

# Success Factors in Offset Deals: A Case Study Based Examination

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## Abstract

The requests for offset obligations occurs primarily in the area of arms imports and covers the full range of industrial and commercial benefits that companies provide to foreign governments as inducements or conditions for the purchase of military goods and services. Increasingly, all major contracts ask for offset obligations. They are now key differentiators in major contracts and it is a fast growing market. For the suppliers, offsets are a key differentiator in earning new business and therefore should be accepted that much accurateness is put on the successful execution of the offset projects. Nevertheless, it comes to problems during the project phase and sometimes we've the situation that a offset project failed. The aim of this paper is to exam which success-giving factors are exists in the offset related interaction between buyer, seller and participating industry. The data for this investigation were obtained from secondary sources which were mainly accessible via internet. After data collection, an analysis was performed which was based on the context of this paper and also in connection with the chosen case study: Saudi Arabia. As a result of this analysis can be derived several success factors, which could be also seen as the foundation for an optimized execution of offset obligations. The paper concludes with a reflection of the investigation approach and as well with a classification of the subject offset. Furthermore the results of the analyzes are summarized and an outlook for further researches is given.

**Keywords:** Offset, Success Factors, Case Study, Saudi Arabian Offset Projects.

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## 1. INTRODUCTION

Arms trade deals have been transformed over the time into professionally managed economic processes. At the bottom line of this process, lie offsets; an economic compensation package that has become a permanent feature of international business. Today, offsets are an inherent feature of the global procurement system. Often, negotiations to get the best offsets deals obscuring the focus on the technical aspects of arms procurement (Balakrishnan, 2007).

Increasingly, all major contracts ask for offset obligations. They are now key differentiators in major contracts and it is a fast growing market. Offset obligations imposed on suppliers can, in some cases, be as high as 300% of the original contract price (BDSV, 2013). For the suppliers, offsets are a key differentiator in winning new business. How large the extent of the offset is already, can be seen by the following numbers. According to a study by the European Defence Agency (EDA) in 2007, covering the period 2000 to 2006, an average of 93.4% of all arms imports in the European Union (EU) are linked with offset obligations (Eriksson 2007, Table 3.1, p. 21). Despite the increased importance of the offset, it comes however to problems in its execution as the following example shows.

Defence company executives fear they have exposed themselves to millions of dollars of penalties in the United Arab Emirates after signing investment agreements that may now prove difficult to fulfil. In September 2013 executives of the United States of America (USA) and European defence companies and officials of the Gulf state's offset agency held secret emergency talks in London to tackle the issue. Despite having resolved past problems with a

quietly arranged gentleman's agreement, this time such an outcome is less assured. When Abu Dhabi, the most powerful and wealthiest of the Emirates, went on its recent 25 billion USD shopping spree, defence companies signed ambitious offset agreements – to create local joint ventures that would create high-paying jobs for locals, while generating profit and export revenue. Today several companies from USA and EU have significant exposure to the United Arab Emirates (UAE) having signed deals there recently. But UAE's demands have become unrealistic because too many companies are chasing joint ventures in an economy not big enough to cater for them all in the timeframe set by the regulations. Another point is UAE's finite ability to absorb all its offsets which has much to do with the lack of qualified Emiratis. The meeting of defence executives and Emirati officials in London was one of the first signs that Abu Dhabi is willing to entertain the companies' concerns, but without a final result so far. In the meantime first offset projects had already failed to meet the new target deadlines, but that companies were still waiting to hear whether the UAE would enforce the corresponding penalties (Hoyos, 2013).

For the avoidance of such problems is it existentially to know the success-giving factors in the offset related interaction between buyer, seller and participating industry. For the fulfillment of this aim is the papers divided into the following sections:

- Overview of the most important aspects of offsets
- Review of literature
- An analysis of case study: Saudi Arabia
- Results and Discussion
- Implication and Conclusion

## **2. OVERVIEW OF THE IMPORTANT ASPECTS OF OFFSETS**

### **2.1 Description and Definition of Offsets**

An offset obligation is compensation required as a condition of purchase in either government-to-government (G2G) or commercial sales of mainly aerospace and defence equipment and as well services to a country. They can take the form of industrial, commercial and political arrangements under which suppliers implement specific projects aimed at partially or fully compensating the buyer's procurement costs or to help the buyer country meet a socio-economic objective. So far the universally comprehensible description but how can the subject offset defined? The problem is that offsets mean different things to different people. There is neither one specific terminology nor one definition of offsets. Each country labels offsets differently. One of the most common definitions are the one of the USA-Government interagency group from 1986: "(...) offsets are industrial compensation practices required as a condition of purchase in either government-to-government or commercial sales of defense articles and/or defense services as specified in the International Traffic in Arms Regulations.

In defense trade, offsets include mandatory co-production, licensed production, subcontractor production, technology transfer, countertrade, and foreign investment. Offsets may be direct, indirect, or a combination of both. Direct offsets refer to compensation such as co-production or subcontracting, directly related to the system being exported. Indirect offsets apply to compensation unrelated to the export item, such as foreign investment or countertrade." (U.S Department of Commerce, 1997-98, p. 67).

### **2.2 The Advantages of Offsets**

Offsets are used as a key differentiator by procurement agencies of 120 countries around the world, when assessing bids for high value projects (Brauer and Dunne, 2004). They are seen as an integral part of the sales process for multi-national companies and, due to their high value and stringent terms imposed at the outset, can be a significant burden for suppliers who do not have the capability to deal with them efficiently. If a company wants to bid for a high value project, it has to be prepared to undertake offset obligations as part of the contract. There are many advantages for each party:

For the buying side:

- Political advantages - the Government can define its socio-economic objectives and use offsets to deliver part of it.
- Economic development - allows the country to re align its economic and industrial base.
- Creates or sustains local employment opportunities - transfer of key skills and access to new international markets and transfer of work to sustain local jobs.

For the selling side:

- It is a means to differentiate themselves from the competition and earn new business.
- They are a means to access a new market.
- Can also be a way of diversifying into new business areas and new geographic markets.
- Create greater efficiencies through new global supply chains.

### **2.3 Problems of Not Fulfilling the Offset Projects**

Offset deals offers many advantages for each party but in the same dimension it is connected with dangers. In particular if it does not come to a fulfillment of the subject-matters of the contract. There are major penalties imposed on a supplier who cannot fulfill his part of the offset contract:

- Loss of credibility as a valued supplier.
- Potential loss of further business.
- Major financial penalties are imposed which just increases the burden and potentially creates financial loss on the contract.
- Buyer country may refuse acceptance of equipment being supplied under the main contract in a phased delivery program.
- Reduces the bid to win ratio.

The buyer country also suffers from non-fulfillment of offset obligations:

- Potential impact on its national economy.
- No positive commercial impact on local businesses.
- Loss of credibility in future procurement where offsets may be required.

What this means is that if supplier companies want to be able to bid for these high value contracts, they need to be able to both offer and fulfil offset obligations. All in all can be determined, when we take the above mentioned aspects into account, that it is very important to now the success-giving factors to avoid problems in a offset project.

### **2.4 Objectives of This Paper**

The objectives of this papers are derived from the aim of this paper: the examination of the success-giving factors in the offset related interaction between buyer, seller and participating industry:

- To review the extant offset literature regarding the context of this paper.
- To clearly what are success factors and which limitations has a research on this.
- To examine the influencing factors of success for the seller side.
- To examine the influencing factors of success for the buyer side.
- To define generic success factors for the execution of offset-projects.
- To discuss the impact and improvements which brought up by this paper.

### **3. REVIEW OF LITERATURE**

#### **3.1 Offset in General**

Offsets arise in the late fifties and early sixties of the last century in response to the legitimate need to rebuild the defense industrial base in Western Europe and Japan. At that time, offset agreements may have been justifiable for reducing the impact of military equipment purchases on the budgets and trade accounts of these countries. Offsets have contributed to modernizing the arms inventories of the alliance, to contributing to rationalization, standardization, and interoperability, and to strengthening transatlantic ties in the defense of North Atlantic Treaty Organization (NATO) countries (Neumann, 1985). Today, offsets are used as a marketing tool by high technology exporters. In the meanwhile, buying governments can use offsets to decrease the burden of large defense purchases on their economy, to increase or preserve their countries' jobs, and to improve and maintain their industrial technology base (U.S. Department of Commerce, 1996).

#### **3.2 Offset in the Context With Successes Factors**

The successes factors for executing an offset program are very complex and dynamic. Perfect negotiation of an offset agreement that is satisfactory to both parties is a necessary first step in a successful ultimate outcome (Bailey, 1982). However, the definition of a successful offset agreement can be seen from two different advantage points. The first one focuses on fulfillment of offset commitments, and the percentage of offsets actually achieved are criteria for success in offsets (Farr, 1992). The second view discusses success of the offset in terms of results. It could increase profits by making sales, and enhancing a firm's image or market position. It means balancing risks and benefits.

When the buyer's government is interested in engaging a local firm in an offset program, there must be a local firm that is willing to make an investment and cooperate with the government's policy. Therefore, the desire to invest and the ambition to upgrade on the part of local firms are also important factors in the success of offset agreements. Both management experience and international offset experience are critical to success of international cooperative projects (Farr, 1992). If the buyer is not a potential competitor for the seller, the offset will probably be more successful because sellers would not be likely to share technology with nor buy products from a potential competitor (Kremer and Sain, 1992). In addition, technical experience and capabilities of the buyer is one of the important success factors (Weida, 1996; Farr 1992).

Other factors related to the buyer are a stable political and economic environment and a good relationship with the seller's government (Tien and Yang, 2004; Verzariu, 1985). The successful offset of the seller is related to use of a proactive strategy (Weida, 1996) and international experience (Verzariu, 1985).

#### **3.3 Success Factors and Their Limitations In A Research**

In the present literature, success is determined by terms such as performance, success factors and critical or crucial success factors and became an increasingly relevant subject in business research (Nicolai and Kieser, 2002, p. 579). Critical success factors are defined as factors, which represent "(...) for any business, the limited number of areas in which results, if they are satisfactory, will ensure competitive performance for the organization. They are the few areas where 'things must go right' to flourish" (Rockart, 1979, p.81, in Trommsdorff, 1990). Basics of success factor research are provided by scholars in marketing and management research, in organizational science and in operations research. They are also a central element in strategic management, even though benefits of success factor studies are disputably discussed (Nicolai and Kieser, 2002, p. 592).

Models to determine the success of certain business activities changed in the last years from very holistic models trying to develop an overall framework for success to rather fragmented models concentrating on specific determinants. The reason behind this change was the inability of holistic approaches to grasp the complexity of real life business cases and environments (Trommsdorff, 1990, p. 1). Studies in diverse business researches has developed very divergent approaches of

identifying, measuring and classifying success factors. Due to the high heterogeneity in research methods, no prevailing differentiation/classification system dominates literature (Herr, 2007, p. 45).

In general, success factors are classified as subjective or objective; bimodal, multimodal or continuous (Herr, 2007, p. 41). Bimodal differentiates only between top- and underperformer, where in multimodal there are further shades of performance. Further differentiation options are for instance success factors which can be influenced or not (Hildebrand and Trommsdorff, 1989, p. 16) or internal and external success factors (Trommsdorff, 1993, p. 140). The company can only influence internal factors. They can be subdivided into general company factors (characteristics etc.), factors of specific functions (Research & Development, Marketing) and factors of individuals. External factors on the opposite cannot be influenced by the company and comprise environmental factors such as location, competition and market potential. Success factors differ in terms of specificity, precision and causality due to the use of different perspectives and methodologies (Trommsdorff, 1990, p. 15). They reach from very general statements on success factors with a high reach to very specific statements with a limited reach and generalizability (Susen, 1995).

Studies which having performance as dependent variable frequently suffer from methodological weaknesses. In addition, there are further problems in the nature of quantitative success factor studies. Correlations in one population might have no impact on a correlation identified in a certain subpopulation (Nicolai and Kieser, 2002, p. 585). Moreover, successes at understanding performance differences are self-destructive (March and Sutton, 1997, p. 699). As soon as information on success factors diffuses among competitors, their impact and differentiation potential decreases. Uniqueness is often crucial success factor (Porter, 1996, p. 64).

Success factors do not have to be necessarily real in order to lose their impact on competition. However, real success factors decrease the variation of the dependent variable (March and Sutton, 1997, p. 699). On top, there is a psychological component in success factor studies, that good performance ranking lead to self-assurance and favorable treatment; poor performance rankings lead to loss of self-assurance and unfavorable treatment by others. Hence, positive and negative feedback loops harden the performance pattern. Nevertheless, all these obvious weaknesses of quantitative success factor studies can be regarded as their immanent strength.

## **4. THE EXAMPLE OF SAUDI ARABIA - LEARNING FROM A COMPLEX SITUATION**

### **4.1 Case Studies – A Proven Methodology**

According to Harrison (2002) is a "(...) case study research of particular value where the theory base is comparatively weak and the environment under study is messy." Harrison (2002, p. 159). Both of these criteria were relevant to this paper. The extant literature basis on the subject offset is quite good but an analysis of several concrete offset projects and their generalization are not to be given, so that here must be used a case study. By determining that the focus of the paper are the success factors for the execution of offset projects, the author was able to select the right case to study. Best case in practice actually means not only the best environment for exhibiting the phenomenon under study, but also the best from a point of view of ease of access (Ibid, p. 171).

### **4.2 Criterion For The Selection of This Case "Saudi Arabia"**

For this case study examination the country with the largest offset volumes (see Figure 1) became selected. In principle, any country that tries to expand its industrial base with the help of offset could be selected.

In the case of Saudi Arabia is it not only the country with the largest currently offset volume it is also a country that has now a twenty-six year experience in the execution of offset projects.

Furthermore, the case Saudi Arabia has the necessary range of problems in the execution of offset projects, so that the results of the case study could be generalized.

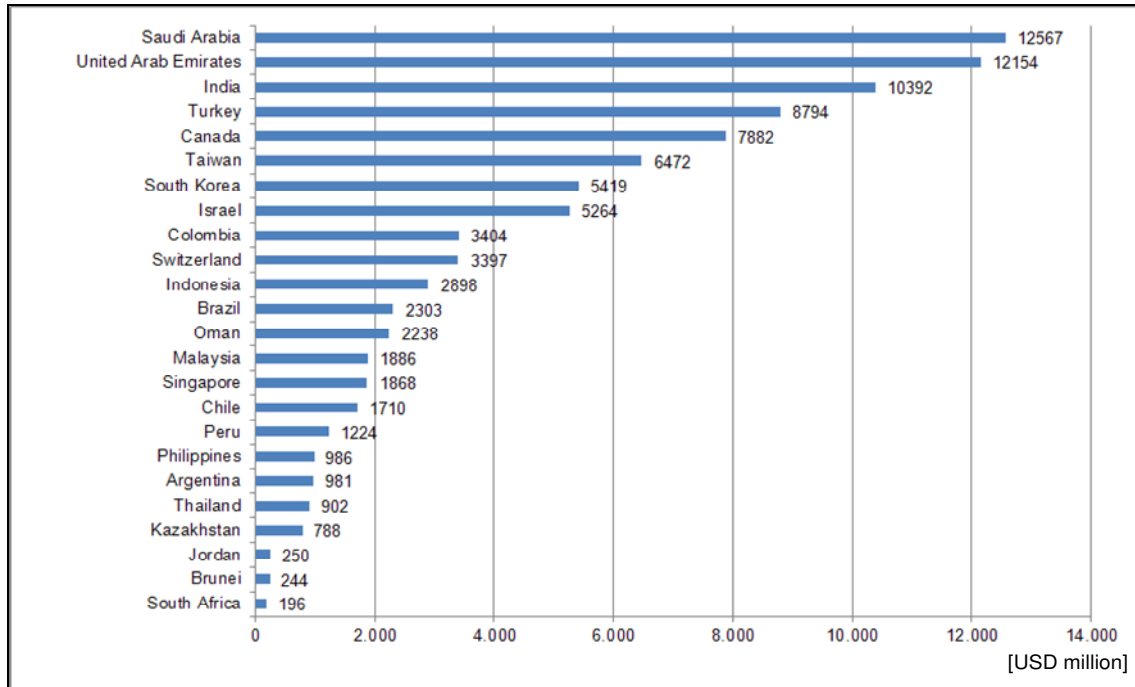


FIGURE 1: Forecast of Unsettled Offset Returns - 2012 to 2022 (Anderson & Moores, 2013, p. 30).

### 4.3 Description of The Saudi Arabian Offset Framework and Project Execution

#### 4.3.1 The Saudi Arabian Offset Framework

The increasing use of offsets has motivated many countries to set national policies concerning the use of offsets in defense procurements. There are two different views about offset policies. The recipient's view is that offsets are an integral part of the sale itself rather than unrelated compensation practices. The supplier's view is that offsets improve the overall value of the sale. These conflicting views are useful in understanding how governments establish their offset policies. In addition to the different views on offset we have taken in to account that Offset programs can be classified as direct or indirect offsets. Direct offsets are those by which the purchasing country joins the selling country to supplement elements of the underlying purchased product through co-production, technology licenses and other supply arrangements. Indirect offset means the selling nation agrees to assist the importing country in its general development and investment strategy, unrelated to the principal contract item.

Saudi Arabia has opted for the indirect offset approach, as did the other Gulf Cooperation Council (GCC) countries such as the UAE and Kuwait that followed with their own offset agreements. The Saudi Economic Offset Program, as it became known, hoped that the offset mechanism would generate many benefits to the Kingdom. These would be in the areas of industrial development and economic diversification, spurred on by the inflow of new technologies in sectors such as aviation engineering, electronics, computer and information technology, as well as utilizing the Kingdom's mineral resource base. Other benefits would help with strategic self-sufficiency in crucial military or civilian sectors, such as defense systems, aircraft repair and modification. Employment of Saudis and human resource development was also a priority. Finally it was hoped that a successful offset program would act as a major drawing power to attract other international companies to Saudi Arabia as a viable center for investment.

Saudi Arabian policy has focused on the need to transform the economy and to reduce the overall dependence of the country on the export of petroleum. Their economic plans prioritize the development of agriculture and industry; they seek to diversify the production base and to improve the skill levels of workers for the benefit of the national economy. There is also an emphasis on promotion of private sector participation and encouragement to the investment of capital in business ventures within Saudi Arabia (Mitra, 2009)

Saudi Economic Offset Program is under the Deputy Minister of Defense (MoD). Saudi offset request is that 35% of their contract value is invested in Saudi jobs creation and training, economic diversification, technology transfer and foreign direct investments in general. Threshold is 400 million Saudi Reals (107 million USD – 25th Nov. 2013).

#### **4.3.2 The Saudi Arabian Offset Projects**

The Saudi offset program started with the Peace Shield programs with the US, the Al Sawary Program with France, and the larger Al Yamamah program with British Aerospace. The Al Yamamah Economic Offset Program (I, II and III) is the most complex and longest program; it began in 1987 and still alive. The French Offset is directed by Societe Francaise d'Exportation de Systemes Avances (SOFRESA), a private company operating on behalf of the French government. The USA, in spite of the fact the most of its defense sales to the Kingdom are U.S. Defense Department Foreign Military Sales, leaves offsets to the private contractors, such as Lockheed Martin, SAIC, Boeing, and General Dynamics. Foreign Direct Investments are authorized and supervised by Saudi Arabian General Investment Authority (SAGIA) and they receive high multipliers according to the most strategic sectors and the Kingdom's priorities (such as water, electricity, communications, etc.). Saudi's offset market has an enormous significance for the Saudi non-oil economy since Saudi Arabia spends about 10% of its GDP in defense procurement (Mitra, 2009).

Peace Shield: This was a programme with Boeing of the USA as prime contractor for establishment of a ground based air defence facility in which the Saudi government pursued an offset programme aimed at bringing in high technology transfer content. The Boeing group set up four Peace Shield offset companies:

- The Advanced Electronic Company, to manufacture the latest and most advanced military and commercial electronic equipment within Saudi Arabia.
- Aircraft Accessories and Components Company, for maintenance, repair and overhaul of aircraft components like flight controls, pneumatic fuel and hydraulic systems.
- Al -Salam Aircraft Company for Maintenance, Repair and Overhaul, upgrade and modification of civil and military aircraft.
- International Systems Engineering is a company that specializes in information technology, systems integration and development.

Al-Sawary II: This was a programme for purchase of frigates from France for the Saudi Navy at a cost of 3 billion USD, carrying an offset investment obligation of about 35%, in various fields including glass, precious metals, smart cards and agro industry.

Al-Yamamah: This was a major defence contract between the United Kingdom (UK) and Saudi Arabia for purchase of military and civil aircraft, helicopters and ships, with associated training and support, as well as construction projects, with British Aerospace as the prime contractor. The total value of this programme was around 7-8 billion USD i.e. about four to six times larger than the Peace Shield programme. The contract had an investment target of about 1.5 billion USD. Investments in pharmaceuticals, vegetable oil manufacturing, petroleum, food processing, health care and environment care equipment were also welcomed. The objective was to acquire fully developed, proven technology for immediate commercial application. Further projects are currently under development in the agricultural and manufacturing sectors, together with a number of downstream petrochemical projects (Mitra, 2009)

#### **4.4 Today's Offset Related Situation In Saudi Arabia**

Today's offset related situation in Saudi Arabia have been somewhat disappointing in terms of actual projects launched, measured against the magnitude of potential available resources for investment. Official reasons put forward for the lack of progress is one of identifying good investment opportunities, or that foreign partners have been unable to obtain reliable local market data on potential local partners. Some complained about the multiple level of foreign, corporate and government administration they must deal with, belong today to the past. Since 2000, the Saudi government has come a long way towards establishing a foreign investment — friendly organization to smooth bureaucratic hurdles by providing offset advice through a lean administration under SAGIA. This helped to streamline the application processes for possible projects in a lean manner. SAGIA's closer coordination with the regional Chambers of Commerce and Industry, is also helping to educate Saudi and foreign businessmen on possible opportunities under the program.

In terms of areas of interest, Offset is now concentrating on priority sectors for the Kingdom such as petrochemicals, high-tech education and healthcare services. Health management could become the next focus of the Offset Program, through specialist medical colleges and nursing schools, nanotechnology research centers and the production of specialist medical equipment (Ramady, 2006).

Offset financing is available for both Saudi and foreign companies, to reduce the upfront investment risks. Loans up to 10 million USD per project are available on a seven-year term basis. The Saudi Industrial Development Fund (SIDF) can also provide up to 50% of a total project financing on concessionary terms. To add to this, local bank financing has been pioneered by SABB in conjunction with BAE Systems, to provide further financing for the project on long-term loan rates. British Aerospace is also willing to provide up to 6.5% of the total equity financing through its own soft financing loan program, after due evaluation of the project's feasibility.

The management of the Offset Program is still evolving to ensure that it becomes investor-friendly, and opens up to a wider segment of Saudi business. With the exception of a few key Saudi family industrial groupings, a majority of the smaller businesses who could benefit from the program are either unfamiliar with or are unaware of the offset's existence. One reason was that the Economic Offset Office operates as part of the Saudi MoD, which seems to create psychological barriers to potential investors. The fact that SAGIA is actively sponsoring the Offset Program has opened up Offset to a wider international and domestic audience (Ramady, 2006).

The deficiencies of the Offset Program in the past was due more to institutional, administrative and marketing constraints, rather than to financial or technological restrictions as evidenced by the number of successful non-defense related offset ventures pursued, especially by the UK Offset Program. With the involvement of SAGIA, and the greater awareness of the program's potential by those running it at the MoD, the Offset Program is a real winner for Saudi and foreign joint venture businesses.

## **5. RESULTS AND DISCUSSION**

Which lessons learned can be derived and generalized from the case study Saudi Arabia regarding the success factors for the execution of offset projects? For answering this question, at first a recognizable trend must be derived from the case study so that in a second step this trend can be more detailed with the different views of the buyer and seller. From the point of view of the purchasing country, the necessity to gain economic benefits in return for offshore procurement has driven more than a hundred countries to require direct and indirect offsets. Two separate trends can be identified: mandatory offsets, with guide lines specified in the bids; and suggested offsets, when the buyer will favor suppliers which make attractive offset proposals without specifying the content, to be discussed on a case-by-case basis. In both cases the trend is towards more and more structured rules and policies.



### **5.1 From the Point of View of The Selling Side**

From the view of a potential supplier, the pressure of competition brings about a dependence on the offset requirement. Again, there are two attitudes. In the first, offset can be considered as a marketing tool, and suppliers can turn the obligation to their advantage, taking a pro-active attitude. If offset is regarded purely as an obligation, the supplier meets only the offset request, and does not foresee the offset proposal as an advanced marketing strategy. This is a reactive, defensive attitude towards offsets and is not conducive to a proper positive approach to marketing. In either case, offset has become a serious factor.

Today the trend indicates that the competition gets tougher. Offset ratios are increasing from 20-30% to 100%, and sometimes even as high as 300% because of competition between suppliers. Multipliers are falling, and can affect the core of the offset (the technological transfer and the Research & Development provisions). Penalties are frequently imposed and are increasing in severity. Fulfillment periods are often reduced, but this can have a negative outcome as it can affect the desired cooperation, at least for the direct offset. The fulfillment of the offset obligation is being more tightly controlled by the buying side, though this is not a bad thing in itself. But globally speaking the rules are creating more and more constraints. Where there is a shift towards more indirect offsets, the eligible sectors are often confined to high technology, and technology transfer investments, either through direct investment or joint ventures, which are the most favored.

The contracts include more and more financial components, and counter-purchase is frequently employed. Offsets have become a worldwide technological, industrial and financial phenomenon. Requests for offsets are increasing, they are becoming more complex, and suppliers have to become more involved. Diversified professional skills at a high level are required. At the same time offsets are a risky operation: there is a loss of technology, and a loss of working hours for the seller.

Three main factors have to be considered by the selling side: the industrial, the commercial, and the financial related factors (see Charveriat, 1997).

The industrial related factor: It is necessary to integrate the possibility of technology transfer and sub-contracting from the very beginning of the product's conception. The design engineers must anticipate that some parts of the product will have to be produced abroad without affecting the good health of the company. All future markets will need to be considered so as to evaluate the possibility of cooperation, the capacity to integrate technologies, and the economic interest of the country to do so. This is not always an easy task, as the country requiring offset is often asking more than it can really do. Offsets should not be considered as an obligation, but as a partnership. The objective is not to do a one-off operation, but to establish a long-term cooperation. It is also necessary to establish close cooperation with the sub-contractors.

The commercial related factor: It is important to continually monitor the practice and development of the offset requirements in the targeted customer country and to analyze its economic needs. The supplier will need to study these needs through its network of contacts and to identify suitable partners, in conjunction with a local lobbying task force in order to penetrate local industrial circles which can often influence the decision of the buyer.

The financial related factor: An attractive financial package is also part of a successful deal, possibly including investments and joint ventures. More and more, the fulfillment of the offset requires financial engineering involving the financial department of the supplying company as well as third parties such as banks and investment services companies.

### **5.2 From The Point of View of The Buying Side**

The authorities concerned in the country requiring offsets should define its objectives clearly, in the framework of a global economic approach and the stage of development of the country. The government is the only entity having a broad overview of the country's economic situation, and so

is in the best position to arbitrate between the local beneficiaries of industrial benefits. The end-user of the import, such as the MoD, should not be the only party to the decision.

If the buying side's offset rules seem to become tighter and more structured, it emphasizes the need for a balance between the request of the buying party and the offer of the foreign seller. Each party must find its real interest in the transaction: it is more valuable to ask for less and obtain more than to ask for more and obtain less. Many countries have succeeded through offsets to obtain important industrial plants, but once the contract has ended these plants do not have enough work load. A successful strategy should bring the two parties to analyze fairly the real interest of the purchasing party, to use technology transfer to establish industries which are truly competitive, which produce goods and services which will continue to bring benefits after the completion of the contract, and not to establish industries which require subsidies and which are not economically viable. The setup of a shrimp farm in Saudi Arabia in 2006 with support from Raytheon, a USA manufacturer of radar systems and missiles, is a typical case. Praised at first as a model offset, it reportedly struggled to keep its pools properly maintained in searing temperatures and eventually went bust. This case shows how important is a permanent dialogue and exchange of information in the development phases of the projects. This is particularly true in the case of indirect offset obligations, where new opportunities may be proposed by either party.

### **5.3 Success Factors For The Execution of Offset-Projects**

Beside the in the extant literature named generic success factors such as:

- Willing and able locale partner;
- Strong relationships and good government relations;
- Proactive and experienced actors on the sellers side;

can be the following derived from the case study described above:

- Communication between the parties;
- A good ratio between direct and indirect offset. Indirect offsets more easily satisfy requirements of the socio-economic development, because larger benefits can be realized in the civil sectors;
- An adapted evaluation of technology transfer. Technology transfer must be evaluated with an incentive through reasonable offset multipliers, which give the foreign supplier more reason to propose a good level of technology. Too high a level of direct offset with too low multipliers can lead to a non-feasible operation;
- A wide vision of offset. Technology transfer does not only apply to the defense sector. There is a technical and financial bridge between the military and the civil sector, and many military technologies can also apply to civil sectors.

### **5.4 Critical Discussion of The Results**

The increasingly asking for offset obligations in arms imports deals requires from the affected companies a consideration of the relevant success factors for planning and execution of their offset-projects. This in turn makes necessary the implementation of the found success factors in a strategy at company level. What brings now an offset strategy which based on the results of this examination? Firstly, can be assumed that problems such as mismanagement of the offset-project's, penalty payments, etc. can be avoided. However, the consideration of the above-identified success factors is not a guarantee that it comes not to problems in project execution as a result of unpredictable factors, such as personal animosity, and so on. Furthermore, the question arises if a final summary of all the relevant success factors of offset can be generated only from the case study of Saudi Arabia. This certainly requires a wider investigation.

## **6. IMPLICATION AND CONCLUSION**

This case study examination was triggered through an overall research project on the impact of offset on the business processes of SMEs, which will be published end of 2014. During the

necessary Pre-Study for this research project, first indications appear that it is existential for offset-affected companies to know which success factors are existing for an optimized execution of offset obligations.

The used methodology of a case study examination (Best Practice Approach) analyzing the worthwhile and replicable practices likely to improve the way an organization operates i.e. analyzing factors likely to contribute to success or failure. The primary aim is to identify techniques/factors that can be replicated elsewhere. Especially the in this case *used Success Case Study* looks at those practices/factors that have proven successful in terms of outcomes. Involves isolating success factors and likely causes of failure.

Due to the selected size of this case study could be the result represented only an overview, but it adds to the already identified factors in the extant literature. During the work on this paper could the author observe again that the available literature on the subject offset is very limited in particular to its success factors. It is still a niche subject. Nevertheless dictates the constant increase of offset obligations that affected companies have to engage them with this subject and have study some specific aspects of them.

The aim of this paper is to exam which success-giving factors are exists in the offset related interaction between buyer, seller and participating industry. The implications of this examination is the concentrated display of success factors for an optimal offset execution. The factors which out are enabling companies to optimize planning and execution of offset-projects and due to this fact can be preventive additional cost.

From the present study could be summarized the following:

- A good offset policy is one that respects the economic situation of the country requesting the offset and the situation of the country wishing to make the sale.
- The difficult task in managing an offset policy is to reach a just balance between the obligations to be imposed, and the cooperation it seeks to establish.
- Countertrade and offsets can be used as a tool of development and positive commercial cooperation.
- Five key words: realism, anticipation, dialogue, moderation, and imagination.
- A good offset should give a competitive edge that could be critical.

For a further research on the success factors of offset could be of interest an examination of the internal factors at the seller side, here in particular the interplay of the success factors at the involved business processes. On the buying side could be of interest to investigate the success factors in the institutional interaction between the authorities and the connection to the local participating industry and their different interest groups.

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