. It was reported that from the mid-1990s until 2007 different business units of Siemens paid kickbacks and bribes to win contracts in Iraq, Venezuela, Bangladesh, Russia and even Israel. Besides direct fines the company lost a lot in goodwill. As per consolidated annual financial statements of the company following goodwill impairment during next periods "contributed" negatively to overall financial performance of Siemens. Especially after this case the rest of the competition tried to improve in this direction but still most of them follow these rules and policies in theory only. Siemens's experience actually naked its operations gaps and other companies adapted their working strategies accordingly in order to avoid the same punishment.

¹⁰ Cary O'Reilly, Karin Matussek (16 December 2008). Bloomberg Business and Finance/ Siemens to Pay \$1.6 Billion to Settle Bribery Cases. Retrieved from: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCBriMXEiYxs>

4. LOCAL BUSINESS ANALYSIS

4.1. Industrial market overview.

Industrial development of Azerbaijan began in mid-1950s and now it is one of the most developed fields of the country's economy. The country suffered from chaos during several years after the collapse of USSR. In order to secure a rapid economic development and oil and gas industry, an important decision on involvement of foreign investment into the process was made. Several production sharing agreements on development of oil & gas fields was signed with several big foreign companies on September 20, 1994. It was an impulse for the sector as well as for other industries afterwards and the dynamic development of oil sector created opportunities for the accelerated development of non-oil sector as well. Increased electricity consumption encouraged the improvement in power sector and attracted investments into construction of new power plants and rehabilitation of old ones. In order to supply local and regional markets with fuel and natural gas, the investment was made into refineries, processing and petrochemical plants. The capital raised from oil sales was directed to the development of other priority fields¹¹.

Oil production had been growing rapidly since 2005 and ended up with 50,795.50 ktons reaching its culmination in 2010. After 2010 a gradual decrease in oil production started and the total volume of 42,022.70 thousand tons was declared by the end of year 2014 (Exhibit 4.2). The phase of depletion of existing operating oil fields started but it doesn't mean that oil production will be stopped immediately: there are still lots of undiscovered oil fields in Azerbaijan.

The statistics shows a significant growth of gas production during this period as well and just within a period 2005-2008 it increased four times (Exhibit 4.3). Performance of existing gas fields increases gradually nowadays but in strategic plans of the country is to become one of the main gas suppliers for Europe through the Southern Gas Corridor (Exhibit 4.1). It seems that the natural gas will keep a dominant position in oil and gas industry of Azerbaijan in the nearest decade opening new opportunities for international businesses.

¹¹ National Geographic. Azerbaijan in World War II. Baku - Hitler Battle for Oil. Retrieved from: <https://www.youtube.com/watch?v=7CYx1IVBldw>

Exhibit 4.1: Southern Gas Corridor (SGC).



Source: http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage2.html

The biggest foreign oil & gas operator in Azerbaijan is BP. The company operates here under several production sharing agreements and host government agreements signed with the government of Azerbaijan. In Georgia and Turkey, it operates under host government agreements that cover export pipelines and terminals. Several BP's legal entities have registered representative offices in Azerbaijan reflecting the evolution of BP's presence in the country and in the region since BP opened its first office in Baku in 1992. The principal legal entity is BP Exploration (Caspian Sea) Limited. Its offshore production asset Azeri-Chirag-Deepwater Gunashli (ACG) is the largest oilfield in the Azerbaijan sector of the Caspian Sea. Shah Deniz (SD) is a large offshore gas and condensate field. Operational offshore facilities are Chirag, Central, West & East Azeri, Shah Deniz, Deepwater Gunashli and West Chirag platforms.

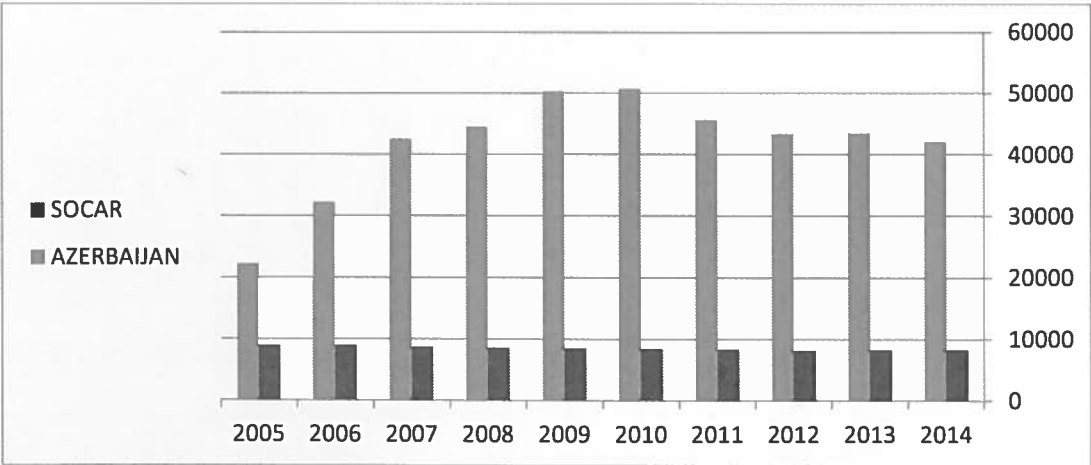
Extracted hydrocarbons are consolidated and stored in Sangachal terminal, an oil and gas processing terminal, located in the south of Baku and operated by BP as well. The terminal accepts 1.1 million barrels of oil and 36.8 mmscm of gas per day. With the total crude oil storage capacity of 3.2 million barrels, Sangachal terminal is considered to be one of the biggest

terminals in the world. Baku-Tbilisi-Ceyhan (BTC 1,768km) oil pipeline with the capacity of 1.2 million barrels per day links Sangachal terminal to Ceyhan marine terminal in Turkey. The capacity of South Caucasus Pipeline (SCP 691km) gas pipeline between Sangachal terminal and the Georgia-Turkey border is 22 million standard cubic meters per day. Western Route Export Pipeline (WREP 829km) is capable to deliver 106 thousand barrels per day from Sangachal terminal to Supsa on Georgia’s Black Sea coast.

State Oil Company of Azerbaijan Republic (SOCAR) is the biggest local representative of oil & gas industry in Azerbaijan. It was established on the base of 'Azneft' State Concern and 'Azerneftkimya' Production Unit in order to carry out the use of oil resources of Azerbaijan Republic in base of sole state policy, improve management structure of oil industry, ensure development of fuel-energy complex due to increasing effectiveness of use of production power of oil producing and oil processing enterprises. SOCAR was established in 1992 and a number of changes have been made in SOCAR's structure since that time. Its onshore and offshore oil and gas units were merged in January, 2003 to form the Azneft Production Union.

SOCAR inherited various assets from the past of the country’s oil industry. These are offshore and onshore production and exploration units, a wide network of hydrocarbons storage and transportation facilities, gas processing, oil refineries and petrochemical plants, i.e. SOCAR operates in all sectors of oil and gas industry: upstream, midstream and downstream.

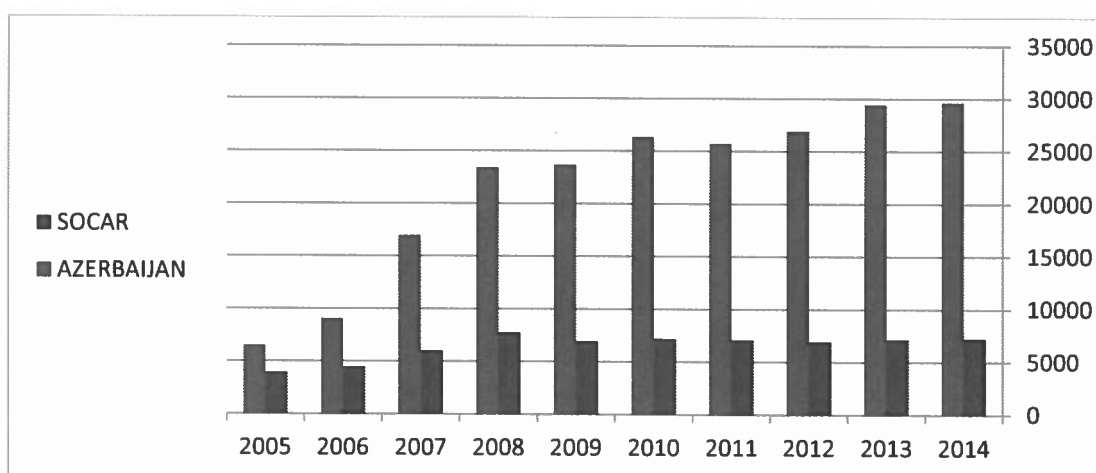
Exhibit 4.2: Oil Production in thousands of tons.



Source: SOCAR statistics and production reports available on its official web page.

Main production fields of SOCAR are Guneshly, Umid, Neft Dashlari and Bulla Deniz. As of the year 2014, SOCAR produced 8.32 mln ton of oil and 7.22 bln kubic meters of gas. In addition, the company has shares under several production sharing agreements with BP and other foreign operators in offshore and onshore fields. Targeting a strategy of diversification in supportive businesses of the oil and gas industry, the company follows through establishment of joint ventures and alliances with foreign and local companies that is called to secure sustainable development of the industry – the core industry of the country economy. Today the company has established businesses and assets in Georgia, Turkey, Ukraine and several other countries.

Exhibit 4.3: Gas production in millions cubic meters.



Source: SOCAR statistics and production reports available on its official web page.

Besides oil and gas industry, Azerbaijan has no private companies operated in power sector. Azerenergy OJSC is the only producer of electric energy in the country and is responsible for transportation of power till main electric stations and substations. The distribution of electricity to medium and small consumers is out of the company scope.

"Azenerqo"(previously "Azenergy") Azerbaijan Region Power Department of Bashenergy Head Power department was founded in 1935. The name of "Azenerqo" Electric Power Department of Azerbaijan Soviet National Economy Soviet was changed to Power Engineering and Electrification Head Department in 1962. Many changes were carried out in the energy sector of Azerbaijan during years of Soviet regime and Azerbaijan Republic Power Engineering

and Electrification "Azerenergy" State Company was established in 1993 almost right after Azerbaijan gained independence from USSR.

The natural resources of the country allow utilizing of the natural gas as a fuel for thermal power plants and in addition Azerenergy inherited huge hydro power assets from USSR. About 6000 MW of the installed thermal power and slightly more than 1000 MW of hydro power capacities. Of course, some of plants (most of hydro PP) are out of date and can't provide designed capacity, so available power for the country is around 5,500 MW¹². The company is trying to expand utilization of renewable energy and started testing wind turbines and solar panels in different regions.

4.2. Client's local background.

Responsible initially for Georgia, Azerbaijan and Turkmenistan (out of list now) markets, Emerson Baku branch office was established in 1997 as a representative office of Europe HQ and now it operates as a local legal entity. Main customers in region are BP Azerbaijan, SOCAR, Azerenergy, LukOil Azerbaijan, Georgian Oil&Gas Corporation, Batumi Oil Terminal. Besides office administration employees, Emerson Baku office staff includes a team of sales and support engineers and field service support engineers' team, all graduated in process automation.

Emerson Baku office staff consists of sales & support engineers graduated in process automation and experienced in different directions of process automation, a highly skilled and trained service and field support engineers and rest officers – twenty employees in total. A separate team of control system engineers and local subcontractor assistances is located on AMEC-AZFEN-TEKFEN (Baku, ATA YARD) field for BP Azerbaijan platform automation project execution. The organization plans to expand the team of local engineering in order to increase overall performance in new projects and support the level of existing local customers.

Emerson Process Management has established relationships with most of global players in different industries and BP is one of them. Being the biggest oil and gas operator in Azerbaijan, BP is interested in close cooperation with its global partners in the local market, where it

¹² Azerenergy. Energy Production. Retrieved from:
http://azerenerji.gov.az/index.php?option=com_content&view=article&id=91&Itemid=112&lang=en

operates and from the beginning Emerson has been focused on this customer's needs. As a result of mutual efforts from local and HQ of Emerson Process Management, BP awarded Emerson a role of Main Automation Contractor in its Chirag Oil Project (COP)¹³.

After successful completion of the project BP Azerbaijan awarded Emerson another automation project, this time much bigger in scope of supply and work, higher dollar volume and responsibility, Shah Deniz Phase 2¹⁴. Unfortunately, instabilities of hydrocarbons' prices on world market delayed the project and customer (BP) was forced to shrink the schedule further.

SOCAR has chosen Emerson's ICSS (Integrated Control and Safety System) for automation of first platform recently constructed and fully operated by SOCAR on Umid gas-condensate field. The scope of supply and services was extended later by control valves, instrumentation and life-cycle service agreement. Implementation, startup and commissioning of the system were performed mainly by local integrator having years of experience with Emerson products. A few more installations of client's control systems are available on sites of SOCAR but most of them were supplied by EPCs (Engineering Procurement Contractor) as a part of turnkey projects.

Besides the project installed base, Emerson's "FloBoss" gas flow computers are installed on all big and middle size gas distribution stations of SOCAR's Gas-Export department. A wide range of "Micro-Motion" mass flow meters' applications are available on oil metering skids of its Azneft Production union. "Fisher" control valves make 50% of control devices on Heydar Aliyev Oil Refinery (HAOR) and various other instrumentations are available on SOCAR's other facilities.

One of the most challenging projects of Azerenergy is Mingachevir Hydro Power Plant Rehabilitation Project (ongoing). With the assistance of hydro energy specialists from Emerson Russia St. Petersburg office, Emerson Azerbaijan was awarded by Azerenergy for supply of DCS

¹³ Emerson Process Management (13 February 2012). News release. Retrieved from: http://www2.emersonprocess.com/en-uk/news/pr_uk/pages/pr_bp_chirag_eu.aspx

¹⁴ British Petroleum. Operations and Projects. Retrieved from: http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage2.html

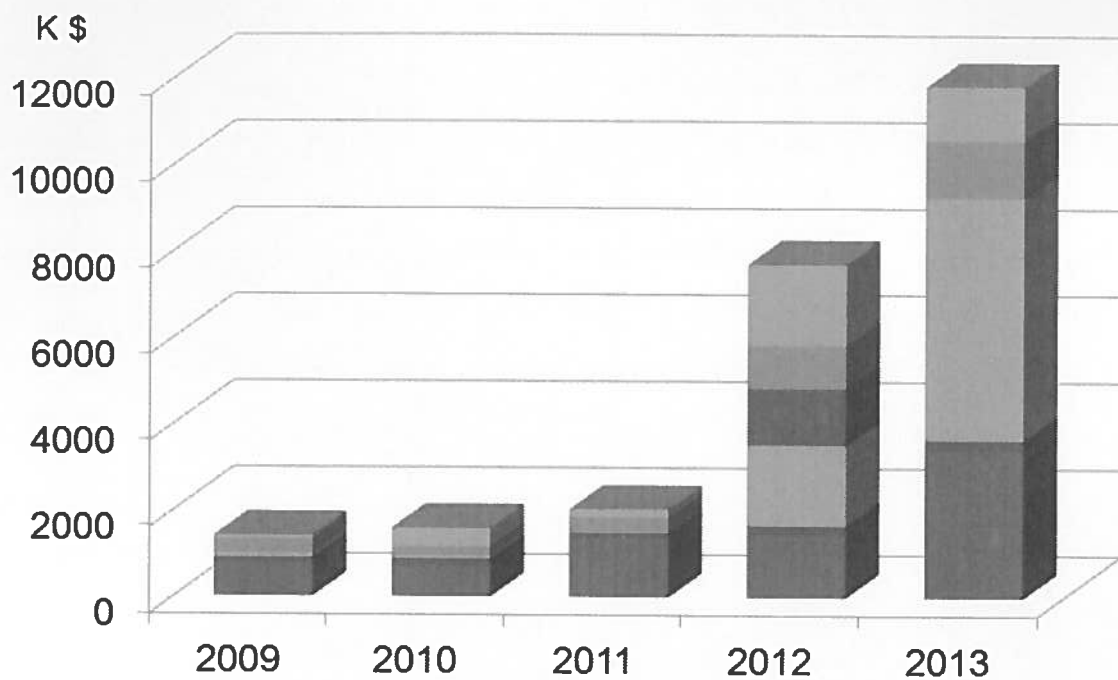
(Distributed Control System), instrumentation and various hydro turbine hydraulic control units for the project. Moreover, specialists are involved into the job as independent consultants now.

Financial trend of the company performance (Exhibit 4.4) reflects not so big revenue during 2009-2011 but sales numbers of the next several years improved tremendously. It can be explained by several factors. First of all, a couple of big projects mentioned above for BP, SOCAR and Azerenergy sites. The annual sales divided by business units (BU) of the company on this chart. For instance, green and dark blue colors of the whole sales scope reflect the sales of control systems (ICSS, DCS) and instrumentation BUs accordingly. Obviously, this scope mainly comes from BP's COP and the small portion from SOCAR's Umid project.

It wouldn't be correct to say that during previous years the total company sales to the country (destination sales) was too low as it is reflected on the chart. Mainly because most of Emerson equipment brought to the country at that time that was procured via other offices of the company, through foreign procurement companies or turnkey solutions providers. Another possibility may be the procurement policy of foreign companies operated in the country or unavailability of localization content requirements in state policy towards foreign companies operated in Azerbaijan.

The gradual decrease in oil production starting from 2010 was predicted and it was quite feasible that BP would try to invest additionally in order to boost oil production on existing fields. By the time of these projects the government started to push foreign companies and BP in particular to expand local content on their operating facilities. As per state requirement, at least 80% of staff should be local companies, visa and work permit procedures control were strengthened, they were urged to use locally produced materials like cable, pipe. As a result, the operator was forced to invest in local people more in order to run operations on international quality level and maintain the revenue on targeted point. Local contractors of BP in Azerbaijan, such as Emerson, have to support them and consequently follow the policy of the main customer.

Exhibit 4.4: Emerson Azerbaijan sales performance statistics.



Source: Emerson Azerbaijan country report 2014.

4.3. Potential and opportunities in the market.

The rapid development of the country economy may be observed for last ten years.

The ample natural resources of hydrocarbons are the main strength and exports of oil remain the first economic driver today as well. Its portion in GDP (\$ 75.2 bln, 2014) is about 45% and 93% in merchandise exports¹⁵. However, it makes a country vulnerable and highly dependent on hydrocarbons' price on the world market. The recent decrease of oil price proved this fact - caused mainly by a decline in oil production and export (by 9%) GDP growth lowers to 2.8 percent in 2014. Thanks to strategic economy diversification initiatives implemented in recent years, Azerbaijan weathered the crisis much better than some other countries. Huge and small, the list of all industrial companies of Azerbaijan consists of 350 representatives nowadays but the biggest industrial assets belong to oil & gas, petrochemical and power industries.

The Gross Domestic Product (GDP) in Azerbaijan was worth 75.20 billion US dollars in 2014. In the world economy, GDP value of Azerbaijan represents 0.12 percent. It was averaged as

¹⁵ World Bank. Countries/Azerbaijan. Retrieved from: <http://www.worldbank.org/en/country/azerbaijan>

23.16 USD Billion for period from 1990 until 2014, reaching its maximal number of 75.20 USD Billion in 2014 and a record of lowest 3.05 USD Billion in 1995. The presented data about the country's GDP is reported by the World Bank Group¹⁶. Economic research center Euler Hermes expects a full-year growth of about +2.5% in 2014, followed by +4% in 2015 as supply constraints in the oil sector should gradually wane¹⁷.

In spite of series of diversification initiatives, the oil and gas sector will remain at the heart of the economy. Most of projects scheduled for the next decade are closely interrelated with the industry. Of course, supportive industries as refinery, petrochemical and power will get affected positively pushing non-oil sector in turn. One of the most important projects is the international scale "Shah Deniz-2" natural gas project.

Discovery of huge gas reserves in Shah Deniz field was performed in 1999. The field is actually one of the world's largest gas-condensate fields, with over than 1 trillion cubic meters of natural gas. It is located 70 km south-east of Baku, in water depths up to 500 m. and operated by BP Azerbaijan according to PSA agreement with SOCAR and others.

Last year, the work on "Shah Deniz-2" project was started. In the initial stage, the production is expected to be at least 16 billion cubic meters. For the purpose of export of the gas to Europe market, the expansion of the South Caucasus Pipeline (SCP) is planned (Exhibit 4.1). Trans-Anatolian Pipeline (TANAP) and Trans Adriatic Pipeline (TAP) projects will allow the transportation of natural gas (not limited to gas of Shah Deniz field) to Europe through Turkey.

Around \$28 billion in capital investment is required to run the project and deliver gas to Turkey border through SCP. Then, a portion of about 6 bcma of gas is allocated for the needs of Turkey market and 10 bcma of gas is to be forwarded to Europe market through SGC. About 10,000 people are to be involved in construction activities of the project and more than 90% of them are Azerbaijani nationals. First gas production is preliminarily scheduled for late 2018.

¹⁶ World Bank. Data. Azerbaijan. Retrieved from:

<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/AZ?display=graph>

¹⁷ Euler Hermes (17 December 2014). Economic research/country reports. Azerbaijan. Retrieved from:

<http://www.eulerhermes.com/economic-research/country-reports/Pages/Azerbaijan.aspx>

In addition to PSA projects in Azerbaijan, SOCAR has initiated its own regional and local projects in oil and gas and interrelated industries it operates in. It will help to reduce the vulnerability of its existing “extractive industry oriented” economy. The main target of SOCAR here is to improve its operations in refinery and petrochemical industries.

The construction of SOCAR Ammonia-Urea plant is to be completed by the end of 2016. It is a chemical plant turnkey project, EPC role for the construction of which was awarded to Samsung Engineering. The designed production capacity of the plant is to be 1,200 tons of ammonia and 2,000 tons of urea per day.

Another project which SOCAR has run recently is SOCAR-Polymer plant¹⁸. The project is actually formed as a joint venture of major industrial players in Azerbaijan including SOCAR. The plant is to produce polypropylene and high-density polyethylene in capacities 180 and 120 thousand ton/ year.

The raw material for this petrochemical plant is to be provided by SOCAR’s existing HAOR and its propylene and ethylene plant of Azerkimya PU. However, these existing plants can’t provide the required volume and quality of required feed stock and they need to be revamped. In addition, the fuel produced by refinery doesn’t meet international standards’ requirements and one of the priorities of SOCAR is to secure local production of EURO-standard fuels.

Oil-Gas Processing and Petrochemical Complex (OGPC) is a huge project with the total investment of approximately \$ 17 billion. It is planned to allocate a different type of facilities on the territory of the complex and main of them are crude oil refinery, gas processing plant and petrochemical plant. At the present, a process of involvement of stakeholders started in regard to implementation of OGPC project by SOCAR.

Additional activities SOCAR performs are related to exploration of new oil and gas fields in Caspian Basin. Other foreign operators are also involved in these activities. For instance, Absheron field is to be operated by Total but recent fluctuations on hydrocarbons’ prices will definitely affect these projects’ schedules negatively.

¹⁸ SOCAR (15 April 2015). News Archive. Retrieved from: <http://www.socar.az/socar/en/news-and-media/news-archives/news-archives/id/8313>

4.4. Market analysis, competition and activities

The huge importance of listed above BP's and SOCAR's projects for industrial future of Azerbaijan market is obvious. In particular it increases its attractiveness for international industrial companies as well as accelerates the development of local industrial content. Thereafter, it is crucial for client's business especially taking into account the global relationships with BP and the fact that it has already been involved in Shah Deniz project which strengthens client's position in global, regional and local process automation market. The process of building relationships with SOCAR has already been launched and the client has developed a long-term strategy to address SOCAR's needs.

Global experience shows that process automation portion in the projects may vary from 2% to 10% of total project expenditure and in hydrocarbons projects this number is closer to the second one. So taking into account this fact it is quite easy to assess the whole potential of the market. In the long term perspective, it is even more attractive with following MRO (Maintenance, Repair & Overhaul) expenditures which brings much higher profit to vendor.

As it was stressed above, SOCAR always was and currently is a sole monopolist of the oil and gas and related industries in Azerbaijan. Obviously, it isn't possible to urge the further development of an economy so much dependent on the industry in this environment.

Several external and internal economic and geopolitical factors have a positive influence on it and first steps done towards improvements in this direction are listed above. The activity and contribution of SOCAR should be emphasized here separately since it is the only enough-powerful instrument in hands of Azerbaijan government. The state policy, SOCAR supports by its activities, opens a new potential for local companies and further possible privatization of the industry, resulting in the reduction of economy vulnerability through market diversification.

The higher is the openness of a market the higher the competition level is. Competition is definitely focused on listed above projects and further expansion in the local market. Therefore, early involvement in local market penetration strategy may play a crucial role in the future for a vendor. So required measures should be taken in advance in order to allow client to overcome potential threats and exercise opportunities efficiently to maximum extent.

control devices are very similar everywhere. One of the main reasons is the fact that operation principles of this type of devices are based on publicly available physics applied all over the world. The limited number of technologic processes in different industries may also be indicated as a reason. Refinery, petrochemical, power and other industries, where digital process automation is vital nowadays, use same technologies and almost all of them need to measure, analyze and control process parameters as pressure, temperature, level, etc. So it is a quite challenging task to handle a sustainable product differentiation in this narrow industrial sector with a big number of aggressive competitors.

However, a vice-versa situation here is related with associated services a company provides along with equipment. The automation on most of local industrial sites is out of date but not because of the lack of funds, mainly it is due to poor maintenance and after-sales support capabilities of the local industrial human resources market.

“The owner” of the local oil and gas industry market, the State Oil Company of Azerbaijan Republic (SOCAR), has started to implement the industry nationalization program which is called to limit implementation of expatriates’ labor and improve skills of local specialists and engineering human resources within foreign and local operating companies of oil and gas industry. The strategy is to convert some part of the country’s “oil capital to human capital”¹⁹.

Taking into account the importance of local customer (SOCAR) and local needs client intends to implement series of localization initiatives. Having a regional office in Baku registered as a legal entity (Emerson LLC) company expands its local capabilities gradually in order to gain a competitive advantage related to support and services. The client builds relationships with SOCAR’s Baku Higher Oil School²⁰ and has decided to support its education program in automation field with training equipment, lectures and scholarship for distinguished students of the school. Several local engineering and service companies showed interest in automation market and may support a rapid expansion of the client in the market. According actions are to be taken in order to exercise this opportunity as well.

¹⁹ Azernews (28 January 2014). Countries/Azerbaijan. Retrieved from: <http://www.azernews.az/azerbaijan/63744.html>

²⁰ ReportAz. Education and Science. Retrieved from: <http://report.az/en/education-and-science/president-of-emerson-process-management-in-europe-visits-baku-higher-oil-school-bhos/>

The products and services the company offers are not considered as mass-consuming and are dedicated to a narrow segment of industrial market – technological process automation. Thus, regular marketing approaches should be adopted for direct implementation. The support of oil and gas industry nationalization initiative through education and investment in local specialists may be used as a CSR based approach for marketing topic in Azerbaijan’s mass media.

Summarizing all mentioned above, we can say that local adaptation of the product itself is not a case in this research since it doesn’t belong to the mass-consuming products category and has nothing to do with cultural or mental preferences of the user. In this situation, not having an installed base of equipment on local sites the client has no reason to maintain a local service forces. At the same time, SOCAR is not in the position to arrange and expand digital process automation of the industrial sites not having a precise local support for future maintenance. Market environment limits the company in utilizing the company’s global resources here; moreover, it is not a cheapest option, so the only way to secure a sustainable future business growth for Emerson is to concentrate local capabilities and implement overall strategic localization program, i.e. the company local business model shall be adapted to the needs of the local market.

4.5. Specificities of business environment.

Rapidly increasing attractiveness of local market was emphasized in the previous chapters from different points of view. The portion of local content in Azerbaijan’s industrial business is growing and over time, the majority of the market will be dominated by Azerbaijan local companies. It should be noted separately how important it is to establish and maintain closest relationships in local business society.

Most of people in Azerbaijan tend not to put sharp boundaries between their business and private life. Business relationships can easily move to personal and vice-versa. The local culture doesn’t consider it as a sign of unethical or unfair behavior or any other, it is a normal flow of life. Thus, national culture tremendously influences organizational cultures. The correct understanding of the cultural component of the society adds value to overall outcome of building business relationships with customers here and it should definitely be taken into

consideration while local business penetration strategy is pursued by the client, a representative of different national and organizational cultures.

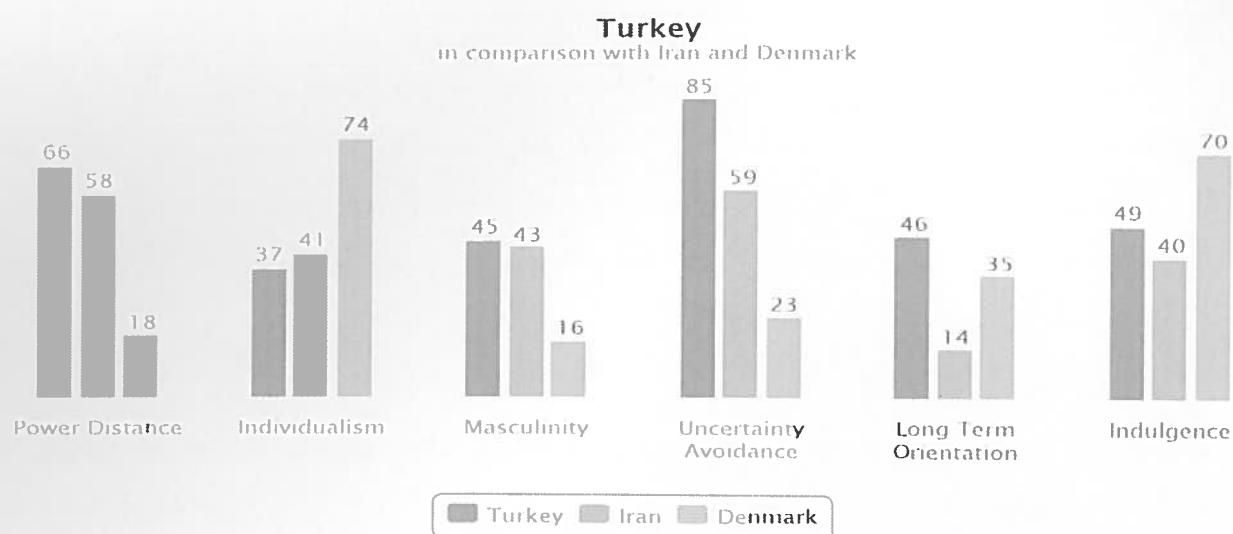
A lot of differences can be observed if the client's corporate organizational culture (western origin) is compared with the typical local organizational (national) culture in Azerbaijan. Of course, local people employed by Emerson play the role of a bridge between two cultures but corporate culture (rules) prevail in day-to-day business relationships creating repulsive perception in customer's eyes.

Dutch social-psychologist professor Geert Hofstede conducted one of the most comprehensive studies about cultural impact on workplace/business. He has developed a "cultural dimensions theory"²¹ which describes the "effects of a society's culture on the values of its members, and how these values relate to behavior". The theory was applied in cross-cultural psychology, international management, and cross-cultural communication researches. It allowed to quantify main measures of a culture and could be used to explain observed findings in comparison with other cultures.

Azerbaijan was not observed in his research but in order to assess its cultural dimensions the societies of neighboring Turkey and Iran can be reviewed. Their indicators may be considered as a main hint but some contradictions are not excluded nevertheless (Exhibit 4.6). According to Geert Hofstede, there is no absolute standard in ranking of cultural dimensions and it is only possible to compare one country with another, assess differences between ranges of cultural dimensions of societies in them. Thus, I decided to add a comparison with Denmark as it is a country with lowest CPI according to Transparency International and ranked by World Bank as 4th in the list of "Easy of Doing Business". It allows making some assumptions about potential influence of cultural dimensions of a society on a country's economy performance.

²¹ Hofstede G. et al.; Cultures and organizations, Software of the mind, intercultural cooperation and its importance for survival, McGraw-Hill 2010.

Exhibit 4.6: Hofstede's cultural dimensions for Turkey, Iran and Denmark.



Source: <http://geert-hofstede.com/turkey.html>

For a short assessment of Azerbaijan's culture let us review a couple of dimensions.

Typically, Azerbaijan society can be considered as one with a quite high level of power distance among representatives of hierarchical structure. Father in the family is a boss, a manager whose decisions can't be appealed by family members. People tend to accept inequality in society, i.e. to have someone on top who will instruct them what to do.

However, organizational culture of modern companies, mainly adopted from foreign companies, affects people, especially young employees, reducing overall PDI inside as well as outside of the company, i.e. in the entire society. Employees in this type of organizations are more self-confident and independent from superior staff.

Masculinity index for Iran and Turkey will be approximately valid for Azerbaijan or it may be some average of these. The image of men implies an ambitious and tough individual. Expensive cars or stylish shoes are just attributes of a higher social status in countries with high PDI (Azerbaijan). Just for comparison, Denmark's PDI is lower significantly than both of the observed countries have and consequently for Azerbaijan's society as well.

However, there are plenty of examples in business environment of Azerbaijan where women holds a managerial position: Vice-President of ecology in SOCAR - Rafiga Huseyn-zade,

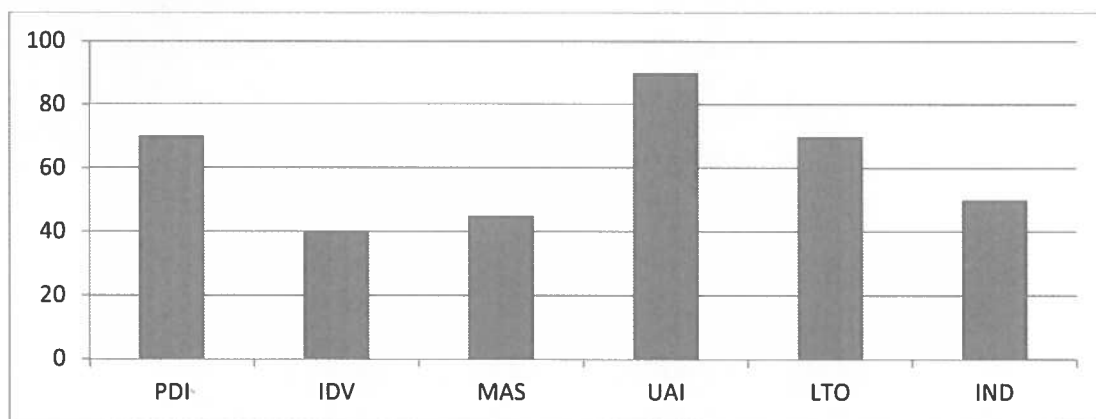
Nargiz Nəsrullayeva for instance was a chairman of local American Chamber of Commerce. So gender inequality or sexual harassment at workplace is not a critical case for Azerbaijan.

In spite of the figures of reference countries for assessment of Long Term Orientation dimension of Azerbaijan, the comparison numbers shown in the table above are not applicable at all. It shall be considered as a high LTO for this country (70) because people are always concerned about how society perceives their actions and act accordingly. Even if people prefer to do it in a different way they are forced to act in the frame of conventional social rules.

At the workplace, personal qualities of employees are sometimes more valuable than professional performance and achievements. Those who promote company values are more welcome by the organization's society and here close correlation with collectivism is observed.

The overall picture of Azerbaijan culture, presented in Exhibit 4.7, has been explored and developed based on Hofstede's cultural dimensions research data available for neighboring countries and cultures of Azerbaijan. It reflects the reality more or less accurately and can be applied as a reference for assessment of a company's organizational culture in Azerbaijan.

Exhibit 4.7: Observed cultural dimensions of Azerbaijan versus Turkey and Iran.



Source: Author's *Managing Cultural Diversity exam case study*

The research paper of Judith Irwin, a Senior Researcher at the Institute of Business Ethics, named "Doing Business in China"²² may be reviewed as a distinguished example of influence of

²² Judith Irwin (July 2012). *Doing Business in China: An overview of ethical aspects research paper*. Retrieved from: <http://www.ibe.org.uk/userfiles/chinaop.pdf>

cultural specificities on local business environment and challenges it creates for international companies operating here. He emphasized how the society of China (PRC) is influenced by the strict system of norms, propriety and traditions associated with Confucianism. He also mentions a short distance between business and private life in the Chinese society which was noted as a characteristic valid for Azerbaijan's society in Chapter 3 of this BCP. He claims that traditional values influence corporate behavior significantly and for deeper analysis he applies Hofstede's cultural dimensions. The research data of Transparency International is also analyzed in this paper as an indicator of corruption level in China.

Like China, Azerbaijan falls into the group of high-risk countries according to the data of Transparency International, an independent research organization reviewed in Chapter 3. Emerson uses other sources of information as well and follows corporate rules of the company in risk assessment and building relationships with local customer/supplier (party). For risks reduction purposes the company developed special due diligence procedures for detailed assessment of the party.

The authorized person from a potential party side has to fill out and sign Due Diligence Questionnaire first (DDQ attached). Besides general information, like registration and physical addresses, TAX ID number and others it is required to disclose ownership details and provide official recommendation letters from the party's customers or suppliers. Moreover, scan copies of registration docs: company charter, tax and state registration; balance sheet for previous three years, licenses should be provided. Then the party shall put signature on Emerson's so called "Ethics letter" marking it as "acquainted". All these should be done prior to sending the package for review to legal department, though it doesn't guarantee that party will be approved for business at the end.

Certainly, there is logic behind this procedure, as the client has no other option to check the potential partner's reliability in the high risk market to the maximum extent and minimize its legal, financial and other risks. However, local people, especially elder generation, get shocked when they see all these requirements. They used to be treated by vendors in a completely different way. As per local customer's perception, if a vendor wants to promote its products, the ordering process should be maximally convenient for the customer. The simplest

way for the customer in this case is just to go with Emerson's competition which has much more easier procedures. Such complicated procedure creates wrong perception among new, potential and even existing customers, especially taking into account that automation market is not so big in Azerbaijan and almost all people in this sector know each other. Whenever a need for automation products arises in an organization, people try to avoid any possible bond with Emerson knowing a "headache" they will suffer from otherwise.

The sales staff of the client is forced to fight with "wind mills" explaining customers the reason of corporate rules again and again and convincing to disclose required information simply in order to keep the customer and reach sales targets. In some cases where relationships are sustained and sales succeed to gain maximal customer proximity, the obstacle can be overcome. Indeed a communication art brings results sometimes but unfortunately in most cases customers prefer not to fall into bureaucratic procedures. It gives a competitive advantage to the competition, which is more flexible in relationships with local distributors, and subsequently it affects Emerson's image, sales performance and installed base negatively.

Although the state governance of the country was designed according to the best international standards and practices, it is not always as good as it should be. It creates additional obstacles for businesses of the country; therefore entrepreneurs prefer to register their companies abroad, in offshore zones. Their local operation is organized through a locally registered representative branch keeping all financial activities abroad thus minimizing their risks to face unfair behavior of local state authorities as taxes, customs, etc. It is some sort of a red flag and it creates additional questions for Emerson's legal department reducing the chance for the customer to pass successfully through the due diligence procedure. The procedure requirements become even stricter in this case and this irritates a customer even more.

So, as a conclusion for this part of the paper, we can say that the Azerbaijan industrial market has a huge future potential and it is very attractive for international businesses. The role of local companies in the market grows rapidly. However, being controlled by international policies Emerson faces some challenges dealing with the local content.

5. OVERALL SUMMARY OF FINDINGS

5.1. Identified issues in context of local market.

The overall summary of the local market's main indicators is reflected through below presented PESTEL analysis framework.

Political. The political situation in the country is quite stable and no changes are expected in the nearest future. Social legislation, tax policy, trade and entry mode regulations, health & safety, freedom of press, customs and some of other rights protected properly. The level of bureaucracy and corruption has been lowered; however, unofficial trade control and import restrictions are present. Some limitations have been implemented towards employment of expatriates recently creating additional obstacles for foreign companies. Environmental law doesn't perform properly and most of industrial areas don't control their pollution.

Economic. Positive economic indicators of the country and overall growth have been stressed in Chapter 4. The country participates in several "transnational" hydrocarbons related projects. Impact of globalization and technological modernization (as a result of improvement in regulation requirements) contributes to positive economic changes as well but still there are challenges preventing potential growth of the economy especially in non-oil sector which negatively affects economic sustainability.

Socio-cultural. Positive changes in population's life style as well as in sex and race discrimination are present. Health insurance becomes obligatory in state as well as in private organizations. In spite of globalization a native culture is not forgotten and family remains a society's main cell. The critical lack of specialists the country suffered after mass emigration in the late nineties (USSR collapse) is addressed by different education programs financed by the government. The transformation of the society and human capacity building processes will take some time.

Technological. In general the country strategy supports modernization of industrial facilities and it is an opportunity for the businesses but some regulations and legislation procedures are identified as threats for business development through Emerson's innovations promotion strategy. For instance, the licensing of wireless automation implementation took

about two years for BP Azerbaijan and it hasn't been solved for Emerson and other potential customers.

Environmental. Thanks to mild climate of the region, the country has favorable for living conditions and in combination with natural resources for business activities as well. Nine out of 11 climate patterns can be found in Azerbaijan. The average temperature is 14–15 °C. The number of unacceptable due to weather working days is not more than 5-10 per year. It definitely reduces potential risks which may be caused by environment. Emerson actually experienced some problems in Thailand due to the massive damage from flooding²³.

Legal. Azerbaijani law is based on a civil (continental) law system. It consists of a variety of hierarchically arranged legal acts of which higher level enactments supersede any contrary lower level acts. Azerbaijan has a four-tiered court system that consists of trial courts of general and special jurisdiction, appellate courts, the Supreme Court and the Constitutional Court. In spite that in its business Emerson follows strict international policies called to prevent any involvement of Emerson in legal investigations, it is vitally important to operate in a market operated by lawful governance.

The competitive position of the company in this environment is summarized in following SWOT analysis.

Strengths.

Financial – As a unit of Large Scale Multi National Enterprise, the company has enough financial resources for further development and securities.

Localization – Emerson LLC Azerbaijan has a quite good developed local business infrastructure with main capabilities: administration, sales, service and support.

High-tech – Well-known reputation of a provider of high quality products, reliable solutions and precise local support.

²³ Reuters (7 February 2012). Emerson profit misses estimates, shares fall. Production disrupted by 2011 flood in Thailand. Retrieved from: <http://www.reuters.com/article/2012/02/07/us-emerson-idUSTRE8160XI20120207>

MAC Capabilities – Global and local experience and capabilities of Main Automation Contractor (MAC) with the widest portfolio of products and solutions, an approach of turnkey automation solution provider mainly in projects.

Weaknesses.

Bureaucracy – overcomplicated for local market day-to-day business and customer relationship management procedures: DDQ, trade compliance, sales, services and financial.

Inflexibility – High dependence on corporate regulations affect responsiveness negatively.

Expatriates employment – Local projects execution capabilities are not fully localized.

Price strategy – Company positioned as a top quality OEM so price level and complicated price negotiation procedures lowers its competitiveness.

Opportunities.

Early involvement – Close collaboration with local customers' management and technical authorities in order to secure early involvement in projects, etc.

Megaprojects – MAC initiative and development of relationships with key customers, potential integrators and sub-contractors.

Full localization – To perform as a fully independent business unit of the company.

Know-how – High-tech solutions (wireless automation) licensing and promotion.

New environmental policies – generates a demand for solutions in these applications.

Threats.

Competition – Competitive advantage gained by competitors due to Emerson's weaknesses, bureaucracy in particular.

Expatriates employment – Companies are forced to follow the state nationalization program and there is always a risk to get rejected a work permit prolongation for employed expat(s).

Standardization and metrology – Out-of-date standards, measurement and automation principles are still applied /& required.

Risk of war – The risk of war due to predatory strategy of neighboring Armenia.

The research question is directly related to bureaucracy identified as a weakness of the organization in Azerbaijan market. However, it has the cause-and-effect relations with some other weaknesses/threats which reduce the client's chances to exercise potential opportunities.

- a) Perception of business ethics is different on both parties, therefore, in order to stay within corporate rules the client is forced to apply due diligence which outrages the customer.
- b) Local customer's organization culture differs from Emerson's organization culture and it creates additional space for mistrust to customer/local market from the client side. However, the importance of customer proximity in local organizational culture was stressed separately.
- c) Bureaucratic procedures are called to protect the company; however, it makes the company extremely inflexible. Sometimes a prompt decision can bring unexpectedly high revenue but management can't make a decision against company rules.

Potential financial losses/lost business opportunities will be assessed in the next chapter. In addition, there are also intercompany organizational issues which may be caused by it.

- d) Since client's company is a sales-oriented organization the sales performance is a main driver and quantitative indicator of successful performance of the business. Each order lost due to rejected from the client or the customer side acceptance of counter party's requirements demotivates sales people and finally it can lead to agency problems and mistrust to sales in the organization²⁴.
- e) Another possible negative outcome may be related to conflict of interests among sales people. For instance, interested in getting his annual bonuses, a sales employee may try to "overcome" organization's bureaucracy threats in order to reach sales targets.

²⁴ Ross, Thompson, Christensen, Westerfield and Jordan (2004). McGraw-Hill: Fundamentals of Corporate Finance.

- f) Relationships between sales department and legal employees may be harmed as well because legal employees have slightly different targets and are not interested in sales volumes directly. Legal knows restrictions and tends to tell how not to do business but the sales' expectation is to get from legal department a solution how to do business staying in the frame.

5.2. Potential threats/lost opportunities.

In spite of the decrease of the hydrocarbons' price Azerbaijan's economy still remains an extractive country and financing of main projects hasn't been stopped. The market recovers gradually after this crisis and the devaluation of local currency was caused mainly by it. Most of the country's reserves (mainly in the Caspian Sea area) are unexplored and estimates of actual oil reserves vary widely; from a 40 bln to 180 bln barrels (this would put Azerbaijan among the top 5 or top 10 globally). Megaprojects related to international energy security, which have been run recently, and huge natural resources secure rapid economy recovery and further long-term growth accordingly²⁵ (Exhibit 5.1).

Exhibit 5.1: Overall Azerbaijan economy in numbers.

Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
GDP, %	10.8	9.3	5.2	0.1	2.2	5.8	2.8	4.5	3.7	3.0
Inflation, %	20.8	1.5	5.7	7.9	1.1	2.5	1.6	3.0	3.5	3.5
AZN / USD	0.91	0.78	0.79	0.79	0.79	0.79	0.79	1.05	1.1	1.1

Source: Trading Economics forecast and various sources of historical data.

According to Euler & Hermes's updated country risk assessment list, Azerbaijan falls in "C" category on medium-term country grade rating and 3 on short-term country risk level grade²⁶.

²⁵ Trading Economics. Azerbaijan/Economic forecast/2015-2050 Outlook. Retrieved from: <http://www.tradingeconomics.com/azerbaijan/forecast>

²⁶ Euler Hermes (June 2015). Economic research/Azerbaijan. Retrieved from: <http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/Country-Risk-Ratings.pdf>

Taking into account total investment in regional projects mentioned earlier and overall market funds accepted accordingly by Azerbaijan State industrial development program²⁷, process automation market figures can be estimated as follows:

Exhibit 5.2: Process automation market in Azerbaijan.

Spending Analysis	FY10	FY11	FY12	FY13	FY14	FY15	FY16f	FY17f	'13-'10 CAGR
Capex, \$M	2096	2636	3669	3800	3700	5000	10000	13000	21.94%
Automation, \$M	42	53	73	85	80	70	75	80	15.67%

Source: Estimated forecast based on market trends and historical data.

Total expenditures for automation purposes may vary in range 1-10% of total expenses (CAPEX) and it is expected that a total budget of key market players will reach about \$M 80 for 2017. Unlike in the previous years, only half of this amount will remain on the side of foreign operators like BP and Total and the second half (\$ 40 mln) will be on the side of local companies including SOCAR. Approximately \$ 5 mln can be allocated for maintenance of its old electromechanical automation facilities and discrete automation. The total expenditure of pure local market on various digital process automation is considered to be as much as \$M 35 by 2018-2020. The competition is going to be concentrated on it as well and it is vitally important for Emerson to secure competitive advantage in advance.

Summarizing all discussed above, we can say that process automation market of Azerbaijan opens a lot of new opportunities for Emerson and its attractiveness will be growing rapidly in the following decades. In this context it would be quite reasonable for Emerson to put a target of solving its most dangerous weakness as one of the first priorities in order to be able to build a dialogue with the local content which is identified as a holder of about 50% of Azerbaijan's future market share. One of the main parts of this target company needs to address is the question of business ethics perception. At the same time, other business development targets should be pursued in parallel otherwise the competition here will raise rapidly making the client

²⁷ Ministry of Economic and Industry of Azerbaijan. State program for development of industry in Azerbaijan. Retrieved from: <http://senaye.gov.az/content/html/2281/attachments/State%20Program%20for%20the%20development%20of%20industry%20in%20Azerbaijan%20in%202015-2020.pdf>

weak. The image of the company suffers from inconsistencies between organizational culture of Emerson and local society/businesses cultures and it is another challenge for the company in Azerbaijan it needs to address in advance. And finally, the overall market and in its turn industrial sustainability is one of main indicators for international performance. The summarized image of challenges to be addressed in context of research question may be expressed as following: Emerson has to adapt its policies to the local market, rehabilitate and prevent further harmful influences on its image and contribute to market sustainability through promotion of business ethics and transparency in Azerbaijan.

6. SOLUTIONS AND RECOMMENDATIONS

6.1. Adaptation through transformation of business environment.

The core concept of main offered solution is based on "business environment transformation" initiative directed to improvement of transparency and increasing of market openness. The solution is to involve into the process state economy institutions such Ministry of Economy and Industry, Ministry of Taxes, Ministry of Finance and other related state authorities through local and foreign commerce organizations led by American Chamber of Commerce (AMCHAM) in this particular case. The support of AMCHAM plays a fundamental role here since it will glue the client's and other international (American) companies' businesses to Azerbaijan market in simplified scenario as an outcome of realization of offered initiative. The role of Emerson here is limited to raising the initiative, development of general concept of the solution and further possible support and process monitoring. Therefore the deep analysis of feasibility and implementation of the initiative (project) is to be performed by group of dedicated specialists from AMCHAM's related committee involving other related institutions.

The main problem for international companies dealing with Azerbaijan market is that the information about local business society, i.e. about local companies, is inaccessible and it heightens operational risks making difficult for the client to assess pros and cons of the certain potential business opportunity. One of the main objectives of the project will be the development of online database portal of local and representative branches of foreign companies with assistance of Ministry of Economy and Industry mainly. As in most of developed countries, the information about the market will become public and in addition to improved sustainability of the market's business environment and operational risks reduction for international companies operating in Azerbaijan the market itself will become more transparent and sustainable internally. It will be much easier for Azerbaijan government to deal with business society of local market and avoid various potential threats which hinder development of country economy.

The basic information, such as some historical record and origin of the organization, will be available through the portal. This type of information may help to assess how a

company developed and evolved, i.e. company's management performance can be characterized.

In addition, the data base will reflect some financial information. The basics of annual balance sheet would be enough but it will not be limited by this data. Historical financial performance data will also be available for assessment of overall solvency of the company in long-term perspective. It would allow evaluating of the financial sustainability of the company, for instance, how risky it would be to agree on post-payment terms or to subcontract a certain company for local or even international project execution purpose.

Being a part of local business society, listed companies will get access to the portal for edition of some "optional" fields of data base. They can upload recommendation letters, references, certificates, licenses, statements and any other documents which allow them to look more competitive. Subsequently, the portal will transform to a field of healthy competition for local companies and will accelerate the market's further transformation.

AMCHAM actually has a very good experience in initiation and promotion of this type of projects within Azerbaijan government. The support of e-Governance and e-Commerce projects may be indicated as distinguished examples of association activities and successful communication with government. Years of experience of Information and Communication Technologies committee of AMCHAM will contribute with the assistance of association members.

The whole process of initiation and implementation of the portal solution may take a couple of years in total. While preparations of the project AMCHAM can start negotiations with Ministry of Economy and Industry for startup of a trial communication approach.

According to the offered trial communication approach, the special algorithm of communication with ministry's related departments is to be developed. A simplified scenario would be as following. Based on a client's request AMCHAM's group will initiate a short analysis

on a potential company (customer or supplier/service provider). Gathered information will be reflected in a report which is to be passed to the client as a final product of the service chain.

This approach allows Emerson to simplify its strict rules slightly for the period of development of the portal and gathered from its implementation experience and execution methods will finally be integrated into the portal.

In long-term perspective, Emerson's initiative contributes to overall sustainability of the market and secures a strong competitiveness of Emerson. It is especially important in context of private sector's increasing role in industrial market (oil and gas in particular). It is expected that almost half of it will be operated by private companies by next decade (Exhibit 6.1).

Some resistance to this tendency from government side is expected but requirements of the world economy, official part of which Azerbaijan actively tries to become, urges local economy to adopt. For example during the accession process of Azerbaijan to the World Trade Organization one of the questions raised in front of the government was "when Azerbaijan government is going to privatize the gas distribution network?" The development of gas distribution sector in the country opens new opportunities for private sector. Local companies will be able to form advanced organizations which may be authorized to hand over the gas distribution sector from government/SOCAR. Finally it will impact country image in the world arena, this will be reflected on global reports and address the question raised by WTO to Azerbaijan government in the past.

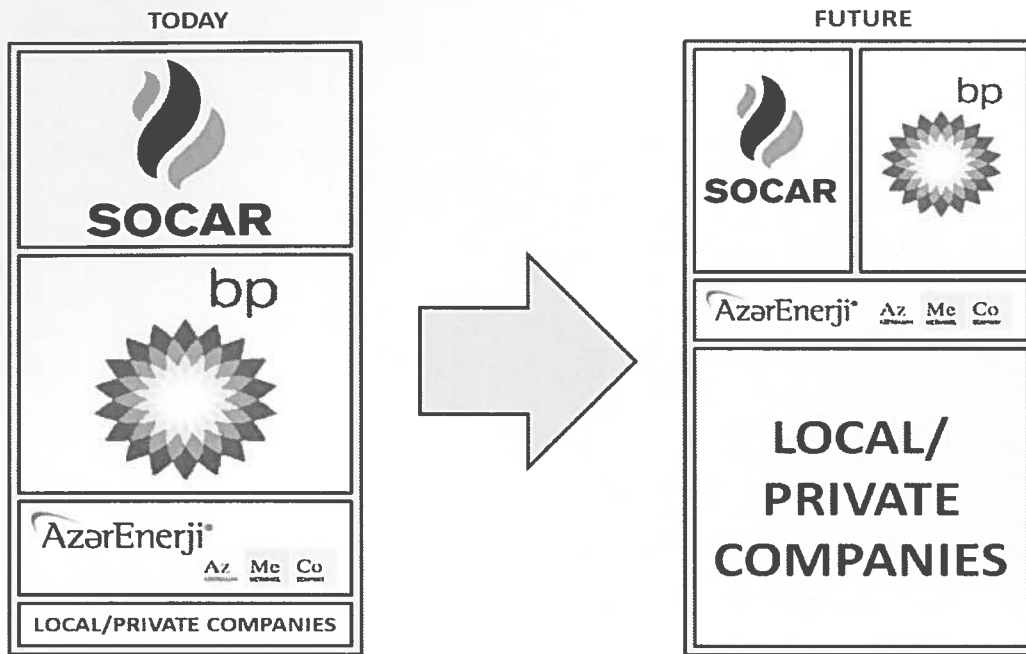
As a state company, SOCAR plays a huge role in the country's economy and became some sort of the country's business card in international arena. Despite this fact SOCAR still faces some difficulties building relationships with the world community. One of problems is related to financial performance of the company. There are lots of old assets which are to be either rehabilitated for further operations or depreciated or sold out in order to make SOCAR's financial statements more attractive for international finance organizations. It urged the company to review its financial strategy and to sell some of its assets to private sector. This is actually ongoing process.

At the same time it will contribute to the development of state authorities directly and indirectly involved in the project through Ministry of Economy and Industry. For instance the best practices of the project implementation can be utilized by them in their projects and daily activities. They will be able to utilize published information available on the portal as well as contribute to further improvement of the project performance.

Not only government organizations and companies may benefit from the published on portal information. The banking sector may utilize it for correct assessment and planning of crediting and financing strategies. It will improve the performance of financial institutions and strengthen the competition among them creating new opportunities in the market.

The main potential threat which may negatively affect success of the offered solution is resistance of government. The law "On commercial secret" protects the right of citizens to get extract from state registry but limits it to information about founders (participants) of the commercial legal entities and their share in the founding capital. It may seem that isn't ultra-critical for an international company to have this information while assessment of a potential partner but in the other hand the owner or shareholder of the company can be a state employee. This type of cases may lead to violation of antitrust/competition laws since state employee may possess confidential information creating unfair competition environment. For instance Emerson's Due Diligence questionnaire has articles in sections C and D questioning applicant about company ownership and management since company follows requirements of this international law and urges all its counterparties to follow it in business.

Exhibit 6.1: Azerbaijan industrial market outlook.



Source: Developed by author based on Economic trends and various sources of data.

6.1.1. Local economy institutions and business organizations.

AMCHAM Azerbaijan was established in 1996. It is a non-profit business association which supports and promotes development of businesses in Azerbaijan. The organization has 294 members which represents different sectors of the Azerbaijani economy. The vast majority of international companies operating in Azerbaijan, including Emerson, have membership in AMCHAM. A significant portion of the main local companies joined the association. The members and external organizations get access to business network in both Azerbaijan and the United States. Networking is not only opportunity AMCHAM delivers to Azerbaijan's businesses. Additionally, companies can raise issues and propose possible solutions to identified problems. Proposed solutions are to be analyzed and submitted to the relevant state department for review and integration with law.

Emerson holds a membership of the American Chamber of Commerce almost from the beginning of its activities and actively supports its initiatives to improve local business environment. In year 2013 AMCHAM awarded several companies for more than 15 years

of loyalty and co-operation with the association and Emerson was one of these “gold” members.

“Our mission is to promote the business interests of our members by working to improve the business climate in Azerbaijan and by providing services to our members.”²⁸. This slogan is an extraction from AMCHAM’s annual report 2013 and it clearly reflects how exact the proposed initiative matches with association’s targets.

The mission of association is based on implementation of highest international ethical standards. Its Code of Conduct²⁹ supports corporate strategy of Emerson in all directions. Following is cited again from AMCHAM’s annual report: “...our mission is executed with integrity and respect for the country, observing all local laws and insisting on the highest ethical standards in all relationships and transactions.” It was stressed above that Emerson has very strict ethical policy of adhering to the highest ethical standards in business relationships with customers, representatives, employees and government agencies and it is an additional “shared” value both parties may benefit from co-operate on implementation of this project.

In addition to the benefits the association gains through promoting this project it can be considered as a part of its CSR program. The goal of AMCHAM’s CSR program is to embrace responsibility for the company’s actions and encourage a positive impact through its activities on the environment, society and economy. Besides direct outcomes which mainly are sustainable business environment and lowered risks of operation the corporate reputation of AMCHAM gets improved, it definitely improves relationships with government and also opens market’s doors for innovations.

AMCHAM works in close cooperation with other NGOs, non-profit organizations and cooperation on different aspects of the project will definitely contribute to its successful development and implementation.

²⁸ AMCHAM. Annual Report 2013. Retrieved from:

<http://www.amchamaz.org/domains/amcham/assets/file/annualrepo/AnnualReport2013.pdf>

²⁹ AMCHAM. Code of Business Conduct. Retrieved from:

http://www.amchamaz.org/Domains/amcham/assets/file/default/Code_of_%20Conduct_English.pdf

The United States Agency for International Development (USAID) is the US Government agency responsible mainly for administration of civilian foreign aid. It was created by the president John F. Kennedy in 1961. USAID mainly operates in Africa, Asia, Latin America and Eastern Europe promoting interests of USA while improving lives in the developing world. Through cooperation with government organizations it addresses a range of issues like environmental issues, trade and investment development, education, safety standards, poverty development of regulation rules and so forth. USAID also provides financial assistance to local and international NGOs to support their programs in developing countries as non-reimbursable grants. USAID's latest program refers to "government-to-government" or "G2G" assistance.

USAID works in Azerbaijan as well and as main issues captured are corruption, youth, gender, public-private relations and disability. The document named "USAID/Azerbaijan Country Development Cooperation Strategy 2011-2016"³⁰ reflects analytical information on current situation in the country and plans of further development. One of the distinguished projects funded by USAID was a Trade and Investment Reform Support Program (TIRSP)³¹, a three-year program (2007-2010) designed to improve the transparency, predictability and market friendliness of the trade and investment policy and institutional environment in Azerbaijan. The information gathered for implementation of this project may play a crucial role in execution of offered solution. Execution of the project will definitely require additional investment and in addition, it is recommended to apply for allocation of grant for this project. The main objective for USAID could be integration of the portal to e-Government portal they supported in Azerbaijan.

The support in additional preliminary research is to be provided by Center for Economic and Social Development³². It is very important to gather as much information as possible in advance in order to optimize a whole process starting from development till implementation and further improvement of the project.

³⁰ USAID. Azerbaijan Country Development Cooperation Strategy 2011-2016. Retrieved from: http://pdf.usaid.gov/pdf_docs/PDACU274.pdf

³¹ USAID. Evaluation of Trade and Investment Reforms Support Program (TIRSP) FINAL REPORT. Retrieved from: http://pdf.usaid.gov/pdf_docs/pdacr168.pdf

³² Center for Economic and Social Development (24 January 2013). CESD LINKS UP WITH FOREIGN PARTNERS IN TRANSPARENCY PROJECT. Retrieved from: <http://cesd.az/new/?p=5960>

Transparency International actually operates in Azerbaijan through its branch office located in Baku. The organization will support the initiative and include the initiative in its report named "MONITORING AZERBAIJAN'S ANTI-CORRUPTION COMMITMENTS"³³.

As it was stated above AMCHAM's members consists of representatives from different sectors of economy as well as non-profits and NGOs³⁴. It is recommended to conduct a project introduction conference and provide members with initial input information. It allows members to assess the opportunity of being involved in it and share their initiatives on their contribution possibilities. The estimated list of organization which may be interested in participation in the project is quite predictable. These will be companies mostly representing law, business consulting, auditing and maybe few from IT sector for technical support.

Taking into account its huge experience in work with emerging markets European Bank of Reconstruction and Development can be involved in the project for sponsorship and independent consulting. The financial support will require overall risk assessment, i.e. some report which clearly indicates pros and cons, evaluate feasibility and optimization of project execution. International experience of auditors and lawyers of PwC, Baker & McKenzie and Deloitte will be vital on this stage. From organizational and management point of view contribution of ADA University for some academic research purposes, development of implementation and management strategy will be invaluable. Support in media and advertisement will be required definitely, organization of events, conferences with involvement of TV and radio, especially in further promotion for project participants in context of CSR.

6.1.2. Engagement of state authorities.

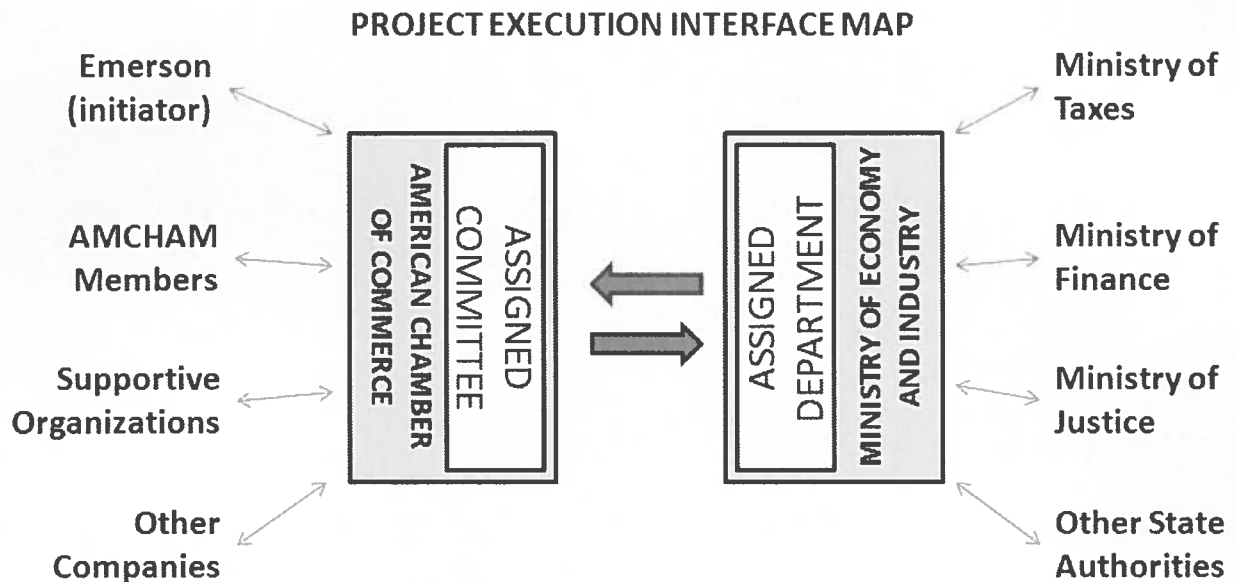
The project implies direct and indirect involvement of several state authorities of Azerbaijan government. In order to simplify the communication process, it would make sense to assign a role of gatekeeper to one of them and in this case more reasonable option is the Ministry of Economy and Industry. The overall project execution interface map may be

³³ European Neighborhood Policy. Monitoring Azerbaijan's Anti-corruption Commitments 2010. Retrieved from: http://issuu.com/transparencyinternational/docs/2010_enpazerbaijan_en?e=2496456/3619596

³⁴ AMCHAM. List of regular members. Retrieved from: <http://www.amchamaz.org/aboutus-ourmembers.html>

organized in a way reflected on provided below map (Exhibit 6.2); however, it may be adapted or changed based on AMCHAM's existing interface channels with Azerbaijan government:

Exhibit 6.2: Project execution interface map.



Source: Developed by author as preliminary interface map.

The access to different types of data is to be provided by related state organizations.

For instance, access to local companies' financial reports, provided by Ministry of Finance, will help to a portal user to assess financial sustainability of observed company. Disclosure of detailed financial information may affect negatively a company's competitiveness therefore, a minimal allowed data is to be reflected on the portal. In case if the company agrees to disclose more the access to this info can be given by company's authorized person directly via portal.

How accurate the company is towards to local state regulations on taxes? The answer to this question is to be given through tax reports, access to which is to be provided by the Ministry of Taxes. Of course, it will be assessed by the portal user as a good sign if reviewed company is accurate in tax pay-outs and has no debts to government. Unfortunately, some local companies still use gaps in the state regulations in order to reduce their tax pay-outs increasing a net income illegally. It actually harms the sustainability of the market because its

infrastructure is supported mainly by funds collected through taxation³⁵. It may be considered as an additional contribution of the project to sustainable development of the economy.

It wouldn't be feasible to implement the project successfully without prompt support from government side, so this is probably a most challenging part of the job which falls on AMCHAM's shoulders entirely.

6.2. Marketing in context of CSR

As it was stressed above, Emerson, as well as other participants, will benefit from operation in transparent and health industrial market of Azerbaijan created through implementation of offered solution. In addition to main direct business benefits as lowered financial risks, increased flexibility, more transparent and ethical business environment Emerson may consider the project as a promotion opportunity through its CSR program.

6.2.1. Business environment transformation

The CSR program of Emerson Corporation called "Corporate Citizenship" reflects all directions the company tries to capture in areas where it lives and operates³⁶. Emerson emphasizes the importance of integrity and ethical business behavior again in its CSR policy. It is vitally important to keep market players following ethical business norms in highly competitive environment. Unconfirmed sources say that M.K.Ataturk mentioned that luckily Turkey doesn't have oil. The expression has actually a deep meaning because competition between companies, for instance in markets of hydrocarbon-extractive countries, is urged to be unfair and harms society³⁷ consequently. The more attractive the market is the higher is the probability of unethical behavior among companies in it. This is actually one of the reasons why Emerson implements such strict rules operating in Azerbaijan. Put simply, through this project Emerson contributes to sustainability of local industrial market and country's economy.

³⁵ Clemens Fuest, Nadine Riedel (19 June 2009). Oxford University Centre for Business Taxation. Tax evasion, tax avoidance and tax expenditures in developing countries: A review of the existing literature. Retrieved from: (http://r4d.dfid.gov.uk/PDF/Outputs/EcoDev/60670_TaxEvasionReportDFIDFINAL1906.pdf)

³⁶ Emerson. Corporate Citizenship Program. Retrieved from: <http://www.emerson.com/about/corporate-citizenship>

³⁷ Harvard Business School (11 June 2012). When Business Competition Harms Society. Retrieved from: <http://hbswk.hbs.edu/pdf/item/6963.pdf>

Most of benefits of CSR promotion, i.e. increasing of market sustainability through offered “business environment transformation” initiative, will be intangible and long-term oriented in terms of financial return. For example, environmental sustainability reduces inaccuracy in forecasting which is very important for sales-oriented companies like Emerson is. High-accurate sales forecast in its turn allows company to plan procurement, production, overall corporate strategy accurately. It generates financial profit in long run. The reputation of Emerson will definitely raise and will be appreciated by government and biggest market players. It will increase brand awareness and as result competitiveness of the company in Azerbaijan. As per survey conducted by Wirthlin Worldwide, about 80 percent of people said “they decide to buy a firm’s goods or services partly on their perception of its ethics.”³⁸.

6.2.2. Support of industry nationalization

One of CSR initiatives Emerson actively pursues is a support of Azerbaijan’s state “Oil and Gas Industry Nationalization” program. SOCAR is a main driver of this program on state level and it is supported by biggest foreign operator BP³⁹ as well. It is well known, that Azerbaijan’s oil sector suffered from emigration of most of experienced specialists after USSR collapse during instability period in country economy. Today, unavailability of local specialists is identified as one of the main issues in this program and Emerson strategically decided to address this issue through cooperation with SOCAR’s “Baku Higher Oil School”, as a first priority target. The first step of the program implies donation of training equipment and provision of trainings in process automation and best practices of international business to young students.

The question to such approach of Emerson may raise here: how reasonable would be to invest in such CSR activity if sustainability of the market is not secured? The question is still open for now since main issues preventing proper development of the market haven’t been addressed yet. As per latest research data of Transparency International, Azerbaijan is ranked as 126 from list of 175 countries with score 29 of 100 for year 2014. Very slow improvement can be observed through last three years, one score of annual improvement only. The

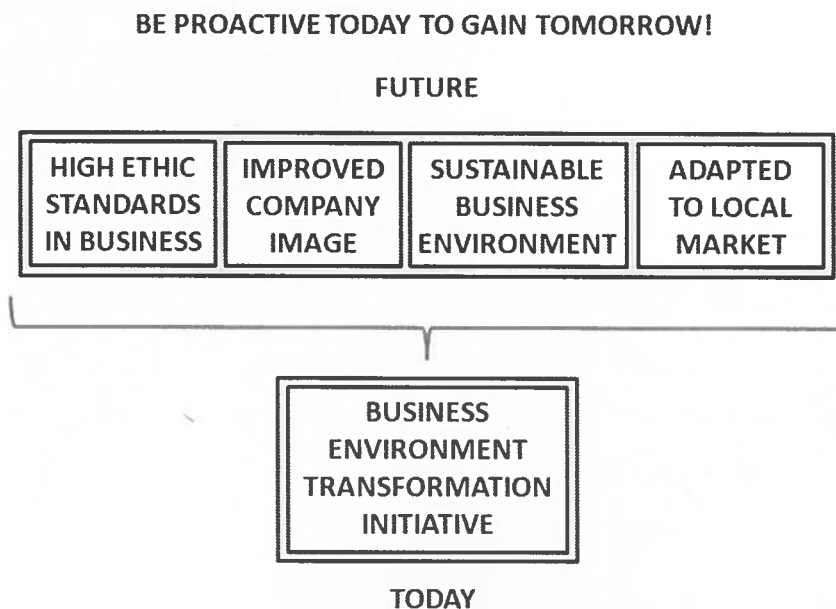
³⁸ Josephson Institute of Ethics (2004). The Hidden Costs Of Unethical Behavior. Retrieved from: http://josephsoninstitute.org/pdf/Report_HiddenCostsUnethicalBehavior.pdf

³⁹ SOCAR Plus Magazine. Retrieved from: <http://www.socarplus.az/en/article/372/event-held-on-%EF%BF%BDregulation-of-nationalization-and-migration-issues-in-oil-and-gas-sector%EF%BF%BD>

government has actually declared the fight against corruption as top priority⁴⁰. The monitoring program performed by the TI organization calls to evaluate improvements in compliance to this commitment but unfortunately, ranks reflects not so goods results. In addition World Bank's 2015 "doing business" index list ranked Azerbaijan on 80 position comparing to 88th it was last year out of 189 countries.

The solution suggested by present consulting report addresses the main gaps and allows client to benefit from market opportunities identified in Chapter 5 (Exhibit 6.3) to maximum extent expanding its market share in Azerbaijan as result. The research question is answered by the project as it: a) solves the business ethics issue, adopting best transparency practices to local economy and b) as result creates prerequisites for sustainable future of the industrial market (a & b - business environment transformation); c) allows Emerson to adapt (simplify) its rules to Azerbaijan market specificities once the business environment is improved; d) improves the company image what improves company's competitiveness, in its turn. All listed above outcomes are considered as main components of Emerson's market share expansion scenario.

Exhibit 6.3: Benefits from applied solution.



Source: Developed by author as visualized solution outcome.

⁴⁰ European Neighborhood And Partnership Instrument:
http://eeas.europa.eu/enp/pdf/pdf/country/enpi_csp_azerbaijan_en.pdf

7. CONCLUSION

Emerson is not in a best competitive position in Azerbaijan. The company implements very strict corporate rules towards Azerbaijan market (ranked as "high risk") but resistance, the company faces applying these rules, actually harms the company performance. In the other hand, the industrial market of Azerbaijan is evaluated as very attractive one with lots of opportunities. So, it may seem that there are only two solutions: 1) to adapt Emerson corporate rules to Azerbaijan market or 2) to adapt Azerbaijan market to Emerson corporate rules. The first one is not feasible because the operations in such countries may generate losses incomparably higher than evaluated local market attractiveness. Obviously, the second option is not realistic at all. The offered project actually implies a consistent and reasonable combination of these two options. Emerson Executives should work in close cooperation with AMCHAM on corporate level to initiate and realize the project in order to expand its market share and secure sustainable market environment for future business growth.

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8.2. Interview/survey questions

See attachments.