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This volume is dedicated to Hawar Hamad.
Hawar Hamad passed away in … October 2016 at the age of 28.
He was an amazing young professional and a very dedicated project coordinator for this volume.
Without his help this volume would not have been finished.
Thank you for your work and for your friendship. A terrific personality as you were will be missed in the world of today and the future.

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Business Diplomacy in Implementing the Global 2030 Development Agenda: Core Competencies Needed at the Corporate and Managerial Level

Lichia Yiu and Raymond Saner

Abstract

Purpose — Faced with global concerns about increasing vulnerability of the global system and its sustainability, private companies are asked and encouraged to contribute to the implementation of the 2030 Agenda for Sustainable Development Goals (SDGs) through multi-sectoral partnerships. Implementing the SDGs will require coordinated and collective effort by all stakeholders to move the world forward towards a shared vision as set out in the SDG goals and targets. Business diplomats representing the interests of enterprises are crucial to ensure a mutually beneficial participation of business in the implementation of the SDGs. Propositions are made in this chapter to outline the requisite competencies needed to implement business diplomacy both at the organisational and managerial levels in the context of SDGs implementation.

Design/methodology/approach — The method used for this study consists of literature review, conceptual analysis and further development of organisational theory.

Findings — The SDGs in fact mean transforming all countries and actors in all spheres of human existence in an integrated and coherent manner. This transformative journey will not be incremental, but rather disruptive and demands fresh new thinking and smart system redesign. The private sector has been recognised as a leading player in this endeavour that could and should contribute to the success of SDG implementation due to its comparative excellence in process design, management know-how, control of resources and global outreach. To ensure a healthy functioning of diverse formal and informal partnerships, business diplomats will have a central role to play in safeguarding the integrity of multiple interfaces with

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internal and external multistakeholders. Business diplomacy shall ensure timely consultations and seek feedback from their constituent stakeholders while at the same time doing their best to get their company to contribute to the SDGs.

Originality/value — This is the first article published so far which describes and discusses the role and contribution of business diplomats in the context of SDG implementation.

Keywords: Business diplomacy; sustainable development goals; business sustainability; organisational and multi-stakeholder learning

Introduction[1]

After two years of intense and difficult negotiations, 193 countries signed up to sustainable development goals (SDG) in September 2015 in New York. World leaders pledged their commitment to 17 SDGs, including ending extreme poverty, fixing climate change and fighting inequality and injustice, in a bid to attain an equitable, more prosperous and sustainable world for all.

The SDGs are intended to stimulate sustainable and equitable growth during the next 15 years in areas of critical importance and are based on an integrated development approach consisting of three interconnected dimensions (economic, social and environmental sustainability). In order to achieve these goals and dimensions, structural economic transformation is needed in order to support the transition to a green and sustainable economy.

According to the Council of the European Union, this framework should '[c]consist of a single set of clear goals, which are ambitious, evidence-based, achievable, action-oriented, limited in number and easy to communicate, with measurable targets and indicators which are both qualitative and quantitative and which should be reviewed and monitored to ensure transparency and accountability.' (Council of the European Union, 2013)

To turn this ambitious undertaking into reality by 2030, countries need to work together to build the practical tools that enable them to opt for a multidimensional approach to the challenges and opportunities spurred by this commitment. This means concurrently targeting multiple policy objectives (sustainability, equity, growth and well-being as a whole), taking a cross-cutting and integrative view rather than sector-based lenses to analyse competing challenges and their drivers and considering compatibilities and complementarities between different policy options.[2]

As one of the crucial pillars of modern society, business is expected to do its part in implementing this transformative agenda by mainstreaming the SDGs into its

[1]Introduction based on Saner and Yiu (2016).
[2]http://www.oecdobserver.org/news/fullstory.php/aid/4955/Sustainable_Development_Goals:_A_revolution_begins.html#sthash.TW18y73C.dpuf)

respective business strategies and plans and forging innovative and entrepreneurial ventures with non-traditional partners.

Although the process of arriving at the 2030 development agenda was led by UN member states, participation by non-state actors such as from civil society stakeholders and business associations were central to the negotiation of the agreed 2030 Agenda for Sustainable Development. This shared ownership and converged visions permeate the whole negotiation process from setting the targets to the implementation of the agenda cutting across all sectors. Therefore, it is logical to expect that the SDG implementation process will involve governments, civil society organisations (CSOs) and business. Non-Governmental Organisations (NGOs) will check whether business is aligned to the SDGs (details of the 17 SDG goals are presented in Appendix 1), monitor the social and environment impacts of business and make these impacts more transparent. On a more proactive side, these NGOs might seek to engage in active dialogues with the government and business on policy making, investment strategies and infrastructure design. This recaliberating of relationships and operational role of business in the attainment of SDGs is stated clearly in SDG Goal 17 and its subordinating targets 17.16 and 17.17, which state:

17.16 Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries

17.17 Encourage and promote effective public, public–private and civil society partnerships, building on the experience and resourcing strategies of partnerships

SDG Goal 17 contains 19 targets ranging from financing for sustainable development to technology, capacity building, trade to systemic issues. The systemic issues highlighted include policy and institutional coherence, multi-stakeholder partnerships, data, monitoring and accountability.

As a partner in achieving these SDGs, companies large or small, transnational or local, are invited to develop collaborative relationships with non-business stakeholders embedded in the same spatial system to achieve collective impact and sustainability of the local structure. While the corporate world is accustomed to manage business performance in terms of customer satisfaction, shareholder values and corporate branding with the consumer groups and investors, it is less able to deal with non-business stakeholders, impact investors and other critical actors involved in the public domain.

From Transactions to Partnerships: The Challenge of SDG Implementation for Business

Implementing the 17 SDG goals by forging collective impact cannot be achieved through a 'business as usual' approach. Instead, innovations need to be fostered through applying new standards throughout the global supply chains and global value chains, partnerships and alliances to address diverse perspectives and needs, social platforms where all stakeholders, business and non-business could meet and exchange; imagine alternative business models and promote through experimentation and learning novel institutional arrangements and mechanisms to ensure policy coherence and coordinated impact. In this context, business with capacity to mutate and agility to adapt would do well. Implementing such broad and deep commitments like the SDGs and achieving mutually beneficial partnerships requires additional organisational capabilities both internally and externally. Externally, enhanced capabilities are needed to engage non-business counterparts operating in the same business ecosystem constructively. Equally important is the capability to convince actors within enterprises to first agree to align their company with the SDGs and their ensuing measurements and secondly to take into account feedback from non-business counterparts other than customers will require persuasion and negotiation skills.

These objectives and obligations are at times in opposition with each other and at other times coalesce towards achieving a sustained business that is based on publicly agreed criteria of good conduct. How to arbitrage these counterforces is crucial so that businesses reorient their business policies and activities towards an overall balance of diverse business objectives while at the same time respecting codes of conduct such as the OECD guidelines, the UN Guiding Principles on Business and Human Rights and the UN Global Compact and do their best to help governments and society at large achieve the SDGs through effective partnerships as stipulated in SDG targets 17.16 and 17.17.

Companies have to ensure a delicate balance between wealth creation and social engagement – in other words moving from ‘business as usual’ to ‘business with ethics’ and from being a corporate ‘raider’ to becoming a corporate ‘resident’. This is the operational space that companies need to master in order to thrive in the new business context. Within this space, business diplomats as defined by Saner, Yiu, and Sondergaard (2000) can play an important strategic role in establishing a collaborative relationship with the communities where multinational operations are being conducted.

Business Diplomacy as Catalyst for SDG Partnerships

Business diplomacy management (BDM) pertains to the strategic management of interfaces between an enterprise and its external non-business counterparts (NGOs, CSOs, international organisations and national and local governments) that have an impact on its reputational capital and licence to operate. BDM functions to strengthen an enterprise’s ability to shape and influence its operational environment and to foster an internal narrative supportive of constructive interchange with that environment.

The example given in Figure 1 shows how a company specialised in the manufacturing business can anticipate how the different SDG goals will impact its domestic supply and value chain. The horizontal bar depicts the linear process of the value chain and how the SDGs could have an impact on the manufacturing process (vertical allignment of the SDGs) creating interactions that could be positive or negative (depicted as +/−).

The hypothetical manufacturing company depicted in Figure 1 has identified four positive impacts and seven negative impacts from the perspective of implementing the SDGs. How to leverage the potential positive impact and minimise the negative impact will require broad based consultations inside and outside of the company in order to come up with preferrably win-win or synergistic solutions.

Business diplomacy (BD) is a management function that liaises between the strategic objectives of a company with the social and environmental demands put to it by the community within which it operates. As defined by Saner et al. (2000), this management function of handling multiple stakeholders and interfaces at home and abroad should become a vital corporate competency in bringing to the attention of the corportate leaders the strategic insights regarding 'customer' preferences, societal expectations and government requirements. Business diplomats through their interactions with internal and external stakeholders could help their respective company formulate alternative value propositions that could potentially bring savings to the operations and add revenue in new market niches while at the same time putting their company into a positive light as being an actor contributing to the SDGs.

BD represents a new interactive space in achieving collective impact on a societal scale, beyond buying and selling of products or services. A partnership-based collective impact needs to be co-created through effective BD. Recalibrating the boundary conditions on a contingency basis could be one of the core contribution of BD. In other words, BD with its potential of influencing the investment decisions and allocation of resources could propel companies to play a catalyst role in rehabilitating the global system vulnerability, reducing risks and in regaining sustainability.

Business diplomats will need to help their multinational company navigate between defending their legitimate interests while also helping them to address the legitimate concerns of non-business stakeholders. How to facilitate such a new model of conducting international business that is based on a form of social contract is crucial for social sustainability and eventually for the bottom line but this needs to be designed and implemented without jeopardising the multinational's business fundamentals or disregarding the equally legitimate expectation for a return on investment. This balancing act requires a new set of competences that are normally not part of the toolbox of a traditional business executive (Saner et al., 2000).

The functional dimensions of BD are not totally new. Many exist already in different company departments. Therefore BD management is about reconfigurating business boundaries so that the company can apply a SDG lens to public and private sector business issues and create space for new business dynamics and partnerships for sustainable production, growth and reputational gains.

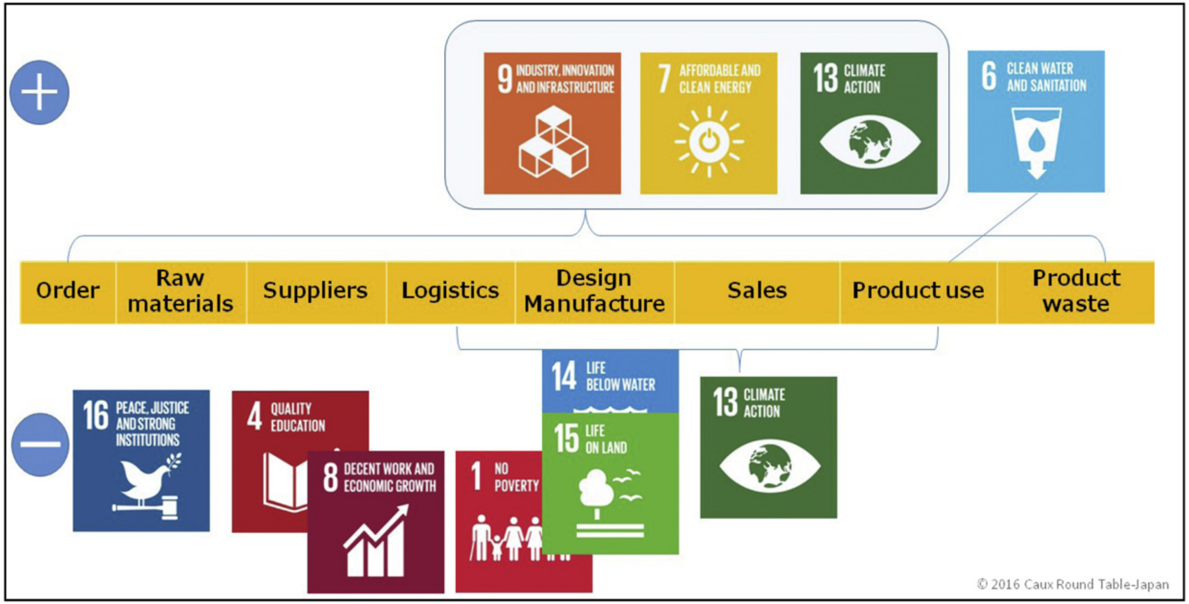

Figure 1: Impact Assessment of the 17 SDG Goals on the Core Business Processes within the Company. *Source*: Human Rights Due Diligence Workshop, Manufacturing Infrastructure, 2016, Caux Round Table, Tokyo.

Business Case in Adopting 2030 Agenda for Sustainable Development and for Strengthening Business Diplomacy Capability

There is a business case to be made that business can do well by doing good. Companies can differentiate their brands and reputations as well as their products and services if they take responsibility for the well-being of the societies and environments in which they operate. Evidence exists that these companies are practicing corporate social responsibility in a manner that generates significant returns to their business.

According to the estimates made by the Earth Institute and others, the needed resources to finance the implementation of SDGs range from 1 trillion USD per year to 4 trillions. Either figure is enormous for any one country to bear, not to mention many of the resource-constrained countries and worn torn societies. United Nations Conference on Trade and Development, when devising an action plan calculted the total shortfall for implementing the SDGs in the developing countries will amount to 2.5 trillion USD every year (2014). This shortfall will have to come from mobilisation of local resources and private financing such as investors, philanthropic organisations or private companies. Infrastructure development will represent 1 trillion USD per year in the developing countries along. This is the business case why companies need to be engaged with the SDG implementation NOW. This is also the business case why companies must transform its CSR operation and government relation department into BDM and staffed it with competent business diplomats.

The business opportunities made available by the SDGs are not limited to the developed countries. Instead, it is worldwide. A key feature of the SDGs is their universality. In other words, SDGs are not only goals for the developing AND developed countries alike. Similar transition to a more sustainable economy should take place in all countries. Companies will be required to contribute to the attainment of the SDGs, thus leading to investment opportunities and engagement obligations at home and abroad.

These business opportunities, especially for the developing countries, has been clearly agreed upon by the UN member countries during the third international conference on Financing for Development in July 2015. The conference was organised to address the issue of financing and resource mobilisation. A review of its outcome document called Addis Ababa Action Agenda (AAAA) clarifies further the role of the private sector in the context of implementing the SDGs and the broadened concept of corporate social responsibility or “responsible” business conduct.

Financial Framework for the SDG Partnerships: Addis Ababa Action Agenda on Financing for Development

Addis Ababa Action Agenda (AAAA) was adopted at the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13–16 July 2015) and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015.

Table 1: Results of the Text Analysis of Addis Ababa Action Agenda (2015).

Key Word	Frequency in Word Count	Percentage in Use against Total Number of 134 Clauses
Private Sector	18	13
Business	12	9
Partnership	28	21

Source: Saner and Yiu own research.

AAAA is a global framework for financing the 2030 development agenda through creating an 'enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity' (AAAA, 2015, p. 1). A text analysis by authors Saner and Yiu revealed high expectations regarding the private sector engagement through various forms of partnerships at global, regional, national and organisational levels (see Table 1). Detailed text analysis of the Addis Ababa Action Agenda (2015) is presented in Appendix 2 which shows the weight of the private sector. A total of 22% of the clauses of the AAAA are devoted to the role of private sector, and 21% concern trans-sectoral partnerships.

In other words, companies are expected to engage in partnerships by transferring technology, management and organisational know-how and by contributing to innovation capacity building, mobilising financial resources, sharing intellectual properties and implementing social agenda such as gender equality and labour standards for the global well-being and sustainability. Governments, according to AAAA, are expected to incentivise private sector participation and commitment, establish collaborative mechanisms and policy instruments and foster enabling environment for entrepreneurial endeavours and the transformation of production patterns of the companies.

Coupled with the SDGs agenda and the monitoring and review mechanisms, it will be difficult for companies to continue with a 'business as usual' strategy expecting that they would be able to outlive the SDGs. The AAAA has reframed the space and conditions how business can contribute to the implementation of the SDGs and the AAAA. Therefore, equipping companies with the appropriate BD function will accelerate the responsiveness of the companies to the enlarged business demands and allow the companies to climb up the learning curve in order to benefit from the new business opportunities presented by the SDGs from now to 2030 and beyond. As infrastructure development will primarily take the form of private–public partnerships, the follow-on business opportunities could potentially be locked up for 20 or 30 years from contracting to building and operating before transform to the public hands. Business diplomats will be mandated with the responsibilities to spot good business opportunities through stakeholder consultations and ongoing dialogue.

Since the launch of United Nations Global Compact in 2000 by then UN Secretary-General Kofi Annan at the World Economic Forum at Davos Switzerland, this corporate sustainbility initiative has evolved into the world's largest CSR project with visibility and high participation. Member companies have been asked to take a comprehensive approach to sustainability and to put into practice five essential elements of corporate sustainability which are:

1. operate responsibly in alignment with universal principles;
2. take strategic actions that support the society around them;
3. commit at the highest level;
4. report annually on their efforts; and
5. engage locally where they have a presence.

17 years later, CSR has matured into a growth platform, according to a study conducted by Pohle and Hittner (2008) of the IBM Institute for Business Value. This evolution followed a five-step value trajectory with the advancer companies benefiting from CSR programme to create access to new markets, new partnerships or product/service innovations and revenue generation (see Figure 2).

In a CSR survey carried out by the IBM, it was found that 68% of the 250 business leaders worldwide use CSR as an opportunity and a platform for growth (Pohle & Hittner, 2008). In other words, businesses have adopted a much more strategic view on CSR than traditional philanthropy. This change of mindset made it easy to embrace the SDGs. A gap exists between intention and actuality. With varying degree of programme maturity and corporate commitment, companies can be found either paying lip service to the CSR commitment or in earnest pursuing business benefits and achieving sustainability.

In the same study of these 250 global companies by IIBS, only 19% of the respondants reported that they created new revenue streams through CSR, while

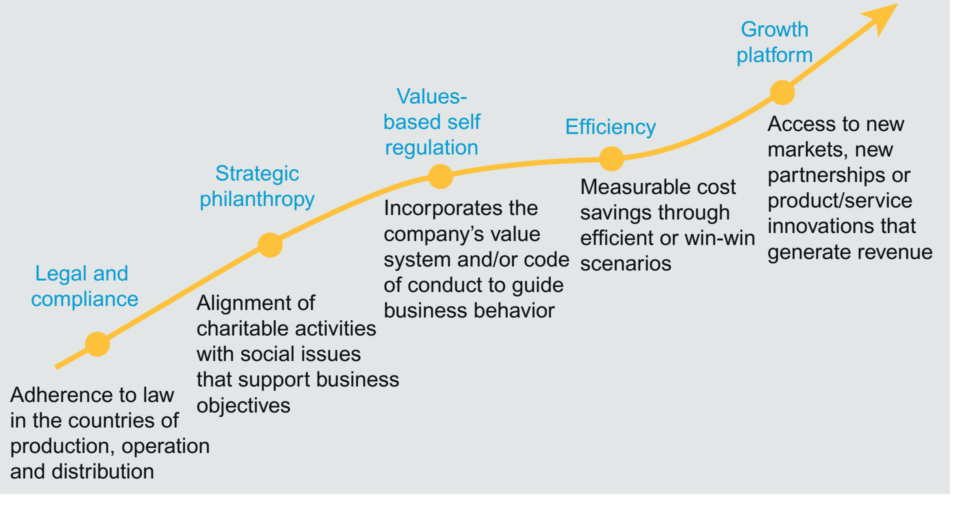

Figure 2: Companies Move from Left to Right on the Value Cure and Realise Greater Returns as CSR Becomes More Integrated into Core Business Strategy.

49% reported to have achieved new revenue streams while the remaining 32% had no activity linking CSR with revenue generation (Pohle & Hittner, 2008, p. 1).

For the sustained engagement of corporations in sustainable practices, a business case must be made. Short of this return on principled business behaviour, the world will see plenty of CSR initiatives without ever reaching the synchronisity and scale needed to avert a major catastrophe, or in the words of Saner and Yiu (2016), eco-suicide. With the AAAA, business opportunities have been outlined while the SDGs and their targets have articulated the demand side of the equation. The SDG generataed market is emerging and BD will contribute to companies' beneficial involvement in their implementation.

Business Diplomacy as the Missing Link of CSR

CSR is limited in its conception. A vertical programme which is too slow in transforming all aspects of corporate life that could exhume SDG philosopy and objectives, yet too easily marginalisable when corporate value propositions shift.

To move up on the value curve as depicted in Figure 2 needs practice, strategic foresight and engagement of the highest level within the corporate hierarchy. To push sustainability deep into the cooperate identity and its decision-making DNA, companies need to set up dynamic and comprehensive feedback loops to foster organisation learning and innovations so that business alignment with SDG goals could be realised and payoffs obtained. This is where BD becomes the vital function in tandum with the CSR that allows companies to fullfil their "obligations" in the context of SDGs. It is also where BD differentiates itself from the CSR, that is a value proposition, a vision. BD is an ability to act, to facilitate and to follow-through.

One of the immediate tasks of the business diplomat is to translate the SDGs into constraints and opportunities and to trigger an organisational process of re-examining its mission, business model, and operating principles in this new operational environment. Most critically, business diplomats need to play an proactive role in support of the company in managing the strategic tensions or polarities effectively so that long-term viability and growth will not give way to short-term opportunism; so that synergy and shared values will not give way to particular interests and innovation or entrepreneurship will not give way to risk aversion and business as usual type of thinking.

As in the example given in the hypothetical case of a Japanese manufacturing company (see Figure 1), there is a price to be taken into consideration to become SDG compatible since internal resistance to change is inevitable in any change effort and readiness and capacity to change will be essential to the success. These will imply that a business diplomat must mobilise attitudinal or motivational energy inside of the company and in the affected community to prepare for the change; and physical, financial and/or organisational capacity to implement the change. In determining an organisation's readiness for change, David Gleicher (in Beckhard & Harris, 1977) developed a change equation that helps in developing a strategy for implementing the change project which would be applicable to the BD in the context of SDGs:

$$\mathbf{C = (ABD) > X}$$

Where by
C = change,
A = the status quo dissatisfaction,
B = a desired clear state,
D = is practical steps to the desired state,
X = the cost of the change

Without the stakeholder engagement (both internal and external), it will not be possible to find the novel solutions necessary to bring about the transformation in the form of shared vision and practical first steps. Superficial compliance and empty words can only slow down the SDG attainment and will not slow down the process towards eco-suicide.

All SDG goals and targets have a direct bearing on how business needs to conduct itself, especially when it comes to sustainable production patterns addressed by of SDG 12. BD will also be most suited in implemention of SDG Goal 17 regarding the 'strengthening of the means of implementation and revitalising the global partnership for sustainable development' by creating collaborative relationships with multiple stakeholders across sector boundaries. Some of these stakeholder groups might have antagonistic relationships and conflictual history with the company. BD should then be applied to manage multi-stakeholder interactions and dynamics specifically when SDG targets relate to partnerships for business opportunities.

Progress in achieving these two partnerships related targets, i.e., SDG targets 17.16 & 17.17, will be measured by a set of related indicators which are to be finalised by the Statistical Commission of the Economic and Social council of the United Nations. Influencing the selection of these indicators could affect the longer term financial interest of companies. Here lies another task of the BD in shaping and influencing international standards and performance matrices proactively to leverage the strengths of the company.

BD will be required also to deal with the multiple forms of partnerships that need to be constructed to support the general SDG orientations and specific targets. Business diplomats will be the boundary spanners to assist the companies in managing the increasingly porous boundary of their operations and public accountability where citizen watchdogs and journalism may shed unwanted visibility on corporate conducts and unintended consequences.

Business Diplomacy: An Organisational and Managerial Response

To be sustainable, businesses have already embraced a relatively new objective: optimising their operations to improve environmental and social outcomes in a manner that increases overall performance. As a result, executives face an entirely new set of complex decisions and must manage an intricate new set of trade-offs based on accurate assessment of the customer sentiments and SDG concerns.

This is where BDM comes into play to complement the efforts already made with the companies through their CSR programmes, as for instance through voluntary involvement in different communities by using corporate philanthropy, community services and volunteering programmes. By transforming corporate charity into development partnerships with a focus on community development, the place and its resident stakeholders could enjoy a better opportunity to earn a sustainable living and to achieve better well-being. Outstanding companies in environmental and social responsibility are at collecting relevant and timely information from across their ecosystems, including their customers and distractors through effective BD. BDM needs to specialise in developing new sources of information and new levels of insights for meeting strategic sustainability objectives.

Information management is not one-directional, rather a two-way information flow and exchange. Existing information and communication technology and affordability have made it easier for some NGOs to perform a 'watchdog' function and to advocate social and environmental causes at scale without the hindrance of distance, time, language and political system. Proliferation of many of these watchdog function is evident on the worldwide web. As customer perception of a company influences their purchasing behaviour more and more, it is equally important for the business diplomats to engage in regular dialogue with various consumer groups and opinion making stakeholder groups to ensure that public perception reflects favourably of good corporate conduct. Advertisment campaign, Facebook page, Twitter do not foster true engagement. BD engages and operates on the interfaces between different groups and issues through a blended strategy that lean strongly on face-to-face interchanges and grass-roots presence.

Business diplomats need to be embedded in specific business ecosystems in order to develop the optimal level of social capital to connect, distil and to derive the strategic insights that could feed into the corporate strategic planning and decision making.

Stakeholder partners, as stipulated in the AAAA agenda, include civil society and other critical players, including investors, educators, media, consumers and policy makers to create an enabling condition for value innovation and shared values. Stakeholders usually represent the interests and concerns of the local system where business operates. For instance, NGOs at national and international level have contributed to the development of the SDGs and the international development discourse and negotiations (Saner & Yiu, 2015). Effective management of these non-business relationships has a direct bearing on the reputational capital of the company and business opportunity to innovate. Such omissions would eventually have negative business outcomes.

In this still relatively uncharted water, it is important to review the BD competencies identified by Saner et al. (2000) in the context of SDG implementation (see Appendix 3). BD is relevant for two organisational levels, i.e., organisational capacities and related human capital. The competence profile identified by Saner et al. (2000) consists of 21 competence areas covering knowledge related to the international politics and relations (8 items), country or regional specific knowledge (2 items) and BD-specific capability and skills (11 items).

In the context of SDG implementation and partnerships, a competence profile needs to be enforced with SDG-specific knowledge and skill sets in addition to the organisational competence and institutional capabilities. The following competencies need to be mastered by a company namely (Table 2).

At the organisation level, the following BDM-related corporate competences need to be developed in order to support companies to benefit from the business opportunities presented by the SDGs and related investment across all sectors.

Table 2: Additional Competence Requirements of a Business Diplomat.

Competence Domain	**Specifications**
Knowledge	• SDG literacy • Knowledge of cost-benefits analysis and trade-offs between economic benefits and social and environmental objectives • International standards and guidelines regarding responsible business conduct (OECD, UN OHCHR, ISO) • Due diligence guidance for meaningful stakeholder engagement
Value orientation	• Socioeconomic mindset and perspective • Ecological mindedness • Inclusiveness and participatory orientation and leadership quality
Capabilities & skills	• Capacity in developing cross-sector partnerships and identifying common grounds • Capacity in co-creating shared values with diverse stakeholders and aligned to the business objectives • Leadership capacities in forming collaborative alliance with other private sector actors for the common good • Transformative leadership within the corporate environment when working with internal stakeholders and line management without official leadership position • Analytic skills on policy coherence within the company • Appreciative inquiry and rapport building

Source: Authors' articulation.

These investments need to be made in the areas from water purification to distribution to conservation, from hygiene and sanitation to waste treatment facilities, from road construction to transportation services, from agricultural development to food security and alternative land management technology. While providing the basic infrastructure to underdeveloped regions, the developed regions need to refurbish the densely populated urban areas in order to achieve sustainability. New services will be created in order to redesign the world's physical and social infrastructure and to find ways to curb excessive consumption, waste of limited resources and reduce pollution of the land, ocean and air. To support the relationship building for business development and the common good, the following institutional capabilities need to be developed:

1. environmental scanning and decoding;
2. big data and stakeholder analytics – incorporating the larger political-economic environmental analysis, reputation analysis and stakeholder mapping;
3. early warning and response system; and
4. capacity building and organisational learning infrastructure.

Recommendations in Putting Business Diplomacy into Practice

While many companies continue to conduct BD on an ad hoc manner and consider business intelligence gathering and analysis as the same as BD, this chapter argues that BD needs to be seen as a separate function that should be part of the strategic planning function and requires execution capacities in identifying and implementing win-win solutions to solve a business dilemma or conflicts within specific context. Hence, BD needs to be integrated into the corporate structure with clear functionalities.

The following actions are recommended:

1. integrating BD into corporate strategic planning and regular business operations through process design;
2. integrating BD into CSR project planning and implementation through joint decision-making with interested and affected parties;
3. practising stakeholder engagement through ongoing consultation and follow-through;
4. developing a BD strategy which prioritises engagement with most severely affected rather than most influential stakeholders;
5. developing a BD strategy which emphasises dialogue with the most SDG non-compliant operations within the company;
6. initiate a SDG awareness raising campaign for potential blue oceans within and without; and
7. raise SDG literacy where the departments and employees are most insulate from the external environment but with high likelihood to insist on business as usual.

Conclusion

International businesses are expected to play a catalyst role in the communities where their business activities reside by bringing about economic growth, social development and conservation of the environment. It is no longer acceptable for companies to adhere to the reactive stance of 'Do-No-Harm' in managing their business impact; but instead they should actively pursue a proactive path that will add value to the social fairness and environmental stewardship. Thus, global companies must remain competitive in the business they are in and at the same time they should show ambidexterity in managing multiple stakeholder expectations at home and abroad including non-business partners.

The SDG environment is putting ever greater demands on the global companies to act and live the reality of being a responsible corporate citizen in various business ecosystems that they operate in. To a certain extent, effective management of stakeholder relationships, also known as BD, has become part of the competitive advantage of a global company. This capability in translating non-business demands into opportunities is the core of BD of the 21st century.

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Appendix 1: Sustainable Development Goals

GOAL 1.	End poverty in all its forms everywhere
GOAL 2.	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
GOAL 3.	Ensure healthy lives and promote well-being for all at all ages
GOAL 4.	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
GOAL 5.	Achieve gender equality and empower all women and girls
GOAL 6.	Ensure availability and sustainable management of water and sanitation for all
GOAL 7.	Ensure access to affordable, reliable, sustainable and modern energy for all
GOAL 8.	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
GOAL 9.	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
GOAL 10.	Reduce inequality within and among countries
GOAL 11.	Make cities and human settlements inclusive, safe, resilient and sustainable
GOAL 12.	Ensure sustainable consumption and production patterns
GOAL 13.	Take urgent action to combat climate change and its impacts
GOAL 14.	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
GOAL 15.	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation and halt biodiversity loss
GOAL 16.	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
GOAL 17.	Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Appendix 2: Detailed Mapping and Text Analysis on Addis Ababa Action Agenda (2015)

Key Word Search	Frequency	Original Text
Private Sector	18 out of 134 para. (13%)	Para. 5, 'unlocking the transformative potential of people and the private sector, and incentivizing changes in financing as well as consumption and production patterns to support sustainable development…' (p. 3)
		Para. 10, 'Multi-stakeholder partnerships and the resources, knowledge and ingenuity of the private sector, civil society, the scientific community, academia, philanthropy and foundations, parliaments, local authorities, volunteers and other stakeholders will be important to mobilize and share knowledge, expertise, technology and financial resources, complement the efforts of Governments, and support the achievement of the sustainable development goals…' (p. 5)
		Para. 14, '… to improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, United Nations agencies, and national institutions, development partners and the private sector'. (p. 8)
		Para. 33, '… during financial crises when private sector entities become highly risk-averse'. (p. 15)
		Para. 36, '… strengthen regulatory frameworks to better align private sector incentives with public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment'. (p. 17)
		Para. 37, 'promote and create enabling domestic and international conditions for inclusive and sustainable private sector investment, with transparent and stable rules and standards and free and fair competition,

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		conducive to achieving national development policies'. (p. 18)
		Para. 41, '… encourage the private sector to contribute to advancing gender equality through striving to ensure women's full and productive employment and decent work, equal pay for equal work or work of equal value, and equal opportunities, as well as protecting them against discrimination and abuse in the workplace'. (p. 20)
		Para. 47, '… with private sector incentive structures that are not necessarily appropriate for investing in many long-term projects, and risk perceptions of investors'. (p. 24)
		Para. 48, '… development finance institutions and tools and mechanisms such as public-private partnerships, blended finance, which combines concessional public finance with non-concessional private finance and expertise from the public and private sector, …' (p. 24)
		Para. 48 (continued), '… Blended finance instruments including public-private partnerships serve to lower investment-specific risks and incentivize additional private sector finance across key development sectors…' (p. 24)
		Para. 54, 'It can also be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development'. (p. 27)
		Para. 99, 'there is scope to improve the arrangements for coordination between public and private sectors and between debtors and creditors, to minimize both creditor and debtor moral hazards and to facilitate fair burden-sharing and an orderly, timely and efficient restructuring that respects the principles of shared responsibility'. (p. 45)

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		Para. 117, 'foster linkages between multinational companies and the domestic private sector to facilitate technology development and transfer…' (p. 52)
		Para. 123a, 'multistakeholder collaboration between Member States, civil society, the private sector, the scientific community, United Nations entities and other stakeholders…' (p. 55)
		Para. 123b, '… 10 representatives from civil society, the private sector and the scientific community to prepare the meetings of the multi-stakeholder forum on science, technology and innovation for the sustainable development goals, …' (p. 55)
		Para. 125, '… data and analysis from civil society, academia and the private sector'. (p. 58)
		Para. 130, '… ensure the participation of relevant ministries … and other relevant institutions, civil society, academia and the private sector'. (p. 60)
Business	12 out of 134 para. (9%)	Para. 12, 'To end poverty in all its forms everywhere and finish the unfinished business of the Millennium Development Goals, we commit to a new social compact'. (p. 6)
		Para. 17, 'Governments, businesses and households will all need to change behaviours, with a view to ensuring sustainable consumption and production patterns'. (p. 9)
		Section B. 'Domestic and international private business and finance' (p. 17)
		Para. 35, 'Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation … call on all businesses to apply their creativity and innovation to solving sustainable development challenges'. (p. 17)

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		Para. 36, '… encourage entrepreneurship and a vibrant domestic business sector'. (p. 17)
		Para. 37, '… foster a dynamic and well-functioning business sector, while protecting labour rights and environmental and health standards in accordance with relevant international standards and agreements, such as the Guiding Principles on Business and Human Rights and the labour standards of ILO, the Convention on the Rights of the Child and key multilateral environmental agreements, for parties to those agreements'. … 'welcome the growing number of businesses that embrace a core business model that takes account of the environmental, social and governance impacts of their activities, and urge all others to do so'. … 'encourage businesses to adopt principles for responsible business and investing, and we support the work of the Global Compact in this regard'.
		… 'work towards harmonizing the various initiatives on sustainable business and financing, identifying gaps, including in relation to gender equality, and strengthening the mechanisms and incentives for compliance'. (p. 18)
		Para. 41, '… encourage increased investments in female-owned companies or businesses'. (p. 20)
		Para. 107, '… encourage development finance institutions to align their business practices with the post-2015 development agenda'. (p. 49)
		Para. 116, '… voluntary patent pooling and other business models, which can enhance access to technology and foster innovation'. (p. 52)

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		Para. 117, '… promote entrepreneurship, including through supporting business incubators'. (p. 52)
Partnership	28 out of 134 para. (21%)	Para. 1, '… affirm our strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity'. (p. 1)
		Para. 8, '… New Partnership for Africa's Development (NEPAD)' (p. 4)
		Para. 9, '… to reinvigorating the global partnership for sustainable development'. (p. 5)
		Para. 10, '… enhanced and revitalized global partnership for sustainable development, led by Governments, will be a vehicle for strengthening international cooperation for implementation of the post-2015 development agenda'. (p. 5)
		'Multi-stakeholder partnerships and the resources, knowledge and ingenuity of the private sector, civil society, the scientific community, academia, philanthropy and foundations, parliaments, local authorities, volunteers and other stakeholders …' (p. 5)
		'This global partnership should reflect the fact that the post-2015 development agenda, including the sustainable development goals, is global in nature and universally applicable…' (p. 5)
		Para. 19, 'The post-2015 development agenda, including the sustainable development goals, can be met within the framework of a revitalized global partnership for sustainable development, supported by the concrete policies and actions as outlined in the present Action Agenda'. (p. 10)

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		Para. 30, '… the work of the Open Government Partnership, which promotes the transparency, accountability and responsiveness of Governments to their citizens, with the goal of improving the quality of governance and government services'. (p. 15)
		Para. 42, '… to leverage additional funds through multi-stakeholder partnerships'. (p. 21)
		Para. 46, '… use of innovative mechanisms and partnerships to encourage greater international private financial participation in these economies'. (p. 23)
		Para. 48, '… both public and private investment have key roles to play in infrastructure financing, including through development banks, development finance institutions and tools and mechanisms such as public-private partnerships'. (p. 24)
		'… Blended finance instruments including public-private partnerships serve to lower investment-specific risks and incentivize additional private sector finance…' (p. 24)
		Para. 48, '… Projects involving blended finance, including public-private partnerships, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards'. (p. 25)
		Para. 48, '… build capacity to enter into public-private partnerships, including with regard to planning, contract negotiation, management, accounting and budgeting for contingent liabilities'. (p. 25)
		Para. 48, '… commit to holding inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public-private partnerships…' (p. 25)

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		Para. 49, '… with a combined potential to raise over $100 billion in annual investments by 2020, through market-based initiatives, partnerships and leveraging development banks'. (p. 25)
		Para. 58, '… strengthen partnerships for development…' (p. 28)
		Para. 58, '… Global Partnership for Effective Development Cooperation, in a complementary manner'. (p. 29)
		Para. 76, '… genuine, effective and durable multi-stakeholder partnerships can play an important role in advancing sustainable development'. (p. 35)
		'…promote such partnerships to support country-driven priorities and strategies, …' (p. 35)
		'… recognize that partnerships are effective instruments for mobilizing human and financial resources, expertise, technology and knowledge'. (p. 36)
		Para. 77, '… Multi-stakeholder partnerships, such as the Global Alliance for Vaccines and Immunization (Gavi) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, have also achieved results in the field of health'. (p. 36)
		Para. 78, '… scaling-up and strengthening initiatives, such as the Global Partnership for Education'. (p. 37)
		Para. 115, '… enhanced international support and establishment of multistakeholder partnerships for implementing effective and targeted capacity-building in developing countries, …' (p. 51)
		Para. 117, '… encourage knowledge-sharing and the promotion of cooperation and partnerships between stakeholders, including

Appendix 2. Continued.

Key Word Search	Frequency	Original Text
		between Governments, firms, academia and civil society…' (p. 52)
		Para. 120, '… through public-private and multistakeholder partnerships, and on the basis of common interest and mutual benefit …' (p. 53)
		Para. 123, '… networks between relevant stakeholders and multi-stakeholder partnerships in order to identify and examine technology needs and gaps …' (p. 57)
		Para. 125, '… to strengthen domestic capacity, transparency and accountability in the global partnership'. (p. 58)
		Para. 120, '….
		Para. 120, '….

Appendix 3: Traditional Education Versus Key Competencies of Business Diplomacy Management

Business School Education	Education at Diplomatic Academies	Competencies of Business Diplomacy Management
General management	History of diplomacy	• Knowledge of diplomatic instruments • Capacities in influencing the diplomatic process
Strategic management	Treaty making	• Knowledge of key international business-related legal standards • Capacities in influencing standard setting at key international organisations (WTO, ILO, UNEP, WIPO, OECD)
Managerial accounting	International law	• Knowledge of the functioning of international law and arbitration • Knowledge of the impact of 'Corporate Reporting to Stakeholders'

Appendix 3. Continued.

Business School Education	Education at Diplomatic Academies	Competencies of Business Diplomacy Management
Financial management	International economics	• Knowledge of the history and logic of non-U.S. economic theories and practices • Knowledge of the influence of international financial institutions (IMF, WB, Paris Club, London Club, U.S. FRB, BIS)
Human resource management	International and supranational organisations	• Knowledge of the structure and decision-making process of supranational organisations (UN, EU, NAFTA, ASEAN) • Capacity to influence these supranational organisations through direct or indirect means
Marketing	Regional and country studies	• Knowledge of the interplay between economics, politics and culture by region or country • Capacity to promote a proactive perspective in the region regarding business diplomacy
International management	Theory of international relations and contemporary history	• Knowledge of the decision-making process of key countries (domestic and foreign) • Capacity in conducting political risk analysis regarding key stakeholders of the investment project
Operations management	Managing delegations, embassies and consulates	• Knowledge of the mechanisms of international crisis management and corresponding role of diplomacy and government • Capacity to intervene on behalf of the company
Information management	Interaction with media	• Mastering public speaking and media (keynote speeches, TV interviews, press conferences) • Managing a business diplomacy information system that supports

Appendix 3. Continued.

Business School Education	Education at Diplomatic Academies	Competencies of Business Diplomacy Management
		strategic planning regarding stakeholder management
Organisational behaviour and change	Negotiation skills (bilateral, multilateral, plurilateral)	• Managing and influencing international negotiations (bilateral, multilateral, plurilateral)
Quantitative methods	Diplomatic behaviour and protocol contemporary history	• Mastering diplomatic practices and protocol • Mastering analytic tools, e.g., stakeholder analysis, scorecard on stakeholder satisfaction, scenario planning

Source: Saner, Sondergaard & Yiu (2000), AoME.

INTRODUCTION TO THE VOLUME

International Business Diplomacy: A Strategy for Improving MNCs' Performance?

A Review of the Concept and New Insights from Five European MNCs

Huub Ruël and Luisa Suren

Abstract

Purpose — Multinational corporations (MNCs) are experiencing a number of major challenges in the international business arena. Can business diplomacy help them to deal with these challenges effectively? In this introductory chapter we conceptualize and identify the relationship between MNCs' international business diplomatic activities and firm performance.

Design/methodology/approach — We conducted a literature review and interviews with five large MNCs that are operating in distinctive industries. Business diplomatic activities have been classified into three particular areas to support the analysis, namely: (1) MNC−Non-Governmental Organization (NGO) relations, (2) MNC−Host Government relations, and (3) MNC−Local Community relations.

Findings — The main findings suggest that international business diplomacy has a direct positive effect on firm performance with regard to so-called soft or nonfinancial indicators. These indicators include knowledge sharing, reputation, company image, and marketing possibilities. The effect can in turn lead to a better financial performance and market stance in the long run.

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Originality/value — The results of this study are important for the future awareness and execution of business diplomacy in large MNCs.

Keywords: International business diplomacy; firm performance; multinational companies; long-term relations; stakeholder management; corporate political activity

Introduction

The business environment increasingly incorporates complex international relations, due to the growing globalization and a higher degree of intercontinental connections. Multinational corporations (MNCs) are constantly enlarging their presence in many countries and are being exposed to diverse local influences and requirements (Saner & Yiu, 2003, 2005). They need to compete within a largely unregulated global market economy with high levels of financial and political risks (Muldoon, 2005). Furthermore, it can be rather expensive for them to enter the markets of developing countries because of their weaker institutions and cultural dissimilarity (Creusen & Lejour, 2013). In this regard, Muldoon (2005) posits that MNCs can only survive as global actors if they successfully develop their own representational mechanisms to manage "complex interactions with governments, multilateral institutions, and global social movements" (p. 355). One opportunity to succeed as a business and to ensure economic vitality is to make use of competencies that build upon long-term relationships with stakeholders, such as governmental bodies, as well as non-governmental organizations (NGOs) (Muldoon, 2005; Saner & Yiu, 2005). Schuler, Rehbein, and Cramer (2002) state that companies that have access to these opportunities can enjoy a competitive advantage. From a network perspective, Goerzen (2007) confirmed that companies could improve their competitive position by establishing nonredundant ties with other international network actors. All of these suggestions fit the concept of acting within the framework of international business diplomacy, which imposes the commitment on MNCs to establish long-term relationships with all different kinds of stakeholders. Since the development of diplomatic ties can be time-consuming and costly, it is important for MNCs to know whether their efforts will pay off. The literature has so far failed to research the positive effect of international business diplomacy on firm performance. Thus, this chapter aims at closing this research gap by answering the following research question:

> Can the international business diplomatic activities of MNCs affect their performance?

The structure of the chapter is as follows: First of all, an extensive literature review is provided, focusing on the definition and relevance of business diplomacy and firm performance. Second, the conceptualization of firm performance and international business diplomacy is elaborated further by separating the activities into three main areas: (1) MNC−NGO relations, (2) MNC−Host Government relations, and

(3) MNC–Local Community relations. Thereafter, the results are tested by analyzing five semistructured interviews with large MNCs in order to reach a consensus on the positive outcomes on firm performance. The conclusion summarizes the main findings, the practical and theoretical implications, as well as the limitations of the chapter.

Literature Review

This research was conducted in order to identify the effects business diplomacy can have on firm performance if properly applied. Part of the research will be in the form of a critical qualitative literature review as a starting point for the analysis. A web search of scientific databases (Scopus, ScienceDirect, and Google Scholar) was conducted using keywords such as: Business Diplomacy, Firm Performance, Public Diplomacy, NGOs, MNC–Host Government Relationships, Corporate Political Activity (CPA), and Corruption. Special emphasis was laid on academic literature that has been peer-reviewed, was recently published, and has been frequently cited.

Definition of Business Diplomacy

Authors like Muldoon (2005) posit that MNCs can only survive as global actors if they successfully develop their own representational mechanisms to manage "complex interactions with governments, multilateral institutions, and global social movement" (p. 355). One opportunity to succeed as a business and to ensure economic vitality is to make use of competencies in order to build long-term relationships with stakeholders, such as governmental bodies and NGOs (Muldoon, 2005; Saner & Yiu, 2005). Thus, the concept of business diplomacy adds valuable knowledge enabling MNCs to decrease the international complexities they face in an increasingly connected worldwide business environment, and it has been evolving over the past few years (Melissen, 2011). In this regard, Muldoon (2005) states that organizations are being held accountable for their activities more and more and need to build long-term relationships with stakeholders and to develop cooperative strategies accordingly. The existing body of knowledge about business diplomacy is scarce, however, and little empirical evidence exists. Therefore, it is essential for the this chapter to develop a clear, uniform, and understandable definition of the concept, in order to be able to identify the positive effects that international business diplomacy can have on firm performance.

Different Types of Business Diplomacy When reading about business diplomacy, it becomes clear that several authors have been using the term for different concepts. Thus, it is essential to distinguish different meanings of Business Diplomacy in the hope of finding an exhaustive definition. This chapter suggests four distinctive categories of business diplomacy: (1) Intrafirm Business Diplomacy, (2) Interfirm Diplomacy, (3) Home-Country Government Diplomacy, and (4) International Business Diplomacy.

Intrafirm Business Diplomacy. This specific type of business diplomacy has been advocated by London (1999), who suggests that business diplomacy is a method of cooperating with people in a way that gets things done efficiently. Managers and executives can thus also be encouraged to exert diplomatic activities inside a company, creating a specific management style that is based on "treating people with respect, being honest, recognizing and valuing differences, voicing agreement when appropriate and accomplishing goals" (London, 1999, p. 171). Saner, Yiu, and Søndergaard (2000) posit that the attributes of diplomatic managers are comparable to those of political diplomats who need to take responsibility for themselves and others and treat everyone with respect.

Interfirm Diplomacy. The second type of diplomacy focuses on the interaction between businesses within their sector. A large body of research exists in the field of interorganizational network relations (Hagedoorn & Duysters, 2002; Osarenkhoe, 2010), but this has not yet been related to the field of diplomatic activities. Nevertheless, it is clear that nurturing nonredundant ties with other international network actors should have a diplomatic basis. Positive effects of network relations can increase a company's competitive position by granting access to valuable information through the sharing of relevant knowledge (Goerzen, 2007; Hagedoorn & Duysters, 2002; Osarenkhoe, 2010).

Home-Country Government Diplomacy. The third type of diplomacy involves governments as the main actors making use of representatives who promote their home country abroad (Ruël, 2013) and is probably the most popular one. Naray (2008) postulates that countries exercise activities such as business promotion and facilitation in the interest of advocating business developments so that jobs can be created and economic growth triggered. Furthermore, these actions can aid local business to operate in different countries by reducing the risk of entering new markets (Naray, 2008).

International MNC Diplomacy. The last type of diplomacy that will be discussed is international business diplomacy, including activities by global companies themselves. As Saner and Yiu (2005) suggest, business diplomacy "pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, government, political parties, media and other representatives of civil societies) and external constituencies" (p. 302). MNCs are global actors that have their own set of responsibilities toward various groups of stakeholders and need to develop their own representational mechanisms within the global markets (Muldoon, 2005).

International Business Diplomacy The concept of diplomacy that will be discussed throughout this chapter is based on the view of international MNC diplomacy. Goodman (2006) posits that an agreement now exists that global businesses need to act on their own in order to solve problems that have usually been dealt with by governments. Globalization has resulted in complex international relations that enabled nonstate actors such as NGOs and transnational companies to enter state-to-state diplomacy relations (Bayne & Woolcock, 2011; Saner & Yiu, 2003). Thus, globally acting businesses cannot further extenuate their political influence as well as downplay the consequences of their activities affecting a broader range of stakeholders (Muldoon, 2005). Global markets are still largely unregulated, implying that the business and political environment can change rapidly, which stresses the importance to MNCs of "surviving" through building bridges with various stakeholders and starting diplomatic offensives on their own (Muldoon, 2005; Ruël, 2013; Saner et al., 2000). Saner et al. (2000) state that transnational companies increasingly form cross-national alliances to strengthen their position and to effectively interact with different stakeholder groups. Muldoon (2005) adds that these interactions need to be based on building long-term relationships that encourage the development of cooperative strategies. It has further been argued by Ruël (2013) as well as by Saner et al. (2000) that MNCs should set up business diplomacy management functions that deal with "scanning the business environment, interacting with multiple stakeholders and engaging in diplomatic missions, under the supervision of the CEO" (Ruël, 2013, p. 38). Yet a recent study of eight Dutch MNCs by Ruël, Wolters, and van der Kaap (2013) revealed that none of the companies applied diplomacy activities at the headquarters level.

The definition that will be used here was suggested by Ruël et al. (2013) and Ruël and Wolter (2016):

> Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment.

Definition of Firm Performance

The concept of firm performance has been increasingly and widely discussed in the scientific literature during the past few years, since it is considered of major interest to business scholars (Hult et al., 2008; Wagner, 2012). Firm performance in general has been defined by the Business Dictionary (n.d.) as "an analysis of a company's performance as compared to goals and objectives" and is commonly analyzed by three performance outcomes: (1) Financial performance, (2) Market performance, and (3) Shareholder value performance. Nevertheless, scholars such as Miller, Washburn, and Glick (2013), as well as Shenhav, Schrum, and Alon (1994), postulate that firm performance is generally problematic and abstract and lacks a clear definition. Furthermore, it has been found that no single measure clearly dominates others around the world (Barton, Hansen, & Pownall, 2010). Hansen and Wernerfelt (1989) posit that performance measures can commonly be split into two major streams of research, concerning economic and organizational models. Their results showed that organizational factors explain a firm's profits two times better than economic factors. The economic model integrates determinants such as industry characteristics, a firm's position compared to competitors, as well as the available resources. Organizational determinants include an organizational climate involving all kinds of stakeholders. With regard to stakeholder firm performance determinants, Wagner (2012) pointed out that dimensions such as working conditions and wages might be crucial, whereas shareholders prefer to use stock prices, dividends, and profits as key performance indicators of the firm's well-being (Fiordelisi & Molyneux, 2010; Wagner, 2012). Respecting these financial performance measures, Chandra and Ro (2008) argue that it is valuable to observe revenue streams in the long term. Notwithstanding the existence of several performance measures, it can be assumed that the ultimate goal of good firm performance is to ensure the firm's survival in the long run (Wagner, 2012).

Conclusion on Firm Performance Since the literature review suggests that several performance measures exist, the definition used in this chapter will also be broad. This means that both so-called "hard" financial and "soft" nonfinancial performance indicators are of value in identifying possible positive outcomes of international business diplomacy. Financial indicators can include key performance indicators such as Return on Investment (ROI), Return on Assets (ROA), and cost of shares, while nonfinancial indicators may encompass soft factors such as company image, reputation, and knowledge.

Relationship between Business Diplomacy and Firm Performance

Now that both concepts have been elaborated independently, it is interesting to take a closer look at the conceptualization within the existing literature. As a short recap, international business diplomacy is about first establishing long-term relations, which then in turn should have a positive impact on firm performance. Since there is little scientific literature on international business diplomacy, the body of knowledge dealing with the correlation of the effect on firm performance is even scarcer. Nevertheless, a few authors have suggested several positive outcomes that can be traced back to the underlying concept. Goerzen (2007) as well as Creusen and Lejour (2013) state that MNCs have motives to establish long-term ties and alliances in order to improve foreign market access and to reduce entry costs, which are often particularly high in developing countries with weak institutions and different cultural backgrounds. Ordeix-Rigo and Duarte (2009) posit that it has become viable for companies to receive a license to operate through reaching accordance with stakeholder expectations. This perceived legitimacy could in turn lead to power and authority. Another theory suggests that global companies can influence political decision-making and therefore alter current legislations to their own advantage (Oliver & Holzinger, 2008). Lastly, a study by Ruël et al. (2013) revealed that out of eight MNCs interviewed in the Netherlands, all believe that the concept of business diplomacy can enable the creation of favorable business opportunities. In accordance with that particular empirical study, a theoretical model has been developed that implies positive performance outcomes such as an increased ROA, ROI, and government-derived revenues (Figure 1).

However, the expected outcomes of the model have not yet been tested, and it is therefore interesting to take a close look at the scientific literature for concepts that focus on related activities concerned with business diplomacy. The definition of business diplomacy implies that companies need to build upon relationships with foreign government representatives and nongovernmental stakeholders (Ruël et al., 2013). Therefore, the following abstracts will take a separate look at related concepts that have been widely discussed in the literature, namely: (1) MNC–NGO Relations, (2) MNC–Host Government Relations, as well as (3) MNC–Local Community Relations (Figure 2).

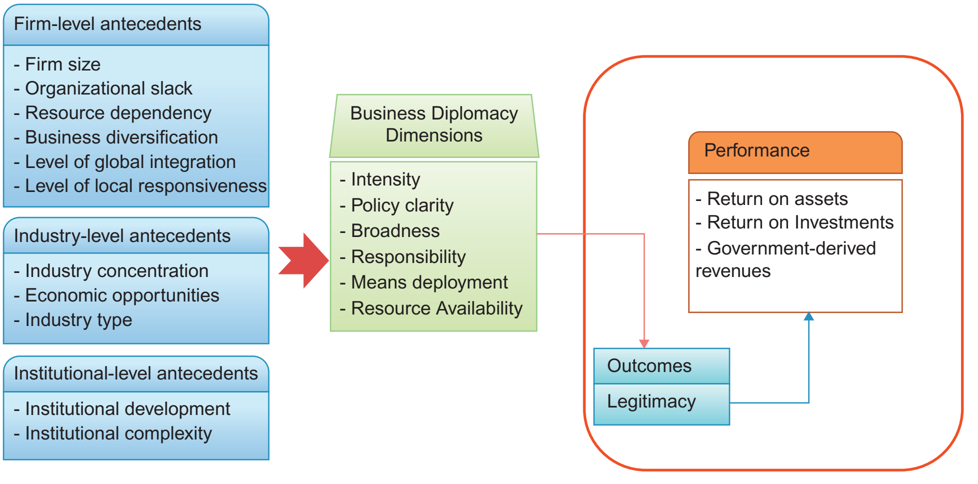

Figure 1: Theoretical Model on Business Diplomacy by Ruël et al. (2013).

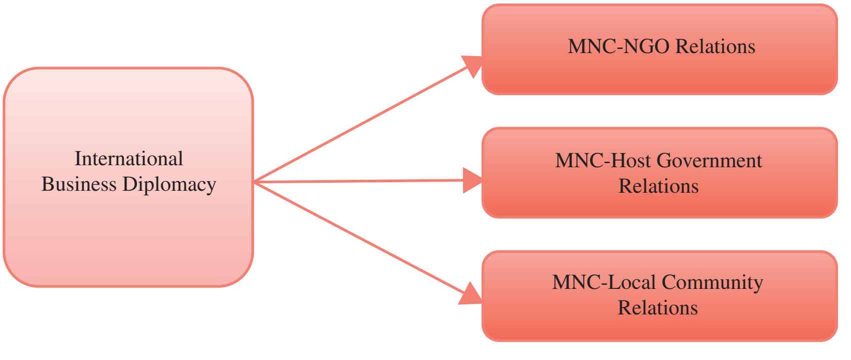

Figure 2: Separation of Topics According to Business Diplomacy Activities.

MNC and NGO Partnerships

Importance of NGOs in the Business Environment NGOs have simply been defined by Teegen, Doh, and Vachani (2004) as "private, not-for-profit organizations that aim to serve particular social interests by focusing [...] on social, political, and economic goals, including equity, education, health, environmental protection, and human rights" (p. 466). The literature suggests that NGOs have emerged especially since the 1990s as dominant actors and influence business practices in terms of ethical responsibilities toward society (Doh & Teegen, 2002; Millar, Choi, & Chen, 2004; Perez-Aleman & Sandilands, 2008). NGOs have been identified as the most important external stakeholders that MNCs must face nowadays (Saner & Yiu, 2005), which has consequently resulted in a growing number of partnerships and alliances between NGOs and MNCs on the grounds of the realizable benefits (Marano & Tashman, 2012; Perez-Aleman & Sandilands, 2008; Van Huijstee & Glasbergen, 2010). According to Perez-Aleman and Sandilands (2008), visible signs of the increased number of partnerships are, for example, "standards, certification, eco-labeling, social reporting, and Fair trade products" (p. 24).

Effects of MNC−NGO Partnerships on Firm Performance Since the emergence of NGOs in the business environment and their implied dominant role, relationships between host governments and MNCs have become complicated (Doh & Teegen, 2002). Thus, MNCs face challenges when entering new markets and may lack the resources that are inherent in NGOs' capabilities (Dahan, Doh, Oetzel, & Yaziji, 2010). With regard to these capabilities, the literature suggests that NGOs have social capabilities and specific knowledge that is of interest to MNCs (Millar et al., 2004). NGOs obtain specific knowledge about, for example, foreign markets, nonmarket stakeholders, submarkets, values, or sensitivity (Millar et al., 2004; Oetzel & Doh, 2009). Furthermore, Oetzel and Doh (2009) state that NGOs are usually regarded as trustworthy within society and have stronger connections with as well as knowledge about nonmarket stakeholders. Waddel (2000) posits that NGO relationships can be useful for MNCs in further distinct areas, including the reduction of risks since information trickling can warn about possible stakeholder conflicts. Moreover, costs can be reduced through enhanced transparency, new products can be designed on the basis of underlying customer needs, employees can be trained in cultural topics, and last but not least, challenges and barriers to entry can be built for others through establishing strong networks. Marano and Tashman (2012) support the view of Waddel that transparency can be increased, resources can be shared, new capabilities can be developed, and new learning opportunities accessed. Pertaining to Waddel's mentioned cost reductions, Vachani, Doh, and Tegen (2009) postulate that MNCs can decrease transaction costs related to problems with operations and reaction to criticism by engaging with NGOs. Marano and Tashman (2012) add another positive feature related to this kind of partnership, dealing with social legitimacy. The authors suggest that MNCs can gain this kind of legitimacy through engaging with NGOs, which enables access to important resources and increases chances of survival of a firm in the market. Consequently, partnerships between MNCs and NGOs can combine resources and strengths as well as provide MNCs with the necessary resources and channels to different worlds (Waddel, 2000; Yaziji & Doh, 2009). They can provide MNCs with the ability to remain sensitive to demands and expectations of the market (Saner & Yiu, 2005), as well as help them to pursue strategic goals (Oetzel & Doh, 2009). Finally, MNCs' ability to survive in society as well as the long-term viability of investments have been found to depend on successful relations with NGOs (Doh & Teegen, 2002; Millar et al., 2004).

Conclusion on MNC–NGO Partnerships The previous literature review found various positive effects for MNC firm performance such as shared knowledge about nonmarket stakeholders, risks, and cultural backgrounds, increased transparency and sensitivity to local demands, as well as social legitimacy and trustworthiness, which are based on a good partnership with NGOs. Nevertheless, there are still some underlying risks such as the different organizational structures and values as well as a lack of equivalent experience that need to be controlled by MNCs (Dahan et al., 2010; Millar et al., 2004). Despite the evident positive effects, many relationships have been found to remain rather adversarial (Marano & Tashman, 2012).

MNC–Host Government Relations

Importance of Host Governments in International Business So-called MNC–Host Government relations (MGRs) have evolved during the past few decades (Luo, 2001; Malyshkov, 2013; Ramamurti, 2001). During the 1960s and 1970s, the relationship was rather tense, and host countries were simply seen as another market and source of cheap labor (Almeda & Pehne, 2004; Ramamurti, 2001). Nowadays, authors such as Almeda and Pehne (2004) and Ramamurti (2001) posit that host governments are now seen as potential sources of new knowledge, and the relationships are dynamic and two-tiered. Furthermore, influences that increased through globalization led to a growing impact of governmental authorities (Malyshkov, 2013). This development, among others, has led to a growing interdependence between MNCs and governments (Luo, 2001). Another activity that is part of MGRs is Corporate Political Activity (CPA), which has received increasing attention during the past two decades; many companies have started to make use of activities that influence legislation (Lord, 2000). CPA can broadly be described as the efforts of a company to manage and influence political entities (Hillman, Keim, & Schuler, 2004). Common CPA activities conducted by MNCs fall into two categories: direct activities that are usually carried out by so-called internal political action committees (PACs) that financially contribute to campaign contributions; and indirect activities including lobbying that aim at influencing political decisions (Hansen & Mitchell, 2000; Hill, Kelly, Lockhart, & Ness, 2013; Lux, Crook, & Woehr, 2011). These activities show that companies aim at combining tactics in order to alter government policies to their own advantage (Hillman & Hitt, 1999; Oliver & Holzinger, 2008). In general, Luo (2001) further suggests that MGRs are long-term oriented and draw attention to further cooperation, seeking joint payoffs and the accomplishment of mutual goals (Luo, 2004). In this regard, the literature suggests that cooperations are continuing to grow (Luo, 2001). It is important to keep in mind that host government policies can impose severe constraints on MNC operations (Moon & Lado, 2000).

Effects of MGRs on Firm Performance The literature suggests that MNCs experience differing amounts of government intervention in, for example, regulatory policies, based on their ability to influence the host governments (Luo, 2001; Moon & Lado, 2000). Ramamurti (2001) posits that developing countries in particular have established mechanisms to screen entries of MNCs and accordingly to regulate their operations. A poor relationship with governments can thus have negative outcomes for MNCs with regard to better ways of conducting business (Sanyal & Guvenli, 2000). This can be evident in rapidly changing policies, the absence of clear-cut rules, as well as uncertain procedures. Hence, Sanyal and Guvenli (2000) state that foreign firms try to minimize these negative effects and receive assistance instead from the host country. Both MNCs and host governments have sources of bargaining power that increase the likelihood of smoothly working cooperations. Ramamurti (2001) summarizes MNC sources of bargaining power as: "Technology, product differentiation, ability to bring in capital, exports, product diversity, worldwide size/scale, potential to play countries against each other" (p. 26). This kind of power can be founded on resources, technology, product differentiation as well as diversification, and their ability to increase exports (Luo, 2001; Ramamurti, 2001). Host country bargaining sources on the other hand are: "granting access to home market; to natural resources, to local labor or other resources, incentives, potential to play MNCs against each other" (Ramamurti, 2001; p. 26) and are based on their control of potential market access (Luo, 2001). Well-functioning MGR relations thus can contribute in various ways to an improved MNC firm performance. If governments are willing to collaborate, they can engage in establishing transparent rules, developing favorable tax laws, removing restrictions on transfers, and ensuring consistent policies (Sanyal & Guvenli, 2000). With regard to CPA, companies can gain access to political information, which reduces uncertainty and increases the ability to survive within the particular environment (Schuler et al., 2002). Furthermore, larger companies often engage more in the political arena since visibility also increases with size (Agrawal & Knoeber, 2001; Brown, Helland, & Kiholm-Smith, 2006). As the political circumstances become more complex, a sound position within policy networks can strengthen the competitive advantage of the company itself (Oliver & Holzinger, 2008; Rizopoulos & Sergakis, 2010). Thus, companies trying to shape public policy usually aim at reducing uncertainty and threats as well as create new opportunities (Lord, 2000). This can lead to significant tax relief for lobbying firms (Richter, Samphantharak, & Timmons, 2009), which amounts to $220 tax relief for each dollar of lobbying expense according to Alexander, Mazza, and Scholz (2009). In addition, companies can acquire price support or ameliorated tariffs (Hansen & Mitchell, 2000). Lux et al. (2011) conducted a large meta-analysis which revealed that CPA has a positive effect on firm performance in terms of ROI, ROA, and government-driven revenues. The shaping of host country law by MNCs can therefore positively influence MNC firm performance with regard to asset efficiency, financial return, and market expansion (Luo, 2001). Almeda and Pehne (2004) further propose that MNCs can learn from host governments and generate geographically localized knowledge that can be a source of value creation. Last but not least, Malyshkov (2013) suggests that risk allocation between both parties can be more efficient.

Conclusion on MGRs As the literature review suggests, MGRs do influence MNC firm performance positively, since government policies can be shaped, market entry facilitated, important information shared, and financial gains made. Good relations are very important to a foreign firm (Sanyal & Guvenli, 2000). Nevertheless, the development of forms of cooperation between business and governments is still evolving, and business diplomacy needs to build upon relations based on confidence and responsibility (Malyshkov, 2013).

MNC Relations with Local Communities

Importance of Local Community Relations in the Business Environment Relations between businesses and society have been of major importance for years (Altman, 1999) and have led to an increasing input of corporations in terms of time and resources into the support of community involvement projects (Hess, Rogovsky, & Dunfee, 2002). A uniform definition of communities does not exist within the field of social sciences, but it has been agreed that it entails networks of people with common or shared characteristics that are based on similar dimensions of geography and identity (Calvano, 2008; Goddard, 2005). Engagement with local communities has been widely discussed in the area of Corporate Social Responsibility (CSR), which has gained increasing relevance due to the fact that scholars are exploring the relation between CSR and economic performance (Calabrese, Costa, Menchini, Rosati, & Sanfelice, 2013). Even though the popular scholar Friedman (1970) advocated that business should just care about making profits, corporations nowadays increasingly believe that they have a dual purpose, namely to be socially responsible and economically successful (Altman, 1999). This view was initially promoted by Freeman (2010), who believes that the organization needs to be responsible toward all kinds of stakeholders (Metcalfe, 1998). Goddard (2005) posits that governments are thought not to have the capabilities to help society anymore, and thus scholars argue that corporations must think beyond economic returns and use their large influence in developing countries (Ansari, Munir, & Gregg, 2012; Goddard, 2005).

Effects of MNC−Local Community Partnerships on Firm Performance Porter and Kramer (2002) found that companies today are increasingly dependent on local partnerships. Corporate Community Relations (CCR) within corporations are responsible for tasks such as community outreach, contributions, and volunteerism (Altman, 1999). Nevertheless, Hess et al. (2002) posit that the tasks have expanded and become more complex in the past few years. CCR has been increasingly used as a strategic tool, which can identify economic benefits (Altman, 1999). As mentioned above, the stakeholder theory by Freeman implies that benefits can only exist when all stakeholders and thus the complete community are included in a company's operations (Goddard, 2005). Goddard (2005) points out that these relations will always exist and therefore need to be taken care of. These relations thus represent significant positive effects for the company itself. For example, Goddard (2005) finds that the gap between the commercial arm of the company and the community can be reduced, bringing the company and the community needs closer together. Calvano (2008) suggests that companies can face major conflicts including financial and reputational drawbacks when the interests of communities and MNCs collide. Therefore, organizations are increasingly embedding their local community strategies for the long term since they can obtain a license to operate within the market and strengthen their reputation as well as corporate image (Goddard, 2005; Hess et al., 2002). With regard to the corporate image, companies can communicate their activities to the stakeholders, leading to a competitive advantage through soft sources (Hess et al., 2002). Another advantage is the access to valuable knowledge, leading to possibly better innovation, or important information about the market (Goddard, 2005; Samoff & Stromquist, 2001). Last but not least, the literature indicates that community relations can be used for cause-related marketing efforts and therefore include public relations and advertising (Goddard, 2005; Porter & Kramer, 2002).

Conclusion on MNC−Local Community Partnerships In conclusion, we can assume that these partnerships can lead to several benefits for the corporation, such as access to valuable information, a good brand image, enhanced marketing possibilities, and a reduced risk of conflict. Nevertheless, executives still have difficulty in justifying the benefit of charitable expenditures (Porter & Kramer, 2002), and communities are still the stakeholder group mentioned least (Calvano, 2008). But corporations must be sensitive to local needs (Hess et al., 2002). Means must be found to show and underline the value of this kind of relationship (Goddard, 2005).

Threats to International Business Diplomacy Activities

While engaging in close, long-term relationships with government representatives and different organizations such as NGOs as advocated by international business diplomacy, other stakeholders and the general public might perceive these activities as not quite "kosher." Zabyelina (2013) states that advantages gained through diplomatic agents have recently led to sharp criticism.

Definition of Bribery and Corruption

Globalization, and thus international business relations, have increased the attention paid to issues such as bribery and corruption (Baughn, Bodie, Buchanan, & Bixby, 2010). D'Souza (2012) posits that bribery includes payments that enable firms to access an unfair or unwarranted advantage, which can include import permits, licenses to operate, or contracts with governments. Corruption has been defined as the abuse of public power for a private and positive gain (Petrou & Thanos, 2014; Rodriguez, Siegel, Hillman, & Eden, 2006). Baughn et al. (2010) suggest that not only the demand side but also the supply side should be examined, including the willingness of MNCs to provide bribes.

Conclusion and Relevance of Antibribery Mechanisms

It is widely agreed that MNCs routinely bribed foreign public officials until the end of the 1990s (D'Souza, 2012). The implementation of laws through the Organization of Economic Cooperation and Development (OECD) in 1997 lowered the propensity of MNCs that act within these laws in foreign countries (Baughn et al., 2010; D'Souza, 2012). Nevertheless, companies in general found it difficult to establish strategies dealing with corruption (Rodriguez et al., 2006). When considering international business diplomacy activities as suggested by this chapter, it is very important to refrain from activities associated with corruption and bribery. Only then will the positive effects on firm performance persist in the long term.

Research Methodology

The literature review has suggested several findings with regard to the positive effects of business diplomacy and the underlying concepts on firm performance. In order to test these suggestions, qualitative data were obtained in the form of multiple exploratory case studies with MNCs. These case studies were based on interviews with large MNCs from Germany, Switzerland, and the United Kingdom; all embedded in distinctive industry environments. The companies that were approached needed to meet certain criteria in order to be valuable for the results of this study. These criteria include the fact that the MNCs are global actors, operate in more than ten countries worldwide, receive at least a quarter of their revenue from outside operations, and already engage in public affairs and CSR. The selected companies were then approached by e-mail, telephone calls, and Xing. The aim was to contact employees in positions like public affair executives since their tasks are increasingly concerned with the management of interactions between a company and its stakeholders (Muldoon, 2005). Semistructured interviews were conducted by telephone, took about 40–60 minutes, and followed a variable interview protocol that can be found in the appendix. This means that each interview proceeded differently in order to receive detailed knowledge about various important topics. At the

Table 1: Interview Partners.

MNC	Industry	Active in >10 Countries	Corporate Employees
Heating industry MNC	Heating systems	***	***
DPDHL	Mail and logistics	>220	55,000
Insurance MNC	Insurance	***	***
Telecommunication MNC	Data networking and telecommunication	***	***
Medical technology MNC	Medical technology	***	***

***The three 'stars' indicate that this company meets these criteria.

beginning of each interview, the interviewees were asked about what they understood by the concept of international business diplomacy, so that a general image could be drawn. Afterwards, the definition of business diplomacy used in this chapter was explained in detail, enabling the respondents to give focused and accurate answers. The companies that took part in this study are listed in Table 1. As they were offered the choice to remain anonymous, the company names will not be shown and are replaced by the specific industries.

Results

In order to be able to generate an analysis from the five qualitative case studies, the data sets are subdivided according to the areas already mentioned in the literature review. This implies that the views of all five MNCs will be classified according to the topics: (1) MNC–NGO Relations, (2) MGRs, (3) MNC–Local Community Relations, and (4) Threats to diplomatic activities. The overall opinion about international business diplomacy will be elaborated further in the conclusion.

MNC–NGO Relations

The previous literature review indicated that MNC–NGO relationships may lead to several advantages for MNC operations. They include valuable information derived from the twofold market role of NGOs, as well as reputational benefits in terms of increased trustworthiness and transparency, employee training on cultural issues, and local demand sensitivity.

To What Extent Do NGO Relationships Exist within the Company? All five MNC respondents stated that they are actively involved in various relations with NGOs and other charitable organizations. The Heating Industry MNC, for example, has about 200 relations with organizations, associations, or establishments. Common NGOs it has worked with include WEF, Red Cross, Greenpeace, and Save the Children. DPDHL follows the principle of subdividing its charitable activities into three main areas: (1) Go Green – Environmental protection; (2) Go Teach – Education; (3) Go Help – Emergency Aid. The Telecommunication MNC pointed out that companies are often cautious about relations with NGOs such as Amnesty International or Greenpeace since they do not want to reveal too much.

How Do These Relationships Work? The interviews revealed that MNC–NGO relations work quite differently in the interviewed MNCs. DPDHL, and the Insurance MNC, for example, stated that relations are based on mutual discussion points such as environmental protection and are established when the MNC is seen in a "positive light." The Heating Industry MNC, on the other hand, has only a few sponsoring relations and tries to be a member of organizations if the rules allow joining and thus just pays membership subscriptions. The Insurance MNC stated that it often takes part in investigations and rankings that are conducted by NGOs. Furthermore, relations differ according to varying local conditions and underlying cultures. Within the Telecommunication MNC, no official program about NGO relations exists. Employees within the organization usually make requests for relations, and a questionnaire has been developed to make sure that there are no personal ties between customers or employees and the NGO to deflect any possible link to corruption. Concerning the strong relations mentioned in the literature review, the Telecommunication MNC interviewee posited that NGOs are often just interested in donations, since they have a special tax exemption status. Thus, the relations are usually within the area of CSR and involve loosely talking about connected topics as well as donating. The CSR activities imply that it is valuable to try to help by using their own Telecommunication products. DPDHL and the Telecommunication MNC further underline that it is highly important to base discussions on facts and a reasonable contact.

Who Is Involved within These Relationships? The answers to this question were quite diverse. Within DPDHL a central unit guides the activities since the relations have a broad spectrum, including innovation within environmental protection or CO_2 reduction, and must be communicated throughout the whole organization. Within the Heating Industry MNC on the other hand, everyone in the hierarchy could be involved with relations since they are separated according to topics. In the Insurance, Medical Technology, and Telecommunication MNCs, the CSR unit also guides this type of relations.

Which Benefits Do These NGO Relations Have on the Firm Performance? Four out of five MNCs agreed that MNC–NGO relations can entail several benefits. DPDHL, for example, stated that it is good to have a contact person one can turn to within NGOs and that this makes it easier to help efficiently during catastrophes. The Heating Industry MNC stated that benefits vary based on the diversity of NGOs, but that the main benefits can be summarized as: (1) Knowledge transfer with the aim to learn from each other, (2) Positioning as a sustainable company, as well as (3) Positioning of corporate interests. The Insurance and Medical Technology MNCs posited that NGO relations are always a give-and-take situation. For example, MNCs can generate knowledge through experience about dealing with certain situations, such as the creative solution approaches in different countries and cultures, as well as meeting obligations and managing the impact on society and the environment. The Insurance MNC further proposed that it is handy to take part in rankings in order to create a certain consciousness about corporate responsibility and to be given an opportunity for improvement. Furthermore, the MNC believes that the corporate image can be strengthened. The Telecommunication MNC, on the other hand, just sees benefits in regard to cooperation for CSR activities, including consultations for the establishment of environmental policies in order to increase one's social and environmental reputation.

Conclusion on MNC–NGO Relations The literature review highlighted the fact that NGOs have social capabilities and specific knowledge that can be highly valuable to MNCs entering a market. Nevertheless, this view was only supported by the Insurance MNC, which stated that it is possible to approach NGOs like the Red Cross for market information such as the underlying local structures in order to be able to reach the population. DPDHL and the Telecommunication MNC, on the other hand, clearly stated that they do not believe that NGOs facilitate market entry. To receive information, they prefer to use local representatives, establish local offices with national employees, or contact national trade organizations. Furthermore, both MNCs pointed out that some MNCs might only donate in order to receive a clean image and that not all NGOs should be viewed as trustworthy. Nevertheless, the literature review supported the idea that MNCs can strengthen their corporate image and position by interacting with NGOs. This view was only suggested by two out of five MNCs. As the literature review further indicated, problems may arise due to different company structures and goals, which was supported by the Telecommunication MNC, as it stated that often only a few points of connection exist between the parties. Thus, the analysis underlines that relations often stay rather adversarial, even if benefits exist such as knowledge transfer, strengthening of corporate image, more efficient help during catastrophes, and an increased consciousness about CSR.

MNC–Host Government Relations

The literature review indicated that the positive effects of MNC host–government relations nowadays are that policies can be shaped, market entry facilitated, and important information shared.

To What Extent Do Government Relations Exist within the Company? All five MNCs stated that they actively engage in government relations that are usually based on classic lobbying activities. The Heating Industry MNC only focuses systematically on local governments but is intensively networking on the European level. The Medical Technology MNC also engages in campaign contributions, especially in the United Kingdom.

How Do These Relationships Work? The Insurance as well as Telecommunication MNC specifically pointed out that it is highly important to be involved as early as possible in dialogues on upcoming themes with different kinds of stakeholders. Thus, reasonable public affairs should already start before the legislation processes and should be embedded in the development of strategies. All five companies engage in classic lobbying activities and try to base their activities on transparent, long-term relations. The Heating Industry MNC stated that it is trying to develop and expand into political networks and especially trying to cooperate with specialized ministries. DPDHL said that it generally serves the public, and thus the possibility exists for them to tell governments about what would be good for the company, which governments can keep in mind when they are establishing new policies. The Insurance MNC pointed out that companies should not only care about policy making, but engage in knowledge transfers with specific ministries. Companies should keep in mind that the main aim of politics is normally to protect citizens. A further interesting aspect that was mentioned by DPDHL is that government relations of MNCs are often very country-specific. For example, it is more common for EU companies to act transparently compared to US MNCs.

Who Is Involved in These Relationships? Four out of the five MNCs run their governmental relations through a centralized unit. Within the Insurance and Telecommunication MNCs, as well as DPDHL, the government relations or public policy division is involved with these relations. The Heating Industry MNC has a narrowly defined group of persons working on these relations that is affiliated to the CEO. Only the Medical Technology MNC runs these relations in a decentralized manner over the various company groups.

Which Benefits Do Those Host Government Relationships Have on Firm Performance? All of the five MNCs believe that it is important to engage in political activities since laws and policies can often be influenced. The Medical Technology and Telecommunication MNCs underlined that global topics that affect their business need to be shaped by the businesses themselves, especially, as mentioned by the Telecommunication and Insurance MNCs, to provide legislation with a practical point of view. As the Heating Industry MNC stated, this can have the effect of participating in the creation of framework conditions and preventing polices that have negative effects on business. Nevertheless, DPDHL and the Insurance MNC stressed that they are often just one of many, and associations can act as an "anonymizer" of various MNC industry opinions. Another benefit of MGRs that was mentioned by two of the five MNCs (Heating Industry MNC and DPDHL) is that they aim at engaging in top-knowledge transfers. This includes receiving information early on from politics as well as sharing information as early as possible with specific ministries. The Insurance MNC pointed out that it can be key to be an innovator in important topics that need to be discussed on a global scale. The Telecommunication MNC posited that while engaging in political activities, the base is established by industries, which work together in order to standardize and regulate specific topics so that they can work on a global basis. These cross-industry relations can thus be the largest potential influence alongside lobbying activities.

Conclusion on MNC–Host Government Relations The literature review suggests that companies are able to influence and shape government laws through lobbying activities, which is also supported by the underlying qualitative analysis. These activities may thus in turn lead to firm performance advantages as mentioned throughout the review, such as asset efficiency, increased financial returns, market expansions, price supports, transparent rules, and consistent policies. Additionally, companies can receive political information early on and share their practical knowledge with specific ministries, which can be a source of value creation. The theoretical advantage that companies may also receive tax relief has not been supported by the qualitative analysis as companies such as the Medical Insurance and Telecommunication MNCs mentioned that they preferred to try to distribute their money more efficiently throughout tax-efficient countries. On the other hand, this result could also be the case since processes are more regulated in Europe and only allow specific possibilities to influence policies (DPDHL) as well as the fact that company opinions are usually bundled by associations. The aim of companies in this regard is to establish open and honest, long-term relations, enabling the MNCs to build upon a sound position within policy networks.

MNC–Local Community Relations

The literature review on these types of relations indicated that possible positive performance effects could include valuable information, a good brand image, and enhanced marketing possibilities.

To What Extent Do Local Community Relationships Exist within the Company? The five MNCs underlined the fact that community relations are an increasingly important topic, since they all engage in some way with their local stakeholders. The Telecommunication MNC posited that relations exist rather opportunistically, while the other four believe that local politics, supporting local projects, paying taxes, and being a responsible employer are part of their social responsibility in each of their international affiliations. DPDHL even tries to engage in topics that affect their employees locally such as noise control and labor laws, while the Heating Industry MNC established a foundation in 2010 that distributes local commitments uniformly.

How Do These Relationships Work? The majority of interviewees stated that applicants such as local community groups approach the Foundation Management Boards for sponsorships or donations. DPDHL as well as the Insurance MNC added that it is highly important to be involved with dialogues about topics that concern the public or that are based on local politics.

Who Is Involved within These Relationships? In this regard, the MNCs answered quite differently. The Heating Industry MNC handles these relations via the Foundation Management Board, while in the Medical Technology MNC, tasks are carried out by the CSR unit. DPDHL and the Telecommunication MNC stated that these relations happen individually with local branch representatives. The Insurance MNC initiates actions on a headquarters level but implements them in the different countries. For example, the MNC organizes yearly action weeks, where social activities such as painting the walls of a kindergarten are organized for every employee.

Which Benefits Do Local Community Relations Have on Firm Performance? The MNCs believe that this type of relation is also a give-and-take relation. DPDHL, the Heating Industry MNC as well Insurance MNC think that one key advantage is knowledge transfer, enabling MNCs to receive valuable information about local market opportunities as well as structures which may also reduce risk. Concerning the issue that MNCs can face major drawbacks when they get into conflicts with local communities, which was emphasized throughout the literature review, DPDHL tries to solve issues about, for example, the availability of branches and mailboxes in accordance with the local community. The Heating Industry MNC believes that the corporate positioning of interests and sustainability can be strengthened. The Telecommunication MNC states that most benefits are rather theoretical, and it is highly important that projects are based on the underlying activities of the company in order to have the possibility to receive more know-how. Furthermore, it can prove beneficial to invest in education to retain good future employees as well as conduct research. Another benefit for firm performance mentioned by the Telecommunication and Insurance MNCs is that activities that benefit local communities promote good public relations as employees are satisfied with the company they work for and thus are motivated to work harder. These activities can also strengthen the bonds between employees since they act together as a team while doing something good for the general public.

Conclusion on MNC–Local Community Relations The qualitative analysis indicates that the MNCs are rather restrained with regard to the positive effects community relations can have on their firm performance, which might be the case since communities are the least researched group of stakeholders according to the literature review. Nevertheless, the positive effects that have been indicated by the literature review have been somewhat supported by our analysis. Thus, we can assume that local community relations can lead to a valuable knowledge transfer, reduce conflicts and risks, strengthen the company's image, and improve internal public relations efforts. In conclusion, companies seem to identify with Freeman's view that each type of stakeholder should be involved, which was also communicated in all the interviews.

Threats to Diplomatic Business Activities

As mentioned in the literature review, companies are still struggling with regard to bribery and corruption issues. As the Insurance MNC suggests, people receive the impression that something is not "right" when actions are not transparent and entail one-sided benefits. All five MNCs posited that the threat of linkage to corrupt activities is always present and that they need to be careful about being as transparent as possible and to imply a functioning compliance system to prevent abuse. The Telecommunication MNC saw risks in the relationship with NGOs, since connection points are rare and companies are careful not to reveal too much. DPDHL and the Insurance MNC further suggested that corrupt activities would not create value in the long term, since activities that get into the media can damage the company's image severely. Two MNCs mentioned that NGOs may be corrupt themselves and take donations in order to leave MNCs alone, which underlines the importance of evaluating the purpose and long-term value of any kind of relation. Last but not least, the Insurance MNC stated that it is advisable to show that its own interests and activities are part of overriding purposes that serve a wider group of people.

Conclusion

The aim of this research was to answer the following research question:

> Can international business diplomatic activities of MNCs affect their performance?

The analysis of the relevant literature defined the concept of international business diplomacy as used in this chapter as "establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment" (Ruël et al., 2013). Effects on firm performance have been classified into the outcomes of three distinct areas that are part of international business diplomacy activities. After a sound literature review on each of these topics, the findings were tested by conducting five semistructured interviews with large MNCs. The results of the literature review and qualitative data were analyzed and the underlying findings can be seen in Figure 3.

The model shows that international business diplomacy activities do have a direct positive effect on firm performance. The analysis revealed that the distinct activities that are part of international business diplomacy can lead to several positive soft-factor influences on firm performance, which in turn can evolve into hard financial gains in the long run. The model is surrounded by guidelines, enabling the full unfolding of business diplomacy's potential. MNCs can only take full advantage of the positive outcomes if they have clear and transparent operations, are open for discussion, focus on the long term, and engage with each type of

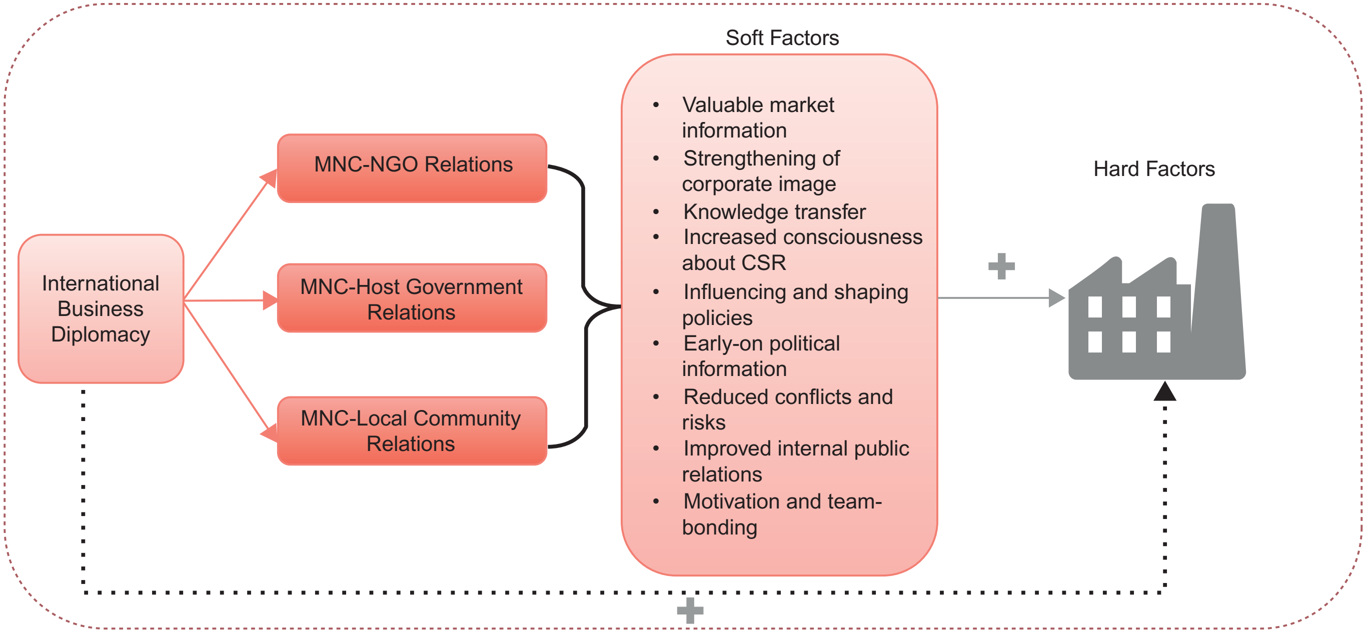

Figure 3: Positive Effect of Business Diplomacy on Firm Performance.

stakeholder. Therefore, the research supports the view that business diplomacy has a direct effect on firm performance. In this regard, four out of the five MNCs clearly stated that business diplomacy activities have a positive effect on their company. The Insurance MNC further pointed out that corporate diplomatic activities can be utilized in various dimensions, such as (1) Regulatory Intelligence, (2) Market intelligence, (3) Geo-political intelligence, and (4) NGO Intelligence. The Insurance MNC and DPDHL stress in particular that it is highly important in diplomatic relations to establish trust through long-term relations. The goal is to be involved as early as possible, to maintain a good relationship, and to nurture relations as best as possible since it can take time to see results, especially with diplomatic activities. Furthermore, the core of diplomacy is to be constructive and still advocate one's own interests. Thus, the advantages of business diplomacy activities can only evolve if time and effort are invested in establishing trust and in nurturing the network. In that respect, it might be valuable to establish a central unit to guide the various kinds of activities and ensure that soft-factor firm performance advantages evolve into hard financial gains in the long run.

Discussion

The research revealed that diplomatic activities have a direct influence on the soft factors of firm performance. These factors can include company image, reputation, and knowledge, as mentioned within the theoretical framework. These soft performance influencers can in turn lead to hard financial gains in the long run. According to the scarce existing literature on business diplomacy, these findings support the positive effects of international business diplomacy and underline the importance of putting this concept into a higher perspective for global companies. The interviews revealed that MNCs value diplomatic activities nurturing networks with different kinds of stakeholders as well as the establishment of long-term relations. The term "business diplomacy" has been seen by the MNCs as a somewhat theoretical umbrella term, encompassing activities that are often done when needed by varying departments. Since the importance of international diplomacy has been highlighted by this chapter, we explored the use of a central unit located on the headquarters level that oversees all activities having something to do with business diplomacy. The qualitative analysis showed that the MNCs have divergent views on this topic. For example, the Telecommunication, Heating Industry as well as Medical Technology MNCs posited that it is difficult to distinguish whether a central unit would be valuable or not. For example, the central unit may be too far from the actual business or employees may not see the outcomes of the long-term activities. It might be more important to execute and monitor existing tasks first as well as to establish intercultural competencies at each location with regard to employing regional executives. Nevertheless, the Heating Industry MNC stated that a central unit should exist to control these tasks. The Insurance MNC stressed the great importance of a central unit, especially for companies operating globally. The main advantage mentioned is that the company needs to face a variety of stakeholders with a unique overall message. Thus, it would be handy to define the interfaces and responsibilities of each stakeholder contact. The next sections will discuss the relevance of this chapter, as well as point out limitations and give recommendations for future research.

Scientific and Practical Relevance

This chapter has both scientific and practical relevance, due to the fact that the body of literature about international business diplomacy is still small. Companies are increasingly faced with complex international relations and are looking for opportunities to use these complexities to their own advantage. Even if the literature about business diplomacy is slowly growing, a conceptualization of the positive effects on firm performance has been missing. This chapter aims at providing managers with incentives to make use of this concept. Thus, it has practical relevance for managers of MNCs as well, since the concept of business diplomacy has been found to create long-term value for their operations and positively affects firm performance. In this regard, MNCs are able to manage their complex international relations more efficiently and can use their nonredundant ties with stakeholders to gain advantages such as inside information, policy alterations and a good reputation. The study underlines the fact that the integration of a general business diplomacy unit on the headquarters level can be valuable for globally acting companies.

Limitations

The literature review as well as the qualitative research are subject to several limitations. First of all, the literature review was based on secondary literature written in English, which may narrow the overall perspective of this research. The study was also limited in time, reducing the scope and scale of the thesis. A consequence of this is the limited number of MNCs interviewed, leading to a lower significance of the outcomes. Only MNCs from Germany, Switzerland, and the United Kingdom were interviewed, and it might be interesting to increase the scope of this research. In this regard, DPDHL mentioned that processes are more regulated within Europe and only allow for specific possibilities to influence policies, as compared to the United States, for example.

Recommendations for Future Research

As a recommendation for future research, we advise addressing the underlying limitations of this chapter. Thus, it is important to extend the number of MNCs investigated in order to achieve more significant results. Also, it would be valuable to research the differences of effects in, for example, the United States and Europe. Lastly, it would be highly interesting to conduct real-life case studies with MNCs that are setting up diplomatic activities units on the headquarters level and to see how their performance changes in terms of financial and nonfinancial returns.

The Chapters in This Volume

This chapter is the introduction to a complete volume on business diplomacy. The theme of business diplomacy as such has received relatively little attention in the literature. That was the reason to organize an international conference in December 2015 in the Netherlands on this theme. This volume presents the set of chapters of leading authors and researchers on business diplomacy and I am very thankful to all of them.

The chapters in this book are divided into three parts: a first set of chapters address business diplomacy in a more conceptual and contextual sense (Ruël & Suren, Yiu & Saner, Nobre, Sidibé & Saner, Nobre). A second set of chapters address business diplomacy in relation to a specific topic (tax avoidance by Duane Windsor; state ownership by Wiboon Kittilaksanawong; business associations by Peter Noordhoek). A third and final set of chapters address business diplomacy in an empirical setting (Business diplomacy in practice): business diplomacy in Brazil by Joseph C. Marques; Canadian MNCs in Egypt by Ali Taleb, Catalin Ratiu, and Rick Molz; business and commercial diplomacy by diplomats from an embassy by Roman Holý.

Let us briefly provide the reader with a "teaser" per chapter.

The chapter of Lichia Yiu and Raymond Saner, two of the founding figures of the business diplomacy literature, addresses the importance of business diplomacy in implementing the global 2030 Development Agenda and especially the competencies that are needed at the corporate and managerial level.

The chapter of Guilherme Fráguas Nobre continues by investigating the different meanings of business diplomacy between curricula of universities and companies. How is business diplomacy being taught at universities and how companies are actually defining it.

Doudou Sidibé and Raymond Saner's chapter explains how business diplomacy in emerging markets is something where the roles of states and MNCs seem to come together and get blurred. This is an issue that deserves major attention since the question of to what extent the roles of states and MNCs can overlap without harm for economic and societal development has gained renewed attention in today's global economy.

Guilherme Fráguas Nobre's chapter provides an historical overview of the concept of business diplomacy. It seems that business diplomacy is not as new as many may think it is.

Duane Windsor's chapter addresses how dealing with tax code can be an issue of business diplomacy. How can MNCs act regarding tax avoidance and how to look at this through a business diplomacy lens.

Wiboon Kittilaksanawong's chapter explains how emerging economy firms use state ownership in order to have political influence in a home country or to try to stay away from it in order to reduce political influence. Also building legitimacy by firms in a host country via foreign direct investments can be considered an act of business diplomacy.

Business associations are entities that perform business diplomacy and actually may be effective "vehicles" for businesses to do so. Peter Noordhoek's chapter introduces this innovative perspective on business diplomacy.

Then the chapter of Joseph C. Marques continues to present how business diplomacy in an emerging economy such as Brazil looks like. As the title of his chapter suggests, early lessons will be provided.

Ali Taleb, Catalin Ratiu, and Rick Molz's chapter so rightfully explains how MNCs deal with a highly uncertain political context. Their chapter presents the cases of two Canadian firms in Egypt.

The final chapter in this book takes the reader to the work of diplomats. How do diplomats stationed at an embassy deal with the global challenges in today's economy? This chapter is a perfect final chapter since it takes the reader away from the perspective of businesses and multinational corporations and presents the perspective of the diplomat, an actor that multinational corporations have to deal with in the international arena.

Once again, thanks to all the authors who have contributed to this volume and helped to place business diplomacy more center stage.

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Business Diplomacy in Emerging Markets: Intersection of Roles between States and Multinationals

Doudou Sidibé and Raymond Saner

Abstract

Purpose — The aim of this chapter is to describe and discuss the growing intersection of roles and functions between states and multinationals in the field of diplomacy and how diplomatic skills are needed to support transnational companies in their search for markets in emerging countries.

Design/methodology/approach — Given the rapidly changing international business environment, we can observe the emergence of business diplomacy.

Findings — Transnational enterprises face multi-stakeholder engagements in the BRICs and increasingly employ techniques and strategies similar to the repertoire of tools used by diplomats and foreign affairs departments.

Originality/value — This chapter provides a detailed analysis of these new developments and seeks to explore the relations between multinational corporations and states, between multinationals and other stakeholders (local authorities, traditional leaders, NGOs etc.) and between multinationals.

Keywords: Business diplomacy; negotiation; state actors and non-state actors; economic and commercial diplomacy; multinationals in emerging countries

Introduction

The aim of this chapter is to describe and discuss the growing intersection of roles and functions between states and companies in the field of commerce and

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diplomacy, a field which is no longer reserved exclusively to states. In effect, states have often provided companies with aid and advice in the task of seeking out foreign markets. This is even more true today, to the degree that their diplomatic activities are now even more focused on economics and commerce (Chavagneux, 1999, p. 1), in a world in which conflicts between states are increasingly rare. Since the end of the Cold War in 1990, commercial diplomacy has become as much important as traditional diplomacy. Indeed, commercial interests are central to diplomacy in the 21st century. Even heads of state are willing to act as salesmen and saleswomen in order to help companies from their countries find new markets and defend their roles in existing ones. State visits are often transformed into business trips.

Multinationals have acquired the same diplomatic tools as states, thereby becoming increasingly autonomous and effective in their commercial relations with foreign governments and firms. In regard to this rapid evolution of the role of companies on the international scene, we have observed that a form of private commercial diplomacy is currently developing. Multinationals, aware of hard competition and of western markets saturation, turn now towards foreign markets. This will to go and seek foreign markets is achieved most of the time without their home state help. So, this chapter will attempt to answer the following questions.

Why is there an intersection between the role of states and companies and how does it function? How do multinationals free themselves from the diplomatic corps and exercise 'diplomacy' directly in order to seize opportunities in emerging countries? What are the main factors to consider in their negotiations with foreign firms, States and a certain number of stakeholders, ranging from NGOs to associations and local authorities? What are the limitations of private commercial diplomacy, also referred to as 'business diplomacy'?

Definition of Terms: Commercial Diplomacy, Economic Diplomacy and 'Business Diplomacy'

The literature mentions economic diplomacy, commercial diplomacy and business diplomacy. Economic diplomacy and commercial diplomacy are often confused.

Berridge (2005) attempts to define commercial diplomacy as a 'way of providing information about business opportunities and trade' (p. 128). For Saner and Yiu (2001), 'commercial diplomacy describes the help provided by diplomatic missions to firms in the commercial and financial sectors as they attempt to further their economic development. It includes the promotion abroad of domestic investors and facilitating foreign investment and trade in the host country'. Meanwhile, economic diplomacy refers to the work carried out in international economic bodies like the WTO, the World Bank, the OECD, etc. Based on these embryonic definitions, it appears that the authors mentioned above seek to distinguish between the two fields. This is not true of Carron de la Carrière (1998, p. 1), who declares that, 'economic diplomacy was once simply a form of commercial diplomacy'. His argument is that 'until recently, trade in goods was the basis of international economic relations'. Basically, it is difficult to dissociate commerce from economics. That is the opinion of Potter (2004) who attempts to make a distinction between the two, while at the same time maintaining that they are intimately linked:

> While there is an extensive literature on economic and trade diplomacy, encompassing international negotiations on market access, far less attention has been devoted to commercial diplomacy, defined as the application of the tools of diplomacy to help bring about specific commercial gains through promoting exports, attracting inward investment and preserving outward investment opportunities. This is not to suggest that commercial and economic diplomacy are separate activities; they are irrevocably intertwined.

In effect, it should be noted that commercial diplomacy befitting this study consists of two kinds; the kind practiced by Heads of State and embassies, and the kind exercised by multinationals. The diplomacy employed by multinationals, also termed 'business diplomacy' focuses on stakeholders (States, NGOs, local authorities, associations, etc.). What interests us here is to see how multinationals use diplomatic tools to conquer emerging markets and how diplomats representing governments function in the commercial milieu. However, before concentrating on this aspect, we should first study the links between diplomacy and commerce.

Links between Diplomacy and Trade

According to Van Bergeijk (1994, p. 143), diplomacy may have no link with trade and the two fields may be distinct:

> At first sight the tough dynamic world of commercial exchange and the subtle glamour of diplomacy do not seem to have much in common.

Using France as an example, Badel (2006) makes a similar point when she says:

> associating diplomacy and the market is no longer, in France, as incongruous as it may have been a hundred years ago, when it seemed that it was a question of two worlds with extremely different visions, practices and codes.

According to these authors, a link between diplomacy and trade has already been clearly established and trade diplomacy is gaining ground. There can no longer be any doubt that the development of foreign trade is a way for a country to accrue power on the international stage.

The Intersection between the Roles of the State and of Multinationals

Governments are increasingly taking an interest in commercial diplomacy and multinationals are focusing more and more on diplomatic methods that were once the exclusive preserve of governments.

Changes in Classical Diplomacy

Diplomacy is the art of resolving conflicts. Since 1990, with the fall of the Berlin Wall, the world has become increasingly 'peaceful'. Conflicts between states have given way to other types of conflict referred to as intra-state or internal conflicts. These 'new types of conflict' should certainly be taken into account in world geopolitics, but it is highly unlikely, for the time being at least, that they will transform or fashion the international political order in the way that the two World Wars and the Cold War did. Nations which are no longer linked by war in the true sense of the term are now linked by trade, encouraged by the reign of relative peace.

In the contemporary period, relations between states are defined by '…structural, economic and political developments in the global economy…' (Lee & Ruël, 2012) illustrated by treaties such as NAFTA – North American Free Trade Agreement (1994), TTIP – Transatlantic Trade and Investment Partnership (negotiations started in 2013). Nevertheless, states compete with each other to ensure that the profits generated by companies are generated within their own territories so that their populations can benefit. In the past, military and territorial power meant economic power. But even if this realist notion has not entirely disappeared, it is no longer necessary to control a large amount of territories to accrue wealth, as the examples of Hong Kong and Singapore attest (Strange, 1992).

Strategies for these 'new forms of war' or, rather, for competition, are defined and executed by heads of states and by Ministries of Foreign Affairs via their embassies, which increasingly recruit personnel with economic and commercial skills. The tools and resources of classical diplomacy have been transferred to commercial and economic diplomacy.

In France, Presidents like Giscard d'Estaing, François Mitterrand, Jacques Chirac and Nicolas Sarkozy have all attempted, either during state visits, or while welcoming one of their peers, to promote links between French and foreign business people. Numerous contracts signed by France and China of a total value of €20 billion (Le Monde, 2010) bear witness to this. It is thus clear that heads of states indulge in commercial diplomacy, acting as the leading salespeople of their countries, as the following comment from Jacques Chirac attests: 'when I go abroad – and I have no problems with this – I'm there to sell French products' (Cambon, 1997).[1] In the same sense, Laurence Parisot, President of the French business confederation, Medef ('Mouvement des Entreprises Françaises'), who accompanied President Nicolas Sarkozy on one of his foreign trips, declared: 'the more contracts we sign, the more our companies can develop and expand their export markets; and eventually everyone in France will benefit' (Koszarek, 2008). Interestingly, governments have long played a role in commercial diplomacy (Coolsaet, 2004). Indeed, studies conducted by Carron de la Carrière (1998) and Badel (2009) clearly

[1]Quoted by Laurence Badel, in *Diplomatie et entreprises en France au XXè siécle*, Les Cahiers IRICE 2009/1 (n°3), pp. 103–128. She quoted Paul Cambon, "*Diplomatie économique: l'esprit de conquête*", Label France, No. 29, October 1997.

demonstrate that they have always done so. However, it is undeniable that, due to world peace, globalisation and the advent of the WTO, governments are now more heavily involved in commercial diplomacy than ever before. This expansion of commercial diplomacy prompted Ioan Voicu to talk about a 'profound transformation of classical diplomacy' (Voicu, 2001).

Aware of its central importance, many governments have made a priority of trade with the framework of their foreign policy approaches. The United Kingdom was prompted to invest in this field by the 1969 Duncan Report which suggested that diplomacy should focus on promoting exports. Following this recommendation, the government boosted commercial diplomacy by closing certain embassies (Chavagneux, 1999) and opening new ones increasingly focused on promoting British trade in emerging countries. This change is illustrated by the declaration of William Hague, the British foreign secretary:

> We have opened or are opening new British Embassies in South Sudan, Madagascar, Kyrgyzstan, Côte d'Ivoire, Liberia, El Salvador and as security improves, in Somalia; we have opened two new consulates in Canada and Brazil and plan to open six more in the emerging economies. (Hague, 2012)

In Canada, commercial diplomacy has always been a major concern for diplomats. As Potter (2004) observes:

> In Canada, business has in fact always been a core diplomatic function.

The Report 'Winning in a changing world: Canada and emerging markets' clearly recommended that the Canadian should target emerging markets.

'*Government and business must adapt and move quickly to seize the potential in key emerging markets. It will require a concerted and sustained partnership between the public and private sectors*',[2] said the report. However, it should be pointed out that this kind of trade diplomacy is often carried out at a local, rather than a federal level.

According to Harry Kopp, the United States was one of the first countries to place an emphasis on trade diplomacy:

> From the Treaty of Tripoli, which sought to establish U.S. commercial rights in North Africa, to later well-known U.S. policies such as the Monroe Doctrine in the Western Hemisphere and the Open Door policy toward China, United States diplomacy has always had commercial motives at its core. (Kopp, 2004)

A number of agencies, most of them dependent on the Ministry of Trade, were set up to serve American commercial interests abroad. Amongst these agencies is

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[2]This Report called 'Winning in a changing world: Canada and emerging markets' is written by Canada's top business leaders, policy experts, and academics. It is given to the Prime minister Stephen Harper on 04 July 2012.

the Foreign Commercial Service, the United States Trade Representative attached to the White House. In his 2010 trip to Asia, President Barack Obama stopped off in India – one of the most important emerging market – to sign contracts worth $10 billion which will create 50,000 American jobs (RFI, 2010).

Developing countries are also involved in this process. After having long practiced a sovereignty-based form of diplomacy, Senegal recently entered the era of commercial diplomacy by sending employees of the Apix, a government agency specialising in major building projects and foreign investment, to its most strategically important embassies, for example, Paris, Washington and the capitals of the BRICS countries. These employees – economists and marketing specialists – are responsible for promoting trade and attracting foreign investment. Indeed, since there can be no doubt that trade diplomacy is being practiced by an increasing number of governments, it is useful to know how embassies work on behalf of firms from their countries. Every country has its own methods and all embassies base their approaches on the characteristics of the host country. However, it is possible to take recourse to various data to generate a more or less precise idea of the approaches used by Heads of states touring foreign countries and the work of diplomats stationed abroad.

In the level of Heads of State commercial diplomacy, it is notably a question of:

- Preparing the trip of the Head of State. In order to do so, the Ambassador will consult his address book, containing the names of the host country's most important business people. A lack of proper preparation may have a negative impact on the commercial objectives of the visit. In 2006, due to poor preparation, the French President, Jacques Chirac, came back from his trip to India without a single signed contract and no promises. The trip was wrecked by diplomatic botches and differences over economic issues (Koszarek, 2008).
- Doing a test visit. This visit is carried out by the Minister of Foreign Affairs, often a month before the arrival of the Head of State, with a view to smoothing out potential conflicts and gauging the interests of local business people so that the speeches made by the Head of states reflect those interests.
- Talking with businessmen in public or in private in order to measure the dynamism of the economic and commercial sector and to detect possibilities capable of being exploited.
- Making offers to their counterparts in the case in which the sector they want to promote depends exclusively on public funding.
- Attracting foreign investors by providing information about incentives such as tax breaks, reductions in administrative delays, the non-intervention of the State in the private sector, etc.
- Developing private sector links by creating opportunities for firms from the two countries to meet.

However, it should be noted that these trips often do not result in contracts immediately being signed. More frequently, politicians return home with a series of promises and potential business opportunities.

In the level of Embassies and Consulates, preparations are made by diplomats working with a view to producing long-term results. This approach consists of:

- Building up a network in the political, economic and cultural and intellectual milieus of the host country by periodically organising business receptions and dinners. For example, the French ambassador in Japan receives between 13,000 and 15,000 guests per year.[3] This makes it possible to gather information and facilitate the process of commercial lobbying.
- Reading the press on a daily basis in order to get an overview of the economic and commercial situation of the host country.
- Doing press reviews in order to ascertain how the economic sectors of the country of origin are viewed by the business community.
- Providing advice to business people who want to sell their products and set up a subsidiary in the host country.
- Making gifts to the host country which involve the input of interested firms.[4] For example, 'La Flamme de la liberté' ('The Flame of Freedom'), a work by Marc Couturier, offered to Japan by France, was financed by the City of Paris and a number of French enterprises (Air France, Sanofi, Air Liquide, Cogema, Société du Louvre) which have interests in Japan.
- Organising dinners featuring the logo of sponsor multinationals.

It should be noted that the process described here is not exhaustive but that, generally speaking, it reflects the bulk of the work carried out by diplomats with a view to helping companies. Diplomats are often imaginative in terms of adapting to local realities, building up an arsenal of techniques enabling them to promote firms and attract investment. This includes the use of 'digital communication channels in their commercial services' (Ruël, Gesink, & Bondarouk, 2015). Of course, the kind of trade diplomacy practiced by Heads of State and diplomats is an interesting and growing field both in terms of practices and research. However, the kind of diplomacy carried out by multinationals and SMEs, referred to as 'business diplomacy', into which little research has as yet been done, should not be ignored.

Multinationals and Business Diplomacy in Emerging Countries

The objective of business diplomacy in this context is to manage relations between enterprises and their stakeholders. Some multinationals are increasingly interested in diplomacy as a tool for breaking into new markets or setting up subsidiaries abroad. They can use business diplomacy in any country (industrialised, developing or emerging countries) but this part of the study will focus on emerging markets

[3] Figure quoted by Maurice de Gourdault Montagne in Bernard George's (2008) documentary, 'Un businessman au Japon', broadcast on the TV channel, La Cinquieme, 10/08/02.
[4] *Ibid.*

which are buoyant. Therefore, we will see if multinationals can use diplomatic tools to conquer emerging markets. We think that they sometimes need such competences due to the fact that they find themselves in hostile environments characterised by social unrest, anti-capitalist movements and NGOs involved in environmental causes.

Realists inspired by Hobbes and Machiavelli have long considered states as the only actors in international relations and that, 'beyond the State as actor, there can only ever be extras supporting its actions' (Braillard & Djalili, 2004). This state-centric conception of international relations tends to minimise the role of other actors such as multinationals. Unlike the realists, advocates of liberalism consider multinationals to be actors capable of playing an economic role on the international scene. Today, this role transcends economics, involving a form of 'diplomacy' exercised by multinationals with or without the involvement of states. Such companies attempt to throw off the shackles of State power and exert an increasing degree of influence in the sphere of international relations. We should thus ask ourselves if this new approach, which consists of laying claim to the right to act autonomously on the international scene, is a threat to State sovereignty or a way of being more effective.

For multinationals, state support does not seem to be indispensable, and embassies are not an obligatory port of call for gaining access to emerging markets and negotiating with foreign states. In 2007, out of 140,000 French companies active in the export market, only 10% were clients of the UBIFRANCE network (Badel, 2009) which helps firms expand internationally and which now has representatives in all French embassies. The question that should be asked is how do the other 90% go about successfully developing export markets. Did they ignore embassies and create their own networks?

Most of them have now acquired the capacity to apply diplomatic skills in their international strategies. For example, the penetration of the Japanese market in the 1980s and 1990s by American firms can be put down more to their contacts that to the effort of the U.S. government (Paquin, 2005, p. 102).

Today, the desire of Multinationals to deploy on their own is exacerbated by globalisation and the development of emerging markets. They know now that emerging markets are alternative to the saturated markets in industrialised countries. In the coming years, much of the global growth will occur in today's emerging markets.

In order to see if they use diplomatic tools in their markets conquest, it would be of interest to compare the attributes of an embassy – representation, gathering economic and commercial information, negotiation, lobbying – with the methods that a number of multinationals currently apply.

Representation

The budget of many multinationals is larger than that of certain countries. For example, Ford's budget is bigger than the annual GDP of Denmark or the whole of

Sub-Saharan Africa with the exception of the RSA. Such multinationals are capable of rivalling with national governments, even if they benefit from their support and profit from their image around the world. General Motors is present in 120 countries, with branches in every one of them able to play the same kind of role as embassies.

Gathering Information

Thanks to agencies based around the world, multinationals have the capacity to gather the information that they need in order to develop in the countries in which they are implanted. In embassies, the *charge d'affaires* or economic and trade advisor reads the press, meets with economic decision-makers and writes summaries for the Ambassador on the state of business in the host country. Such summaries are later handed on to companies considering the possibility of investing in the host country. Today, the role of these summaries is no longer as important as it once was since similar information can be gathered by local corporate agencies. Companies without foreign branches can gather information on any country on earth by means of the internet. With the globalisation of means of communication, many governments and corporations have regularly updated internet sites containing pertinent information. The development of press agencies like Reuters, AFP and Panapress has encouraged the circulation of a huge amount of information. According to Marcel Merle, 'Press agencies have now replaced embassies as sources of relevant data' (Merle, 1984).

Multinationals employ local agents or firms not only to gather information, but also to act as facilitators in their dealings with local authorities.

Negotiation

While, in the past, multinationals often received support from their governments, today, a number of them have developed mechanisms enabling them to negotiate directly with states. Many companies not only have foreign corporations but also foreign governments on their client lists. This is true, for example, of mining companies and road and dam construction firms. Whatever companies' products and services, setting up in a foreign country and selling and marketing products require not only negotiations with government agencies but also with other actors external to the business. In order to conduct such negotiations, multinationals now ensure that they are thoroughly familiar with the political and cultural aspects influencing their potential outcomes. For Manuel London: 'International business executives need to understand the cultural differences that affect business' (London, 1999, p. 133). Attention must be paid to such cultural aspects, not only since they reduce the chances of inadvertently offending one's interlocutors, thereby running the risk of losing the market, but also deciphering the styles of negotiation characteristic of individual nations, styles which can be observed in culture-specific behaviours. For example, in cultural practice of some emerging countries like Turkey, establishing personal relationship and showing respect to religious beliefs can help to ease business negotiations (Katz, 2007). In Chinese culture, patience is fundamental, and getting to know the other party takes time (Faure, 1999, p. 207). For the Americans and for many Europeans, however, 'time is money'.

Cultural and religious aspects may be important, but political, social and legal factors can also have an influence both upstream and downstream. Multinationals need to know the legal and social environment in emerging countries: unions, qualified labour, Child Labour etc. They also need to be familiar with local decision-making networks and be able to negotiate with individuals whose preoccupations are more political than commercial. Similarly, the number of administrations involved in a single negotiation means that Multinationals need to be able to call on several teams competent in specific fields in order to be able to deal with their interlocutors. Today, a substantial number of Multinationals are aware of the need to develop diplomatic skills with a commercial sensibility to enable them to organise such teams. That is why Alstom, AREVA, Eurocopter, Thalès, Total, Vinci, Vivendi, as well as AXA, BNP Paribas Assurances, Groupama, Louis Dreyfus, Michelin etc. employ diplomats (Badel, 2009) who are *au fait* with the ins and outs of the local political situation and the psychology of politicians.

Companies' Negotiating Power vis-à-vis Governments

It should be noted in passing that in negotiations between corporations and states, the former are in a stronger position. Their advantage resides in the fact that all governments are concerned with developing the economies of their countries and addressing the issue of unemployment in order to keep their electorates happy. That is why governments make so many concessions to attract companies. Emerging countries that need foreign investments cleanse their business environment by changing the legislation if necessary. Most of the time, new anti-corruption laws and one-stop shop for the speed of business services are set up to lure multinationals wishes to locate. Infrastructures (roads, highways, airports, business centres etc.) are created for the comfort of Multinationals. From this perspective, Multinationals have a real influence on the behaviour of emerging countries.

On the other hand, States can reclaim their power of negotiation by levying taxes once the firm in question has made heavy, non-transferable investments. This demonstrates that, in the final analysis, negotiating power is relative (Rojot, 2006, p. 58) or limited. On whatever side of the equation power is located, there is always a 'zone of interdependence' (Stimec, 2005, p. 25) in which power relations can be readjusted. After all, both parties need each other.

Negotiations between Companies from Different Countries

Multinational companies not only negotiate with states, but also with other private and public enterprises from other emerging countries. In such negotiations, the intercultural dimension and asymmetry of power are strongly present and have been widely analysed by a number of specialists (Faure, 1999; Fisher, 1980; Usinier, 2003;

Weiss, 1993). But it should be noted that other factors also have an impact: for example, geography, or, in other words, distance, and time, in that negotiation teams spend only a limited period in host countries (Dupont, 2001). These factors, a perennial source of conflict, have always rendered international inter-company negotiations complex. That is why Multinationals need diplomatic tools to overcome these difficulties and those caused by the actors external to business.

Multinationals and Actors External to Business

Enterprises operating abroad are sometimes obliged to negotiate with actors which are not directly concerned with business. These actors include local political authorities, NGOs and local chiefs. Local political authorities wield a good deal of power within their geographical ambit and, in certain countries their competencies are completely separate from those of the State. For this reason, multinationals negotiate separately with governments and local authorities.

A number of NGOs work to further human rights and environmental protection. However, certain multinationals fail to acknowledge the importance of this approach and, consequently run into difficulties in some countries, local chiefs hold political power and power derived from the ownership of land. Consequently, companies wanting to set up in the areas of governance of such chiefs will need to obtain their prior approval.

Multinationals interested in setting up in emerging countries should integrate a CSR approach by investing in hospitals, sports centres or cultural facilities on behalf of local people (Saner & Yiu, 2016, p. 54) or by employing individuals who have expertise in the local area. If there is a shortage of qualified people, it is advisable to set up a training centre. This will facilitate not only relations with local people but Multinationals will also contribute to poverty as one of the characteristics of emerging countries remains wide dissemination of poverty. In the same vein, the programme against AIDS launched by Coca Cola designed for Africa and that consists of distributing condoms and antiretroviral drugs has been expanded to Russia, China and India.

Multinationals should also pay particular attention to the environment and periodically meet local NGOs to discuss such issues. Funding local associations that defend causes compatible with the objectives of the firm is another way of facilitating its implantation.

So, one of the best ways to implement the recommendations above is to comply with the OECD guidelines that are directly linked to their activities. Because these guidelines to multinationals show the way forward to avoid a negative impact on their stakeholders and the environment but help them to circumvent conflicts that would harm their business activities as well as their reputation (Saner & Yiu, 2014).

Conclusion

The aim of this chapter has been to study the intersection of roles between states and corporations in terms of commercial diplomacy and to see how the latter negotiate with various stakeholders on the international scene. We have established that states are taking a greater interest in commercial diplomacy since competition between them is no longer based on military power but, rather, on the capacity of individual countries to conquer new markets in order to develop both its corporations and the national economy. This conquest is more pronounced in emerging countries as their economy is experiencing rapid growth.

Multinationals are taking advantage of globalisation to boost their exports and set up subsidiaries abroad. According to our study, it is legitimate to claim that this intertwining of roles has now become established and that traditional diplomacy, while it cannot be said to be experiencing a decline, in spite of those who maintain that it has lost its verve, has changed direction. Increasingly involved in diplomacy, multinational companies, in their conquest of emerging markets, are conscious of the fact that many political, legal, cultural and financial factors impact on negotiations; that is why they need diplomatic tools to succeed.

In spite of applying diplomatic approaches, they are unable to entirely go it alone and require at least some help from national governments.

Perspectives

Multinationals need a great deal of expertise in order to be able to operate successfully in the new field of business diplomacy. In effect, they have to recruit employees with diplomacy skills. Consequently, they need to develop training programmes in business diplomacy for middle managers which means that experts must elaborate training strategies to meet requirements in this field.

Governments must also be able to use marketing and commercial tools effectively. While they are conscious of the need to recruit specialists in this field, they also need to think about how to develop training programmes in business diplomacy.

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Business Diplomacy in a Consulariate Format: Historical Evolution and Challenges in Globalized World

Guilherme Fráguas Nobre

Abstract

Purpose — In this chapter we approach the issue of Business Diplomacy (BD) from a historical perspective, showing how this activity has been performed since the ancient Greece. In particular, we give a brief overview of the main BD concepts used, starting with the *proxenos*, the "pioneers" in the BD field, until present days.

Design/methodology/approach — The analysis is grounded on a theoretical approach backed by a comprehensive overview of the representative literature in the field of BD. We identify and discuss the main challenges to be faced by BD in a globalized world, dominated by multinational corporations (MNCs).

Findings — We show that BD has been practiced for centuries and nowadays is still performed by honorary consuls and chambers of commerce. In a globalized world, BD is being assimilated by MNCs either as their main activity or as an auxiliary one becoming a key tool and mindset toward securing their market reputation, positioning, and legitimacy.

Originality/value — Apart from the historical overview of the beginnings and evolution of the main diplomatic actors and activities, the chapter proposes new concepts and legal frameworks for the actual BD field such as: consulariate instead of consulate (devoted to business) and chancellariate instead of embassy (devoted to political affairs).

Keywords: Business diplomacy; diplomacy as an industry; consulate; historical perspective; consulariate; chancellariate

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Introduction

One interesting issue addressed by many researchers in the field of Business Diplomacy (BD) (see e.g., Wolters, 2012) is whether BD has altered or not the organizational architecture – decision rights/hierarchy, the system of incentives/penalties, and the control and monitoring systems – of the multinational corporations (MNCs), in particular, as a consequence of the increasing globalization of the world market. Daood (2003) distinguishes among four types of corporations acting in the global market, depending on their contribution to the technological development of the host markets where they operate: global, multinational, international, and transnational. According to this author, "*... each represents a different business model and corporate strategy to cope with uncertainties of a rapidly changing business environment and to participate in the world market*" (Daood, 2003, p. 3). In a similar fashion, Rugman (2005) speaks about the "regional multinational" and Afuah (2009, p. 233), states that "*a major player in the globalization is the multinational corporation*" with a predominant role being played by the "global multinational."

Recent developments in the organizational legitimacy theory (see Tilling, 2004) have expanded the traditional model, according to which firms may find themselves in one of the four possible stages of legitimacy building – establishment, maintenance, extension, and defense – to add the loss and the disestablishment of legitimacy (this author refers, e.g., to the tobacco industry, nuclear power industry, etc.). All in all, the rapid path of development of the new information and communication technologies (ICTs) and their growing impact both on the business and the social environment is expected to set new legitimacy challenges for many MNCs, all of them becoming more and more interrelated (i.e., profit legitimacy also implies legal, social, and ethical legitimacy of any activity). In this respect, BD is called to play an important role in the global scenario as various social "actors" are involved and hence, the negotiation is becoming more complex every day.

Thus, as a market factor, BD can be defined as a high-level multidisciplinary industry – able to deliver diplomatic services to any customer in need of them in a globalized world: a BD company may serve, for example, and in an equitable manner, a civil association, another company, an academic institution, a media organization, as well as any other potential customers such as States, Governments, Parties, or others. Most likely, a BD company could have both of such patrons/stakeholders in its portfolio.

Therefore, our understanding of diplomacy in this chapter will combine the two sides of the concept – commercial and business – in line with the definition introduced by Ruël (2013, p. 41)[1]:

> ...international business diplomacy is the representation and communication activities deployed by international businesses with host government representatives and non-

[1]See Ruël (2013) for a comprehensive overview of the literature on commercial and business diplomacy and the definition of these concepts.

governmental representatives in order to establish and sustain a positive relationship to maintain legitimacy and a "license to operate." Three key aspects distinguish international business diplomacy from concepts and phenomena that seem similar: its focus on foreign governments and foreign non-government actors, its focus on long-term, positive relationships ("…establishing and sustaining positive relationships…"), and its focus on MNC legitimacy and a "license to operate" as the goal.

In the remaining sections of the chapter we are discussing various issues: the transition from diplomacy to BD; the historical evolution of the BD concept, starting with the *proxenos* in the ancient Greece until the present days; the challenges to be faced by the functioning of the diplomacy as an industry in a global world; we propose a new concept, the *consulariate* (devoted to business) instead of consulate, as more appropriate to the definition and role to be played by the traditional consulate nowadays; in the last section, some concluding remarks are provided.

From Diplomacy to Business Diplomacy

Diplomacy is an activity that can be carried out by any agent in a community – at least as long as diplomacy can be understood either as an art, a philosophy, a technique, or a science. The democratization of diplomacy (Nobre, 2015) is based on a double fact: diplomacy was historically performed even before the constitution of States, and it is still performed nowadays under diverse labels by a multiplicity of nongovernmental agents. Therefore, diplomacy goes beyond the First Sector (i.e., the Government) to reach the whole society. The main challenge while dealing with BD is, then, to avoid any monopolistic/monopsonistic power over diplomacy as an activity or profession. The business diplomat is then the professional who will work to provide the services needed by any social agent (other than having the government as the sole patron). So, diplomacy is everybody's business, and diplomatic services should be supplied and demanded by all the social sectors such as market, civil not-for-profit, universities, media, and so forth.

The perception of the BD activity has been somehow perturbed by the First Sector presence, any expression touching diplomacy being automatically assimilated to the public function. Nevertheless, the increasing participation of nongovernmental actors in official diplomatic issues is already well-documented (Hocking, 2005; Hocking, Melissen, Riordan, & Sharp, 2012).

Given that the traditional diplomatic services consist of representation, negotiation, information (communication), promotion, protection (Magalhães, 2005, p. 12), and defense, it is not difficult to find market agents offering and supplying one or more of these services (i.e., chambers of commerce, retired ambassadors converted to consultants, and so on). Take the case of Lawyers Bars, Public Relations firms, Advocacy Consultants, Government Relations brokers, Political Marketing advisors, business match-makers – they all perform at least some or all of the tasks traditionally linked to BD. From this perspective, BD can be taken as the marketing process of such services no matter by which social agent.

> Business diplomacy (BD) offers an approach to geopolitical and non-commercial risk management that is based on the practices and the mindset of diplomats. […] In essence, BD occurs when firms do diplomat-like things. […] In BD, it is the firm and its employees that are the prime diplomatic actors, seeking to secure the profit-making of the company and, in the long haul, its survival. […] In a sense, BD is not new. For example, the trader traversing the Silk Road of the early Middle Ages had to be adept in diplomatic skills to negotiate his safe passage among the multiform centres of political power that he would meet en route; and both the British and Dutch East India Companies acted as sovereign governments, governing large territories and serving as diplomatic (and military) actors. […] BD aims to help firms develop those diplomatic capabilities by transferring the techniques and "worldview" of the diplomatic strategist to the needs of the firm. […] The role of BD is to help ensure that the firm's ability to make profits at an international level is not undermined by geopolitical risk. BD helps firms to identify both the geopolitical and other non-commercial risks that threaten the firm's bottom line at a global level, but also the international governmental and non-governmental actors that mediate those risks. (Kesteleyn, Riordan, & Ruël, 2014, pp. 303−307)

The Historical Evolution of the Concept of Business Diplomacy

Although the spread of the participation into official diplomacy is welcome and necessary, the aim here is rather to privilege every possible way to exercise diplomacy as a nonexclusive government or state business. For this purpose, some historical references discussed hereafter could be important as they may help realize how diplomacy could evolve to adapt to each stakeholder's needs and projects, excluding or not governments and states. Thus, it is possible to envision a greater range of social "actors" offering and demanding "diplomatic services" as independent customers and providers.

Proxenos

The first business diplomat was probably Greek: the *proxeno*, a private citizen who celebrated a contract to represent the interests of foreigners into his lands. That is of high importance here[2]: the proxenia was "essentially [a] private institution" (Illett, 2003, p. 14), "un véritable contrat" (Monceaux, 1886, p. 12), designed to service aliens either "on private or official business" (Illett, 2003, p. 14), by a private local person, usually a businessman, whose "appointment did not necessarily clothe him with official status" (Puente, 1930, p. 322), who "probably derived financial benefits from the commercial side of his duties as proxenos" (Walbank, 1970, p. 88), while he was not "expected to carry his external sympathies to the point of damaging the interests of his own (…)" (Hamilton & Langhorne, 2010, p. 11).

[2]The literature on proxenia and proxenos emphasizes the linkage between "un état et un particulier" (Monceaux, 1886, p. 12), whereas this work tries to draw a wider picture. This is done by selective quotation, which implies sometimes its abduction from the original context.

> With the lack of legal framework for non-citizens, the proxenos would act as legal representative of the foreigners that he represented, and he could also act as a commercial agent. The proxenos also acted as host when citizens of the state that he represented were visiting, and the institution was probably the closest thing to a permanent diplomatic representation in ancient Greece. As the proxenos held prestige both in his home-state and in the state that he represented, he would be generally acceptable as arbiter and ad-hoc envoy. The proxenos was also important in providing all sorts of intelligence. In origin, status and not least in functions, the proxenia foreshadowed the consular networks that developed in Europe two thousand years later. (Leira & Neumann, 2006, p. 4)

Some of the services that the *proxenos* provided were representation, agency, hosting, arbitrage, intelligence, and networking. Other authors also cite hospitality, advocacy (Illett, 2003, p. 14), protection (Walbank, 1970, p. 90), defense of interests, tutoring, financial and insurance services[3] (Ulbert, 2006, p. 11), lobby[4] and port services (Monceaux, 1886, pp. 255–256), assistance to visitors, accommodation, and advice (Hamilton & Langhorne, 2010, p. 11). In short, the *proxeno* was a "polis citizen acting as a guardian for newcomers" (Dela, 2014, p. 70), who "stood in place of as well as on behalf of his client" (Walbank, 1970, p. 90). His clients could be private citizens from another polis, the government of another polis, associations (e.g., artists), or even corporations.

> Dans le monde hellénique, les corporations de marchands ou d'artistes étaient constituées sur le modèle des Etats. [I]ls suffisent à démontrer que l'institution de la proxénie avait été adoptée par les associations particulières [...]. La confrérie [auvoooç] des marchands et des armateurs de Délos, dont le patron était Zeus hospitalier, avait pour proxène Diodore d'Athènes, qui commandait le port du Pirée. Dans ce poste important, Diodore Rivait pu rendre à la société bien des services. [...] On peut citer de nombreux bienfaiteurs des confréries de marchands. [...] Les corporations helléniques, comme toutes les communautés politiques ou religieuses, ont dû élire des proxènes avant d'avoir des patrons. (Monceaux, 1886, pp. 255–256)

Built upon the model of States, corporations also established their own foreign affairs division, so to speak, whose duties were performed by foreigners (*proxenos*) who functioned as contractors (service providers). This means that the activity was fully outsourced: performed outside the corporation and carried out by nonemployees or nonassociates. Although the *proxeno* did not charge directly for the services provided, since the attribution was based on sympathy and performed on a voluntary basis, the truth is that he had "surtout des attributions commerciales" and was "en revanche autorisé à faire lui-même du commerce" (Ulbert, 2006, p. 11).

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[3] "aidant à la vente de leurs cargaisons, transférant leur argent, garantissant leurs emprunts et les épaulant dans leurs démêlés avec la justice."

[4] "on voit plusieurs fois la recommandation d'une corporation éloignée peser sur les décisions de l'assemblée athénienne. A ce titre, les corporations ont joué un rôle, même dans l'histoire de la proxénie des cités."

The Consuls

According to Borel (1807, p. 1), "Le nom de *Consul* dérive de l´ancien verbe *consulere*, qui signifie souvent *conseiller*, et *consulere* vient de *Consus*, le *Dieu des conseils* [...]. Selon Quintilien, *Consulere* signifiait aussi juger," while to Ulbert (2006, p. 9) "consul se rattache à consulere, 'délibérer, (se) consulter, veiller à, prendre des mesures' et au consultum, 'la résolution', et en dernier lieu à censeo, – ere, 'estimer, évaluer, déclarer de façon formelle'." It is interesting to note that consuls predated diplomacy[5] by centuries (Leira & Neumann, 2007, p. 4), as well as they predated the sovereign state[6] (Leira & Neumann, 2007, p. 246) and the Governments' foreign affairs corps (Puente, 1930, p. 325). Moreover, the first consuls, in a modern sense, "were not diplomats" (Heijmans & Melissen, 2006, p. 4) and there is an open debate on whether some "consular activities qualify as diplomatic" (Stringer, 2007, p. 1).

> In 1075, the merchants of Pisa established a local merchant guild with its own 'consular court'; only in the twelfth century did the Pisan merchant guild begin to name consuls in foreign ports as well. The merchants of Genoa established a local merchant guild with its own 'sea consulate' in 1206, and after that began to establish overseas branches with their own consuls in foreign polities. For most Italian cities, the earliest records of merchant guilds and merchant 'consuls' date from the period 1154-83, and refer to local organizations formed by the merchants of each city to represent their own corporate interests in the regulation of local trade and industry. (Dessí & Ogilvie, 2004, p. 7)

The most important fact about the historical role of consuls is that this institution was designed to represent the interests of "merchant guilds or corporations rather than the governments"[7] (Hershey, 1911, p. 930), being the consul "elected and, probably more importantly, reimbursed, by the local merchants" (Leira & Neumann, 2006, p. 7). As stated by Berridge (2010, p. 126), "The first consuls, then, were part-timers: merchants chosen […] by the merchants themselves". The second most important fact about consuls is that their functions are "inextricably linked with trade and commerce" (Keegan, 2004, p. 22). More recently, they have been focused on "services, representation, and issues of trade, tourism, and investment promotion" (Stringer, 2007, p. 2).

> The interests of mediaeval commerce led to the establishment of consulates. As early as the twelfth century at the latest naval and merchant consuls (*consules marinariorum et mercatorum*), chosen by the seamen or merchants themselves, settled disputes among their countrymen and represented the interests of the seamen and merchants of leading Italian cities in Mohammedan countries. [...] In the north, i.e., among members of the Hanseatic League, the consular judges were known as aldermen. (Hershey, 1911, p. 930)

[5]In part, this is because the term diplomacy "did not come into general use (…) until the end of the eighteenth century" (Hershey, 1911, p. 931).

[6]"The consul existed before the emergence of the state system" (Heijmans & Melissen, 2006, p. 4).

[7]"The first consuls were, in general, neither appointed nor paid by the state, and had nothing to do with advancing its interests, except indirectly" (Berridge, 2010, p. 126).

At this time, the network of consulates had as a partial goal "to standardize and to harmonize the various mercantile environments," through the promotion of "shared values and common norms" (Ewert & Selzer, 2006, p. 10). In parallel to this, consuls and aldermen were supposed to provide a diversity of activities such as the adjudication of disputes and resolution of conflicts (Gelderblom, 2005, p. 14), the surveillance of channels and routes leading to the sea, the port and transport management (Ulbert, 2006, p. 10), the administration of justice and facilitation of international trade (Heijmans & Melissen, 2006, p. 4), and they could even function as "detectives, judges, jailers, civil administrators, contractors and negotiators" (Leira & Neumann, 2006, p. 6). Özkul (2013) has noted that "the consuls in Cyprus got the right to deal with banking and lend money with interest," and they "used to buy and sell property" (pp. 251–252).

> [O]n distingue essentiellement quatre formes différentes de consuls: 1) le consul des marchands, 2) le consul de la mer, 3) le consul sur mer, et 4) le consul d'outre-mer. Les consuls des marchands (1) sont des représentants communaux "chargés de pourvoir aux intérêts du commerce et investis de droits de juridiction». Leurs cousins, les consuls de mer (2), apparaissent au XIIIe voire au XIIe siècle à Pise, Venise et Gênes. [I]ls sont chargés de veiller aux intérêts de la navigation et doivent surveiller les canaux et routes menant à la mer. Étant également habilité à arbitrer les litiges des commerçants, le *consulatus maris* débouchera dès le XVIe siècle, notamment en France et Espagne, sur la juridiction des juges consuls dont l'existence se prolonge jusqu'à nos jours au sein des chambres de commerce. Ces consuls de mer ne doivent être confondus avec les consuls sur mer (*capitanei universitatis mercatorum*) (3). Là, où les consuls des marchands et les consuls de mer défendent les intérêts négociants dans leur ville d'origine, les consuls sur mer s'en chargent durant l'acheminement de la marchandise. Accompagnant les caravanes ou embarqués sur les navires pour y veiller "depuis leur départ [...] jusqu'à leur arrivée à destination, " ils sont également investis d'attributions judiciaires. Avec le temps, ceux-ci se mirent, par extension, à commander aux groupes de marchands installés à l'étranger. Or ce rôle revient en principe au consul d'outre-mer (4). Nommés par les chefs de leurs cités d'origine, munis de lettres de provision qui leurs confèrent des pouvoirs de surveillance et de juridiction, ces agents administrent une communauté de marchands originaires du même pays. (Ulbert, 2006, p. 10)

The very idea that there were consuls covering internal affairs, international waters or trans-boundary jurisdiction, and foreign affairs is paramount. Therefore, the historical role of consuls can be restated as: businessmen who serve the community they belong to, in order to foster business either internally or externally, and even along the way in between. This puts consuls in a globalized market scenario, while stressing their role as service contractors for the international business. From this perspective, private consular services have been provided by MNCs[8] for centuries, as an auxiliary activity to their main industry. However, diplomacy here has been standing only as a tool amidst a wider toolbox fully dedicated to create and

[8]"Firstly, it was in the cities of Bruges, London, Bergen and Novgorod, where the German Hanse possessed commercial outlets, the *Kontore*, as its outposts" (Ewert & Selzer, 2006, p. 2). And: "the German Hansa 'gradually grew out of merchant corporations [and] in later years … was … transformed [...] into a confederation of towns'" (Dessí & Ogilvie, 2004, p. 12).

develop business activities. But again, the interface between diplomacy and business is also largely employed in the homeland – like *proxenos* and *consuls des marchands* have been proved before.

Honorary Consuls[9]

The honorary consul differs from the career consul in some important aspects, such as: the first is a local whereas the second is a foreign citizen; the second is an envoy whereas the first it is not; the first is a civilian whereas the second is a public servant (Veski & Kerikmäe, 2014, p. 15); the second is paid by the government whereas the first is not (Bhalla, s/d, p. 1); the first is supposed to have his own market business whereas the second cannot do this; the second is in the official state service whereas the first is not (Veski & Kerikmäe, 2014, p. 16): the first pays personally for almost all expenses derived from its consulate whereas the second does not (Veski & Kerikmäe, 2014, p. 11); the second had his career defined by the Vienna Convention whereas the first did not (Stringer, 2011, p. 14); the first has the right to decide what kind of tasks to perform whereas the second does not (Veski & Kerikmäe, 2014, p. 18); the second is a consul on a full-time basis whereas the first is a part-timer; the first has an independent administrative and accounting system whereas the second does not (Veski & Kerikmäe, 2014, p. 18); the second has a full coverage under the Vienna Convention whereas the first is protected only while performing consul-like activities; the first is approachable by the local justice system whereas the first it is not, etc.

> This paper […] places these activities [trade, foreign direct investment, tourism and business advocacy, and research and technology] rather under the umbrella of consular diplomacy, and in a transformed consular world, under the responsibilities of the honorary consul. By doing this, consular diplomacy returns to its medieval roots in the use of honorary consuls as promoters of business and investment since the first consuls in the modern sense emerged in Middle Ages in the wake of expanding international trade in Europe, and the need for representatives for merchants in the main harbor cities of Southern Europe and the Levant. These representatives were not diplomats, but mostly people elected by and within their own communities. They occupied themselves with the facilitation of trade and the representation of the interests of merchants. (Stringer, 2007, p. 16)

The honorary consul is a private person, a businessman who offers consular services to the stakeholders in a community – under a partial aegis from a foreign state. It is interesting to note that he has the provision of consular services as his main business, at least while he was carrying on with the consular duties. During his part-time activity as honorary consul, he is acting as an independent supplier of consular services. Although in theory his performance could never be kept apart from the state that appointed him, the truth is that sometimes it was unclear whose

[9]"Born nearly one thousand years before the official consular corps, it would not be wrong to hold the institution of honorary consuls as the mother of consular service" (Bhalla, s/d, p. 1).

interests have been referred to. As put by Veski and Kerikmäe (2014, p. 11), "[S]ome started demanding assertions from the honorary consuls that the(y) would not use their position for solely individual business purposes." It is also understandable that a businessman may be more sympathetic to his peers' interests, if for nothing else, simply because the honorary consul "is no mere civil servant; he or she is actually a 'civilian servant'" (Evriviades, 2005, p. 24).

> Honorary consuls are not public officials, nor are they typically paid for their consular services. Honorary consuls can therefore work in any profession or be dedicated to any industrial, commercial or financial activity [where] they reside. [...] Typically, consular officers have two primary tasks. The first is to develop economic, commercial, scientific and cultural relations [...]. Increasingly this means promoting commerce – trade, technology transfer and investment – in both directions. The second task entails safeguarding of the interests of [...] citizens who are traveling, or resident in, their consular district. (Stringer, 2011, p. 14)

Even more than the career consuls, the honorary consuls are highly attuned to the development of commercial and economic relations. This happens not only because, consuls, in general, have no "political functions whatever"[10] (Puentes, 1930, p. 326) or "are not in the business of managing change in international relations" (Heijmans & Melissen, 2006, p. 2), but most probably because they are also businessmen. Conversely, they are expected to structure and run their consulates as market institutions, with an accent on rationality, productivity, and efficiency. Due to the fact that they are those who are paying for almost everything, it is arguable that honorary consulates function according to companies' parameters – which include hiring professional staff. This permits to anticipate that, if "consular interactions occur more often with groups, companies, or individuals, rather than with [...] governments" (Stringer, 2007, p. 2), further can be assumed from honorary consuls.

> There is no doubt that consular affairs will continue to be a growth business in the years ahead, and that the challenges and problems associated with consular work will not go away. It is part of a trend towards diplomacy's increased dealings with "ordinary people." It raises intriguing questions about the changing nature and practice of diplomacy. First, diplomacy is increasingly seen in terms of service delivery, as it is not only dealing with peers or officials and policy but also with customers looking for products and services[.] The consular workload is bound to increase in the years to come and the "Cinderella service" will increasingly be seen as an integral part of the practice of diplomacy. (Heijmans & Melissen, 2006, pp. 13–14)

It is quite natural therefore to envision honorary consuls as the more vocationally oriented to serve a community of "customers looking for [diplomatic] products and services." That can be explained partly because consular affairs have been seen as "diplomacy for people" (Heijmans & Melissen, 2006, p. 2), partly because diplomacy has been molded into the terms of services delivery, and partly because honorary consuls are businessmen currently active in the market. They have experience in

[10]Veski and Kerikmäe (2014, p. 9) are less strict, saying that "consular affairs evolve in the administrative level and are usually not of political nature."

the industry of consular services, and are seasoned in dealing with an array of stakeholders that goes way beyond states and governments. More importantly, the honorary consulate is the visible face of the private diplomacy – meaning a diplomacy formally performed by private agents, through private resources, although not for private benefit (at least not from the honorary consul's point of view).

Diplomacy and Diplomats

In a literal sense, *diploma* is a folded document and diplomacy encompasses the activities performed in accordance with and by those referred to in the *diploma*. As Iucu (2008, p. 14) states: "Greeks used to hand two documents [:] a recommendation letter for the proxenos called *symbolia* and written instructions, folded into two, called *diploma*." In this very general setting, diplomacy implies an appointment and a set of expected goals and behaviors. The appointment is twofold: intraagents (agent A appoints agent B as his proxy) and interagents (agent C accepts to deal with agent B). While pursuing the assigned goals, agent B shall observe codes of conduct emanating from both agent A and agent C's cultures, traditions, laws, etc.

> Diplomat comes, on the other hand, from the Greek word *diplôma* (*dipló* = folded in two + suffix *ma* = object). In the Roman and Byzantine epochs the word diploma meant a permission to use public transportation, a kind of passport. Later, however, the word came to be used to designate all solemn documents issued by official chancelleries [.] In 1693, Gottfried Leibniz published [a book] attributing to the adjective *diplomatic* the meaning of something related to international relations. […] The word *diplomacy*, therefore, has not been part of political vocabulary for very long, but there is no doubt it first appeared to designate the activity of diplomats, that is, of those officials whose business was foreign relations. (Magalhães, 1988, p. 58).

In theory, any given agent or actor could be called a *diplomat* whenever found formally invested as somebody else's representative and having had agreed with the terms of such delegation – which includes third parties' approvals, rules, and expectations. Put this way, diplomacy is a *multistakeholder* contract for peaceful and mutual fruitful relationships – that presupposes dialogue, sympathy, negotiation, conflict management, deliberation, and decision power. To Magalhães (1988, p. 40), diplomacy is "the use of intermediaries in contacts between different centers of political power." Namely, political power is the natural resource of diplomacy. The most visible face of the political power is indeed the Government, and that is why diplomacy became so attached to the public function. However, as there is plenty of political power, in the society and the market, the point would be thus the "societization" of diplomacy, that is, the "strengthening nexus between diplomacy and society" (Heijmans & Melissen, 2006, p. 2).

> "Diplomacy" is a term that is often used rather loosely. A number of books on "the diplomacy" of certain countries are really about their foreign policy or, more generally, the course of their foreign relations. Other works, on the subject of diplomatic history, are really about the history of foreign relations. And then there are books on the practice of diplomacy – that

> is, diplomacy as a method of political interaction at the international level- and the techniques used to carry out political relations across international boundaries (e.g. representation and communication). (Leguey-Feilleux, 2008, p. 1)
>
> …
>
> Therefore we can identify several definitions given to diplomacy[:] "the science of foreign relations"; [peaceful] "affairs between states"; "mutual interests of states or the art to reconcile peoples' interests"; "applied nations law"; "foreign affairs of an international law subject"; "official activity of state representatives"; "activity specific to state institutions"; "a science and an art […] to carry out international negotiations". (Iucu, 2008, p. 15)

In a *multistakeholder* environment the Government is a remarkable player, no doubt; yet not the only one. That said, diplomacy should not be thought as being limited to state-to-state relations since the political power can also be found elsewhere in society. Again in theory, any stakeholder could function either as agent A, or agent B, or agent C. In a globalized world, in particular, a MNC may contract a lobby firm and a legal bar in a foreign country to represent and protect its interests locally (including *vis-à-vis* the State) – this being only one example of how two non-state or nongovernment stakeholders can perform diplomatic roles and functions. Therefore, expressions such as "foreign relations," "foreign affairs," "international relations," "foreign policy," "political interaction," "international negotiations," should be rather democratized.[11]

Non-state actors (NSA) or agents can offer services of representation, protection, information, promotion, negotiation, and defense in the format of a *multistakeholder* contract – technically configuring themselves as diplomats. In fact, this is what has been historically done by proxenos and consuls, and what is yet done in society under a range of different professional denominations. Therefore, proxenos and consuls were "diplomatic services providers," that is, contractors, to some extent. As we could see, the *diploma* entails a delegation which involves political power management. In a *multistakeholder* environment, this leaves the concept of diplomacy relatively open, which is actually positive. Hence, diplomacy could be seen as an official activity (meaning "formal") though not exclusively at governmental or state level.

Chambers of Commerce

Perhaps the contemporary direct heirs of the historical consulates are the chambers of commerce, created to be the "local business voice." Indeed, the chambers of commerce are far more than this, bearing a profusion of roles, functions, and duties that could easily be identified as both consular and diplomatic. Their public nature resides both in the fact that they are associations of businessmen, as well as in the

[11]To the democratization of diplomacy, see Nobre (2015).

fact that they are either voluntary or obliged partners of the government. While the public law system for chambers of commerce made them involuntary "parastatal support bodies of government"[12] (Pilgrim & Meier, 1995, p. 4), the private law system for chambers of commerce has turned them into "lead partners or contractors for the government" (Bennett, 2011, p. 23). The latter brought some dilemmas involving conflict of interests, since, from a point of view of who is bringing in money, "75% of their total income came from various governments contracts" (Bennett, 2012, p. 40), and, from the point of view of those who are the beneficiaries of their activities, there have been worries about them "becoming surrogates of governments that are attempting to pass on responsibility for expenditure" (Bennett, 2011, p. 25).

> Certain powers are delegated to the Chambers of Commerce and exercised on behalf of the Government. Among them are the powers to issue certificates attesting to the origin of merchandise, legalize signatures and invoices and issue temporary export certificates. These are all things that facilitate international trade and have traditionally been the province of the Chambers of Commerce which also promote foreign trade, arrange trade fair exhibits and organize trade missions, either independently or in collaboration with the Administration. Members of the Chambers of Commerce who take part in these activities directly benefit from belonging to the Chamber. Other operations involve offering logistic support to promote business activities (the Chambers of Commerce provide technical and legal information, arrange training programs, provide information on new markets and technologies)[.] As part of their general business promotor activities, the Chambers of Commerce are partners in the mixed public/private corporations which manage the trade shows in every Spanish city. […] Recently the Barcelona Chamber of Commerce and other public corporations have begun appearing before the Barcelona Court of Arbitration as arbitrators in equity. But it is their role as consultants to the Administration which makes them the subject of study as interest groups. Legislation empowers them to "appear before all types of authorities, agencies and corporations" and "exercise actions and file all types of appeals with executive and judicial authorities." This means that the Chambers should be consulted on all pending legislation related to economic and social issues. They are also entitled to – and actually do – file declarations relative to local government budgets, city planning projects and fiscal regulations. (Molins, 1989, p. 9)

The chambers of commerce do work mainly with "business representation" and with forms of business services. That is highly interesting: on one side with what has been named here "consular services," on the other side with a plethora of services that cannot be identified as "diplomatic services." As for the former, the chambers of commerce do offer services of representation, networking, information, business and trade development, export promotion (Eng, 2000, p. 5), and so on. As for the later, they also supply services of consultancy, education (mainly vocational), advisory services, technical assistance, commercial arbitration (Thenford, 2012, p. 7), urban regeneration initiatives, workforce and manager training, helping the unemployed into training and jobs (Bennett, 2012, p. 40), and so forth. This double character puts them right at the intersection between the private and the

[12]As stated in Molins (1989, p. 8), to Spain: "They are by nature official corporations and as such are at all times on the side of the politically constituted powers."

public, between the market and the society, between the business and the diplomacy.

> Chambers are membership organizations representing the business community and comprised of enterprises and individuals engaged in trade, industry and services. Their general purpose is to protect and promote business. They are both service and representative organizations – on the one hand providing assistance to their members and on the other advising and influencing government to create a more favorable business environment. All chambers have certain common characteristics. First, they are not-for-profit organizations. Second, they are self-administered, meaning that members direct chamber policy. Finally, chambers are territorially organized, representing different economic sectors within a defined area (e.g. city, province, state). (Pilgrim e Meier, 1995, p. 3)

In sum, they are not-for-profit organizations of businessmen – which is rather contradictory. In fact, they are political institutions to support economic activities – and that is why they make perfect sense. Beyond that, they try to become widely engaged with social matters – in part for legitimacy[13] purposes and through the use of diplomatic techniques. Despite the fact that they are dedicated consular services providers to the business community, they actually also function as a service contractor to other stakeholders – not only the government. Based on this, the chambers of commerce conjugate an exclusive consular service with an open social outpost, settling themselves as real embassies. The absence of specific regulation governing chambers and defining their tasks[14] (Pilgrim & Meier, 1995, p. 5) leaves them with a great degree of liberty both locally and globally. In 1919, for example, "a handful of entrepreneurs decided to create an organization that would represent business everywhere. They founded the International Chamber of Commerce (ICC) calling themselves 'the merchants of peace'" (Thenford, 2012, p. 4) or perhaps "merchants of diplomacy" instead.

Diplomacy as an Industry

Nobre (2015, p. 12) has shown how diplomacy has been taken over by the whole society, a phenomenon that has been registered through diverse expressions, such as citizen diplomacy, civil diplomacy, celebrity diplomacy, authorities' diplomacy (former head of states), nongovernmental diplomacy, NGOs diplomacy, multitrack diplomacy, track II diplomacy, multistakeholder diplomacy, network diplomacy, business diplomacy, corporate diplomacy, executive diplomacy, CEOs diplomacy, private diplomacy, etc. The author has also pointed out how outsourcing is affecting diplomacy either inside or outside the governmental sphere. Inside the

[13]"They have the advantage to government that they are democratically elected from the business community, have transparent governance that offers legitimacy, and are locally-rooted." (Bennett, 2011, p. 23)

[14]The authors refer to the case of Great Britain.

government, the "idea of privatizing [some aspects[15] of] diplomacy has provoked uneasy reactions among some within the MFA [Ministry of Foreign Affairs]" (Taib, 2006, p. 2). Outside the government, the "international system is [leading] to a partial privatization of external relations[16] and has aptly been described as a 'cobweb'" (Møller, 2005, p. 5).

> As a parallel to "direct democracy," there has been what one might describe as "direct diplomacy." The same way that most citizens want to participate in public life, more social actors have performed diplomatic functions. The democratization of the supply and demand for diplomatic services is a reality, and the United Nations forums are full of NGOs, celebrities, corporations etc. This effervescence of non-state diplomatic activity should open new professional horizons as well as new markets, despite the States' insistence in keeping the monopoly over the status for professional diplomats. Thus, "social diplomacy" has been practiced under general labels such as consulting and advisory services, for instance, and via related professional fields such as international relations and foreign trade. (Nobre, 2015, p. 7)

The idea that diplomacy can be constituted as an industry in itself is critical, as it is the idea that companies might have diplomacy either as their main or auxiliary business activity. Both things lead to understanding "business diplomacy" as the métier of the "merchants of diplomacy."

> How companies can implement diplomacy is paramount. [H]ere there are at least two possibilities: one, when diplomacy gives support to the company's main activity, another, when diplomacy is the company's main activity. The first case is already well documented […], representing the research evidence on multinational companies' adoption of diplomacy as a managerial tool. They advocate for the creation of a diplomatic corps inside the company's organizational structure. The second case is rather rare: although it is possible to find companies offering services that match some of the diplomatic activities, only few define themselves as full-fledged market diplomacy providers. […] In this respect, […] there have been cases where companies are presenting business diplomacy either as the main or major activity in their business portfolio. Some references shall include: ADIT (France); Bucy Group (France); Business Diplomats (Switzerland); BHB Emissary (USA); EPEE (France); Edwards and Willems (Belgium); Aurora Partners (UK); AESMA (France); Invist (Turkey BVTBD (Dubai-UAE); BGLOBAL (USA); DAGERO (UK); ABD (Netherlands); Glenobre (Canada); APCO (USA); LGE Partners (France). (Nobre & Filimon, 2015, p. 2)

In a way, there is nothing new about independent diplomatic services provision,[17] since they still exist and have been contracted for thousands of years. Yet it is easier to find novelty in the ways such services have been packed in and by who they have been sorted out. Therefore, diplomacy was more a matter of who was found eligible to trade it rather than where and how it could be found. Its political

[15]The author refers to events management, training, consular work, and diplomatic bag.

[16]Møller (2005, p. 5) is talking about how a "number of new actors […] no longer interact with the rest of the world via their respective states, but partly establish their own external relations, both with their counterparts in other countries and with other types of actors."

[17]That was told by the director of the McMaster University Innovation Park at 2011 after being presented to a project of a Business Diplomacy company; and who proved himself right.

nature starts with the struggle for the power over it, in order to decide who is in/out of this industry. Businessmen and corporations have soon understood how precious such art and technique was for the society, historically positioning themselves in a very strategic manner. Businessmen such as the proxenos, the first consuls, and the actual honorary consuls are then the pioneers of the "business diplomacy" industry; while the chambers of commerce endure still as a good example of formal framework for a "business consulate" or a "business embassy."

The Consulariate

According to historic evidence, the most upper-ranked professionals in delivering BD services should be called consuls,[18] while the company in such industry would work as a consulate. Albeit this process of regaining the historical professional status of consuls is still running, some companies are already using BD to define themselves or their services. A company providing services of representation, negotiation, information, promotion, protection, and defense would better take the format of a consulate – instead of an embassy. Although sometimes the differences between consuls and ambassadors become fuzzy (given the interplay between politics and business) consuls are traditionally taken as more business-driven and historically as independents of the First Sector. Because of this, a BD company is expected to mirror its structure and functioning on consulates.

While consulates are primarily business-driven, embassies instead emphasize on the political management. Nevertheless, this statement is a bit artificial[19] since both areas are interconnected and interdependent at the same time. In an attempt to alleviate any feeling of discomfort, perhaps the business consulates should be named *consulariates*[20] instead. This neologism is crafted with the only purpose of marking the differences between state diplomacy and non-state diplomacy. And it serves well the cause, given its malleability in other languages, such as *consulariat* (French and Catalan), *consulariado* (Spanish and Portuguese), and *konsulariat* (German and Swedish) – for instance. In the same fashion, the "political consulate" on business diplomacy could be named *chancellariate*, replacing the term "embassy."

In this context, it could be stated actually that the proxenos have rather run *consulariates*. They were private businessmen servicing foreign communities, which included foreign governments, private citizens, associations, and corporations. Functioning as BD providers, they had a contract and supposedly have derived

[18]Each team would be supervised by a leader named consul, and those professionals would name themselves attachés: attaché for legal affairs, attaché for communications, attaché for commerce, attaché for political affairs, and so forth.
[19]This shift to a global marketplace emphasizes the increased importance of "low politics" – trade, investment, tourism – all traditional consular areas of interest. (Stringer, 2007, p. 6)
[20]The "political consulate" on business diplomacy could be named *chancellariate*, replacing the term "embassy." A contemporary "Hansa" would imply a global network of independent associates, providing business diplomacy services under a specific ISO (International Standardization Organization).

(indirect) earnings from their activities. Most importantly, they were not paid by nor were under the imperium of the rulers, states, or governments. The proxenos were then independent service contractors. This cannot be said instead about the honorary consuls. Howbeit they are private businessmen too, delivering diplomatic services, the fact that they are under the imperium of a foreign state and government it changes everything. In spite of not being paid by such foreign state and government, the truth is that honorary consuls really function as if they were public servants – and the present international legal framework places them in a gray zone, liable under both internal and external official competences. Due to such peculiarity, it is not wrong saying that honorary consuls are running consulates instead of *consulariates*.

Beyond the legal liability issue, what really characterizes honorary consuls is the weight of the patrons in their portfolio. When their contract stated that they became a single patron's provider – this patron being a state or government – then they officially became unpaid public servants – while still holding the status. The proxenos would continue instead serving everybody else's interests: theirs, those of their local state and government, those of their foreign state or government patrons, and others. Thus, the proxenos were really playing a transparent multistakeholder business diplomacy game.

Likewise, proxenos, the historical consuls could also be seen as running *consulariates*. The fact that they have performed some public-function activities such as justice and customs administration was mostly due to the characteristics of the times they were contemporary with and did not interfere with their private business management. As a matter of fact, it was the opposite. The absence of the homeland state and government abroad gave them liberty to develop a diplomacy perfectly attuned to the business community's needs. Contrary to the honorary consuls, the historical consuls were serving their peers, the businessmen – holding this community as the chief patron. It is not clear however if they had served other patrons, although it is acceptable that they sometimes needed to represent official interests – of homelands and/or foreigners. Likewise, proxenos did. It looks like the proxenos' portfolio of patrons was more varied that the one of the historical consuls. Nonetheless, they were running *consulariates* due to their market driven status, goals, and processes. They were exercising the diplomacy to benefit their own businesses, and as a business in itself since they were paid to do so.

Consulariates versus Consulates: The Case of the Chambers of Commerce

The chambers of commerce are an interesting intermediary case. Related to their portfolio of patrons, the chambers of commerce served a much broader audience than the honorary consuls. Even though the weight of their partnership with the government could be troubling in some situations, there are not sufficient reasons to consider them as an official provider of outsourced diplomatic services. They actually run in a consular format, but their premises are deep-seated as embassies. This is because they were created to perform high-level political interventions, while maintaining a grass-roots bunch of economic-driven activities. Thus, they meet almost all the conditions to be named as *consulariates* but one: they are not-for-profit. That is, they do not belong to the second social sector. If they were for-profit, then they would be the closest available example on how to structure a BD company, within the boundaries defined by the current comparison between proxenos, historical consuls, honorary consuls, and chambers of commerce.

It is well-known that discretion is a major asset on diplomacy and this may help understanding the reason why BD has been reluctant to be considered as an industry. It appears that some for-profit institutions trading with diplomacy do prefer standing in oblivion, preserving their status somewhere between business and diplomacy, and rather blurred or obliterated when offering their services. Part of this strategy is to keep positioning themselves as firms on public relations field, lobby, advocacy, consultancy, bars, international relations, international trade, etc., while readily functioning as *consulariates*.

This issue raises the following question: how to define a *consulariate* in order to distinguish it from consulates? We present here an exploratory perspective: first, they are for-profit organizations; second, they are nongovernmental organizations;[21] third, they serve a multitude of stakeholders;[22] fourth, they are market-rooted; fifth, they are business-oriented; sixth, they are ethically and legally abiding;[23] seventh, they cover both the internal, the external, and the in-between jurisdictions;[24] eighth, they are professional institutions;[25] ninth, they charge their patrons; tenth, they are clear and transparent about the previous statements.[26]

After introducing such a strict definition, it is hard to believe that any known stakeholder would ever qualify as *consulariate* (i.e., honorary consuls and chambers of commerce are not-for-profit). The honorary consuls still bear the status of (indirect) public servants and also have partial diplomatic immunity. Historical consuls played a very dubious role in the private *versus* public interface; they also kept a very narrow portfolio of patrons, and were covered by a certain degree of immunity. The proxenos stand as the best candidates, but, unfortunately, they did not charge their patrons. The ideal approach to configure a *consulariate* – a hybrid format for business diplomacy companies in this industry to be – would be perhaps to depict the best properties from the joint features of the typologies mentioned above. This does not mean that BD has not been done yet in a consular format (see, e.g., companies such as ADIT and Bucy Group, to name a few). As a matter of fact, BD in a consular format is what we can find nowadays in this incipient BD industry. Such consular services providers must be seen though as an evolving business, that might eventually converge to a *consulariate* format.

[21]They can have states and governments as patrons as long as remaining independent contractors.
[22]In consequence, they cannot be exclusive services providers.
[23]Diplomatic immunities do not apply, while professional hedging may apply.
[24]That is from the point of view of their patrons' business diplomacy interests.
[25]They are compromised with the quality of the services and with the patrons' satisfaction.
[26]They do this into the contract and through organizational communications.

Conclusion

We have addressed here several aspects related to the present status and role of the BD in the national and global market. Historical evidence has shown that consular services went through a conceptual, functional, and organizational evolution and that, whatever the legal and administrative setting they were acting in, they had and are still continue to have an important role for the society. The consulates and the actors involved in this activity proved to be an evolutionary concept, which has undergone several necessary changes. Nowadays, new adaptations are needed, requested by the complex dimensions of the global market and the various internal and external (societal) stakeholders involved.

The growing importance of the MNs in the world market, the increasing complexity of the market transactions and the perception of the MNs by the (social) community where they are acting, all these factors indicate that BD it is not only a governmental dimension but also a part of the organizational architecture of the MNs. New challenges faced by MNs in a globalized world could thus contribute to reconfigure the traditional BD scenario. Furthermore, some of the issues discussed in the previous sections also refer to future extensions related to the potential *agency* problems that could emerge from the intermediating role played by the *consulariates* in the global socioeconomic environment.

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The Ethics and Business Diplomacy of MNE Tax Avoidance

Duane Windsor

Abstract

Purpose — This chapter examines the ethics and business diplomacy of legal tax avoidance by multinational enterprises (MNEs).

Design/methodology/approach — The methodology assembles the relevant literature and examines alternative interpretations of corporate tax strategy. Key topics include business ethics and responsibility, business sustainability, economic patriotism and corporate inversions, tax havens, and possible solutions.

Findings — The debate concerns whether legal tax avoidance is unethical and/or poor business diplomacy. There are three possible strategies for MNEs. One strategy is intentional tax avoidance. Another strategy is business–government negotiation concerning tax liability. Another strategy is business diplomacy aimed at maximizing the social legitimacy of the firm across multiple national tax jurisdictions.

Social implications — The chapter assesses four possible solutions for corporate tax avoidance. One solution is voluntary tax payments beyond legal obligations whether out of a sense of ethics or a strategy of business diplomacy. A second solution is international tax cooperation and tax harmonization in ways that minimize opportunities for tax avoidance. A third solution is increased stakeholder pressure emphasizing business diplomacy and tax cooperation and harmonization. The fourth solution is negotiated tax liabilities between each business and each jurisdiction.

Originality/value — The chapter provides an original systematic survey of the key aspects of corporate international tax avoidance in an approach in which business ethics and business diplomacy are better integrated. The value of the chapter is that

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it provides information and assembles relevant literature concerning corporate international tax avoidance, and addresses possible solutions for this problem.

Keywords: Corporate inversion; corporate tax responsibility; economic patriotism; tax avoidance, tax havens, tax minimization

Introduction

This chapter examines the ethics and business diplomacy of tax minimization through tax avoidance or tax sheltering by multinational enterprises (MNEs). This focus excludes state-owned enterprises (SOEs) and purely domestic businesses. The chapter uses the terms business and corporation interchangeably for MNEs. Also, business diplomacy and corporate diplomacy are basically the same; business ethics and corporate ethics are basically the same. Ethics denotes a rationale for accepting a moral obligation not required by law. (There is a general moral obligation to obey the law, but civil disobedience doctrine provides a basis for disobeying immoral laws.) Acceptance might be strictly voluntary, in the sense that executives and directors wish to be ethical, fair, and just; or responsive, willingly or grudgingly, to stakeholder and social expectations, in the sense of corporate social responsiveness. A growing body of literature calls for nonavoidance behavior by businesses on ethical or responsibility arguments. That is, ethical and responsible businesses willingly should pay taxes beyond legal requirements. The usual rationale is the desperate social need for tax revenues. This set of arguments will be termed corporate tax responsibility (CTR), as a special category within business ethics and corporate social responsibility (CSR). Business diplomacy involves a broader commitment to the public good. In addition to assessing the ethical and responsibility literature on nonavoidance behavior, this chapter explores the business diplomacy strategy of nonavoidance behavior.

In general terms, business diplomacy in an international business environment of multiple stakeholders, of variable power and importance to an MNE, concerns maximizing corporate legitimacy through responsiveness to social public demand in order to improve the public good (Ordeix-Rigo & Duarte, 2009; Wolters, 2012). Stakeholder views of tax policy and tax compliance involve variable conceptions of fairness and burden (Chittenden & Foster, 2008). As a result, an optimal outcome in which all affected stakeholders are reasonably satisfied voluntarily seems unlikely, but not strictly impossible.

To address the ethics of tax avoidance in a business diplomacy strategy, the chapter will examine tax avoidance, tax minimization, fairness, burden, corporate citizenship, economic patriotism, and related concepts (including especially CSR and business diplomacy strategy). The chapter will link this conceptual examination to the ongoing efforts at improved tax coordination in the European Union (EU) and across multiple countries. The issues of corporate inversions and tax havens will be discussed.

This examination includes descriptive (what is), instrumental (how to), and normative (ought to) dimensions. While business diplomacy can be a purely instrumental strategy to maximize a MNE's social legitimacy in relationship to social public demand/expectations, ethics adds a normative dimension to strategic judgment. A prescriptive theory of CTR combines instrumental and normative considerations. Shareholders of MNEs have a strong financial interest favoring reduction of avoidable tax liabilities, so that increasing voluntary tax payments may or may not be the obvious choice. Tax minimization can occur through legal tax avoidance or illegal tax evasion. "Loopholes" – even if obtained by corporate lobbying or close tax code interpretation – are legal devices. A tax code is a purely positive enactment, although theoretically resting on normative conceptions of fairness concerning progressivity and relationship of benefits obtained to taxes paid. Various MNEs may be structured intentionally and legally for global tax minimization through "tax avoidance in every jurisdiction" (Christensen & Murphy, 2004, p. 37). A carbon tax for reducing climate change effects may become part of the tax environment for MNEs.

The key definitions used in this chapter are as follows. An MNE is a private business – whether publicly traded or privately owned – that operates in two or more (and typically multiple) national tax jurisdictions. A two-jurisdiction MNE could have two home countries – as illustrated by Royal Dutch Shell headquartered in the Netherlands and the United Kingdom. A multiple-jurisdiction MNE will typically have only one or two home countries, with all other jurisdictions being host countries. Operating across national tax jurisdictions, an MNE can adjust tax liabilities through various legal devices permitted by those tax jurisdictions. Tax minimization is action to reduce liabilities and payments to tax authorities. A business can minimize taxes by tax avoidance, tax evasion, or corrupt payments. Tax avoidance or tax sheltering is legal reduction of overall tax liability. Tax codes permit the adjustments involved. If jurisdiction 1 has a lower tax rate and jurisdiction 2 has a higher tax rate, and if the MNE can arrange to have tax liability shifted from jurisdiction 2 to jurisdiction 1, then the MNE is (1) minimizing tax liability, and (2) engaging in tax avoidance in jurisdiction 1. Tax evasion or tax cheating is illegal reduction of tax liability, but such evasion or cheating occurs more with individuals or businesses operating in the shadow economy. Tax evasion appears more likely with domestic businesses than with MNEs (Bordignon & Zanardi, 1997). It is not impossible that corrupt payments could be made to tax authorities. Tax cooperation is intergovernmental coordination in tax matters, such as exchange of information. Tax harmonization means identical or closely similar taxes across countries, particularly in a particular region such as the EU. There all member-states must have a standard value-added tax rate of at least 15% (there are certain exceptions for which the reduced rate must be at least 5%), essentially to avoid tax competition through rate reductions. Typically, tax harmonization involves increasing tax rates in the lower tax jurisdictions, rather than adjusting higher tax rates downward. In principle, however, tax harmonization could be reduction of higher tax rates – and that option is one possibility for addressing corporate tax avoidance. A tax haven is a jurisdiction which affords relatively low or zero taxation in order to attract businesses (or individuals), in what amounts to tax competition.

A purely domestic business in a unitary state cannot legally make analogous adjustments. The business is either in compliance or not in compliance. Noncompliance is tax evasion. Within a federal system, such as the United States., Canada, or Australia, a domestic business might be able to adjust tax liabilities analogously across state/province and local tax jurisdictions. A purely domestic business in a federal state thus faces a situation analogous to that of the MNE: the domestic business may operate across subnational tax jurisdictions. There is thus an important broader setting for studying the ethics of tax avoidance and tax minimization, but the focus in this chapter is on tax avoidance by MNEs.

The remainder of this chapter following this introduction is organized into seven more sections. The second section provides "A Conceptual Framework for Assessing MNE Tax Strategy." The third section examines "Ethics and Responsibility in Tax Avoidance." The fourth section discusses "Business Diplomacy in Tax Contribution." The fifth section addresses "Economic Patriotism and Corporate Inversion" – with special attention to the United States. The sixth section considers the roles of "Tax Havens and Transfer Pricing Practices." The seventh section assesses "Four Possible Solutions." The concluding eighth section places tax avoidance in the broader context of what the author terms public policy avoidance through the ability of businesses to shift activities across legal codes.

A Conceptual Framework for Assessing MNE Tax Strategy

In January 2016, Google agreed to pay about $140 million in "back taxes" to the United Kingdom calculated through a change in how the firm measures financial performance in that country. Google's European headquarters is in low-tax Ireland. Previously Google's attitude had been expressed as "Google's tax avoidance is called 'capitalism', says chairman Eric Schmidt" (The Telegraph, 2012).

Tax avoidance has been a key policy topic among developing countries, and has become a hot policy topic in the United Kingdom and Europe, and seems particularly directed at U.S. firms and certain tax havens within or near the EU (Christians, 2014; Krugman, 2013). Starbucks has been a target of expressed concerns (Fairless, 2015). Apple has been another prominent company under public scrutiny in the United States (Lochhead, 2013a, 2013b). A merger resulting in Wahlgreens Boots Alliance was highly controversial (Ethical Performance, 2013; War on Want, 2013a, 2013b). Within the EU, while not alone Ireland and Luxembourg have been under particular pressure to reform tax policies attracting U.S. companies (*Houston Chronicle*, 2014d, 2014e; *New York Times*, 2014). In the United States, corporate inversion has become a hot policy topic. There are conflicting views among politicians, pro-tax activists, anti-tax advocates, and CEOs.

CEOs assert two positions: (1) they engage in strict tax law compliance, a legal argument (Bloomberg News, 2014a); or (2) engage in fair share payment, a moral argument (Lochhead, 2013b). There is a distinction between criminal and civil laws on the one hand, and public policy on the other (Wilson, 1989). Taxation is public policy, backed by criminal and civil penalties for deterrence and enforcement. But defining fair taxation is quite difficult. There is a basic distinction between benefit taxation (an individual or entity pays for benefits enjoyed) and ability-to-pay taxation (one individual or entity is able to pay more for the same benefits). The case for progressive taxation, on an ability-to-pay principle, can be characterized as "uneasy" (Blum & Kalven, 1952). One can argue reasonably that businesses should pay for benefits. Tax avoidance is more typically generated by more progressive taxation policies.

Corporate governance likely emphasizes incentives for legal tax avoidance (Armstrong, Blouin, Jagolinzer, & Larcker, 2015). One empirical study finds that tax-sheltering devices do not on average affect firm value, but do have a positive effect in the presence of good governance of the particular firm (Desai & Dharmapala, 2009). Justice Strine makes three key points. First, firms are profit-seeking organizations, staffed by profit-oriented people: "Instead of recognizing that for-profit corporations will seek profit for their stockholders using all legal means available, we imbue these corporations with a personality and assume they are moral beings capable of being 'better' in the long-run than the lowest common denominator" (Strine, 2012, p. 136). Second, the effectiveness of voluntary self-regulation is strictly limited: "In the end, policy makers should not delude themselves about the corporation's ability to police itself; government still has a critical role in setting the rules of the game" (Strine, 2012, p. 136). Third, international cooperation – of the type needed to handle tax havens and increase corporate tax payments – is difficult to achieve: "The coalition- and consensus-building required to develop an effective global (or at the least, OECD-wide) scheme of externality regulation will require enormous leadership and dedication. But it cannot even begin if we delude ourselves into believing that corporations will effectively regulate themselves" (Strine, 2012, p. 172).

Conceptually, there are three alternative tax strategies for an MNE. One can think of these strategies as lying along a continuum. At one end of the continuum is aggressive tax avoidance. An MNE operates to allocate capital and activities across national jurisdictions so as to minimize legally overall tax liability. This allocation may have to be weighed against its opportunity cost defined in terms of revenues generated in each jurisdiction. In some way, the MNE optimizes its tax strategy. At the other end of the continuum is business diplomacy tax strategy. An MNE operates to contribute to the public good in each tax jurisdiction. This contribution is something beyond the tax code, the minimum requirement being nonuse of loopholes in the tax code. The advantage to the MNE is that it maximizes its social legitimacy across tax jurisdictions. In the middle of the continuum is tax negotiation. The difficulty with the anti-tax avoidance criticism is that it (1) calls for voluntary tax payments beyond legal requirements, or (2) calls for changes in the tax code itself – such calls being political rhetoric to that purpose. The difficulty with the pro-business sustainability advocacy is that it sets no limit on the contribution. For MNEs, the middle of this continuum is negotiated tax payments with each national government. Negotiation implies that the outcome will be neither minimal (tax avoidance) nor unlimited.

Some MNEs effectively are globally footloose, meaning that there is no sense of loyalty to any home country. There is a scattered literature around the idea of globally footloose MNEs (Görg & Strobl, 2003; Van Beveren, 2007). A globally footloose MNE is one owing no loyalty to any particular sovereignty. Decentering and also what the present author will term "wandering" (from location to location) suggest that footloose MNEs will elect tax avoidance. Fiat's then CEO reportedly stated that the company is "Italian based but not an Italian company" (*Financial Times*, 2010). MNEs may have a natural tendency to "decenter" (or unbundle) for business purposes (Desai, 2009). Halliburton operates co-offices in Houston (headquarters) and Dubai (field operations).

Tax policy may be intertwined with what has been labeled corporate welfare, especially in advanced countries. The term corporate welfare, or alternatively crony capitalism, implies that governments subsidize businesses inappropriately and unnecessarily. Corporate welfare has been characterized as "socialism for the rich, capitalism for the poor" and more recently in connection with the 2007 financial crisis bailouts as "privatizing profits and socializing losses." One private estimate for the United States using a broad definition is some $92 billion in federal subsidies – direct or indirect – to businesses in fiscal year 2006 (Mattera, 2014; Slivinski, 2007).

Ethics and Responsibility in Tax Avoidance

Aynsley (2014) argued that paying fair share taxes is a corporate duty. This view depends on the definition of fair share and thus of fairness in taxation. A contrary view is that there is no such corporate duty and no harm in legal tax avoidance (Edwards, 2013). An appeal to superior virtue is not a demonstration that harm is occurring in legal compliance. The duty not to pay taxes greater than actual legal liability and the responsibility to help governments cope with their financial needs are in conflict, in a way that requires a sense of ethical judgment or a strategy of business diplomacy on the part of business executives and directors.

Tax avoidance means that MNEs can move across national tax jurisdictions, and tax rates vary markedly across those jurisdictions (Deloitte, 2015). The United States has a high business tax rate (combining federal, state, and local taxes). There are calls for businesses to adopt CSR standards on taxation (Christensen & Murphy, 2004). However, these calls have to invoke business transparency through publishing relevant accounting information, or business activities confined to some substantial economic purpose as distinct from profits-laundering (Christensen & Murphy, 2004; Payne & Raiborn, 2015). Strictly legal actions are ethically neutral rather than ethically suspect, although certainly not ethically superior (i.e., virtuous or just). Tax law doctrines aimed at reducing tax shelters include business purpose, economic substance, and pre-tax profit requirement (Weisbach, 2002, 2003). While such doctrines aim at increasing efficiency of the tax system, those doctrines cannot perfectly identify tax avoidance in advance. Thus, the doctrines may induce welfare distorting responses by taxpayers seeking to structure new tax shelters (Weisbach, 2002, 2003).

The ethics of just taxation has a long history. Plato (circa 360 B.C.E.) stated in *The Republic* (Book I, cited in Rectenwald, 2012, p. 425): "... when there is an income tax, the just man will pay more and the unjust less on the same amount of income ..." From this perspective, illegal tax evasion or tax cheating is unjust. There is a theme of justice in Adam Smith's *The Wealth of Nations* (1776) (De Vries, 1989). Whether the same perspective can be applied to legal tax avoidance is more debatable. One cannot readily argue that an individual should pay more tax that is legally owed, although one can reasonably argue that the legal tax liability of an individual should be increased. Part of the debate about corporate tax avoidance thus turns on a distinction drawn between a corporation and an individual, although a corporation is an association of individuals to whom the net worth of the business belongs. Corporate tax is a tax on the owners or the shareholders.

Arguments against legal tax avoidance boil down to ethics and responsibility on a fair share basis, or appeal to the desperate financial needs of developing countries – whose governments are also often corrupt. The arguments tend to make voluntary tax contribution a minimum condition for demonstrating CSR (Dowling, 2014; Jenkins & Newell, 2013; Preuss, 2012). A study in India (Muller & Kolk, 2015) concluded that MNEs pay significantly higher effective rates than do local firms, with the higher payments found more in MNE subsidiaries known for CSR than in MNE subsidiaries less known for CSR. These findings contradict the general picture painted about tax avoidance in developing countries; although one could still argue that MNEs should pay more because they are more able than local firms. Another study isolated the ethics problem as aggressive tax avoidance (Christensen & Murphy, 2004, p. 37) illuminating the moral tone in a firm's leadership (Payne & Raiborn, 2015).

UNCTAD (2015) estimated that the foreign affiliates of MNEs contribute about \$730 billion annually to the government budgets of developing countries. Systematic tax avoidance would imply that considerably more money could be contributed. But the problem is whether greater tax payments should go to developing countries or developed countries. Buried in this issue is the difficult problem of economic inequality between developing and developed countries (Garavini, 2015). An Oxfam report in January 2015 (Elliott, 2015) sates the richest 62 people hold as much wealth as the poorest half of the world's population. The UN has proposed taxing billionaires to transfer wealth to support development. The UN estimated more than 1,200 billionaires in 2012 with a combined worth of about \$4.6 trillion (Krause-Jackson, 2012). A 1% levy on billionaires could raise up to \$50 billion (Krause-Jackson, 2012). However, presently taxation would have to occur through national tax jurisdictions; and the issue remains why those countries should transfer wealth in this way.

CSR has received two contradictory definitions in the literature. One definition restricts CSR to voluntary altruism actions, beyond strict compliance with legal and business ethics standards. The intent of this restrictive definition is to make CSR activities appear unprofitable in any short-term time period. The definition can be relaxed somewhat through notions of strategic philanthropy, stakeholder subsidy of the firm. The other definition expands CSR to mean business ethics, legal compliance, and corporate citizenship (substituting for voluntary altruism). Lying between restrictive and expansive definitions of CSR is the problem of management's judgment concerning appropriate multiperiod strategy for the firm. Multiperiod strategy (including reputational effects among influential stakeholders and the possibility of changes in public policy) helps a costly CSR investment in the short term to yield either future profits or stronger reputational capital in the longer term. CSR practices can involve conflicting dimensions, such as a positive approach to communities but a negative approach to employees (Jung & Kim, 2016). Tax avoidance might indicate "bad" CTR, but not overall "bad" CSR. International taxation involves a distribution problem: between developed and developing countries, as well as between MNEs and host governments.

Business Diplomacy in Tax Contribution

Although the prevailing conception of business diplomacy is that it is distinct from and superior to lobbying or corruption of government, tax policy lies at the intersection of lobbying, business diplomacy, and business ethics (see Christians, 2014; Chu, Cheng, & Lai, 2015). Tax strategy is a test of business diplomacy, in the same sense that tax compliance is a minimum standard for CSR. Friedman (1970) argued that firms should obey laws and also basic ethical standards while lobbying government concerning beneficial public policies and eschewing discretionary (voluntary) CSR beyond legal and ethical standards. Voluntarily paying excess taxes presumably falls under Friedman's understanding of discretionary CSR. However, Friedman's conception automatically leaves discretion to management to make strategic judgments concerning how to balance competing stakeholder demands and expectations. Adam Smith (*The Theory of Moral Sentiments*, 1759) defined good citizenship as concern for community welfare beyond public policy compliance.

National tax codes can be riddled with so-called loopholes (i.e., technical exceptions). Tax policy lobbying obtains these loopholes. A "loophole" is commonly defined (Investopedia, n.d.) as "a technicality that allows a person or business to avoid the scope of a law or restriction without directly violating the law." Imperfect tax codes, riddled with loopholes or technicalities and varying globally by jurisdiction, permit persons or entities to minimize tax payments. A tax code is a set of detailed rules, rather than a set of guiding principles. Dworkin (1978) distinguishes among policy, principle, and rule. There is no economic advantage for a person or an entity to pay any tax beyond legal liability. While a person or privately owned entity might view overpayment (or overcompliance) as a virtue, in a publicly traded entity the notion of fiduciary responsibility to shareholders (whatever its inherent defects) must arguably be strongest in tax decisions. The decision to pay taxes voluntarily appears to rest on business diplomacy as a strategic orientation.

Legal lobbying is necessary in constitutional democracy both as protected free speech and as provision of essential information to public officials (Jindal, 2008;

Loomis, 2006). Legal lobbying is a prerequisite condition and as such ethically neutral. Indicting public policy avoidance as unethical requires a standard for fair taxation or just compliance (Aynsley, 2014; Mankiw, 2007; Weiss, 1993). Proposed standards are typically political claims in moral clothing. There is an allegation that an organization such as the American Legislative Exchange Council (ALEC) prepares legislation proposals for businesses (American Association for Justice, 2010).

Kaufmann and Vicente (2011) argue that legislatures determine what forms of corruption are legal or illegal. Firms can also make choices with respect to corruption practices. "When faced with a regulatory constraint, firms can either comply, bribe the regulator to get around the rule, or lobby the government to relax it" (Harstad & Svensson, 2011, p. 46). Harstad and Svensson find that at lower levels of country development firms tend to bribe, switching at higher levels of country development to lobbying. The corporate benefits and ethics of lobbying (Susman, 2009) are debated topics featuring inconclusive findings on the whole.

One author proposes, for the United States, that certain tax subsidies be disallowed to business corporations that spend more than some minimum amount (say $1 million per year) on nondeductible lobbying and other political activities (Seto, 2010). One estimate is that in 2008, there was more than $3 billion in U.S. lobbying activity (Alexander, Mazza, & Scholz, 2009, p. 401). Alexander and his colleagues estimated a one-time 22,000% return ($62.5 billion in 2008 benefits, $282.7 million in lobbying cost during 2003−2004, and $220 per $1 lobbying) based on the tax holiday on repatriated earnings authorized by the American Jobs Creation Act (AJCA) of 2004. The AJCA permitted a one-time-only repatriation of foreign earnings at a reduced 15% tax rate. Generally, corporate tax returns are confidential. Under the AJCA, the benefits were publicly disclosed in audited financial statements. The authors collected lobbying data from a number of sources. The study identified 496 repatriating firms, of which 476 provided information on repatriation amount ($298 billion in aggregate) and resulting taxes. Of this set, 93 firms engaged in lobbying for the AJCA and repatriated in aggregate $208 billion (70% of the total repatriation). Regression analysis, including a variety of controls, found that lobbying was highly associated with amount repatriated. Several firms borrowed funds to repatriate as "earnings." Industry and firm size were the best predictors of repatriation; profitability was not, although repatriating firms were more profitable, and cash was not.

Farrell (2011) points out that the Alexander study provides no evidence that any votes were changed as a result of the lobbying activities of the 93 firms. The legislators might have voted the same way, on ideological grounds. Rather the study's finding was that lobbying firms benefited more than nonlobbying firms. Farrell points out further that larger firms likely had more funds to spend on lobbying. However, Farrell concedes that in theory lobbying has some benefit, or firms would not lobby; his point of criticism is that the estimated rate of return is far too high. One might interpret the action of the lobbying firms as something like a hedge: better to put up $282.7 million (some of which might have been spent anyway on lobbying) just in case (and in a successful hedge subtracted from the resulting benefits).

Economic Patriotism and Corporate Inversion

Minimizing tax liability in the home jurisdiction involves the issue of economic patriotism, which can be defined as practicing proper corporate citizenship at home. Minimizing tax liability in a host jurisdiction involves the issue of proper corporate citizenship abroad. A "footloose" MNE effectively accepts no moral allegiance (patriotism) to a home jurisdiction in the conventional sense. A broader context for CSR occurs when a jurisdiction's governmental/political system is corrupt in forms of illegal bribery and extortion.

The rhetoric of economic patriotism has appeared in both the United States and Europe (Clift & Woll, 2012; Obama, 2012). Obama used the term in the 2012 presidential campaign (Bump, 2014; Croucher, 2015). The notion of "economic patriotism" or "corporate citizenship" as a true citizen of a home country is in conflict with realities of global business opportunities (Foroohar, 2012; Shapiro, 2012). It remains debatable whether a concept of economic patriotism can be applied effectively to an MNE (Yosifon, 2016).

On September 22, 2014, in announcing new rules aimed against inversions, Treasury Secretary Jacob Lew stated: "These transactions may be legal, but they're wrong" (Davis, 2014, p. D1). On September 22, 2014, Treasury Secretary Jacob Lew announced rules intended to reduce or eliminate the economic incentives for inversions (Davis, 2014). Reported pinion among corporate advisers was that the effect would be to make inversion deals less lucrative rather than to halt deals (*Houston Chronicle*, 2014b). In a letter to the Congress which is available online for ready access, Lew (2014) wrote: "... these firms are attempting to avoid paying taxes here, notwithstanding the benefits they gain from being located in the United States." He characterized the attempt as "effectively renouncing their citizenship to get out of paying taxes" and articulated the notion of economic patriotism: "What we need as a nation is a new sense of economic patriotism, where we all rise or fall together."

In September 2014, five liberal U.S. Senators (four Democrats and one Independent) sent a letter to the CEO of Burger King opposing the move of its corporate headquarters to Canada from Miami. The letter reads in part: "We believe you will find that turning your back on your loyal U.S. taxpaying customers by renouncing your corporate citizenship is not in the best interest of Burger King or its shareholders." The letter also accuses Burger King in the words of a news report "of trying to avoid paying its fair share for roads and other public services it receives in the United States" (*Houston Chronicle*, 2014a). The letter contains the following notions: loyalty, corporate citizenship, best interest, fair share, and corporate benefit ("roads and other public services").

In a corporate inversion, a firm merges with or acquires a smaller firm in a different country and relocates its legal business address to the other country for the purpose of shifting legal and tax residence (Freedman, 2014). It is not strictly established that tax breaks drive corporate inversions (Hall, 2014). Corporate inversion is just one form of tax avoidance. Other forms include for example "transfer-pricing, re-invoicing, offshore 'special purpose vehicles', ... dubious charitable trusts ..."

(Christensen & Murphy, 2004, p. 37). Senator Charles Schumer (D-NY) called for Congressional legislation to stop "earnings stripping" in which a parent company loads a U.S. subsidiary with tax-deductible debt (Davis, 2014, p. D6). In so-called "dividend arbitrage" operating mostly through London banks may temporarily transfer ownership of client shares to a lower tax jurisdiction when a dividend is expected.

The U.S. Congressional Research Service (Marples & Gravelle, 2014) reports that 75 U.S. firms have made inversions over the past two decades (Freedman, 2014). Recent inversions include pharmaceuticals AbbVie (Chicago) and Mylan (Pittsburgh) shifting to Europe (Freedman, 2014). Accenture, once Andersen Consulting, went to Bermuda in a 2001 inversion and is now incorporated in Ireland (Bump, 2014). Certain oil field services providers originally headquartered in Houston moved early (Freedman, 2014). Transocean moved to the Cayman Islands (1999), and then to Switzerland (2008). Noble Corp. moved to the Cayman Islands (2002), then to Switzerland (2009), and then to London (2013). Weatherford International moved to Bermuda (2002) and then to Switzerland (2008) (Eaton, 2014a). The three firms saved an estimated $2.923 billion in taxes during 2002−2009 (Freedman, 2014). A corporate inversion both saves taxes and facilitates repatriation of foreign earnings to the United States (Freedman, 2014).

There appear to be three kinds of corporate inversions: (1) to please host-country regulators; (2) to reduce aggregate tax liability; (3) to take advantage of regulation havens. Burger King's shift to Canada appears to be an instance of pleasing Canadian regulators concerning acquisition of a Canadian firm rather than (2) or (3).

The most general approach to altering economic inversions would be to reduce corporate tax rates and go to residence-neutral taxation so that location is irrelevant. Public policy solutions may tend to create new loopholes. A 2004 law attempted to reduce inversions by requiring a 20% threshold: former U.S. shareholders must own less than 80% of the merged company (Freedman, 2014). Firms introverting prior to the law are not affected by the requirement (Freedman, 2014), and presumably not by new requirements

The recent rise in corporate inversions in the pharmaceutical industry likely reflects high profitability such that there are significant tax advantages (Professor Mark V. Pauly, quoted in Knowledge@Wharton, 2014). One proposed policy option is to reduce the U.S. corporate tax rate and tax code complexity. The Obama administration proposes requiring shareholders to own 50% of the new entity, and a so-called "smell test" in which companies operating primarily in the United States would be treated for tax purposes as U.S. corporations (Freedman, 2014).

Tax Havens and Transfer Pricing Practices

Tax havens, and similarly special purpose entities operated abroad, are a tax avoidance opportunity provided by a host national government. Transfer pricing is an internal business choice, subject to home-country and host-country regulations.

Corporate tax strategy can be separated into two different kinds of problems. One problem, discussed earlier, involves jurisdictions that are less "developed" and sometimes markedly corrupt. The other problem involves tax havens among jurisdictions that may be comparably "developed" economically and politically. The EU is trying to address certain tax havens allegedly operated by certain member-states. Tax havens typically offer reduced tax rates to attract MNE activities (Gravelle, 2013; Redinova & Smrcka, 2013).

A study of firms headquartered in Bermuda and the Cayman Islands – which are offshore finance centers (OFCs) – found a significant discretionary between tax avoidance behavior and use of formal tools to profess CSR (Preuss, 2012). The author characterizes this discrepancy as duplicity.

With respect to tax havens (see Ali Abbas, Klemm, Bedi, & Park, 2012; Krugman, 2013), Kay (2013) has recommended a number of possible reforms: "... removing interest deductibility, introducing an allowance for the cost of corporate equity or shifting the tax base towards cash flow rather than accounting profit. ... Opportunities for tax avoidance are everywhere and always the consequence of rules that treat economically similar transactions differently." Additionally, such rules as exist are rarely enforced, as authorities prefer to negotiate (Kay, 2013). Kay advocates taxing shareholders rather than companies, and if necessary for some reason to tax companies then to tax free cash flow or economic rent (i.e., earnings in excess of cost of capital). One study (Becker & Fuest, 2010) suggests that optimal tax-enforcement policy may be difficult to design in the presence of tax havens. An empirical examination of 2,067 U.S. MNEs (1994–2009) found greater earning management if the firm operates extensively in weak rule of law countries than if the firm operates extensively in strong rule of law countries (Dyreng, Hanlon, & Maydew, 2012). The study developed a similar finding with respect to extensive subsidiaries in tax havens. However, the study also concluded that most earnings management occurred in domestic rather than foreign income.

For the period 1993–2010, generating 16,340 firm-years, tax avoidance tends to coincide with less timely annual earnings announcements operating through greater temporary and permanent book-tax differences. Tax avoidance also impacts value-relevance of earnings to investors at announcement date (Crabtree & Kubick, 2014).

MNEs may hold an estimated $2 trillion in low-tax jurisdictions (Bloomberg News, 2014b, quoting the OECD Secretary-General). Some 30% of cross-border corporate investment is routed through offshore hubs before reaching a final destination (UNCTAD, 2015). One estimate is that tax revenue losses for developing countries linked to offshore hubs total $100 billion annually (UNCTAD, 2015).

Transfer pricing is one of the approaches used to control tax jurisdiction location of profits and costs (Durst, 2011; Spencer, 2012). The EU commission found that low-tax treatment for Apple in Ireland, where the firm "funnels the bulk of its international sales through subsidiaries" using "exaggerated transfer pricing" (Baetz, 2014), is state aid that may be illegal under EU law.

The transfer pricing problem lacks a widely accepted theoretical solution and is a matter of proposed norm (Baistrocchi, 2006). Problems in defining policy are that

(1) the arms-length standard (ALS) (Rectenwald, 2012, p. 426) must be estimated as there is no external transaction, (2) there is a cycle of offshore tax deferral while waiting for a repatriation holiday (Rectenwald, 2012, p. 449), and (3) there are disagreements (such as the Irish tax haven policy) hindering intergovernmental cooperation. There are two different model tax conventions, by the UN and the OECD, which are in some tension (Murphy, 2011). A reason for this tension is that the UN tends to represent the interests of developing countries and the OECD the interests of developed countries.

Four Possible Solutions

There is a lively debate over whether corporate tax avoidance can be fixed (Knowledge@Wharton, 2013). There are four general solutions to the problem of tax avoidance for discussion. Real outcomes will likely combine all four of these solutions in variable patterns.

(1) MNE management (executives and directors) can voluntarily make higher tax payments on an ethical conception that firms should pay some "fair" tax burden not defined by tax law requirements. This solution calls on one or both of ethics and business diplomacy. Fairness is difficult to define normatively. It is not possible to satisfy all stakeholder groups, as shareholders (and possibly employees if compensation or employment level is affected) can feel "unfairly" burdened through a voluntary choice of management. Virtue or responsibility takes the form of overpayment in violation of fiduciary responsibility. Economic patriotism is meaningful for domestic firms, with no option or interest to operate transnationally. The appeal cannot have useful relevance for an MNE operating across multiple jurisdictions. Public policy is open to influence efforts by the very MNEs to be regulated; and those MNEs may have opportunities to shift activities among jurisdictions in competition with one another.

    Fair Tax Mark is a private certification that a firm complies with standards for fair tax compliance. SSE plc, the second largest UK energy supplier and a FTSE100 company, has Fair Tax accreditation (Fair Tax, n.d.). SSE is the first FTSE100 firm to get accreditation (SSE trailblazes, 2014; SSE plc awarded, 2015).

    A study of 3,040 U.S. firms (1991–2010, involving 16,606 firm-year observations) found that internationalization is positively related to the firm's CSR rating (Attig, Boubakri, El Ghoul, & Guedhami, 2016). The authors found a similarly positive relationship for a large sample of firms from 44 countries. The positive relationship also held for firms with extensive foreign subsidiaries in strong rule of law countries.

    A study using 217 tax-avoidant and 217 non-tax-avoidant firm-year observations for 2003–2009 from the Kinder, Lydenberg, and Domini database found that more socially responsible firms display less tax avoidance (Lanis & Richardson, 2015). CSR categories for community relations and diversity were particularly important in this relationship.

(2) All tax jurisdictions might adjust taxation codes in some way that makes tax liability shifting infeasible. Tax avoidance might be reduced by coordinated tax policy changes. This solution requires difficult tax policy coordination, although initial efforts are underway (within the EU and across multiple countries) to do so. A fundamental difficulty in tax coordination is that (a) some jurisdictions will prefer higher tax rates and some jurisdictions will prefer lower tax rates, and (b) some jurisdictions may see incentives to "cheat" on the coordination. Shareholders may complain about tax policy, but not about management compliance with tax policy. Tax coordination involves division of a fixed pie, together with the dynamics of how tax rates influence economic growth and thus tax yield over time. An international tax organization (Horner, 2001) may not be able to cope with the distributional politics of this division.

While better international coordination might reduce location advantage with respect to tax liability, there may be other location advantages, as reflected in Burger King's decision to relocate to Canada. An alternative to international policy coordination is parallel domestic tax reform in enough countries so that the problem of international cooperation does not arise.

A simpler approach is international cooperation rather than tax coordination (Bank, 2013). OECD is working on plans for exchange of information concerning corporate tax avoidance strategies (Bloomberg News, 2014b). In late October 2014, 51 countries signed an accord to combat tax evasion through automatic exchange of tax information from 2017; however, Switzerland and the United States were not signatories. Switzerland maintains marked banking system secrecy; and the United States has opted to pursue its own strategy (Smale, 2014). The 51 signatories are members of the 123-country Global Forum organized by Germany and the United Kingdom to address tax evasion and fraud (Smale, 2014). The broader policy problem is to coordinate tax policy as distinct from tax enforcement through information exchange.

(3) Stakeholder groups may possess, or develop, sufficient "power" to influence MNE and tax policy choices. Politician "jawboning" (as in the United Kingdom recently) and media criticism are instances of such influence efforts. Responsiveness, of which tax compliance is a subcategory, can be to pressure by public officials, media, and/or stakeholders (external or internal).

Medtronic is acquiring Covidien, Ireland, for $43 billion to invert. In August, Medtronic disclosed its intention to reimburse its CEO for a $24.8 million inversion-generated tax bill. The 2004 law imposed a 15% tax on stock and option awards given to personnel of inverting companies (Knowledge@Wharton, 2014). While the new Treasury rules apparently halted a Salix Pharmaceuticals merger with an Italian drug firm's subsidiary, Medtronic disclosed in September that it will borrow part of the funds for the Covidien acquisition (*Houston Chronicle*, 2014c).

MNEs can lobby, or help corrupt, national governments. Lai (2014) added interest group influence into the standard tax competition model. A finding was that smaller countries do not necessarily set lower capital tax rates relative to larger countries. Rather the smaller country weighs political effect from lobbying against efficiency effect of lower tax rate. If the smaller country faces less lobbying effort, then it may set a higher tax rate than the larger country. In this approach, the tax rate partly depends on lobbying effort.

(4) Tax liability might be negotiated by MNE management with each tax jurisdiction in order to reduce likelihood of increase in formal taxation codes and to reduce stakeholder pressures. A possible difficulty in negotiation is that whether voluntary tax payments to corrupt governments have an ambiguous status under anti-corruption accords and statutes. This issue requires further investigation.

The difficulty is that negotiating power may lie with firms rather than with countries. In the period preceding the Scottish (referendum) vote on September 18, 2014, on independence from the United Kingdom, some important businesses expressed opposition to independence. Standard Life insurance stated that it might shift operations and legal entities (Rankin, Carnell, & Mongahan, 2014). Royal Dutch Shell and BP warned against secession because of reported concern regarding the prospect of increased oil-production taxes levied by Scotland (Eaton, 2014b). Two leading banks warned they would move corporate headquarters (Royal Bank of Scotland, which is majority owned by UK taxpayers following the 2008 government bailout) or legal entities (Lloyds Banking Group owner of Halifax and Bank of Scotland) to England (Hui & Kelbie, 2014).

Conclusion: The Broader Context of Public Policy Avoidance

There are four corporate approaches to managing business–government relations along a continuum from strongly ethical to strongly unethical: (1) strict compliance with public policy; (2) legal lobbying to change public policy; (3) public policy avoidance by shifting in some way; and (3) illegal corruption to change public policy. Compliance is strongly ethical. Legal lobbying and public policy avoidance are ethically neutral. Illegal corruption – typically bribes and improper donations – is strongly unethical.

As CTR is one dimension of CSR, so tax avoidance is one dimension of an expanded notion of public policy avoidance (Leitzel, 1996–1997). The broadest scope of this chapter becomes the question of public policy avoidance (in any form) by MNEs having the ability to move legal jurisdiction or shift activities. The essential question concerns whether and if so why virtuous behavior, good citizenship, and justice theory reach a limit when applied to legal tax and regulatory avoidance. A general conception of public policy avoidance includes instances such as corporate inversion, other tax avoidance, and regulatory haven decisions. These instances are legally permissible choices, but subject to moral and political criticism intended to promote voluntary self-regulation and changes in public policy strengthening regulatory controls. Economic patriotism and CSR arguments call for voluntary self-regulation by companies in advance of public policy changes.

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Legitimacy of State Ownership in Foreign Direct Investments by Emerging Economy Firms

Wiboon Kittilaksanawong

Abstract

Purpose — This research seeks to understand the drivers of outward foreign direct investments (FDIs) by state-owned emerging economy firms, the characteristics of their overseas FDI projects and investment locations, and the effects of home and host institutions on the market entry strategies, taking into account the legitimacy of state ownership.

Design/methodology/approach — The discussion is based on a comprehensive review of conceptual and empirical literature, as well as case studies available from recognized journals in the field.

Findings — State-owned emerging economy firms pursue outward FDIs to respond to policy incentives of the home government and to reduce its political influence over the firm. FDI projects are often large and risky and have low business values. They often enter countries where state ownership is perceived as more legitimate while engaging in legitimacy-building activities in these countries. When their home country has a high level of institutional restrictions, they are less likely to use acquisitions or hold high levels of equity control in foreign subsidiaries. To strengthen local legitimacy, they often use greenfield investments or share equity control with local firms in foreign subsidiaries, particularly when the host country is endowed with strategic assets or when it has a high level of institutional restrictions. However, when having high levels of state ownership or strong political connections, they often commit a high level of resources and hold a high level of equity control in foreign subsidiaries.

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Originality/value — The literature mostly investigates the FDI of firms that are structurally separate from the institutions. When the institutions are endogenous as presented in this research, their strategic choices are substantially influenced by noncommercial political motives and perception on their political image.

Keywords: State ownership; political connection; foreign direct investment; legitimacy; corporate diplomacy; emerging economy

Introduction

The internationalization of state-owned firms is a relatively new phenomenon, given that these firms are expected to focus on the development of their domestic markets and to serve the national interests. After recent financial crises, state-owned firms, particularly from emerging economies have extended their global reach and become a new player in the global market (Bremmer, 2009; Sturesson, McIntyre, & Jones, 2015). The proportion of state-owned firms among the Fortune Global 500 grows from 9% in 2005 to 23% in 2014, where 15% of them are from China. An emerging economy is the one that is becoming more developed usually through government policies that facilitate rapid growth and industrialization. Given increased global competition for markets and resources, state-owned firms have become an important tool for governments particularly in emerging economies to competitively position themselves in the global economy.

The emergence of state-owned firms as a multinational enterprise (MNE) provides an opportunity to examine the role of state ownership in enabling or constraining foreign direct investments (FDIs) of firms. When firms are structurally separate from political institutions in their home country as in the case of privately-owned enterprises (POEs), they can make independent strategic decisions and responses that may even challenge these institutions (Goodrick & Salancik, 1996; Oliver, 1991). However, when they are structurally affiliated with these institutions as in the case of state-owned enterprises (SOEs), their willingness and abilities to challenge the institutions are limited. This limitation is particularly due to their reliance on the home government's financial and political resources. The internationalization of state-owned firms thus demonstrates that home governments and businesses do not always bargain to share economic rents in the host country as traditionally seen (Stopford, Strange, & Henley, 1992). They also collaborate to mutually benefit from their joint efforts in the host country.

The internationalization of state-owned firms has raised important questions not only about the effects of state ownership on the strategic choices of the firms, but also about its legitimacy and reception in view of the host country's institutions (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Duanmu, 2014; Meyer, Ding, Li, & Zhang, 2014; Pan et al., 2014). In particular, certain institutional pressures in the host country selectively target firms with different types of ownership. These firms with different types of ownership thus have to use different initiatives and practices to secure their legitimacy in the host country. Such initiatives are particularly critical when the firm's operations are perceived as inconsistent with ideologies in the host country or as threats to the host country's competitiveness or national security.

State ownership of firms hence contributes to the explanation why some firms facing the same institutional pressures exhibit heterogeneous responses to these pressures. The political institutions that influence FDIs of firms are not only embedded in the external operating environment of firms. When the government is also an owner of the firm, as in the case of SOEs in many emerging economies, these political factors are endogenous to the firm and thus determine the firm's behaviors and performance (Garcia-Canal & Guillen, 2008). Such endogenous political factors play an important role in shaping the influence of the host country's institutional environment on the firm, thereby influencing risks, uncertainties, and costs associated with the internationalization of firms (Child & Rodrigues, 2005; Cui & Jiang, 2012).

The strategic behaviors of state-owned firms in response to such institutional pressures in the home and the host country are therefore determined not only by commercial objectives of the firm but also by political agendas of the home government as an owner of the firm as well. The resulting broader strategic behaviors are referred to as the corporate diplomacy (Kesteleyn, Riordan, & Ruël, 2014; Saner, Yiu, & Sondergaard, 2000; Westermann-Behaylo, Rehbein, & Fort, 2015). In particular, corporate diplomacy involves not only the management of stakeholder relationship of MNEs to achieve profit-oriented goals but it also includes the political role that MNEs play in addressing social and governance issues in the host countries. The state ownership and associated political connections of state-owned MNEs hence have an extended role beyond corporate profits to also include resolving potential social or political conflicts arising from the FDIs in the host countries.

Based on these emergent phenomena, this research investigates the drivers and paths of outward FDIs made by state-owned emerging economy firms, taking into account the business and political role of their corporate diplomacy. This study considers not only the state ownership, but also the associated political connections and the institutional characteristics in the home and the host country. In the following sections, we first discuss the role of corporate diplomacy in the context of outward FDIs made by state-owned emerging economy firms. Second, we discuss the drivers of such investments in terms of the home country's institutions. Third, we discuss the influence of multiple stakeholders of the state-owned MNE on the characteristics of overseas investment projects and locations. Fourth, we discuss the effects of institutional restrictions of the home and host country on the firm's entry strategies. Fifth, we discuss the influence of state ownership and political connection on the firm's entry strategies. Sixth, we present cases of outward FDIs by state-owned Chinese firms and their presence in Africa to illustrate the role of corporate diplomacy in the outward FDIs. We then provide implications for the academics and practitioners including policymakers in the last section.

Corporate Diplomacy and Outward FDIs by State-Owned Firms

Firms operating abroad are exposed to a wide range of geopolitical and other noncommercial risks and uncertainties. In addition to economic risks, firms conducting businesses in foreign countries may not be able to avoid social or political conflicts. These conflicts can result in political, social, and legal uncertainties, as well as security and reputational risks (Jamali & Mirshak, 2010). Facing these risks and uncertainties in the host countries, firms may choose to exit or continue the business to take economic advantage of the situation, while trying to mitigate them through proactive strategic engagements (Jamali & Mirshak, 2010). Essentially, they need to identify and manage such noncommercial risks to safeguard their bottom line and to be competitive against their competitors by employing corporate diplomacy.

Corporate diplomacy involves not only the management of relationship among the MNE's stakeholders to achieve self-interest related and economic-related goals, but it also includes the political role that MNEs play in addressing social and governance issues in the host countries (Westermann-Behaylo et al., 2015). Corporate diplomacy is built on the mindset and the practices of diplomats to effectively manage geopolitical and other noncommercial risks (Kesteleyn et al., 2014). The key diplomatic actors of corporate diplomacy are the firm and its employees, who are seeking to achieve the profit-making and long-term survival objectives of the company. In the case of state-owned firms, the key diplomatic actors also extend to the government and its agents, who defend their self-interests in the invested firm and in the home country's potential benefits.

Senior executives of MNEs play a leading role in pursuing corporate diplomacy. Their role includes negotiating and creating alliances with key external players or stakeholders such as governments, media, and NGOs in order to create values for business, shareholders, and society (Henisz, 2014). Particularly, corporate diplomacy can help firms to seize business opportunities embedded in nonbusiness environments, while safeguarding or strengthening their reputation (Saner et al., 2000). The goal of corporate diplomacy is to meet the social and ecological expectations of the society without sacrificing the business mission in generating profits by satisfying market demands (Steger, 2003). Essentially, the extent to which a firm engages in the corporate diplomacy can range from not engaging in any diplomatic actions to engaging in more instrumental types of actions (e.g., business diplomacy), and to taking proactive diplomatic efforts (Westermann-Behaylo et al., 2015). Therefore, geopolitical and noncommercial risks can no longer be managed purely from business perspectives. Corporate diplomacy with a diplomatic mindset of actions is necessary for MNEs to manage these risks to safeguard their profits and ensure the long-term existence.

A corporation's relationships with political actors in its home and in the host countries are an important element of corporate diplomacy. Through these political relationships, firms can obtain useful political information, preferential treatments, including economic benefits in the political process, as well as political prestige (Hillman, 2003). Particularly, MNEs that have ties with key political actors in host countries that are categorized by weak institutions, where the government lacks political transparency and stability, may implement broader diplomatic initiatives to create trust and goodwill with the government in these countries (Westermann-Behaylo et al., 2015). Such intangible resources are critical for the success of their operations in these countries as they may not be able to always rely on assistance from their home government or overseas agencies.

The major challenge for MNEs to practice proactive diplomatic actions is the misalignment between their own agendas and the social and political expectations of their home government and the governments in multiple host countries where they have operations. Therefore, firms, especially those non-state-owned ones increasingly have to formulate and implement their own strategies and practices to manage such noncommercial risks. However, in the case of state-owned MNEs, the home government, as one of the owners, can significantly change the way they align their own agendas with such expectations. With the state as an endogenous actor, state-owned firms are no longer acting as independent agents on the global stage that only engages political activities from time to time. Instead, these MNEs are indeed political actors themselves as the state ownership changes the MNE's power and influences (Scherer, Palazzo, & Matten, 2014).

The diplomatic efforts being exercised through state ownership of the home government may be able to mitigate the risks of expropriation, nationalization, civil war, and ethical conflicts, which often occur in the host countries with weak institutional development and when the extant international laws can no longer provide sufficient protection. Trying to build good relationship with the governments in these countries may however be contentious if these governments are corrupt and untrustworthy. Maintaining an arm's length relationship rather than establishing close social connections with government officials in these countries may be a better approach for firms that are conducting ethical businesses (Luo, 2006).

While various corporate diplomatic efforts through the state ownership and political connection may help firms counter risks and uncertainties in the host countries, they may also impose restrictions on state-owned firms, particularly from emerging economies in formulating their internationalization strategies. These restrictions are related to the negative political image of state ownership perceived by the host country's constituents. Therefore, state-owned MNEs have to pursue the corporate diplomacy not only by leveraging the positive side of the state ownership from their home government, but also to mitigate the negative political image of the state ownership perceived by the host country's institutions as well.

As follows, we discuss the corporate diplomacy in the context of outward FDIs made by state-owned emerging economy firms in terms of the drivers of such investments, the characteristics of their overseas investment projects and locations, the institutional restrictions of the home and host country, as well as the state ownership and political connection. We then illustrate the corporate diplomacy in such context with the outward FDIs of Chinese state-owned firms and their presence in Africa.

Drivers of Outward FDI by State-Owned Emerging Economy Firms

Firms from emerging economies have increasingly invested abroad in a wide range of industries in recent years. This new trend generally comes from the liberalization in these economies along with their government's favorable policy incentives, which results in rapid economic development. Policymakers in emerging economies are increasingly aware of the necessity to map between regulatory changes and business requirements. The relationship between businesses and governments is thus an interdependent and dynamic process, where firms must abide by the rules created by the government, while they are trying to influence governmental policies to better support their businesses (Kofele-Kale, 1992).

Such relationships are created by the resource dependency between the government and the firm. The government is able to exert power on the firm because the firm depends on the government's resources such as subsidized loans from state-owned banks or preferential policies. To reduce such pressure, the firm has to align its objectives with those of the government by cooperating with them or integrating them within the firm such as including politicians in its board members (Pfeffer & Salancik, 1978). By doing so, the government is therefore not always exogenous to the firm.

Particularly, when the government is an owner as in the case of state-owned firms, these firms can leverage bargaining power of decision makers in the government in order to influence the institutional environment in such a way that facilitates their commercial objectives (Luo, 2001). Through such state ownership, firms can enjoy various institutional supports, which reduce political risks and transaction costs while improving their financial leverages (Luo, Xue, & Han, 2010). However, the government will also play an increasing role in shaping behaviors of the firm.

Politicians are usually included as members in the state-owned firm's board of directors. These politicians are the ones who appoint high-level managers in the firm. In developing countries where the institutional structure and development are weak, through such governance structure, politicians can direct the firm to pursue their political objectives that often result in lower business values (Cuervo-Cazurra et al., 2014). In such a situation, professional managers of the state-owned firm will lose autonomy in running the firm. This intervention will be substantial when the home government faces budget constraints and tries to control their invested firm's expenditures. To reduce such political influence from their home government, state-owned emerging economy firms are more motivated to secure additional resources from internationalization while relying less on their home government's resources (Luo et al., 2010).

These arguments about the drivers of outward FDIs suggest that:

Proposition 1: *State-owned firms in emerging economies are likely to pursue outward FDIs in order to respond to the policy incentives of their home government, and meanwhile to reduce the political influence of their home government and politicians.*

Characteristics of Overseas FDI Projects and Investment Locations

In the case of state-owned firms, citizens of the country where the firm belongs are nominally the owner of the firm who, as the principal, tasks politicians, as the agent, manages the firm to achieve the firm's social and economic objectives (Cuervo-Cazurra et al., 2014). However, there are no incentives and control systems that align the objectives of politicians with those of the citizens. Meanwhile, the politicians are themselves also the principal who appoints and tasks managers of the firm, as the agent to achieve the politician's personal objectives. These objectives are often to maintain their political position and power while those of the citizens are for their invested firms to achieve better firm performance. The objectives of managers of the firm are also different from those of the citizens and politicians. Managers of the firm are often motivated by career preferences and advancement (Aharoni & Lachman, 1982).

In the case of state-owned MNEs, managers of the MNE, as the principal also task managers of the overseas subsidiary, as the agent to perform actions on their behalf (Roth & O'Donnell, 1996). Because of such conflicting objectives, managers of the foreign subsidiary may not be able to integrate these objectives with their own desires for decision-making autonomy and career progression (Cuervo-Cazurra et al., 2014). In particular, the citizens who focus on their current welfare at home may not require the firm to invest abroad, but the politicians who desire to exercise political influence over other countries may require the firm to do so (Cuervo-Cazurra et al., 2014). This political motive may be particularly detrimental to the citizens, when the politicians require the firm to provide subsidized investment projects to other countries to further enhance their political influences. Because of poor monitoring and control mechanisms, managers of the state-owned firm may also pursue internationalization for their own prestige rather than for economic benefits of the citizens (Cui & Jiang, 2012).

In terms of firm resources, the state ownership of firms by the home government can be a resource that creates their competitive advantage when investing abroad. Such government ownership can provide firms with subsidized funds and diplomatic supports to effectively deal with various requirements of foreign governments (Cuervo-Cazurra et al., 2014). For FDIs in less-developed host countries, the government ownership may provide subsidized financial credits to the MNE to build infrastructure that supports its operations there while also negotiating bilateral agreements with the host government for benefits of the MNE. Because of such backing political resources, managers of state-owned MNEs often have higher level of risk tolerance and willingness to take more risks in their overseas investments (Kaldor, 1980).

Governments are typically politically resourceful and more tolerant to costs of transactions associated with high levels of asset specificity, imperfect contracting, and asymmetric information (Williamson, 1985). They also have control over laws, regulations, and contract enforcement. State-owned firms hence have more capability and willingness to make risky investments in the countries that are characterized by weak rules of law and high levels of expropriation risk (Cuervo-Cazurra et al., 2014). The powerful home government can use its political relationship and diplomacy to influence bilateral investment treaties in favor of its invested MNEs to reduce the expropriation risk (Knutsen, Rygh, & Hveem, 2011).

Although MNEs can derive several advantages from having state ownership, state ownership can also become a source of competitive disadvantages. In particular, the host government and its citizens may discriminate against the foreign governments and hence MNEs owned by these governments (Cui & Jiang, 2012). Having the political ties with their home government, state-owned MNEs may be perceived as a threat to the host country's economic development and national security (Globerman & Shapiro, 2009). The host government and its citizens may view these MNEs as an instrument of another foreign government attempting to gain controls in their economy (Cuervo-Cazurra et al., 2014). The government ownership can thus become a challenge for state-owned MNEs to demonstrate legitimacy in the host country. The extent to which state-owned MNEs are perceived as such depends on the MNE's level of state ownership and the host government's political ideology and strategy.

To avoid or mitigate such legitimacy challenge, state-owned firms may choose to enter countries where their state ownership is perceived as more legitimate. These host countries may have the similar government system in terms of political ideology and strategies (Cuervo-Cazurra et al., 2014). In host countries where state ownership is perceived as less legitimate, state-owned MNEs need to more actively engage in legitimacy-building activities to facilitate its operations. Particularly for operations in industries that are strategic to the host country such as energy, state-owned MNEs may proactively engage in socially responsible initiatives to gain supports from local citizens and politicians. These MNEs can simply mimic legitimate practices of other locally legitimate enterprises. They can also establish alliances with local governments or firms to leverage their local legitimacy.

The above arguments about the characteristics of the investment projects and locations suggest that:

> **Proposition 2:** *State-owned firms from emerging economies are likely to invest in overseas projects that have low business values to the firm because of conflicting objectives among the home citizens, the politicians, and the managers of the firm at home and in its overseas subsidiaries. These projects are likely to be large and risky because of the state's political resource advantages and backing. Further, these state-owned firms are likely to enter host countries in which their state ownership is perceived as more legitimate while proactively engaging in legitimacy-building actions in these countries.*

Institutional Restrictions of Home Country and FDI Entry Strategies

Institutions in emerging economies evolve over time as the economy becomes more globally integrated. Firms in these economies also vary the perception of their home country's regulatory restrictions. Stronger perception of such institutional restrictions exerts more isomorphic pressure on firms to follow their historically approved behaviors and practices. Institutional pressures in the home country hence constrain strategic choices and influence performance of firms (Meyer, Estrin, Bhaumik, & Peng, 2009). When the self-interested objectives of firms are not aligned with those of their home institutions, they may act as an active agent to influence and reconstruct these institutions in such a way that allows them to more easily achieve their objectives (DiMaggio, 1988; Oliver, 1991; Scott, 2005).

However, in the case of state-owned firms, via the government ownership, these firms become a part of their home country institutions. The institutional pressures exerted by their home government are therefore more pronounced in their strategic choices. This political affiliation changes the way the state-owned firms react to their home institutional pressures. Because these state-owned firms depend on their home government's critical resources and political supports, they are likely to perceive intense institutional pressures to align their interests with those of the home government. Especially, large state-owned firms are less likely to resist such institutional pressures because they significantly leverage relational ties with the home government to gain monopolistic advantages in the home market as well as preferential political supports when investing abroad (Child & Rodrigues, 2005; Pfeffer & Salancik, 1978).

Governments of emerging economies often exert strong regulatory restrictions on outward FDI projects to protect domestic assets and prevent capital flights, while directing such investments in such a way that is in line with the national interests (Cui & Jiang, 2010; Luo et al., 2010). They often provide financial incentives and political supports for investment projects that aim to acquire foreign advanced technologies and natural resources, while delaying or rejecting those nonconforming projects. Because the governments in emerging economies are mostly familiar with the economic gains through inward FDI in the form of joint ventures between the local firms and foreign firms from more advanced economies before, they often look for the equivalent gains from outward FDI in terms of knowledge transfer, cost saving, and risk sharing (Buckley, Cross, Tan, Xin, & Voss, 2008).

These arguments about the effects of institutions in the home country suggest that:

> **Proposition 3:** *State-owned firms from emerging economies are less likely to use acquisitions or to hold high levels of equity control in their foreign subsidiaries when their home country has a high level of institutional restrictions related to capital flights and technological transfers.*

Institutional Restrictions of Host Country and FDI Entry Strategies

Foreign subsidiaries of MNEs typically face institutional pressures not only from the headquarters and the home country's institutions (Meyer & Thein, 2014), but also from the host country's institutions (Kostova, 1999; Lu, Liu, Wright,

& Filatotchev, 2014). The liability of foreignness incurred by MNEs further escalates when these institutions in the home and host country exert conflicting pressures on their operations in the host country (Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008; Lu & Xu, 2006).

In particular, the regulatory institutions including laws and rules of the host countries typically aim to maximize local benefits and safeguard their national interests (Gatignon & Anderson, 1988). Such institutions often restrict foreign investors in acquiring ownership in local subsidiaries, accessing local resources, and pursuing some other specific local operations (Meyer et al., 2009). In addition, foreign investors are also expected to behave appropriately according to the normative system such as shared norms, values, beliefs, and culture in the host country (DiMaggio & Powell, 1983). Failure to do so may deteriorate their social image, reduce brand value, and increase costs in establishing business networks and operating in the host country (Yiu & Makino, 2002).

Such regulatory and normative institutional pressures in the host country do not uniformly apply to all foreign investors. MNEs with state ownership often receive less local legitimacy and face greater institutional pressures (Cui & Jiang, 2012). Host country institutions often perceive these state-owned firms not just as a business entity but also as a political actor that can negatively influence the local economy and national security. These firms may even be viewed as attempting to achieve political objectives of their home government rather than to maximize economic benefits of shareholders (Zou & Adams, 2008). Such negative political image can easily provoke public concerns and negative reactions in the host country. State-owned firms are thus often closely monitored by the host institutions.

The normative pressures exerted on state-owned firms are often particularly high unless their organizational practices and cultures are appreciated and valued by the local constituents (Kostova et al., 2008). Firms with positive image can gain local legitimacy in the host country through political negotiation without having to fully conform to isomorphic pressures. However, firms with negative political image due to the state ownership may hardly gain local legitimacy through such political negotiation. (Kostova et al., 2008). Hence, accepting isomorphic pressures and conforming to regulatory and normative institutions in the host country may become the only way for such state-owned firms to avoid consequences of their negative political image and to attain local legitimacy (Cui & Jiang, 2012).

The institutional pressures against state-owned MNEs, particularly from emerging economies are often high in the free market economies where the government seldom directly intervenes in business operations (Lin, 2011). These MNEs are often perceived as political agents of their home government, aiming to for example, extract valuable strategic resources, thereby threatening national security in the host country (Globerman & Shapiro, 2009). Because of their preferential access to subsidized resources of the home government, state-owned firms may also be considered by competitors in the host country as possessing unfair competitive advantages (Buckley et al., 2007; Knutsen et al., 2011; Li, Newenham-Kahindi, Shapiro, & Chen, 2013; Luo et al., 2010). Stakeholders, including employees of businesses that are acquired by state-owned firms from emerging economies, also see their business practices with great suspicion because of their bureaucracy and lack of operational transparency (Liu & Woywode, 2013).

To strengthen local legitimacy, state-owned MNEs may avoid high-profile strategies such as hostile takeovers of local firms (Meyer & Thein, 2014). They may share ownership with local firms in exchange for local legitimacy and thus equivalent market rights in the host country (Chan & Makino, 2007; Lu & Xu, 2006). Particularly, under the normative pressures, partner firms in the host country can help mitigate social risks in terms of social stereotyping and differential standards (Kostova & Zaheer, 1999). Such a joint-venture approach also provides an opportunity for foreign firms to learn the normative system from the local partners and adapt their business practices to the isomorphic pressure to enhance local legitimacy.

Governments in emerging economies often encourage their state-owned firms to invest in developed economies to obtain advanced technological and managerial knowledge to speed up the catch-up efforts of Chinese domestic firms and to accelerate the reform of the Chinese economy. These motives differ significantly from those of firms in developed economies, which are usually to exploit their firm-specific advantages such as valuable technologies or reputable brands in foreign countries (Child & Rodrigues, 2005). State-owned firms from emerging economies thus often use acquisitions of the whole or parts of foreign companies as a springboard to obtain their proprietary advanced technologies and management expertise (Child & Rodrigues, 2005; Cui & Jiang, 2012).

Institutional pressures being exerted on foreign state-owned firms are likely to be higher in host countries that are endowed with high levels of strategic resources such as valuable advanced technologies or natural resources and that are characterized by high levels of institutional restrictions (Meyer et al., 2014). These countries often fear losing such strategic resources to foreign competitors and thus foreign governments. Since organizational structures and processes of state-owned firms from emerging economies are generally less transparent, local stakeholders in such host countries are often suspicious about the use of acquired technologies by these firms (Liu & Woywode, 2013).

Local stakeholders in the host country are often concerned that through state ownership, these foreign investors may use reverse transfer of valuable technologies in such a way that threatens the host economy's competitiveness and national security (Globerman & Shapiro, 2009). Foreign investors may also relocate high-value activities out of the host country, share acquired technologies with competitors abroad, or transfer the technologies to other foreign governments, hence potentially reducing the competitiveness of the host country. State-owned MNEs may therefore be blocked from participating in the bidding for valuable technologies or natural resources that are strategically important in the host country.

State-owned firms from emerging economies may also be considered as having ideological inconsistencies in host countries that have strong institutional or legal developments in terms of shareholder protection. These firms often face strong institutional pressures in countries that promote a free market economy with minimal direct governmental involvements (Kostova, 1999; Yiu & Makino, 2002). These pressures may involve competition law and laws related to national security in the host country. Such institutional pressures in the host country often require that foreign state-owned MNEs apply for special approvals for acquisitions of the local firms or strategic assets since their market entry strategy has significant effects on local stakeholders. The institutional pressures may also originate from organizational practices in the host country's society. Employees of the acquired firms are often worried about job losses and they may influence the outcome of acquisitions through local authorities in the host country (Globerman & Shapiro, 2009; Xu & Shenkar, 2002).

Acquisitions are often viewed by local stakeholders in the host country as a way for foreign governments to gain control over the domestic companies and industries as well as the national security. Greenfield investments create investment spillovers through the creation of new productive facilities, which generate additional employment opportunities and local development. This market entry mode is therefore perceived to be more legitimate in the host country. Greenfield investments can also redirect attention of the local stakeholders from the negative political image of being the state-owned entity, hence reducing institutional pressures on the state-owned MNEs.

Although acquisitions generate higher institutional pressures, state-owned firms may still use them for accessing technological or managerial knowledge embedded in local firms and redeploying these strategic resources in their global operations (Anand & Delios, 2002; Hennart & Park, 1993; Meyer, Wright, & Pruthi, 2009). To reduce concerns of local stakeholders, foreign entrants with such intention may choose partial acquisitions by lowering levels of their equity control in the foreign subsidiary while sharing ownership with local partners to signal to the local constituents that they are going to conform with various institutions in the host economy (Chan & Makino, 2007; Cui & Jiang, 2012; Yiu & Makino, 2002). Importantly, shared ownership with local partners facilitates regulatory approvals from the local authorities (Lu & Xu, 2006).

The above arguments about the effects of institutions in the host country suggest that:

> **Proposition 4:** *State-owned firms from emerging economies are likely to use greenfield investments over acquisitions or to share equity control with local firms in their foreign subsidiaries to strengthen local legitimacy. The use of such market entry strategies is likely to be more critical when the host country is endowed with strategic assets or when it has a high level of institutional restrictions.*

Influence of State Ownership and Political Connection on FDI Entry Strategies

Government ownership and political connections in firms are two interrelated but different political factors that critically influence the extent to which firms will commit high-specificity resource investments in their foreign subsidiaries (Pan et al., 2014). Government ownership represents the desire of the government to directly engage and exert influence in the invested firm and the market (Shi, Markoczy, & Stan, 2014). Political connections, however, represents the desire of the firms to engage in and to influence the country's political issues in such a way that allows them to access and exploit political resources effectively for their competitive advantages (Hillman & Hitt, 1999).

When risks and uncertainties in a host country are high, MNEs often use market entry modes that involve low levels of resource commitments and low levels of asset specificity (Brouthers, 2002; Gatignon & Anderson, 1988). In such market environments, foreign firms that invest in highly-specific assets may not be able to recover most of their investments should expropriation occur in the host country. However, emerging economy firms with high levels of state ownership are more tolerant for risks and uncertainties in the host country. These firms usually have better access to their home government's resources and supports (Kornai, 1986). Their home government often provides them soft budgets and even financial bailout if necessary (Buckley et al., 2007).

Firms with state ownership can benefit from preferential treatments and policy incentives of their home government (Cui & Jiang, 2012; Shi et al., 2014). They may also have better access to various supports of their home government's offices and representatives in foreign countries (Buckley et al., 2007). These firms are likely to pursue the broader goals of the home government, such as national industry development and competitiveness, bilateral governmental relationships, as well as market and strategic resource seeking (Hope, Thomas, & Vyas, 2011). To ensure the success of foreign operations, managers of a state-owned firm have to commensurate the costs pertinent to risks and uncertainties in the host countries with other political benefits they can derive from having the state ownership (Garcia-Canal & Guillen, 2008).

As the level of state ownership increases, the state-owned MNE can better leverage the political influences of their home government to counter the power of the host government (Duanmu, 2014). In other words, the power asymmetry between the MNE and the host country's government decreases as the level of state ownership increases. In the case of expropriation, the home government, as the owner of the state-owned MNE will have stronger incentives to legitimately retaliate against the host government. This retaliation can substantially increase the costs of expropriation for the host government and hence reduce the motivation of the host government to engage in the expropriation. The magnitude of such influence however varies depending on the strength of political and economic relations between the two governments and countries.

In addition to the state ownership, a firm may have political connections such as when one or more of its board members are members of its home government's legislative body. Political connections can be a critical source of a firm's competitive advantages (Shi et al., 2014). Firms having political connections better withstand risks and uncertainties in foreign countries. Through political connections, they may be able to participate in the creation of public policies (Baysinger, 1984). They may be able to influence the legislative process and formulate strategies in response to the upcoming laws and regulations (Hillman & Hitt, 1999; Shi et al., 2014). They may also have access to deeper strategic information that is not available to the public and exploit this information asymmetry for their own benefits (Williamson, 1985).

Firms with political connections may also be viewed as having a higher level of legitimacy and are likely to be more trusted (Cui & Jiang, 2012). Through the home government, these firms may be able to pressure the host government to provide preferential treatments to facilitate their operations in the host country. Political connections are an important source of social capital, which is derived from the network of relationships between politically influential individuals and organizations (Inkpen & Tsang, 2005). Firms with political connections may be able to access strategic resources through such valuable networks of relationships (Inkpen & Tsang, 2005). These resource advantages may enable them to better mitigate risks and uncertainties in foreign markets (Cui & Jiang, 2012).

The extent to which MNEs can effectively leverage such political connections with their home government also depends on the hierarchical levels of relationship between the MNE and its home government (Bucheli & Aguilera, 2010). MNEs with the higher hierarchical levels of political connection often benefit more from the home politician's soft power.

As the governments in many countries have increasingly liberalized and globalized their economy, economic coercions of the home government through such political connections can be substantial and can become an effective means for the state-owned MNEs to counter expropriation risks in the host country (Drezner, 2003). This economic coercion however requires that the host and the home government have some asymmetric common interests. For example, the home government may be able to influence the host government if the host country heavily relies on the export to or the import from the home market.

Therefore, MNEs with both higher levels of state ownership and higher hierarchical levels of political connection are likely to be more successful in the host country. In this case, the success of these MNEs also determines the achievement of the home government's missions at home and abroad. Meanwhile, the host government may also have incentives to build good relationship with high-rank officials of the home government to realize some potential political and economic gains through these MNEs. State ownership and political connections are accordingly critical factors that shape the perception of firms toward risks and uncertainties in foreign countries.

These arguments about the effects of state ownership and political connection suggest that:

> **Proposition 5:** *State-owned firms from emerging economies are likely to commit a high level of resources and hold a high level of equity control in their foreign subsidiaries when they have high levels of state ownership or when they have strong political connections with their home government and meanwhile both governments also have strong political connections with each other because these political factors provide backing against expropriation and other risks and uncertainties in the host country.*

Illustrations of Outward FDIs by Chinese State-Owned Firms and Their Presence in Africa

State-owned firms have increasingly influenced the global economy over the past decade (Sturesson et al., 2015). Their proportion among the Fortune Global 500 had grown from 9% in 2005 to 23% in 2014, primarily driven by Chinese state-owned firms. These state-owned firms were mostly dominant in petroleum refining, utilities, and financial services. Among others, Sinopec Group, China National Petroleum, and State Grid from China had consistently occupied the top 10 positions since 2010. Their revenues contributed 16% of the total revenues from 114 state-owned firms in 2014.

Governments, particularly in emerging economies have employed their invested state-owned firms as tools to better position to compete for markets and resources in the global economy (Sturesson et al., 2015). The Chinese government has a specific "Go Global" policy to promote the globalization of Chinese enterprises. During 2010–2011, among the Fortune's 2000 largest companies, there were 204 state-owned companies operating across 37 countries. China, United Arab Emirates, Russia, Indonesia, Malaysia, Saudi Arabia, India, and Brazil were among the top eight countries with the highest shares of state-owned companies. These companies contributed more than 20% of the total world trade, with China accounting for more than 10% in 2010.

Although the Chinese economy has significantly moved toward the market economy, the state-owned and state-controlled firms still play the dominant role in the country's economic development and the outward FDIs (Duanmu, 2014; Morck, Yeung, & Zhao, 2008; Sturesson et al., 2015). The Chinese government has created "national champions," state-owned companies that aim to compete more effectively on the global stage (Sturesson et al., 2015). The Chinese government has implemented several measures that aim to reduce bureaucracy, introduce market-oriented practices, and consolidate selected companies to create larger and more efficient national champions. These state-owned firms are granted more authority than in the past to make decisions over resource allocation, including acquisitions of foreign companies. Investment-holding companies are also set up to introduce performance-based compensation system.

The prevalence of state-owned firms with variation levels of state ownership and their increasing outward FDIs provide a very good context for investigation of the legitimacy of their ownership perceived by the host country's institutions and their strategic responses to this perception. The Chinese government has enacted promotional policies and incentives to encourage domestic firms to pursue outward FDIs. These policies and incentives are however varied among different types of industries and firms. Chinese state-owned firms typically more proactively respond to the governmental policies in the industries that are strategic to the nation's economic development, such as energy and mineral resources or manufacturing with advanced technological know-how.

Natural resource seeking is one of the most important motives for outward FDIs by Chinese firms (Morck et al., 2008). Chinese investors in energy and mineral resource sectors have grown rapidly in other developing countries such as those in Africa. These investments are to ensure that the supply of natural resources meets the growing demands in the country, although there are high political risks and uncertainties in the region. Natural resources are strategically important to host countries. Host country governments typically control these strategic resources. Foreign investors in natural resource, particularly in developing countries, are thus highly exposed to the obsolescing bargaining power and government appropriation (Shapiro, Russell, & Pitt, 2007).

Apart from providing information and financial support, the Chinese government also represents the collective interests of these Chinese investors in directly negotiating with the host country government (Luo et al., 2010). Such negotiation between the two governments usually aims to create a friendly investment environment and investment opportunities for Chinese investors. Chinese investors do not typically directly negotiate with the host country government. They mostly act according to the outcomes of the two governments' negotiations to fulfill the commitments of the Chinese government to the host country government. In exchange for a favorable investment environment for Chinese investors, the Chinese government offers aid and provisions for development projects in various sectors.

The Chinese approach to FDIs in Africa focuses on infrastructure development in exchange for energy and mineral resources to be exported from the region to China (Wang, Ozanne, & Hao, 2014). The investments in infrastructure are mostly carried out as a whole package by Chinese companies, with the investment funds being transferred from the Chinese state-owned banks directly to these Chinese companies. The Chinese government also sends workers mostly from the less-developed western regions of the country to Africa to implement these infrastructure projects. The lack of infrastructure in Africa has been the key obstacle to the region's economic development and growth (Agenor, 2010). Infrastructural investments thus potentially bring positive externalities, including the reduction in the costs of international trade that potentially induces further investments in the region.

However, the Chinese government's approach has been criticized of human rights, labor practices, resource exploitation, and corruption (Zhao, 2014). In particular, the Chinese government has worked with many African states, including those accused of corruption or human rights violations, which grant Chinese investors investment rights in mining and natural resource extraction sectors. Chinese contractors are awarded investment contracts through the intergovernment deals rather than the competitive open-bidding process. China imports mostly primary products with low added value such as mineral and other natural resources, which do not contribute much to local job creation for Africa, while exporting machinery and textiles there. There were also complaints about low wages paid to local workers and discrimination in favor of Chinese professionals and laborers.

In response to these criticisms, the Chinese government has significantly improved its approach to African development (Zhao, 2014). China has begun to move beyond pure natural resource exploitation to setting up manufacturing facilities in the region. This move is also in response to rising wages of Chinese labors in the home-manufacturing sector. Chinese firms have to shift more manufacturing operations to overseas locations that have lower costs. Chinese investors have increasingly been aware of the sustainability of their businesses in Africa by refraining from investing in politically unstable countries. They have increasingly realized that good governance is necessary in protecting their investments and sustainability in the long run.

China's outward FDIs, particularly by state-owned firms are often perceived as politically driven. The high levels of state ownership can induce these firms to increase their investments especially in less-developed countries that have high levels of expropriation risk, but have strong political ties with the Chinese government or have high dependency on trades with the Chinese market. Chinese state-owned firms such as Sinopec have developed refining facilities in oil-rich countries to secure sufficient energy supply to meet their home country's economic growth. These government-led Chinese firms have made large sums of greenfield investments in the infrastructure and extraction industry in African countries although these countries have high levels of political and expropriation risks (World Bank, 2008). However, the Chinese government is the key that reduces these risks that Chinese investors face in African countries by building good relationships and bargaining with their government on behalf of the Chinese investing firms.

State-owned firms typically have direct political ties with their home country's government. These ties provide them privileged access to inside valuable information and other resources. State-owned firms are thus able to identify upfront risks and uncertainties in their invested foreign countries and influence political actors to mitigate those risks through various political negotiations with the foreign governments (Delios & Henisz, 2003; Holburn & Zelner, 2010). Chinese state-owned firms are often confident that through the backing of the Chinese government, political risks and uncertainties in their invested countries can be mitigated or resolved by various diplomatic initiatives (Downs, 2007). Chinese state-owned firms are thus believed to have received special favors and protections from the host governments in Africa, which are otherwise not available to MNEs from other countries (Taylor, 2006).

Discussion and Conclusions

Firms investing abroad are subject to isomorphic pressures externally from institutions in both home and host countries (Rosenzweig & Singh, 1991; Xu & Shenkar, 2002) and internally from their headquarters and networks of subsidiary (Kostova & Zaheer, 1999; Kostova et al., 2008). Within the home country, their outward FDIs are restricted by the home government's regulatory institutions. When entering foreign countries, they are also subject to restrictions on inward FDIs by the host government's regulatory institutions that aim to develop the local economies and protect their national interests (Meyer et al., 2009). Other than regulatory pressures, foreign firms in a host country are also exposed to normative pressures that mainly arise from cultural distance and ethnocentricity. The level of such pressures depends on the extent to which stakeholders in the host country can tolerate the different norms of the foreign investors (Yiu & Makino, 2002).

These external institutional pressures can however at times conflict with the foreign investors' internally accepted organizational routines, structures, standards, and self-interests (Kostova & Zaheer, 1999; Kostova et al., 2008). In the case of state-owned MNEs, such external institutions are partly internalized within the firm. The MNE's responses to external institutional pressures, to a certain extent, conform to expectations of their political affiliations. The degree of this conformance is therefore determined by the extent to which the state-owned firms rely on their home institutions' financial and political resources and how the host country's institutions perceive their political image.

While lacking firm-specific advantages in overseas investments, state-owned firms from emerging economies generally have resource advantages available from their home government (Luo et al., 2010). Managers of state-owned firms often perceive that further supports would be available for them to cope with future contingencies in the invested host countries. Such government backing potential influences their risk perception in such a way that encourages them to be willing to take more risks in overseas investments (Buckley et al., 2007). Through such risk perception and low-cost capitals available from the home government, state-owned firms are willing to commit more long-term resources in their foreign ventures for future potential gains.

Building property right institutions in developing economies is costly and time-consuming (Duanmu, 2014). Bilateral political and economic relations at the governmental level can reduce concerns of foreign investors about the expropriation risk in these economies. The political relationship between state-owned firms and their home government can fill in such institutional voids, which occur from the ineffective institutional protections for foreign investments in the host country. In particular, state-owned firms can benefit from the economic power exercised by their home government over the host government when the host economy significantly relies on trading (e.g., import or export) with the home market.

State-owned firms need to evaluate whether such risk-reduction role and trade diplomacy via political and economic relations can be sustained at least to support their specific operations in the host country (Duanmu, 2014). Firms that are partly owned by the external institutions can influence the institutional processes in their home country through their resource dependence and political relationship with the home government. They can also shape the institutions in the host country indirectly through political and economic relations between the two governments to facilitate their operations in the host country.

However, being a part of the home government and institutions, the state-owned firms may not aim to maximize the shareholder's wealth but often try to fulfill political agendas of their home government. Such politically driven objectives may be perceived by the host country's institutions as harmful to their economic development and national security (Globerman & Shapiro, 2009). Such institutional pressures in the host country are more pronounced when state-owned firms from emerging economies enter technologically or institutionally advanced host countries. To overcome these institutional barriers and mobilize the local legitimacy, state-owned firms may use the low-profile market entry strategy such as greenfield investments rather than acquisitions or to share the ownership with the local firms. In addition, they also need to consistently and proactively engage in legitimacy-building activities including corporate social responsibility.

Governments in emerging economies such as China have increasingly used their resources and institutional supports to compensate for latecomer firm-specific disadvantages of their domestic companies to strengthen their competitive position in overseas markets (Luo et al., 2010). For example, the Chinese government, not only provides information and financial supports to its invested state-owned MNEs, but it also assists these firms in developing investment agreements with the host countries (Li et al., 2013). In particular, it acts as a mediator that represents the collective interests of Chinese investors to negotiate with the host country's governments for a favorable investment environment and business opportunities.

The Chinese government has also initiated many multipurpose investment projects, particularly for building physical and economic infrastructures in African countries. These initiatives enable the Chinese government to build strong ties with governments in Africa. Such strong ties further create business opportunities while lowering risks and costs for Chinese companies investing in the region. Governments in other countries may not easily replicate the way the Chinese government bargains with host country governments due to the lack of potential state-controlled MNEs or national champions and the ability to implement multipurpose development projects in host countries.

These measures are justified because overseas investments are the quickest channel for emerging economy firms to access advanced technological and managerial knowledge necessary to develop their home economy and improve the national competitiveness. State-owned firms are thus important actors for emerging economy governments to fulfill such missions. Managers of these firms must be familiar with specific policies of their home government and leverage these policies' advantages in pursuing overseas investments. They should collaborate with their home government and participate in the government's various initiatives, while trying to influence more effective policies and measures that support overseas investments.

While the home government's resources and policy supports are the critical source of competitive advantages for state-owned firms, such resource dependence often creates negative political image perceived by the host country's institutions. State-owned firms thus have to engage in corporate diplomacy, which serves as a mechanism to solve or at least to reduce risks and uncertainties in the home and the host country. Firms practicing corporate diplomacy often have better financial performance because they are more capable to manage noncommercial political and social aspects of their businesses (Henisz, Dorobantu, & Nartey, 2014).

The governance structures of state-owned firms in emerging economies has continuingly gone through significant reforms and become more market-oriented (Haveman & Wang, 2013). Instead of viewing these firms as a political threat, host countries may also significantly benefit from investments by these state-owned firms as their governance structures become more similar to those in the market-oriented economies. Meanwhile, governments in emerging economies should develop greater awareness of institutional reforms to build positive images and trust in the strategic motives of their state-owned firms among host countries.

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Businesses, Associations and a Multiactor Diplomacy

Peter Noordhoek

Abstract

Purpose — One of the reasons the science and art of business diplomacy is interesting, is because it puts the role of the nation in another, somewhat reduced, perspective. Instead of the nation, it puts a company at the focal point of an exchange of interests with NGOs and other national and international players. This is a reflection of a world that becomes ever more complicated: a truly multiactor world, implicating great global challenges for international companies.

Design/methodology/approach — However, changing the perspective from the nation state to that of business is not enough, no matter how multinational or big the enterprise is. To have a true perspective on the challenges diplomacy faces, it is better to add another perspective. A perspective in which the business and the multiactor aspect merge: in associations.

Findings — Here the international and diplomatic dimensions of associations are defined, a model for change is presented, and cases are discussed. Each case is discussed in terms of business diplomacy, using recent literature and definitions. Certainly not all actions by associations can be called diplomatic, but some can and these are significant.

Originality/value — Combining this insight and the possible impact of associations with available literature on the definition and nature of business (economic, corporate, commercial) diplomacy, a different light will be shed on the concept of business diplomacy. Perhaps it is better to speak about "multiactor diplomacy," in which traditional, business, and other forms of diplomacy all have their place. The chapter ends with conclusions and specific recommendations.

Keywords: Diplomacy; business diplomacy; associations; multiactor approach; lobby; communication

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Associations

It is good to watch how the once ignored concept of "business diplomacy" (Saner, Yiu, & Sondergaard, 2000) has gained traction and is now becoming an integral part of the body of literature on diplomacy (Ruël & Wolters, 2014). Everywhere the public domain has merged into the private domain and vice versa, changing the nature of diplomacy along the way. Even so, much still needs to be done before new concepts of diplomacy are put into practice – and meanwhile there are other questions to be addressed. Here the question regarding the role of trade and professional associations is addressed.

Not unlike (business) diplomacy itself, the number and nature of modern associations gets little attention in scientific circles. This chapter starts with addressing this issue. Among other developments, the internationalization of associations gets attention.

It should be clear that a sole and single action by an actor from business is in practice a rare occurrence. Almost always an action is part of a wider pursuit of interest; waves of action and reaction taking place within networks of different actors. More often than not, associations are involved. However, diplomacy is about the representation of interests. Are trade and professional associations (hereafter: associations) a part of that representation, or do they replace or even hinder this? What role do they play in helping business attain their goals, or achieve more legitimacy toward public players? Assuming associations are a player in the arena of business diplomacy, how strong is that role or could they even take over from businesses? The art of diplomacy turns on the knowledge and skills of the person representing an interest in the international arena. Are persons working for associations also "diplomats," or are they for instance working in "communication" or "public affairs"? If so, what is the difference?

No matter how you look at it, associations complicate the concept of business diplomacy. Ruël defines "diplomacy" as "*the dialogue via representation and communication between parties (nation-states, business, NGOs, supranational organizations, multilateral organizations, interest groups) that acknowledge each other's existence and accept each other's sovereignty and control over a territory*" (Ruël, 2013). Somewhere in this definition associations must be present, but not in an explicit form. That could just be an omission, but it could also be a sign that it is still not clear how complex diplomacy has become. Associations then, are a case in point.

Research Questions

This chapter aims to look into the nature and role of associations. It distinguishes several forms of associations; beyond classic trade associations it also looks at professional associations and other forms of collective power. Some of them could play a role in business diplomacy, others will not. It also looks at the changing role of associations given the effect of globalization and digitization. A framework will be formulated for the further development of the thinking about the role of associations in influencing the interface between business and nonbusiness actors. Through three case studies conclusions are formulated about the relevance of associations for business diplomacy and for the concept itself.

It must be said that research into this topic is hampered not just because the literature on business diplomacy is still limited. The same goes for the literature on associations, even though there is much sector-specific information. There is a large amount of literature of a legal nature where associations have a role as regulator of a sector. They clearly play a role in the governance of the international economy, but it is hard to get an overview or any idea of its impact. There is also an increasing amount of literature on the management of associations, much of it collected or distributed by ASAE, the American Society of Association Executives (ASAE, 2015). Still, when an attempt is made to get a grip on what is known about the institutional nature and international role of associations, not much literature can be found. Searching for arrangements between associations and business and their impact on international relations, a literature search comes up with several groups of titles. International relations, international associations, business and their associations, international activities of businesses associations – examples enough, but collectively they do not connect enough to form a body of knowledge.

Problems with Representation

All the more reason to go ahead. Noting the research agenda for business diplomacy as formulated by (Ruël, 2013), this chapter specifically aims to fill in this leading question: "*How do small and medium-sized firms and young international start-up deals with foreign governments and societal and economic stakeholders. ... And how do they improve their business diplomacy capabilities?*" The obvious answer would be that they seek strength in numbers through their association, which in turn tries to influence both its own government and the government and other parties in the international arena. However, there is a reason why associations are not top of mind when it comes to business diplomacy.

Associations are often seen as local or "slow" actors. Perhaps they are better avoided. Some predict their demise as a consequence of digitization (Susskind & Susskind, 2015). So why bother? They are more platforms than actors and their representative bodies or leaders seem neither nimble nor powerful enough to take the lead in conflicts that require classic diplomacy. Should associations not be considered as old or obsolete methods of industry governance? Problems of competition and diverging interest among members hamper the potential of associations to be an active player. Or are these misperceptions, and is the influence of associations underestimated or misunderstood? Sometimes their image is downright bad, or in the end they offer little value for their money.

Example: Automobile Business

The scandal surrounding Volkswagen and its tampering with emission data has had the advantage of throwing light on the lobby activities of the automobile business. Focusing on the lobby activities in Brussels, according to the Brussels Transparency Register (NRC, 2015), Volkswagen spends 18% of all automotive lobby activities in Europe's capital, 42% comes from other car companies and sector associations, while 40% comes from non-German car companies and sector associations. When it comes to the number of registered lobbyist Volkswagen has 43 lobbyists. There are 62 other German lobbyists and 135 other non-German lobbyists for the car companies. The number clearly shows the great weight a single company – in this case VW – can have. At the same time there is an interaction between companies like VW and a great number of sectorial associations. In the wake of the scandal, it can be safely presumed that there have been numerous contacts between the associations and classic diplomats.

Leaving aside the discussion about the legitimacy and methods of the lobbying of the automobile industry, certainly in the case of the pollution standards, it is worth noting that this interaction of single company and association is in itself not only logical, but also to be expected. Most associations, and certainly all associations working on an international scale, have a role in influencing the government of nations.

But how different is that image from diplomacy? It is hard to compare both, even when talking about business diplomacy. Saner and Yiu (2005, p. 312) stated that "Business diplomacy pertains to the management of interfaces between the global company and its multiple nonbusiness counterparts (such as NGOs, governments, political parties, media and other representatives of civil societies) and external constituencies." From this is example it should be clear that associations are of a different order; they represent businesses but are not a business. They are an interface for a business, but most businesses are also part of that interface. Who is influencing whom?

The Relevancy of Associations

This researcher published a book on "Sector wide quality" ("Branchebrede kwaliteit") (Noordhoek, 2011). The book addresses the question which "interventions" can help associations to produce better products and services. Digitization, the economic crisis and a great many "incidents" have reduced trust in associations. How can that be changed? Beside other publications (Noordhoek, 2014; Noordhoek & Hoogers, 2016; Noordhoek, 2016) and activities, this author made visits in 2014 and 2016 to a conference of the American Society for Association Management (ASAE) as part of a delegation of Dutch association managers. This changed the perspective of the author concerning the international dimension of associations. The impact of ASAE itself is huge: out of more than 90,000 American trade and professional associations, as recognized by the US tax authority (Section 501c), it represents more than 21,000 associations and aims to strengthen the position of some 750,000 members of associations with a position of leadership (including volunteers). It is interesting too to see how it functions as an international platform for associations. Some 50 countries are present at their annual meeting, including strong presence from South America and Asia (ASAE, 2015). To be sure (and to be warned), there is such a thing as a "Union of International Associations" (UIA), but this is a Brussels-based research institute of apolitical, independent, and non-governmental institutes, not on trade or professional organizations. Apart from the very influential ASAE, there do seem to be increasingly strong platforms in Asia and the Arab world, whereas the European arena (including ESAE) is not yet up to comparable strength. A movement toward further integration is logical.

The True Number of Associations and Their Impact

There are several reasons not to take information on the number of associations at first sight. Many countries do not have a reliable count of associations and changes in numbers can often be due to the merging or splintering of existing associations. It is quite rare that a completely new association arises. The digitization of society is one of the few sources of new associations (for instance: the association of web journalists). In practice a limited number of often large, old associations determine the image of associations in a country. For instance: estimating that there are more than 120,000 associations in The Netherlands (Noordhoek, 2011, plus private sources of the author, there is no register), only 2–3,000 really are big enough to have a professional secretariat, and 2–300 have wide name recognition and true impact. Based on the lobby register there were 3,500+ associations active in Brussels in 2015, but true access to the European Commission is again limited to a few hundred.

At the same time there is something more fundamental going on. On the one hand there is the rise of the (semi) independent professional, rapidly increasing the number of SMEs and giving a new dynamic to the whole group. On the other hand, you get many tentative and informal ways of cooperation between professionals. Is a LinkedIn group (75,000+ at last count in The Netherlands) or even a WhatsApp group an association or not? Many of these informal groups can have a big impact on government policy and the business environment. The consequences of these "nonclassic" changes in the way professions and professionals organize themselves will be dealt with later in this chapter. Here it is worth mentioning that NGOs are themselves part of (networks of) associations, and they, even more than governments, seem the natural counterpart of businesses.

Internationalization of Associations

In an article on the internationalization of associations, Noordhoek (2015) stated that there are three kinds of (classic) associations with an international dimension:

1. Purely national associations. Each may or may not have a link to an international platform of sister associations, but its international activities are limited, and so is its impact in that respect. Multinational enterprises (MNEs) usually leave it to their national affiliates to be a member.
2. International platform associations. There is a strong effort at coordinating the policies of national associations. The international platform has a strong position in at least one continent. MNEs almost always play a role.
3. Purely international associations, with MNEs as their dominant members; with headquarters on every continent, but no national representative function.

It almost goes without saying that the third category is most relevant to business diplomacy. However, associations of true multinationals are still a tiny group indeed. An example is to be found in the oil industry, a branch of the energy sector where all relevant players are international by nature. In fact, all three categories can be relevant. The first because of its sheer volume of combined business interests, and because this is where most SMEs can be found. The second category is interesting because international platform associations are really flexing their muscle. Even in Western Europe these platforms are gaining cloud, even though true integration seems harder here because of the relative strength of national associations. It must be said that associations are both part of globalization and an instrument of fighting this. The internationalizations as described in this three-step build-up is the inevitable result of globalization, yet it is not hard to see that even associations working on an international level carry the characteristics of the dominant nationality of its members, and there can be no doubt that international associations can function as a vessel for national interests. It is therefore important to make sharp cultural assessments of an association before declaring it a multinational platform fit for business diplomacy. For instance, a special mention needs to be made of national employers' associations. They show particular strength, being both strong on their national arenas and in the international (EU) arena, also in comparison with their union association counterparts. What is it that makes employers association so durably strong on both the national and international stage?

Conceptual Change within Associations

Here a conceptual framework is presented regarding the development of associations in the light of changes in society. Later on a translation will be made to international (platform) associations and there will be a reflection on the definition of business diplomacy in the light of all this (Figure 1).

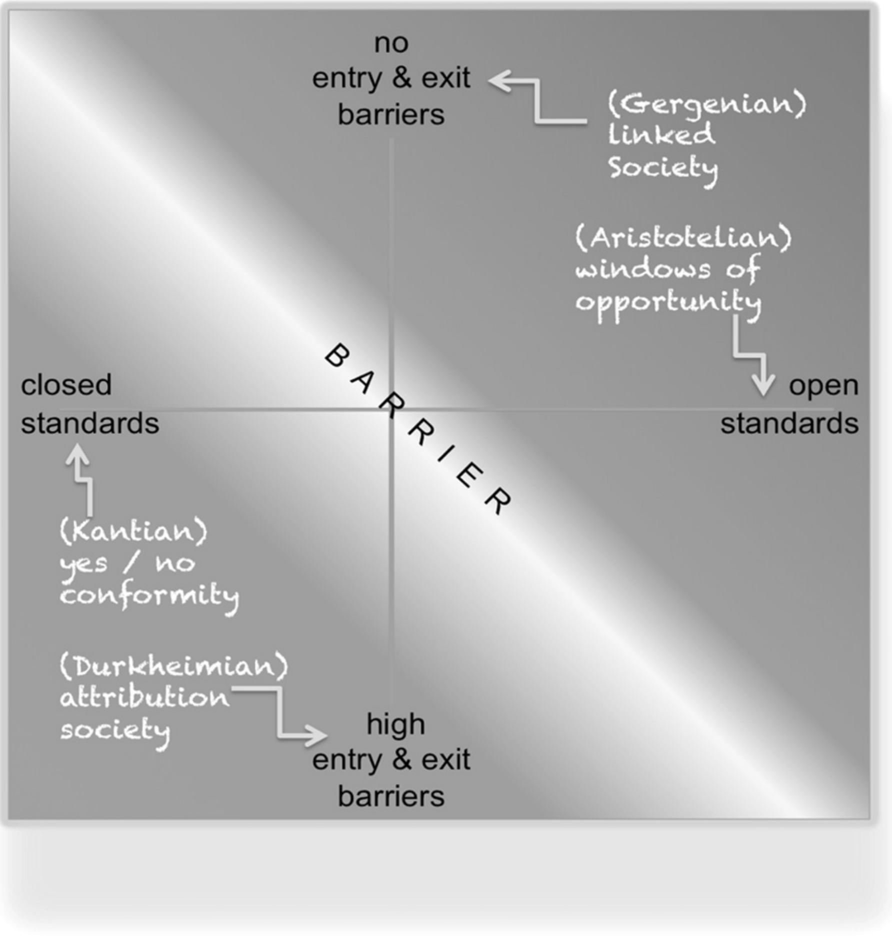

Figure 1: Sector Matrix.

In its essence an association is a group, in this case a group of people sharing a profession, skill, or craft. Durkheim's studies show that it is hard to define a group. How to measure a "shared value"? Even though this is what distinguishes a group most from a collective. Out of the many ways of doing so, the best way to do so is by defining its outer borders, thus creating Durkheim's "social facts." Outer borders that can be known by the symbols and attributes as shared by the members of the group: the doctors' white coat, the judge's toga, etc. This can be explained from a social psychological point of view when Durkheim speaks about an "attribution society" (Durkheim, 1897), where the behaviors of individuals both within and outside a group are influenced by external attributes. In combination with "closed standards" you get high entry and exit barriers to join or leave the group.

Businesses or their employees joining those groups gain the strength and privileges connected to the exclusiveness of the group or association, but might also share in its negative traits. For instance, the membership of the board of association of the oil refining industry may be essential for just being in business. At the same time, they may get captured in a certain way of doing things that may hinder them when adapting to new realities. Being a business sponsor connected to FIFA, the International Football Association, may be fantastic when you are an American firm trying to enter this European sport and its vast audience. The moment this association is hit by scandal you find your reputation suffers along with the association. Associations are more than just a collective with formal structures (Merton, 1957). They have both an integrating and a regulating force (Durkheim, 1897) that can have strong and stabilizing effects. Sometimes they are a platform, sometimes a prison, but on the whole they are well-recognizable as associations by symbols and rituals.

In contrast there is the modern "network society." Here it is for instance the number of "likes" that determines the group. These are not the "likes" from Facebook and other social media, though they do play their part. Here we refer to Gergen's (1991) "relational view" of people and their groups, connected to social constructionism. Only the slightest connection or interest – a "like" – can be enough to become part of a collective that still can call itself a group. As each group is changing ever so fast, with no or hardly any entry or exit barriers, it is not the barrier and its symbols that define the group, but its size, with open standards as the only way to capture some of its nature. Sometimes a network arises around a single issue of common interest; sometimes it is just a group of gamers sharing their technique of killing digital monsters. It is an ever-changing landscape of informal groups in which regular business can find what they want – or loose themselves. Classic associations often lack the speed and flexibility to adapt to this reality, though many try to rethink their "business model," or adapt themselves to the wishes of upcoming generations.

In between those extremes there is the ebb and flow of groups forming around something that parties have in common.

Most of the classic associations and their members feel the pressure of these different ways of grouping themselves. In the context of the PhD study by this author, it can be seen that a combination of digitization and economic crisis can lead to high tensions within classic associations. While many of the older associates may want to reconnect to their values and way of doing business, many others seek a new future through routinizing, disrupting, or virtualizing their business model.

Example: Digital Industry

Once there was a strong classic association for the typewriter industry. A newcomer, IBM, led the demise of both the industry and its association. Present associations for the digital industry have a business model that runs on *organizing conferences, but are so dominated by a few large companies that in fact they have less cloud than their classic predecessor. Meanwhile, a technical development like virtual reality (VR) arises because of the existence of an informal group of "nerds" with financial cloud that spots the talent of one of its members and serves as a breeding ground for the new "Oculus Rift" technology (Anderson, 2013). This group is no more than a digital platform, yet at the same time it is very hard to get an invitation to join. There is no visible attribute to be seen, though it may be that all member wear jeans, a T-shirt and a baseball cap behind their keyboard. Together they operate as an effective network association with huge influence.*

The dynamic is influenced by the presence of internal governance systems of self-regulation or that of oversight bodies. Almost all larger associations are heavily influenced by government relations and regulations and partly exist in order to influence them. Associations serve as a buffer between the members and the state, though there are many free riders that go their own way, depending on the nature and history of the association (Figure 2).

Implications

All of this may seem to have only limited relevance for the issue of business diplomacy, but if associations are important to the conduct of diplomacy, these implications can be presumed:

- Businesses and their employees will organize themselves in order to profit from the exclusive and combined positions of associations. As the world gets both more fragmented and complex, some form of representation through association will become more and more logical;
- The truly large have started to behave like "free agents"; sometimes profiting, but more often chasing their own interest at the possible expense of smaller ones and their associations;
- MNEs have also gained much cloud in relation to nation-states; yet at the same time have become more vulnerable to criticism. This can lead them to hide or seek legitimacy with or within their chosen associations;
- Meanwhile associations are becoming more professional, more interconnected, and more outward looking. The best of them manage to renew their sectors;
- Even so, these associations will remain the subjects of high tensions, connected to changes in the way people and their businesses rearrange themselves outside of classic associations;
- Scandals, incidents, and true disasters will keep on following in the path of businesses misbehaving themselves. There are always members that misbehave and

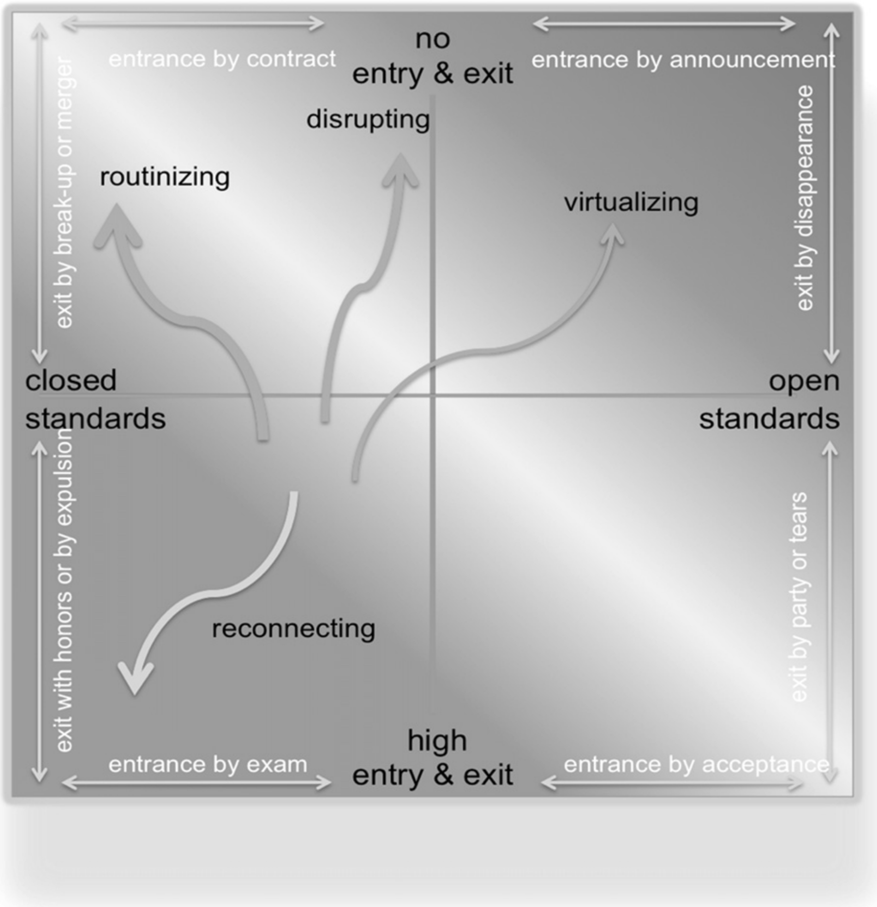

Figure 2: Sector Matrix Tensions.

associations can or will no longer hide these members. This turns associations into awkward partners for (multinational) governments to ensure better oversight and governance;

- The average association has always been highly attuned to relevant political agendas, but through better knowledge and more professionalism their association managers become significant figures in their own right: representatives of the better associations will be the economic diplomats of the future.

All of these implications make it clear that business diplomacy needs a better understanding of the role of associations if it is to play a comprehensive role next to public or economic diplomacy.

Testing Definitions

All this is to be presumed on an abstract level. Here three more examples are presented of situations where the world of business diplomacy and that of associations may meet in a more recognizable way. All three cases end with an assessment by the author whether or not the activities fit definitions as proposed by Saner, Ruël, and others.

Associations and the Energy Business

Oil and other energy companies are fierce competitors, almost by definition. There are corporate giants that truly work on a global basis, and then there are "wildcat" operations consisting of just a few guys. Suppliers, contractors, and specialists of all sizes circle the industry. Despite all the fierce competition, the businesses – as do their many enemies – do organize themselves. This runs from multinational organization like OPEC to a great number of trade associations. For instance, all the larger companies have specialists in governmental affairs. So many in fact, that they have organized themselves into an association. An overview on www.oilsheetlinks.com names more than 50 associations, indicating that worldwide there must be hundreds. The business of oil and energy associations is big business in itself – especially when national associations merge into international ones. Large ones like the International Association of Oil & Gas Producers (IOGP) "serve industry regulators as a global partner for improving safety, environmental and social performance" (IOGP, 2015), and have the cloud to do so, if only because they represent members producing over half of the world's oil. Yet, many of the same companies also get together under the umbrella of IPIECA, the "global oil and gas industry association for environmental and social issues." What you see in the last example, is that next to "general interest" associations, connected to a trade or profession, you also get associations with an "agenda" that makes them act like an NGO.

How far do these associations meet the descriptions as put forward by Ruël (2013) and others? Defining commercial diplomacy (also in contrast to economic diplomacy), Ruël roughly defines it as "policy-making" and "business support." From the example it is clear that associations perform both functions for their members. The "policy-making" function is clear, when for instance 14 oil and gas industry associations lobby the US congress not to tax their industry to make up for the decreased revenue after the government breakdown in November 2012 (Snow, 2012). "Business services" are also very much the task of associations, connecting in fact local, national, and international goals and facilities. Yet, does this all amount to "diplomacy"? For sure the persons representing the associations do not have diplomatic status in a public sense, but is that decisive for their role and influence? Most of the associations mentioned in the example above have a professional staff, with a task that is not limited to secretarial functions. Certainly an agenda setting association like IPIECA has staff that is (very) active when it comes to promoting the interest of the businesses involved. The point is though, that even when actions are very "diplomatic" in their nature, they will much sooner be seen as actions of a public affairs or communication nature than of a diplomatic nature. As yet there is no match between public affairs or communication on the one hand and diplomacy on the other. In the standard handbook for association management (Cox, 2014) 10 connected activities are summed up, but diplomacy is not one of them. But maybe that should change.

Associations and the Prowess of a Profession

The notary function – mostly, the formalization of private documents and the execution of wills – is present everywhere in Europe. However, its position and task are very diverse indeed. The profession has characteristics that can run from being a truly public function (France) to a common law function (England) or in between (Netherlands, Scotland). Until recently, most of what notaries do is governed by national civil law. But like all over Europe, there is pressure to make it easier to move across borders. As families become more multinational, issues of inheritance law become inevitably more complex, properties are bought and sold across borders, and companies have to deal with complex different tax schemes. One of the ways to deal with that is a new European ruling on inheritance (EC, 2015). It settles for instance the question which law is applicable when someone dies: is it the place where someone was born, or the place where he or she lived? The ruling says: the latter. This ruling is in quite some measure the result of close consultation between the European Commission and the association called the "Council of the Notariats of the European Union," the CNUE. This example and others have led the association to think on the future of the European notaries, with all their differences. By 2020 the association wants to "anchor the profession in a permanent way in the Union." They may well succeed.

Hardly anybody outside the experts know about this ruling (Six, 2014). Yet it is a remarkable phenomenon to see a collective of mostly SMEs, though with a partly public, even legal, function (Otterlo, 2010), move like it is a truly policy-making body. The people representing the CNUE act like true diplomats: in the background, well informed, step-by-step, taking into account all stakeholders. Business diplomacy at its best? Probably, but it is not likely anyone will call it that.

Associations and the Import Needs of the State of Dubai

The Dubai World Trade Centre and the Dubai Chamber of Commerce work together on behalf of the government of Dubai in order to "import" trade associations in that country. Why? Because most of Dubai's workforce is foreign born and Dubai has neither the experts nor the knowledge to assess their quality or train them according to international standards. The number of people to be trained and audited run into tens of thousands, and range from manual laborers to technicians with rare knowledge. All need to be certified. Why not give a foreign-based association a permit to train people in the skills they need? Indeed, why not. So now you can see representatives of Dubai in expo centers around the world selling their country as a perfect place for an association to be. Their next step is an agreement with the cities of Singapore, Washington DC, and Brussels to strengthen the ties with those cities as these are the cities that are hosting most of the events.

Is this effort by one city-state part of "strategic" business diplomacy? As innovative and strategic as it is, and as much as it is about a nation and its economic ambitions and the commercial reaction to that, it is not logical to count it as part of business diplomacy. The nature of the contact between nation and association is an economic activity and mostly (though not all of it) governed by civil law. In terms of attitude, it does not compel the parties involved to use the kind of open standard skills that is a hallmark of diplomatic negotiations. It certainly does not fit the latest description by Ruël and Wolters on Business diplomacy (Ruël & Wolters, 2014).

Impact

In a recent advertisement the Dutch Federation for the Metal Industries (FME) for a new international secretary, the first qualification demand mentioned was for an expert in "economic diplomacy." Slowly, the concept of economic, commercial, corporate, or business diplomacy is getting traction, and not just for MNEs. In fact, it makes this author doubt whether focusing on MNEs is such a logical approach. Not because those enterprises are unimportant, but because from the perspective of scientific observation it is not useful to observe an entity without its network, as a "spider without its web." Or to put it differently; observing the network brings more than observing the elements that can be found within it – "the web shows both the spider and its prey." As society is in general moving from the quadrant with high entry and exit levels and strict norms to one where the size of groups can change by the hour and standards change as fast, we should aim for an approach that is less explicit about the shape of institutions or organizations and pays more attention to the things that stay as long as we are not replaced by robots: human insight, skills, smart interaction, and representation. In other words: the focus should move to the uniqueness of diplomacy as an instrument for intervention, and less on the actor.

The Limits of Business Diplomacy as a Concept: There is More to Business than Business

Business diplomacy can be used as an overall concept for aspects of "commercial" or "economic" diplomacy and more. Yet, writing this chapter, and after having been away from the subject for over some years, this author cannot help but reflect that its title does not do justice to the breath and relevance of its topic. Looking at how authors like Ruël (Kesteleyn & Riordan, 2014) are interpreting it, the scope is not embracing enough when it comes to "business," and lacks clear focus when it comes to the "diplomacy."

Instead of suggesting that associations should have a place in business diplomacy, I would rather go one step further and would suggest that in the future we speak of "*Multiactor Diplomacy*".[1] As "MAD" as this may sound, it does more justice to the reality of new definitions of group formation. Neither empires nor enterprises are immune to the speed of a tweet, but people still need to look each other in the eye before reaching a true agreement on anything.

The Limits of Business Diplomacy as a Concept: More Focus on the Art of Diplomacy

These changes in society will make the potential need for diplomacy larger, not less. When Saner and Yiu wrote their article on business diplomacy "management" in 2000, traditional diplomacy was in urgent need of a fresh look at the "behavioral complexity" facing diplomats (Yui, 2003, p. 13). Modern management techniques, international business acumen, and insights for personal maturity came into demand. At the same time business leaders had to master political and media skills, plus a multicultural mindset. The great breakthrough of business diplomacy is that it makes clear, on both the national and the business side, that there was and is a greater need for "role versatility and tolerance for ambiguity" (Saner et al., 2000, p. 16).

Things have changed. On the one hand we come to terms with the complexity of the field. The influential role of associations should teach that not even on the side of business itself things are one-dimensional. A multiactor approach is needed. Yet on the other side we should perhaps clear the concept of diplomacy of all its semi-modern additions and go back to the roots, art, and skill of diplomacy as a vocation. How would that look?

Esprit du corps Diplomatique

Looking at the matrix, it would seem that a new esprit de corps diplomatique is in order. The vocation is not for a lobbyist who wasted too much time in university, nor for a communication specialist who starts to believe in his own "frame," but for a professional analyst and connector who can easily move from one arena to the next without losing his or her independent view, and as such is trusted to do complex and sensitive negotiations.

[1]Also considered: Multi party Diplomacy, but the word "party" suggests a possible conflict that need not be there, plus that "party" always suggests some form of collective, while it is still very much possible that it is all about just a single company. Melissen (2011) quotes Wiseman (2010) when he pleads for "polylateralism," but unfortunately this is still defined from a state–non-state perspective, and therefore is not polylateral enough.

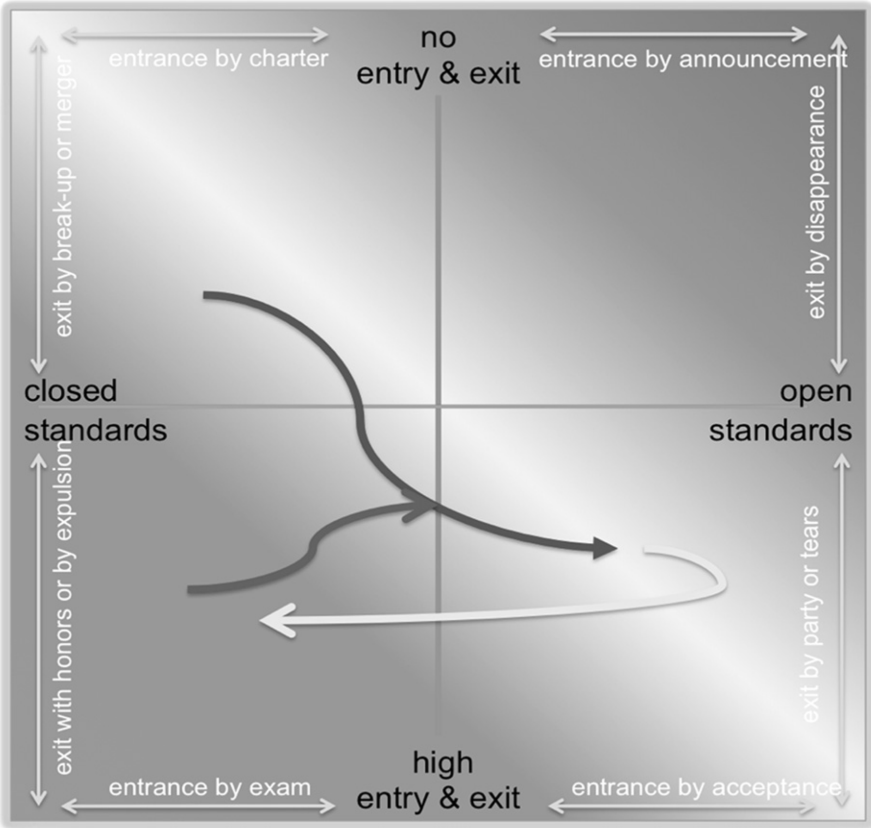

Figure 3: Sector Matrix Diplomacy.

Neither Durkheim with his attributions, nor Gergen with his likes, are in themselves enough. Some kind of mutual recognition of professionalism should occur. How would the path toward a multiactor approach look like? (Figure 3)

Using the matrix as a development tool, movement could come from two directions. One is the trained public diplomat coming from down left. The other is the business/commercial/communication diplomat coming from the upper left.

Different Phases in the Development of Diplomacy

The assumption is here that both from the public and from the (collective) private sphere a network will form through co-optation. From this a new professionalism, the new diplomat, will rise and start laying the foundation for a new association of diplomats.

To put it in another, broader and more historic perspective, four phases are formulated, also serving as a conclusion to this chapter:

In the *first phase*, there is the *public diplomat*, nation-bound. It knows it needs to modernize, adding for instance economic knowledge and commercial skills to the profession. Many diplomats move on to the semipublic sphere of NGOs, applying their craft in the world of development aid.

In the *second phase*, the "other side" discovers there is a diplomatic challenge. In 2000 it is coined as "*business diplomacy*." It shows companies the way to a subtler dealing with developments and agendas as pushed by political parties, action pacts, and NGOs. These institutional stray cats can be as stubborn as anything and not easily bought or silenced by influencing governments. The companies had to learn a different language, use other negotiation skills. However, it must be said that most companies did not see the value of the new concept and preferred to solve problems by throwing mountains of communication dollars at the problem. At the same time classic public diplomacy tries to reinvent itself as "new public diplomacy." The goal is basically the same, though approached from the government side.

In the *third phase*, from 2015 onwards, we should see how the concept of diplomacy evolves into a *multiactor* approach.

All the reasons for business diplomacy are here and at play. Sustainability, stakeholder management, diversity – they remain elusive goals, but it can be said that they are no longer on the periphery of business awareness and much more central to the business model. New issues come up like cyber security and privacy, but the question is more when and how they will be tackled, not if. The focus shifts from the single multinational to the multitude of companies that bind themselves within associations. If there is a conceptual problem these years, it is the fact that diplomacy does not distinguish itself enough from public affairs and other communication activities. The effort is aimed at formulating a new set of skills for the profession, strong enough to acquire a new identity. Perhaps this effort will come from those within the multinational active in the field of "government relations," but more likely the effort will come from those who have worked both within and outside public diplomacy. The best place to exchange experiences and reflections is in a new association.

There could or should be a *fourth phase*. A phase that could be a rebirth of *diplomacy* as diplomacy. The multiactor perspective stays, if only for the fact that disruptive technology goes on and is constantly changing the nature of society. However, it is no longer connected to the business or association side of the equation. It is as much about public diplomacy as anything, because nations are feeling the same disruption and reaction to that with both internationalization and regionalism. We will see that (possibly through that new association) a new diplomatic corps arises, supported by academia and education institutes, with young talents available for new challenges all over the globe.

Conclusions

We are now in a time where the concept of business diplomacy becomes more mainstream. It is time to strengthen the concept with added knowledge and insights. Part of this is an acknowledgment of the role of associations in the international arena. Except for the biggest enterprises, most international activities will go through the channel of associations. So this role has many dimensions, and many of them are not yet understood. It is apparent that in an interdependent world the international dimension of associations will become more pronounced. But in what way, and what will its impact on diplomacy be? Considering the cases used in this chapter, this is a truly complicated and multidimensional process, in which much will happen not only out of sight, but also in the guise of words like "public affairs" and "communication."

This chapter provides a conceptual framework for looking at the role of associations and their position in a fast changing world. The digitization of that world is one of the reasons the position of businesses is changing, and the role of associations is changing with it. A proper understanding of this framework is a step toward a clearer and less one-dimensional image of associations.

At the same time the recognition of the role of associations is but one step in a larger realignment in the nature of diplomacy. We are now seeing a move where classic state or public diplomacy (including economic diplomacy aimed at furthering trade) is being complemented by business diplomacy. This business diplomacy does not limit itself to NMEs or NGOs. It involves all actors in the modern network society, including myriad of SMEs. Associations are in large measure the vessel in which all these entities come together. It is predicted that this again will develop into a multiactor diplomacy, until in the end there is just diplomacy. Diplomats will then move from state to business, and from departments to associations. They are professionals, capable of working in many capacities and in many roles.

Recommendations

As is often the case, more research needs to be done, both when it comes to the actual role and impact of associations and on the effect on the nature of business diplomacy when the effect of (changes within) associations is taken into account for the future of business diplomacy. Both the science of associations and the science of business diplomacy are very much in its early stages. There is lots of information, little data, and even less validated opinions on both fronts. The first step however, might have less to do with writing than with meeting. These are some recommendations:

1. Let the world of associations and (business) diplomacy meet in conferences or other settings.
2. Articulate a view and conceptual framework for the diplomatic aspects and skills within associations, especially their international dimension. Show that this is

more than a matter of lobby, public affairs, or communication and has a strong public dimension.

3. Articulate a view and conceptual framework for the part that associations can play within a multiactor world of diplomacy.
4. Let scholars in the field of both associations and diplomacy add to the knowledge of the international dimension of associations. This involves "big" data aspects like: numbers, divisions, field of activity, network charts.
5. Do this too when it comes to case descriptions of times and places where the world of associations and that of both public and business diplomacy meet.
6. Design or evolve conceptual frameworks, like used in this chapter, for the description and analysis of developments.
7. The concept of business diplomacy should evolve into an approach mostly bound to large MNEs to a truly multiactor approach, of which associations are a part.
8. The concept of (public or traditional) diplomacy should evolve into an approach recognizing that the public sphere is also becoming more and more multiactor, including a role for semipublic associations and associations formed and led by public professionals.
9. In the end public and business diplomacy should merge into a new profession, not bound by geography or entity, but by common skills and ethics.

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Business Diplomacy in Brazil: Early Lessons from an Emerging Economy

Joseph C. Marques

Abstract

Purpose — This chapter applies the business diplomacy concept to Brazil, a leading emerging economy and a member of the BRICS group. Brazil's emergence as a new economic power has facilitated the emergence of several large national champions whose international behavior is understudied.

Design/methodology/approach — The chapter presents an extensive review of secondary sources and selective use of previous survey data compiled by the author.

Findings — This chapter adds to the literature on business diplomacy and contributes empirical research on a leading emerging power. Brazil's ambitious diplomatic agenda is matched by the country's growing number of internationalized companies. Brazilian corporate managers need to increase their business diplomacy competency to effectively leverage their presence and legitimacy abroad.

Research limitations/implications — Additional case studies will foster a more robust theory regarding business diplomacy of emerging economies.

Practical implications — A growing number of cases of business diplomacy in Brazil will benefit both business and diplomacy communities and facilitate greater research collaboration.

Social implications — How Brazilian business diplomats navigate between the boundaries of international business, diplomacy, and foreign policy are important questions for a country concerned with its international role and its goal of becoming a key actor in the international arena. A better understanding of how business diplomacy works in Brazil together with more case studies will benefit a new generation of business leaders.

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Originality/value — The behavior of Brazilian business elites in international affairs remains largely unexplored. This work's original contribution is precisely in the form of its focus on Brazilian business diplomats and how business diplomacy is exercised by Brazilian companies.

Keywords: Business diplomacy; Brazil; Itamaraty; Brazilian multinational enterprises

Introduction

The study of Brazilian business diplomacy is warranted by the country's size, its place in the global economy, and its regional and international leadership roles. The unique relationship between the Foreign Ministry (Itamaraty) and its business constituencies such as Brazilian multinational corporations (BMNCs) is also of growing importance to a country with an ambitious foreign policy and growing economic potential. Since its return to democracy in 1985, Brazil has become a major economic power with increasing visibility and influence on the world stage, projecting both economic and diplomatic power well beyond South America. While this transition is the result of proactive policies on the part of recent administrations to "re-insert" the country in many institutions of global governance and decision-making bodies, it is also the result of the emergence of powerful business actors with global reach and increasing involvement in Brazilian foreign relations. The country's heightened visibility as a member of the BRICS group and as a leading proponent of soft power has been accompanied by the emergence of a new entrepreneurial class which now begins to challenge the foreign ministry's traditional monopoly over the management of the country's foreign relations.

Much of the academic literature has emphasized the challenges faced by firms from developed countries and more limited research attention has been paid to the internationalization of multinational corporations (MNCs) from emerging countries such as Brazil. While research on business diplomacy, as exercised by MNCs from emerging countries, is in its infancy it is possible, however, to identify several initial cases of business diplomacy by companies from emerging countries. The concept of business diplomacy is closely related to the process of internationalization of MNCs though it has yet to secure its place as an established concept in either the *International Business* or the *International Relations* literature (Pigman, 2013).

The aim of this book is to help establish the relevance of this new concept and frame the debate regarding its use in different situations. This chapter is based on an extensive review of secondary sources and selective use of previous survey data compiled by the author. It includes preliminary information from ongoing research on two case studies of Brazilian multinationals and the interaction between Brazilian business diplomats and their governmental counterparts. It adds to the literature on business diplomacy and contributes to the empirical research on this topic while arguing that Brazil's aim to become a global economic and diplomatic power will not be successful without policy input from the main sectors of civil society including the business community and its business diplomats. The speed of global economic change has outpaced both the private sector and Itamaraty's capacity to adapt to the new international environment. Itamaraty is a victim of its own pattern of socialization and the fact that it has remained relatively closed to external influence for many years. Additionally, both the public and private sectors have suffered from insufficient and ineffective channels of communication, lack of strong leadership, as well as from an inefficient interest aggregation and the lack of ample public debate regarding Brazil's national interests.

The gradual expansion of Brazil's entrepreneurial civil society will help foster change in the country's foreign policy and the policy-making process. How Brazilian business diplomats behave in the future will inform policy-makers and contribute to greater adaptive risk management, proactive advocacy, and more effective engagement with multiple stakeholders on the part of a new generation of business managers.

Business Diplomacy versus Corporate Diplomacy

Business diplomacy is a field of scholarly research whose time has come (Ruël & Wolthers, 2016). Globalization, the growing influence of emerging economies, and the explosion of sub-state actors actively involved in diplomacy have dramatically raised the geopolitical risk factors for international corporations. Companies and their executives are faced with an increasing number of geopolitical issues and non-business risks involving the management of multiple stakeholders, often with competing priorities (Kesteleyn, Riordan, & Ruël, 2014). In this new environment, all parties must develop a capacity to manage risks irrespective of their home country's official diplomatic position. There is also a growing appreciation of *business diplomacy* as a distinct field of study from other related concepts (Kostecki & Naray, 2007): *economic diplomacy* (government – multilateral actors); *corporate diplomacy* (headquarter – subsidiary); and *commercial diplomacy* (government – market). Saner's (Saner & Yiu, 2003; Saner, Yiu, & Sondergaard, 2000) classification of different types of diplomacy remains the most widely-used reference in the field.

Ruël (2013) defines business diplomacy as "the activities deployed by international businesses with host government representatives and nongovernmental representatives to establish and sustain a positive relationship to maintain legitimacy." Business diplomacy includes all international activity by individual business leaders, firms, class or sector associations, and related collective actors which enhance a company's legitimacy in its relations with foreign governments and non-business counterparts. The focus of this study is the role of a select group of Brazilian multinationals and their experience as international business and diplomatic actors. It is a first attempt at describing the behavior of a set of pioneering Brazilian multinationals in the international arena.

This chapter highlights the growing role of Brazilian business firms as international actors and increasingly influential participants in business diplomacy. The emergence of several Brazilian multinational companies (BMNCs) with access to technology, capital, human resources, information, and effective decision-making capabilities poses several significant challenges (as well as opportunities) for Brazil's primary foreign policy and diplomatic agent – the Ministry of Foreign Relations. This chapter argues in favor of the growing relevancy of business diplomacy as a useful concept to understand the relationship between corporate managers and local stakeholders, including all levels of government and civil society (Saner & Yiu, 2005). Business diplomacy's focus is on both the challenge of legitimacy and the management of nonbusiness risks.

Business diplomacy is performed by business managers and those responsible for the interaction between business companies and host country stakeholders. Such a relationship may end up impacting the broader diplomatic relationship between host and home governments since this interaction affects the legitimacy of companies and the level of trust and economic interaction between nations. Business diplomats aim to integrate their companies into the local community and establish mutually rewarding relationships. Their broad mandate includes information gathering, the development of local partnerships, and the promotion of social responsibility, human capital, and the overall effectiveness of civil society (Weiss, 2006).

In Brazil, Itamaraty's traditional monopoly over international affairs is challenged by a growing number of actors increasingly active in international affairs as well as the growing number of complex international issues (Oliveira & Milani, 2012). The emergence of new actors on the diplomatic stage, previously occupied primarily by government actors, has a direct impact on how Brazil participates at the international level. The role of business actors is no longer limited to their information-gathering function but also includes the training of business diplomats and the development of business strategies to prepare individuals and companies for the challenges of globalization.

This chapter examines the relevance of *business diplomacy* from the perspective of a large commodity-rich country and member of the BRICS group. Our objective is to add to our understanding of the behavior of Brazilian business leaders and national corporate groups serving as business diplomats. We begin with a brief overview of the recent economic history of Brazil and the process of internationalization of Brazilian companies including several cases involving business diplomacy of BMNCs. The chapter concludes with a summary of the major arguments of this chapter and suggestions for future research.

Brazil's Emergence as a Growing Economic Power

The internationalization of Brazilian multinationals has been largely influenced by several factors: (1) the country's endowment as a leading agricultural and commodity exporter; (2) its relatively late industrialization; (3) the country's corporatist framework of labor and business laws; and (4) Itamaraty's monopoly over foreign policy.

Delayed industrialization in the mid-20th century led to a late-blooming industrial class in Brazil which was largely dependent on state promotion during a period of import-substitution industrialization (Kingstone, 1999). The state provided incentives for collective action, especially in the form of compulsory membership in major business associations created in line with the country's corporatist legislation (mainly during the government of Getulio Vargas from 1930 to 1945).

The country's late industrialization and limited success with import-substitution industrialization led to the creation of a small number of competitive industrial giants. Over the years, however, and beginning in the 1970s, several leading industrial companies such as Embraer (aircraft), WEG (motors), and Marcopolo (motor coaches) were created. As an agricultural and mineral resource several giant food and mineral exporters also emerged among the country's major multinationals.[1]

Prior to the opening of its economy during the Collor administration in the early 1990s, Brazil's economy was largely organized under a corporatist framework favoring the alignment of labor, industry, and commerce along mandatory class and sector associations. Industry was organized by sectors at the state (federations) and national (confederation) levels. Interest aggregation and representation was managed largely by major corporatist entities such as CNI (the National Confederation of Industry) and FIESP (Federation of Industries of the State of São Paulo). Over the years, Brazil has evolved from a corporatist regime in which Itamaraty held a monopoly of influence over most foreign policy decisions, to a postcorporatist environment in which Itamaraty has seen its monopoly increasingly challenged by other ministries and the emergence of an entrepreneurial elite represented by successful private business firms and voluntary business associations.

Brazil's recent success on the international economic front has prompted significant changes and challenges to the policy-making process in the country (Schneider, 2009). The emergence of large national economic actors with growing international influence has begun to impact the foreign policy-making process and, over time, may cause further divergence between the public and private sectors regarding foreign policy priorities and private business interests.

Brazil's increasingly ambitious foreign policy matches the growing confidence on the part of several of the country's most important economic firms (Hakim, 2002). This chapter offers several general propositions regarding the current and future relationship between the internationalization of Brazilian firms, their role in Brazilian diplomacy, and the growing need for effective business diplomacy:

1) Brazil's rise as an economic and diplomatic power positively affects the expansion and subsequent internationalization of Brazilian business;

[1]Brazil is the world's leading exporter of animal protein, soybeans, sugar, coffee, orange juice, and iron ore, among other commodities.

2) As the economy grows, the overall monopoly of Itamaraty over foreign policy information and influence will decrease in favor of other actors such as other ministries, sub-state entities, and major private sector firms;
3) Brazilian multinationals have emerged as influential actors in the country's diplomatic universe as both "clients" of Itamaraty and "alternative" sources of information and competency regarding international issues;
4) Itamaraty will increasingly engage with global Brazilian companies and must plan for the services it will need to provide to its national corporations in the future. As the economy grows, domestic policies (i.e., industrial policy, innovation policy, etc.) will have greater international repercussions and will require greater cohesiveness between domestic and foreign policy to maximize their effectiveness.

Given the size and leadership position of some of Brazil's largest firms, several key business leaders and associations have emerged as "business diplomats." Such entities and individual leaders provide an increasingly important source of information and act as promoters of change forcing greater transparency, legitimacy, and innovation in the Brazilian political and economic system. The business class overall, in its capacity as a political actor, has an important role in shaping domestic and international outcomes as well as engaging with an ever-widening group of stakeholders.

Throughout most of its history, Itamaraty has exerted broad or quasimonopolistic control over foreign policy decision-making while preventing the business class (individual leaders and corporate entities) from fully occupying appropriate policy space commensurate with its economic weight. With the rise of Brazil's economic power, Itamaraty has been forced to open the policy-making process to different interest groups. Greater openness facilitates the country's readjustment to a new international economic environment and facilitates the country's "re-insertion" into the international community following a period of authoritarian rule (1964–1985).

The expansion of an entrepreneurial civil society alters the traditional policy-making process in Brazil. Private sector participation in the elaboration of international economic policies has profound consequences for domestic politics. How Brazil acts on the world stage matters to its citizens who increasingly wish to have a say in deciding their future. The actions of Brazilian firms on the international stage contribute to the country's overall image as a responsible international stakeholder and rising leader of the global South. Much of the literature dealing with interest groups in Brazil analyzes the role of such groups and elites almost exclusively along the lines of domestic political issues and rarely focuses on the role of business actors regarding international diplomacy and nongovernmental risks.

Itamaraty's autonomy has been gradually reduced by the growing number of domestic entities involved in foreign policy as well as by the increased complexity of international issues. The emergence of new business actors has extended the diplomatic policy space traditionally occupied primarily by government actors. Traditional corporatist structures remain, however, the biggest, best-funded, and most visible organizations dealing with international issues. The universe of sub-state actors involved in international affairs has also grown substantially over the last few years, especially with the emergence of new voluntary associations.

Table 1 lists a sample of some of the most active organizations in business diplomacy by aggregating sector interests and providing channels of communication between specific business sectors and the government. The list includes traditional corporatist structures, newer voluntary associations, think tanks, and policy research groups.

Brazil, long the recipient of inward foreign direct investment, experienced a growing outward flow of investment beginning in 2006 when, for the first time, its outward flow of investments was greater than the amount of inward foreign investment. As Brazilian companies grow internationally, they will require an increasing

Table 1: Sample of Major Entities Involved in Business Diplomacy in Brazil.

CNI	National Confederation of Industry
CAN	National Confederation of Agriculture
CNS	National Confederation of Services
CNC	National Confederation of Commerce
CEB	Brazilian Business Coalition
FET	Transnational Companies Forum
FIESP	Federation of Industries in the State of São Paulo
FIERJ	Federation of Industries in the State of Rio de Janeiro
FIEMGE	Federation of Industries of the State of Minas Gerais
FIERGS	Federation of Industries of the State of Rio Grande do Sul
ABINEE	Brazilian Electrical and Electronics Industry Association
ABIQUIM	Brazilian Chemical Industry Association
ABECITRUS	Brazilian Association of Citrus Exporters
ABRAPA	Brazilian Cotton Growers Association
ABIFINA	Brazilian Association of Fine Chemicals
ABIMAQ	Brazilian Association of Machinery Manufacturers
ABIEC	Association of Brazilian Beef Exporters
UNICA	Brazilian Sugarcane Industry Association
ICONE	Institute for International Trade Negotiations
CEBRI	Brazilian Center for International Relations
IEDI	Industrial Development Studies Institute
REBRIP	Brazilian Network for the Integration of Peoples
AEB	Brazil Foreign Trade Association
ABIT	Brazilian Textile and Apparel Industry Association

number of international specialists with relevant skills for the new international economic environment. Brazilian private companies have also begun buying foreign companies, establishing joint ventures and increasing production through foreign-based subsidiaries (KPMG, 2008). This trend will also require an increasing number of "business diplomats" to ensure success while seeking deeper integration with the world economy since BMNCs are comparatively late in internationalizing and in developing their business diplomacy expertise.

Throughout its history, Itamaraty was the main arbiter of international issues such as international trade, globalization, and multilateral trade negotiations. In recent years, however, there has been a rise in the number of equally skilled professionals in the private sector working for large Brazilian multinationals or as senior executives for foreign multinationals. The two groups must learn how to cooperate and work together to expand and promote Brazilian interests. One group represents the country's elite foreign service, traditionally recruited from the country's leading intellectual and business families, and proud of its unique role in the nation's history. The other group represents the economic elite of the country's industrial, agriculture, and service sectors. Growing international trade increases the level of participation and influence of different private sector groups in Brazilian foreign policy. As the country's economy grows, Itamaraty's monopolistic grip over information and influence monopoly decreases in favor of other actors.

Brazil is amongst the top 10 largest economies in the world, one of the biggest democracies (with a current population of approximately 204 million) and a major producer of a range of products (including airplanes, orange juice, soy, beef, coffee, sugar, iron ore, steel, shoes, ethanol, animal protein, etc.).[2] Brazil has a long tradition of intense diplomatic activity due to the fact that it shares borders with 10 countries and its role as an active participant in many of the world's international and multilateral organizations.

The country's increased engagement with the outside world is, however, a relatively recent development. Negotiations regarding the creation of Mercosur (the South American Free Trade Area) and the FTAA (Free Trade Area of the Americas) in the 1990s provoked a major reorganization of how the Brazilian government and private sector communicated with each other regarding international issues. All parties agreed that greater communication was necessary to protect and promote Brazilian interests regarding negotiation strategies while facilitating interest aggregation. Two consultative groups were formed by Itamaraty: SENALCA in 1996 (regarding the FTAA negotiations) and SENEUROPA in 2001 (regarding the Mercosur – European Union negotiations, which are still ongoing). In addition, the CEB (Coalizão Empresarial Brasileira/ Brazilian Business Coalition) was created in 1996 and has since served as the preferred peak association by the agricultural, industrial, and service sectors (its counterpart at the labor union and civil

[2]Following Brazil's recent economic downturn and several years of negative economic growth, its GDP fell from a highpoint of $2.6 trillion in 2011 to $1.7 trillion in 2016. See http://www.tradingeconomics.com/brazil/gdp.

society level is REBRIP – Brazilian Network for the Integration of Peoples).[3] At the time, Brazilian private sector leaders realized how unprepared and disorganized they were regarding international negotiations. CEB broke with previous tradition by concentrating exclusively on international negotiations and promoting voluntary membership (as opposed to the country's formal corporatist tradition based on mandatory employer syndicates covering each sector of the economy). Brazil's private sector lacked, however, sufficient and appropriate channels to adequately aggregate opinions and define strategic business positions regarding international trade negotiations. At the same time, many of the country's leading corporate leaders also decided they had to substantially improve their business diplomacy skills.

The Internationalization of Brazilian Firms

Brazil began opening its economy in the 1990s during the Collor government (1990–1992). Unlike many of its neighbors, Brazil followed a different development trajectory given its large (and highly profitable) domestic market. The opening of the Brazilian market allowed several national firms to gradually adjust to external competition and embark on a path of aggressive overseas expansion (Cyrino & Tanure, 2010).

Historically, Brazil has had neither a strong trade-promotion structure nor a strong export culture. The size and overall attractiveness of its domestic market is often offered as a reason for the country's delayed internationalization and late opening of its economy. Brazil has traditionally suffered from excessive bureaucracy, high taxes, lack of financing, exchange rate and economic instability, inefficient infrastructure, and a suboptimal logistics network. These constraints result in a significant commercial handicap often referred to as "*custo Brasil*" (the additional "cost" of doing business in Brazil). Meanwhile, many Brazilian business executives have been hired by foreign multinationals for their experience and creative solutions to problems such as hyperinflation, bureaucratic red tape, fiscal imbalances, and economic instability.

In 2006, outward FDI surpassed inward FDI for the first time in Brazil's history, turning Brazil into a "dual player" with an important role as capital importer and exporter, as well as a major economic actor in the international arena. Goldstein (2007) argues, however, that foreign direct investment from emerging economies, including Brazil, has traditionally been concentrated in a small number of companies. Brazil's internationalization and outward foreign direct investment have been concentrated in neighboring countries (Brazil's economy represents almost 60% of South America's GDP and over 80% of Mercosur's GDP), primarily in the construction, infrastructure, and natural resources sectors.[4]

[3]CEB was formed following an initiative by Brazil's leading peak association for industry (CNI) following the II FTAA Ministerial Meeting in Cartagena, Colombia in 1996.
[4]For more information on Brazilian economy see https://www.cia.gov/library/publications/the-world-factbook/geos/br.html.

Brazilian exports represent, however, a relatively small percentage of world exports and of the country's total gross domestic product. Brazil remains one of Latin America's least open economies. Its trade coefficient (foreign trade/GNP) is expected to increase once it returns to a period of sustained growth over time. Brazilian firms have internationalized rapidly over the past few years, fueled primarily by natural resource firms which account for the majority of the foreign assets of the country's most internationalized companies. Brazil plays an increasingly active role in the international agenda-setting process globally, especially regarding trade and finance issues including Brazil's active leadership role in the WTO Doha Round, a dramatic increase in the number of new diplomatic missions around the world, and membership in multiple international groups (BRICS, IBSA, UNASUL, G20, CPLP, etc.).

Together with its enhanced political visibility, Brazil's growing economic clout has bolstered its quest for greater influence in the most important centers of global governance. Brazil's call for the reform of the major global governance institutions comes at a time when the global economic environment is becoming increasingly complex. Domestic firms with a higher probability of developing further along the value-added spectrum are identified as "national champions" and they have been beneficiaries for years from protection against market forces such as import duties, or preferential orders from public procurement.

The process of choosing "national champions" linked the process of internationalization of the Brazilian economy to Itamaraty. The choice of which companies to receive government support is a "strategic" decision by the government regarding which business sector, geographic area, and/or business leader to favor over others. The policy of "national champions" aligns itself with the government's call for a "new commercial geography." This push for a new, alternative economic world order was based on a "neo-developmentalist" worldview which underlined Itamaraty's promotion of traditional Brazilian policy objectives such as national autonomy and economic development.

The ever-shifting global landscape poses several challenges to Brazilian diplomacy. Brazil seeks to increase multipolarity in most major global institutions by carefully building coalitions with other partners of the global South. It is a firm believer of reciprocity-based multilateralism as well as a strong supporter of Latin American regional integration. Brazil's policy is based on a significant increase in exports and an effort to further diversify markets for Brazilian exports. The "South–South" orientation of Brazilian trade strategy is based on the premise that greater diversification of its export markets (as well as the continued expansion of its diplomatic network) may bring additional "political" benefits (i.e., greater international support for Brazil's claim for a seat on the U.N. Security Council).

Brazilian companies have had an uneven track record of export promotion and attempts at internationalization. Casanova (2009) describes the process of internationalization of Latin American firms occurring in four phases:

1) Emerging Foreign Direct Investment (1970–1982);
2) The Lost Decade (1982–1990);

3) The Washington Consensus (1990–2002);
4) Going Global (2002–present).

Brazilian companies have largely followed the same evolution of other Latin American firms (Santiso, 2008). During the first wave of internationalization in the 1970s, while still under a military regime, several Brazilian companies – Petrobras (oil), Sadia (poultry), Marcopolo (buses) – achieved some initial success with exports to new markets such as Africa, the Middle East, Iran, Iraq, and the Gulf states. The second wave of internationalization took place during the 1980s, usually considered the "lost decade" due to Brazil's problems with its foreign debt and subsequent default, which hampered any realistic chance of success on the part of local firms to establish a successful presence abroad.

A significant part of Brazilian internationalization occurred, primarily within its immediate geographic region. The Mercosur region served as an "incubating" experience for many Brazilian companies (i.e., Sabo, Lupatech, Ambev) before going global (Gouveia, 2004). Since then, Brazilian companies have become increasingly more integrated into global trade circuits, business networks, and supply and production chains.

During the 1990s, Brazilian firms were subjected to external shocks such as trade liberalization, tax reform, competitive exchange rates, and privatization. In addition to these external shocks, the internationalization of Brazilian firms was driven primarily by private interests though the government clearly benefited from the advantage of having its political ambitions bolstered by the emergence of large private companies based in Brazil. Important reasons to internationalize include the need to improve competitiveness, secure new markets, obtain new sources of credit, and tap international financial markets. Privatization of state-owned companies and increased global merger and acquisition activity have also been important drivers of internationalization of Brazilian firms. Two additional factors include the gradual increase in value of the local currency – the Brazilian *real* (BRL) – which, depending on its exchange-rate value, can make assets abroad more or less expensive and the fundamental role of the national development bank (BNDES) primarily through BNDESPar, its investment holding company, in underwriting the initial operations of many of Brazil's national champions mainly in South America. Having mastered many of their home country business challenges (high taxes, lack of financing, exchange-rate instability, poor infrastructure, etc.), BMNCs have sought new business opportunities abroad in both developed and emerging markets.

A leading Brazilian business school, Fundação Dom Cabral (FDC), located in Belo Horizonte (Minas Gerais) issues an annual survey of Brazilian transnational companies using UNCTAD's *Transnationalization Index* based on a calculation of international sales, international assets, and number of employees overseas. Several of these companies are "national champions" – companies identified as possessing the capability of competing internationally due to their strategic international business plans and the likelihood of raising the value-added component of many of its local suppliers and subsidiaries.

Table 2 lists the top 25 Brazilian companies with the highest degree of transnationalization according to FDC's 2015 *Transnationalization Index*:

According to the FDC, BMNCs are present in a total of 100 countries around the world. Table 3 shows the ranking of BMNCs by the number of countries where they have a presence.

Table 2: FDC Ranking of Brazilian Multinationals by Transnationality Index.

Ranking	Company	Sector	Transnationality Index
1	Fitesa	Specialty fabrics	0.720
2	Construtora N. Odebrecht	Construction	0.644
3	InterCement	Cement	0.573
4	Gerdau	Steel	0.560
5	Stefanini	Information Technology	0.559
6	Marfrig	Animal protein	0.536
7	Artecola	Chemical/adhesives	0.521
8	Metalfrio	Electroelectronics	0.500
9	CZM	Heavy machinery	0.492
10	JBS	Animal protein	0.488
11	Magnesita	Mining	0.479
12	Minerva Foods	Food	0.388
13	Votorantim	Conglomerate	0.365
14	Tupy	Steel	0.361
15	Tavex Santista	Textile	0.350
16	WEG	Mechanics	0.309
17	Tigre	Construction material	0.304
18	Vale	Mining	0.273
19	Marcopolo	Vehicles/buses	0.258
20	Embraer	Airplanes	0.256
21	Camil Alimentos	Food	0.253
22	Indusparquet	Hardwood flooring	0.218
23	Alpargatas	Footware	0.213
24	Vicunha Textil	Textiles	0.205
25	Andrade Gutierrez	Construction	0.194

Source: FDC Ranking of Brazilian Multinationals 2015.

Table 3: FDC Ranking of Brazilian Multinationals by Number of Countries with Subsidiaries.

Ranking	Company	Number of Countries with Subsidiaries
1	Andrade Gutierrez	37
2	Stefanini	33
3	WEG	29
4	Vale	25
4	Marcopolo	25
5	Banco do Brasil	23
5	BRF	23
6	Natura	21
6	Votorantim Industrial	21
7	Magnesita	20
8	Itaú-Unibanco	18
9	Construtora Norberto Odebrecht	17
10	Petrobras	16

Source: FDC Ranking of Brazilian Multinationals 2015.

BMNCs and Business Diplomacy

More and more BMNCs are operating abroad (Boston Consulting, 2009, 2014) suggesting that the rapid expansion of Brazil's corporate footprint loosely matches the expansion of Itamaraty's diplomatic footprint in most geographic regions. With the increase in large Brazilian firms operating abroad there has been a growing number of diplomatic incidents posing serious legitimacy challenges to the successful operation of these firms and highlighting the need for strategic business diplomacy skills on the part of these firms.

The process of internationalization of Brazilian firms multiplies the number of policy options and challenges for the government as well as for the firms themselves. The scope of the country's diplomacy now includes state–state, state–firm, and firm–firm relations (Strange, 1992). Business diplomacy stresses the concept of firm–multistakeholder relationship. As the Brazilian corporate footprint expands internationally so does the need for institutional and functional diplomatic coordination as well as competency in business diplomacy. The growing number of political and economic actors will also further complicate the coordination of public and private interests.

Several recent cases involving Brazilian firms serve to highlight the growing involvement of Brazilian multinationals in international diplomatic disputes and opportunities between these firms and many of their key stakeholders. Brazil's official discourse and practice has traditionally been emerging-country friendly but occasionally contested by some of its immediate neighbors. Accordingly, several BMNCs have been accused of acting as agents of the Brazilian state and have encountered difficulties in developing an independent corporate image. Going forward, it is likely that the private interests of major firms may clash with national diplomatic priorities and broader national interests. Greater interaction between private managers and government policy managers can help align business strategies of the BMNCs with official government policies and allay suspicions on the part of neighboring countries.

The following cases listed in Table 4 include examples where private and public interests have clashed and where business firms have been challenged to deploy their business diplomacy skills. While Brazil has enjoyed considerable diplomatic goodwill around the world for its leadership role in issues of the global South, BMNCs have encountered, nevertheless, anti-Brazil criticism in countries where Brazil is viewed as a leading regional power.

Petrobras and Odebrecht

The Petrobras and Odebrecht (CNO) cases are perhaps the most extreme examples of cases requiring effective business diplomacy on the part of BMNCS since they involve the nationalization of the Petrobras subsidiary in Bolivia and the expulsion of construction company Odebrecht from Ecuador.[5] These two cases are examples of host-country government action against corporate entities in which a more effective use of business diplomacy might have altered the ultimate outcome and resulted in improved relations with local stakeholders.[6]

President Evo Morales of Bolivia announced the nationalization of all gas and petroleum production facilities on May 1, 2006.[7] This action affected Petrobras and all other oil companies in the country such as BP, Shell, Repsol among others. Companies were given 180 days to renegotiate new contracts with the Bolivian government involving a sharp increase in taxes and the national oil company of Bolivia, YPFB, was chosen to determine the level of compensation for the expropriation of each company.

Given its central role in the production of gas and petroleum in Bolivia, local Petrobras managers had an opportunity to play a much more effective role as local business diplomats (Fuser, 2011). Given the existing political conditions, effective

[5]For a review of the Petrobras case see Wosiak and Nique (2007) and for Odebrecht see Dias Baptista and Pigatto (2015).

[6]This chapter does not address the recent Petrobras scandal, the ongoing Lava Jato investigation, and Odebrecht's role in bribery scandals in several South American countries.

[7]This decision represented the third time that the Bolivian government has nationalized the petroleum sector in the country.

Table 4: Private Interests and Foreign Policy Challenges.

Country	Company	Year	Issue	Comments
Angola	CNO (construction)	Ongoing		Odebrecht is the largest private employer in Angola. Corruption rumors and media image
Argentina	AMBEV (beverage)	2007	Labor dispute	
Argentina	VALE (mining)	2009	Environmental concerns/local politics	Project (potassium mine) suspended
Bolivia	EBX (steel)	2006	Expulsion	Unilateral decision by Bolivian government
Bolivia	Petrobras (oil)	2006	Nationalization	Unilateral decision by Bolivian government
Bolivia	OAS (construction)	2011	Renegotiation of contract	
Chile	MPX (energy)	2012	Environmental issues	Company's environmental impact study rejected by Chile's supreme court
Ecuador	CNO (construction)	2008	Expulsion	Problems with construction of hydroelectric plant. Country delayed payments to Brazil's national development bank (BNDES)
Iraq	Several	Ongoing	Infrastructure projects	Need to develop independent global-South image
Iran	Several	Ongoing	Food exports/lifting of sanctions	Need to develop independent global-South image
Peru	OAS (construction) and others	2010	Environmental issues	National energy policy and negative media regarding hydroelectric plants
United States	Several	Ongoing	Public relations campaign re U.S. tariffs	Brazilian companies use their U.S.-based subsidiaries to address U.S. tariffs on orange juice, ethanol, textiles, and steel
Uruguay	Several	Since 2004	"Brasil dependencia"	Large Brazilian business presence in country requires management of media image

business diplomacy would have focused on obtaining greater access to more timely information. This case also called for a more proactive strategy on the part of senior management to pre-empt such radical action on the part of the Bolivian government.[8] The complexity of negotiations regarding the establishment of a gas pipeline between the two countries posed several challenges to the company's senior management. Issues requiring business diplomacy skills included the protection of the interests of indigenous communities, respect for environmental laws, negotiation with labor unions, promotion of human resource policies, technology transfer, public policy coordination, and liaison with nongovernmental organizations.

At the political and diplomatic levels, President Lula was severely criticized at the time for not sufficiently defending national interests (the Brazilian state owned a significant share of Petrobras at the time) as was Itamaraty which was singled out by the national press for doing too little to defend the shareholders and interests of the company. The company's shares were traded at the time on the New York, Madrid, Buenos Aires, and São Paulo stock exchanges and included many international pension and investment funds as investors and important stakeholders. Petrobras Bolivia eventually exchanged its shares with the Bolivian government for approximately US$ 112 million.[9]

Petrobras was responsible for 75% of gas exports to Brazil and for 46% of all gas reserves in the country, 95% of the country's refining capacity, and 23% of the distribution of derivative products. Furthermore, Petrobras produced 100% of all gasoline and 60% of all diesel fuel consumed in Bolivia. One would assume that a company playing such a critical role in Bolivia's overall energy matrix would be able to defend its interests and better prepare itself for any significant change in the government's energy policy. The company appears to have failed in forging effective ties to its many stakeholders in the community. Many political and market observers were also surprised to see the Brazilian government and corporate executives apparently caught off guard by President Morales' decision. Business diplomacy seeks better assimilation of the political culture of the host country and effective intelligence gathering function on the part of local senior management.

In another landmark case, Ecuador accused Odebrecht (CNO), a large Brazilian construction company, for technical problems in 2008 which led to the closing of the San Francisco hydroelectric plant responsible for 12% of the country's electricity. President Rafael Correa took control of the company's assets and suspended four additional contracts with the company totaling US$ 650 million. The Ecuadorean military took over the company's installations and the government temporarily barred the departure of two company directors from leaving the country. In addition, President Correa threatened to suspend payment on a US$ 200 million loan from the BNDES linked to the San Francisco project.

[8]The Petrobras subsidiary represented, at the time, approximately 24% of the country's total tax collection, 18% do the country's GDP and 20% of all FDI.

[9]It is estimated that Petrobras invested between $1 billion and $1.5 billion in Bolivia prior to the nationalization.

Upon assuming the presidency in 2007, Correa had threatened to withhold payment on debts incurred by previous administrations. This case appears to be another instance whereby effective business diplomacy on the part of corporate managers could have strengthened the company's legitimacy and relationship with its major stakeholders in the country to avoid such an extreme outcome.

These examples illustrate the growing number of cases where Brazilian multinationals face significant risks and require business diplomacy competency as well as greater responsiveness on the part of their home government to defend their interests. Several cases listed in Table 4 suggest that BMNCs have yet much to learn regarding the effective management of relations with neighboring countries, environmental safety concerns, and the need to improve their corporate image in the media. In extreme cases, actions by BMNCs directly affect foreign policy such as in the Odebrecht and Petrobras cases. While a firm's success abroad is primarily the result of its comparative advantage, strategic dexterity, capital and managerial competency, the regulatory role of the state, and a shared worldview between the government and the country's largest economic agents is also of great importance for the success of BMNCs.

Rather than become "islands of efficiency" isolated from the local community, BMNCs need to strive to connect with the local environment and multiple stakeholders. The challenge is not only to "internationalize" successfully but also to become recognized leaders by setting and respecting the highest standards of corporate social ethics and business diplomacy.

The rise in the number of BMNCs creates a greater need for business diplomacy and greater interaction between corporate actors and Itamaraty. Large modern Brazilian firms possess the technology, capital, access, and contacts with major markets to allow them to counterbalance Itamaraty's traditional monopoly over many foreign policy decisions. Major firms and leading trade associations have begun to provide technical expertise and detailed specialized information to Itamaraty and other ministries as a sign of their superior knowledge of specific sectors (i.e., ICONE – a large agribusiness think tank funded by major agribusiness firms and business associations, and ABRAPA – a voluntary association representing the cotton sector – provide important technical data to government officials and negotiators).

An earlier study (Marques, 2009) regarding the perception by Brazilian business leaders of their role in international affairs as well as their opinion of Itamaraty and the country's international priorities during the 1996–2008 period (Cardoso/Lula governments) suggested:

1) a lack of sufficient and effective channels of communication and intermediation between the government and the private sector regarding foreign policy-making (43% of respondents);
2) Itamaraty was viewed (69% of respondents) as ineffective regarding trade promotion, international negotiations, and promotion of the country's image abroad;
3) a low overall degree of satisfaction with Itamaraty on the part of the private sector;

4) significant disparities between government priorities and private sector priorities (i.e., United Nations Security Council, FTAA, South–South orientation, etc.);
5) insufficient participation in the national foreign policy debate on the part of the private sector (78% of respondents).

Many of these obstacles suggest the need for greater business diplomacy competency on the part of Brazilian business leaders to effectively engage with home and host country governments.

Conclusions and Future Research Agenda

Despite the explosion of *International Relations* and *International Business* courses throughout Brazil, *business diplomacy* is not a widely-studied subject in Brazil. Furthermore, little attention is given to scenario building, political risk modeling, corporate–government relations, issue advocacy, and applied research into non-business risks and the effective management of multiple stakeholders.

Brazil's international activism has proceeded on two levels: a strong push for multilateralism on the part of the government and a push toward internationalization by Brazilian firms. It is undeniable that many of the new actors, both large multinational companies as well as small and medium companies, have established new directions, if not new priorities, for Brazilian diplomacy.

Going forward, Itamaraty is likely to break with tradition and embrace corporate actors as increasingly valuable new constituencies. Greater demand for government services by business firms will push Itamaraty to adopt needed reforms to gain greater legitimacy and to justify its strategic role as the principal gatekeeper regarding the country's diplomacy and international relations. Corporate pressure is likely to encourage Itamaraty to review several of its established practices and promote the cross-fertilization of ideas and practices between the public and private sectors. In an increasingly competitive economic environment, multinationals will play an important role in the advancement of Brazil's image, reputation, and economic well-being. Brazil's international companies are already important sources of private sector leadership, critical information, corporate best practices, international contacts, standards and international access to funding.

In the future, firms are likely to make greater demands for additional services and resources (from Itamaraty as well as from other ministries). Brazil's drive toward greater visibility and influence in the international arena will require substantial changes in the areas of consular services, policy planning, public diplomacy, trade negotiations, trade promotion, scientific and technological exchange, security and health arrangements, among others,

The steady pace of internationalization will undoubtedly create new foreign policy priorities linked to the growing exposure and search for increased legitimacy on the part of Brazilian companies and investors in the global markets. As these companies expand their activities internationally, Brazil will need to negotiate additional bilateral tax and investment treaties to avoid Brazilian companies from being penalized for their growing international activities. Issues such as taxation, regulation, trade, and antitrust will grow in importance and require greater intervention and coordination between Itamaraty and BMNCs.

While Brazil's process of internationalization is still at an early stage, it is important to consider the policy implications of increased internationalization on the part of Brazil's major firms. Despite the country's desire to move up the value-added ladder, the country is still a relatively closed economy when compared to other emerging market economies. Many small and medium-sized companies have yet to adopt export-driven and internationally-oriented strategic plans and train their managers to become effective business diplomats.

The size and attractiveness of Brazil's domestic market remains a major factor limiting the pace of internationalization of many of the country's firms. Several Brazilian companies have, however, become world leaders in their respective sectors with global product expertise and occupy leading positions in international rankings.

The public sector retains an important responsibility regarding the competitiveness of the country's firms (Stopford et al., 1991). While companies generate wealth, government must concern itself with the long-term competitive advantage of its national firms. Despite its abundant natural resource endowment, Brazil must become more competitive and increase its share of world trade. To do so the country must align its domestic industrial policies with its global diplomacy. The state plays an instrumental role in maintaining and enhancing Brazilian corporate competitiveness by helping to provide greater access to markets and facilitate consultations with business groups regarding trade negotiations and policy. On the other hand, BMNCs must recruit new staff with business diplomacy skills to successfully run a company abroad and manage its strategic stakeholders.

Business diplomacy offers a new dimension to traditional diplomacy, foreign policy and international business. The growing democratization of foreign policy, with greater input on the part of BMNCs, will help reconcile their ever-widening global corporate footprint with Itamaraty's diplomatic footprint resulting in increased embeddedness on the part of business diplomats. This will require a stronger focus on business diplomacy by the business sector to better promote and defend long-term Brazilian business priorities. Business managers must become more active in promoting a better understanding of the role of the country's major firms and their contribution to society. As employers, tax-payers, and generators of wealth, corporations are important strategic international actors. Itamaraty, however, has traditionally failed to engage fully and effectively with many of these societal actors. The current leading companies contribute increasingly to the discussion of foreign policy and diplomacy issues and Itamaraty must be prepared to harness such input and manage the growing interaction between government and business actors.

Significant change has begun to occur within the government's bureaucratic structure dealing with international issues. Driving these changes is globalization, regional integration and, ultimately, the recent emergence of large private sector business groups with increasingly broader international interests. New actors will demand greater transparency and inclusion in the policy-making process and the responsibility for the conduct of diplomacy will undoubtedly spread among a wider group of political actors.

Though global and regional issues are becoming increasingly more relevant, foreign policy-making will remain problematic without strong and effective policy networks and channels to facilitate efficient interest aggregation and implementation. Support, in the form of integrated government policy, is essential for the sustained growth of BMNCs.

In an age of networks, international business has changed dramatically and leading companies from emerging economies must adapt to the new environment and address two main objectives: to produce profits and manage a growing number of stakeholders in the communities where they operate. The current generation of business diplomats in Brazil must set the example of how to manage the challenge of managing a growing number of nonbusiness risks and increased stakeholder demands. Given its global leadership role, Brazil will continue to help frame the global agenda and encourage Brazilian companies to play an important business diplomacy role regarding issues including environment, trade, human rights, climate change, and sustainable development.

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Corporate Diplomacy and Institutional Upheaval in Host Countries: The 'Arab Spring' Experience of Two Canadian Multinationals in Egypt

Ali Taleb, Catalin Ratiu and Rick Molz

Abstract

Purpose — In this study, we explored the behaviour of two Canadian multinational companies operating in the context of Arab Spring events in Egypt in 2011.

Design/methodology/approach — We conducted a fine-grained analysis of 171 documents of various secondary sources to understand the behaviour of the two firms in Egypt between 25 January 2011 and 30 June 2012.

Findings — We suggest that corporate diplomacy should be viewed as portfolios of interdependent actions rather than reactions to discrete events. We also underline the importance for organisations to have a proactive, holistic and inclusive corporate diplomacy strategy, with the objective to secure and balance both explicit political/legal licence and implicit social licence.

Research limitations/implications — We intentionally focused our empirical analysis on two Canadian firms operating in the same host country and belonging to the same industry. It would be useful to carry similar research in different organisational and institutional contexts.

Keywords: Multinational enterprise; Arab Spring; developing countries; corporate diplomacy; social licence; political/legal licence

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Introduction

The forces governing and influencing the activities of multinational enterprises (MNEs) have shifted. Economic, political and social changes have made the environment in which firms function much more dynamic. As a result, potential mistakes made by MNEs are more visible and costly. Strategies for success too, are in a continuous shift and one size no longer fits all firms. In direct consequence, MNEs have to be more concerned with the particularities of host countries, by building awareness of more than economic issues and improving their ability to engage a wide variety of stakeholders, not just the usual suspects. Continuous institutional change rather than stability appears to be the only constant governing global business activities. Consequently, we need to understand how the MNE interacts with this external environment in the context of institutional change.

Corporate diplomacy is an emerging conceptualization of how firms can interact and shape the institutional environment to gain and maintain legitimacy. Recent work has affirmed that MNEs are not passive investors who accept the institutional context as a given and work within it, but rather MNEs will use corporate diplomacy to actively seek to influence the host country institutional milieu to its advantage (Kostova, Roth, & Dacin, 2008). While some will argue that the main focus of the MNE is to legitimise itself in the particular institutional context (Jackson & Deeg, 2008), others argue that MNEs will seek to reduce the institutional distance between the dominant logic of the MNE and the host country through active negotiation, lobbying or threats to exit the host country, potentially depriving them of much needed technical, managerial and investment resources (Hardy & Maguire, 2008). This process draws on two related literatures, corporate diplomacy (Ordeix-Rigo & Duarte, 2009) and institutional work (Lawrence, Suddaby, & Leca, 2009). The act of engaging in corporate diplomacy, particularly during unstable socio-political conditions, can enhance organisational legitimacy.

The emerging concept of corporate diplomacy is useful to understand how MNEs strategize with multiple actors, over a period of time, including changes in posture and tactics in light of changing dynamics among complex actor relationships. Gaining an empirical understanding of how firms use corporate diplomacy will enhance theory on how MNEs develop and enhance legitimacy while operating in unstable political and social environments, which is what most developing countries are.

During times of socio-political unrest, such as those exemplified by the Arab Spring,[1] the status quo of these existing relationships is shaken, creating a fertile situation where MNEs' strategic options evolve rapidly. In this chapter, we explore dynamics among institutional actors in general and the corporate diplomacy of the MNE in particular. We explore this by looking at interactions between multinationals, the governments and civil societies of countries that undergo significant,

[1]The term 'Arab Spring' refers to a wave of spontaneous uprisings that took place across the Middle East and North Africa (MENA) region in 2011.

broad and far-reaching changes, such as those associated with the Arab Spring in 2011.

This study makes several contributions to the existing literature in corporate diplomacy, organisation theory and international business. We use the unique empirical setting of Arab Spring to explain the dynamics underlying the co-evolution between shifting institutional arrangements in the outer environment and the corporate diplomacy enacted by the two Canadian firms. While doing so, we identify a shift in the nature of the institutional work done by the Canadian firms from government-centred political work before the uprising to community-focussed social work after the revolution. This focus on blending tactics to gain the confidence of civil society and governments is the essence of corporate diplomacy. During the Arab Spring, the civil society upset the existing relationship between the firms and the government, requiring the firms to broaden their activities to ensure legitimacy throughout society, rather than solely with governments in authoritarian regimes. This research demonstrates this broader set of activities to shape proactive strategies toward the government and civil society.

This chapter is structured as follows. First, we begin with a review of the relevant literature and develop a generalised theoretical map to guide our empirical investigation. Second, we describe our research design and provide a general background of Arab Spring events in the Maghreb countries before we focus on the cases of Agrium and Methanex in Egypt. Third, we use publicly available data to analyse the experience of these MNEs that have been targeted by demonstrators in Egypt. Fourth, we expand on what we have learned from this fine-grained analysis to develop a framework on how MNEs deal with institutional upheaval in developing markets. Finally, we discuss the contributions and implications of this study before we conclude with its limitations and possible avenues for future research.

Theoretical Background

Organisational scholars have long been preoccupied with how firms function in their environment. Over the years, scholars have shown variation in the degree of corporate activities to develop and maintain legitimacy in response to environmental conditions. Institutional theory emphasises external control, environmental constraints, selecting the optimal environmental parameters (Romanelli & Tushman, 1986), to maintain a fit with the institutional context to assure legitimacy. Engaging in corporate diplomacy allows a firm to gain a status beyond government sanctioned legitimacy to operate, extending more broadly into a socially recognised legitimisation as a positive force within civil society (Ordeix-Rigo & Duarte, 2009).

Theorists of internationalisation theory have typically focused on the role of foreign direct investment in creating systems of incentives for firms to build capacity in one country or another (Lim, 1983; Rolfe, Ricks, Pointer, & McCarthy, 1993). From the perspective of the MNE, the issue of country risk becomes an important input in the decision to internationalise (Kwok & Reeb, 2000;

Rothaermel, Kotha, & Steensma, 2006). In the period prior to the early 21st century, the focus on mitigating such risks built around forming successful partnerships or working relationships with host country governments, was vital (Boddewyn, 1988; Luo, 2004). While this approach worked in gaining legitimacy with governments, any broader civil legitimacy was only an unintended side benefit.

The emerging concept of corporate diplomacy takes a broader view, arguing that corporate activities that engage both governments and civil society in a meaningful and sensitive manner would enhance the corporations standing in the society and economy, enabling a more stable and broad-based legitimisation. We build on Asquer's conceptualization of corporate diplomacy as representing 'a behaviour of organisational actors aimed at implementing favourable conditions for carrying out corporate activities' (2012, p. 53). Corporate diplomacy's growing importance to organisations and scholars came from the continued interest in understanding the role of organisations in society, and, more pressingly, the various ways in which firms engage their stakeholders. As a theory of organisations, corporate diplomacy is at the intersection of negotiation and public relations, giving business leaders a new set of tools to build relationships and improve their organisations' reputation with external stakeholders (Henisz, 2014).

Building on the notion of corporate diplomacy, a theory of business diplomacy is emerging to explain how MNEs engage with foreign government and non-governmental entities in host countries (Betlem, 2012; Ruël, 2015; Saner, Yiu, & Søndergaard, 2000). Business diplomacy is seen as different from corporate diplomacy in two principal ways. First, where corporate diplomacy deals with ways in which MNEs can obtain power and legitimacy, business diplomacy is primarily concerned with legitimacy. Second, where corporate legitimacy deals with an MNE's global operations, business legitimacy focuses on the MNE's efforts in a host country environment. Ruël (2015) sees business diplomacy as departing from a predominantly stakeholder view of the firm, and being associated with principled leadership, which suggests a value-based decision-making process (London, 1999). Saner et al. (2000) view business diplomacy as the source of competitive advantage in a host country.

These views of the MNE explain instances where firms behave in a proactive manner, engaging fringe stakeholders in their efforts to legitimise their activities in host countries. We agree with these views and build on these conceptualizations as we bridge between institutional theory and business diplomacy. We further contend that the main difference between business and corporate diplomacy is the scope of actions that MNEs engage in, where business diplomacy applies primarily to a foreign context, while corporate diplomacy deals with headquarter-level strategic formulations. It could therefore be stated that business diplomacy is a contextualised form of corporate diplomacy. Moving forward, we build theory contributing primarily to corporate diplomacy, with insights from business diplomacy along the way.

Within the scope of institutional theory, scholars have broadened the local context to include the institutional environment. This refinement adds needed nuance to our understanding of the local and the global, but also introduces further complexity. Stakeholder theorists aim to resolve some of the complexity by pointing to different categories of actors and suggesting their typical behaviours (Eweje, 2006; Husted & Allen, 2006), the implication being that a well-executed political risk management approach can enhance the competitiveness of the firm (Boddewyn & Brewer, 1994).

The institutional environments of firms operating in international contexts differ in their complexity of actors and contingencies. This is further complicated for firms operating in developing and emerging countries, which are typically characterised by a precarious equilibrium and fragile economic, social and political contexts. For instance, the Arab Spring offers a fitting example of political risk faced by firms operating in developing countries. In these countries, MNEs typically function based on well-established relationships with local governments. These relationships would ideally be part of a well-crafted and planned political approach meant to hedge against risk and improve the firms' ability and effectiveness at engaging local stakeholders. During stable socio-political periods, these often long-standing relationships between governments and MNEs are rather predictable and offer the stability a firm requires to function in an otherwise uncertain environment.

With the emergence of a more engaged civil society of the Arab Spring, the MNE's focus on legitimisation through government acquiescence was no longer adequate. During periods of political and civil turmoil, these well-established links with government would likely falter. MNEs recognised a government-centric legitimisation strategy was inadequate during the Arab Spring, and moved to a broader corporate diplomacy approach. This required a broader perspective, recognising multiple conflicting and competing interests (Macnamara, 2011). Corporations now had to engage with a broader range of actors than was required prior to the Arab Spring.

During periods of institutional stability, the institutional theory literature acknowledged the existence of multiple actors in these relationships, but the central focus was on the relationship between the MNE and the host country government. For the most part, the role of civil society is either neglected or underplayed. From the perspective of corporate diplomacy the process of crafting and executing an effective international strategy helps the MNEs balance relationships with governments and the civil society of the host country. The relationship between these three key players contributes to the stability of the environment in which the MNE operates. Furthermore, the balance of forces between these players is critical to dealing with uncertainty, especially in markets with high institutional informality, such as many of those in developing countries. Institutional informality can become problematic if it leads to tensions or mistrust between actors, such as the government and civil society. A better understanding of the three-way interaction between MNE, local government and civil society is therefore paramount.

The weight of the current literature is centred on institutional theory, with a concentration of the government–MNE interaction. This constitutes a theoretical oversight because developing and emerging markets offer sufficient evidence of the importance and potential impact of civil society on the activities of firms. We offer the example of the Arab Spring, categorised as a revolution, which became a major institutional turmoil based on factors such as, intensity of events, duration and the ensuing change of government. The institutional theory literature does not satisfy the need to understand how the MNE is affected by both process and results ensuing from such events.

Furthermore, while there are some recent studies on MNEs operating in conflict-torn environments (Dai, Eden, & Beamish, 2013), we know very little about the exact behaviour of the MNE in such extreme situations. In particular, would the MNE have a passive, reactive or proactive behaviour in such situations? Business diplomacy would suggest that MNEs would proactively deploy activities towards the broader civil society and local government meant to maintain a positive relationship (Rüel, 2015). Moreover, these actions are directed at changing the institutional environment of the host country in the MNE's favour, through institutional work.

Lawrence and Suddaby (2006, p. 215) define institutional work as 'the purposive action of individuals and organisations aimed at creating, maintaining, and disrupting institutions'. They further contend that institutional work is 'intelligent, situated institutional action' (Lawrence & Suddaby, 2006, p. 219), referring to the practice perspective favoured over the process perspective on institutions. This choice is justified by a desire to understand the distinctive work of individuals and organisations aiming to create, maintain, or transform institutions. The role of firms in this conceptualization is to engage with their environments to optimise factors of institutional pressure in their favour, rather than simply choose environments, which contain a predefined set of factors that are deemed attractive and manageable.

Corporate diplomacy focuses on negotiating and creating alliances with key external players including governments, analysts, the media and non-governmental organisations (Watkins, 2007). The goal is to have the corporation accepted as a valid and respected player in local and host country affairs, extending the legitimacy of the corporation into an attractive place to work, as a business partner and a conscious community member (Ordeix-Rigo & Duarte, 2009).

Environments such as the Arab Spring result in a succession of dramatic fast-paced events that are difficult to predict and plan for. We expect that MNEs that are successful in negotiating radical change, such as the Arab Spring, will recognise the importance of moving beyond a government-centric approach, and engage in corporate diplomacy with the broader civil society to stabilise the MNE legitimacy within the society. Existing studies offer only piecemeal observations on how MNEs operate in such contexts. Given the importance of understanding what drives the behaviour of MNEs during times of institutional upheaval, this gap in the literature is worth exploring. Moreover, as illustrated above, the Arab Spring offers an ideal context to study the use of corporate diplomacy.

In summary, this chapter focuses on the institutional work and corporate diplomacy efforts of MNEs while dealing with major institutional upheavals in their host countries. To this end, we study the context and behaviour of two Canadian companies operating in Egypt during Arab Spring events. While doing so, we aim to address two research questions: First, what is the nature of interactions among the three institutional actors – MNE, host country government and host country civil society – involved in Arab Spring events? And, second, how did the MNE deal with the government and civil society in the context of the revolution?

Data and Methods

Research Setting

Socio-political incidents of various degrees of significance were reported by the press in Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Morocco, Oman, Saudi Arabia, Sudan, Syria, Tunisia and Yemen. However, only the events in Tunisia, Egypt, Libya and Yemen gained extensive media coverage and henceforth, international visibility because they led to radical regime changes.

The unrest started in Tunisia on 18 December 2010. Under the pressure of massive protests, the strongman Zine El Abidine Ben Ali fled the country and entered Saudi Arabia, his Prime Minister resigned, the political police and the RCD party controlled by Ben Ali were dissolved. Free legislative elections led to the voting of a new Constituent Assembly on 23 October 2011. Subsequently, the members of the Constituent Assembly elected Moncef Marzouki as the new president of the country on 12 December 2011.

Similar events broke out in Egypt on 25 January 2011 and led to the resignation of the president, Hosni Mubarak, and the transfer of power to the army and transferred power to the Armed Forces of Egypt on 11 February 2011. The military dissolved the Egyptian Parliament, and appointed a civilian, Essam Sharaf, as Prime Minister of Egypt on 4 March 2011. Mubarak was persecuted for his role in killing protesters and in institutionalizing corruption during his years in power. He was sentenced to life imprisonment on 2 June 2012. Mohamed Mursi was sworn in as Egypt's first democratically elected president before judges on 30 June 32012.

Riots also took place in the neighbouring Libya on 15 February 2011. Within a few days, rebel fighters captured Benghazi, the second largest city in the country, and entered Tripoli, the capital. By March 17, the United Nations Security Council adopted a resolution that authorised a no-fly zone over Libya to protect civilians. Immediately after the resolution was passed, the armies of France, the United States and the United Kingdom led the military intervention in Libya. In addition, 17 other states from Europe and the Middle East supported the operation. The rebels captured the capital Tripoli and Colonel Muammar Kaddafi's regime fell on 23 August 2011. After several weeks of underground life within Libya, Kaddafi was captured and killed by fighters on 20 October 2011. The rebels formed a General National Congress (GNC) on 7 July 2012 which took over the power provisionally. The new 'State of Libya' was formally created and the Chairman of the GNC, Mohammed al-Magariaf, was elected as the interim president of the country on 28 May 2013.

Yemen is another country that witnessed a regime change under the pressure of local Arab Spring militants. Major protests calling for the resignation of the country's leader erupted in the capital Sana'a on 27 January 2011. Public demonstrations were quickly followed by several defections in the ranks of president Saleh's political and military allies. After several months of resistance to street pressure and after a blast nearly cost him his life, Saleh was compelled to accept a political deal negotiated by the Gulf Cooperation Council. The terms of the agreement, signed on 23 November 2011, required Saleh to step down and transfer power to his Vice-President within 30 days in exchange for immunity from prosecution. Abd Rabbuh Mansur al-Hadi succeeded Salah officially when he took oath before the Parliament on 25 February 2012.

The extent and magnitude of these events make them a potentially fertile empirical phenomenon for the study of institutional persistence and change. The context is particularly suitable for our study on the behaviour of the MNE in the context of institutional disruption.

Given the density and intricacies of the events, empirical analysis and theoretical development must be deep-rooted in fine-grained data (Santos & Eisenhardt, 2009). As Yin (2013) suggested, the case method is recommended when research aims to address 'how' and 'why' questions in a real setting. Moreover, the nature of the phenomenon of interest calls for privileging depth over extent in order to capture subtleness in interactions among institutional actors (Miles & Huberman, 1994). Therefore, the use of a limited number of case studies helps generate well-grounded theories.

We first started exploring the phenomenon using the situation of Veolia, a French MNE, which was targeted by demonstrators in Morocco. The utility company was singled out by local activists during events spanning from 20 February 2011 to 19 December 2011. The exploratory study allowed us to confirm the suitability of the Arab Spring context for the study of the behaviour of multinationals facing institutional upheaval. Specifically, the time boundaries of the events are clear and a large pool of secondary data are publicly available.

However, there is significant debate among analysts on whether Morocco has experienced any 'Arab Spring' events at all. In addition, the country did not experience major institutional reconfiguration as a result of those events. Perhaps more importantly, we were unable to find other relevant cases of foreign multinationals that have been targeted by demonstrators in Morocco. For these reasons, we have decided to seek similar cases in neighbouring countries, especially the ones that experienced a regime change.

Case Selection

We thoroughly searched public databases, asked acquaintances with ties to MENA countries, and joined public forums on social media dedicated to local versions of the Arab Spring movement with the objective to identify potential companies we could use in our study. These investigations allowed us to identify ten foreign companies that were namely targeted by demonstrators who claimed to be part of the Arab Spring movement in their respective countries. While we considered all countries in the MENA region that experienced some variant of the Arab Spring movement, we also paid particular attention to the countries that witnessed a change in regime as a result of these events; namely Egypt, Libya, Tunisia and Yemen. We have researched each of the candidate firms and tried to reconstruct their public stories – as reported in the press and social media – since they entered the relevant host countries until the end of 2012.

In the end, for more in-depth analysis we selected two Canadian companies – Agrium and Methanex – which experienced serious challenges in Egypt. Besides the availability of rich data on the two companies, the choice of the set was guided by the fact that they both are from the same home country (Canada), operated in the same host country (Egypt), and belonged to the same industry (petrochemicals). This helps mitigate the risk of confounding country and industry factors (Lawrence, Hardy, & Phillips, 2002) and thus ensure their effects on the two companies are relatively similar. By doing so, we were able to focus on the behaviour of various institutional actors.

Data Collection

We have collected data on Agrium and Methanex from several sources. Company profile information was extracted from Hoover and Lexis-Nexis databases. The data related to specific events were downloaded from three types of sources: Corporate annual reports, public databases such as Lexis-Nexis Press, Factiva Press Releases, EBSCO Newspaper Source, and Google News. We joined social media forums such as Facebook, browsed blogs maintained by activists such as the Kefaya Movement, and read through hundreds of Twitter feeds pertaining to the January 25th Revolution. By doing so, we were able to gain a deep understanding of the context. In the end, we have screened over 6,000 documents and selected 450 of them for deeper analysis. After eliminating duplicates and excluding documents that were not relevant to our research questions, our relevant text (Auerbach & Silverstein, 2003) consisted of 171 documents; 91 of them pertained to Agrium and the remaining 80 were related to Methanex.

We then created a master file for each company in which all raw data were logged in chronological order. The Arab Spring movement in Egypt spanned technically between the first day of demonstration in Tahrir Square (25 January 2011) and the day Mohamed Mursi, Egypt's first democratically elected president, was sworn in before judges (30 June 2012). However, the data gathered also covered events before and after the turmoil because we also wanted to understand the antecedents and consequences of such events on the organisations under study (Table 1).

Within each case narrative, we had a separate section for each of the three strategic episodes (Hendry & Seidl, 2003): before, during and after Arab Spring. Once the cases were completed, we discussed the overall dynamics of the events with two Egyptian nationals who were familiar with both Canada and Egypt. This helped ensure the cases reflected the reality on the ground as well as helped gain more insights into the situation.

Data Analysis

Three trained researchers worked closely as a team to code data, analyse it and generate theory. The adoption of an intercoding approach allowed us to foster

Table 1: Characteristics of the Firms Investigated.

	Agrium	Methanex
Home country (city)	Canada (Calgary)	Canada (Vancouver)
Host country (city)	Egypt (Damietta)	Egypt (Damietta)
Industry	Petrochemicals	Petrochemicals
Challenged by civil society	Yes	Yes
Challenged by government	Yes	Yes
Number of unique and relevant documents analysed	91	80
Number of relevant incidents	104	35
Period covered by collected data	February 2008–March 2013	June 2006–March 2013
Data sources	Annual reports, Hoover, Lexis-Nexis Press, Factiva Press Releases, EBSCO Newspaper Source, Google News, Civil society blogs, social media forums, and Twitter feeds	

analytical consistency and control for individual bias in order to reinforce the reliability of our analytical processes and theoretical findings (Eisenhardt, 1989). The overall approach to the analysis of the cases involved three major stages.

Stage 1: Codifying the Actions and Reactions of Institutional Actors Each case has been fully coded by two researchers and the results discussed by the three co-investigators. While doing so, we have adopted an open descriptive coding approach (Saldaña, 2012) while keeping our primary research questions in mind. Therefore, we focused our attention on the nature of interactions between the three institutional actors we have identified earlier – the MNE, the government and the civil society – and on the strategies used by the multinational to respond to the challenges that resulted from the socio-political turmoil. An interaction in the form of action–reaction between any of the three stakeholders we have identified – firm, civil society and government – is considered a critical incident.[2] We particularly sought to identify alliances and conflicts between actors, on the one hand, as well as reactions and silences of the MNE in the face of specific incidents, on the other hand. Indeed, organisational and institutional theorists suggested that silences may also carry critical

[2] 'By an incident is meant any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act. To be critical, an incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effects' (Flanagan, 1954, p. 1).

meanings (Milliken & Morrison, 2003; Oliver, 1991). The coding phase was iterative and involved frequent discussions among team members as we sought to discover and refine first-order codes that aligned with our research questions.

Stage 2: Categorising Data and Clarifying Constructs The second task involved intensive teamwork to make sense of first-order codes and generate second-order themes and constructs. We used axial coding, conducted a series of splitting and lumping of themes and reconceptualised categories until we reached an agreement as a team on theory-rich themes (Patton, 2002). The analytical relevance of such constructs required that they both fit the original raw data as well as align with the research questions we aimed to answer (Saldaña, 2012).

Stage 3: Integrating Patterns and Developing Theory The last phase of data analysis allowed us to actually answer the research questions. Specifically, we derived theoretical constructs from second-order themes (Auerbach & Silverstein, 2003). We exploited synthesis tables and longitudinal diagrams we have created early on in the analytical process. We discuss the incremental output of coding and analysis processes in the following section.

Analysis and Findings

While we are primarily interested in the behaviour of the MNE during the institutional turmoil, we extended our analytical time bracket beyond the period of Arab Spring events. The objective was to gain a broader understanding of the antecedents and consequences of the institutional upheaval from a firm's perspective. Indeed, both Agrium and Methanex experienced repetitive tensions with the government and clashes with the civil society even before the Arab Spring demonstrations started. However, the nature of the arguments used by protesters against the two firms has evolved from voicing concerns about pollution of natural resources before the revolution to accusing the MNEs of collusion with corrupt government during the insurgency to denouncing their corporate selfishness and social recklessness after the collapse of the regime.

The thorough analysis of a myriad of critical incidents involving the two firms, the government and the civil society over an extended period of time allowed us to address our research questions. First, we explored the nature of interactions between all stakeholders (what) in general. Then, we examined the institutional work and corporate diplomacy efforts of the two firms (how) more specifically.

Changing Institutional Arrangements around the MNE over Time

The chronological reconstruction of interactions between the three stakeholders allowed us to analyse how conflicts and alliances emerged and trailed off over the three strategic episodes – before, during and after Arab Spring events.

Securing Government Support to Exploit a Business Opportunity Before the outbreak of Arab Spring, Agrium and Methanex have managed to build strong relationships with both local and central governments. In fact, the state had a minority stake in the joint-ventures formed with the Canadian companies. The government was also involved in the choice of Damietta as the site for the two plants as Agrium's Regional Adviser, Mona Zaki, declared to a local newspaper:

> It was the Egyptian partner, namely The Egyptian Company for Petrochemicals, that had suggested Damietta when the Canadian partner [Agrium] requested a proposed site in the initial stages of the project. (Al-Masry Al-Youm, 15 May 2008)

Damietta is located in North Eastern Egypt at the junction of the Mediterranean Sea and the Nile River. As a result, the area was ideally located for export-based activities and water-intensive transformation plants such as the ones owned and operated by Agrium and Methanex. Conversely, the indigenous population and local activists consistently decried the negative effects of harmful chemicals and intensive use of water on the surrounding ecosystem. Notwithstanding, the Canadian companies were able build their plants owing to their constant protection by the government. For instance, a senior official at Echem, the state-owned partner of Agrium, took the defence of the Canadian firm:

> 'The company has fulfilled all its obligations and obtained approvals from various government agencies over the project which would spur an upsurge in ammonia production,' said the official. On the other side, officials from Echem insisted that the project would generate no threats to the environment, noting that [Echem] controlled 40% of the new plant and would face legal action in case of environmental hazards. (Egyptoil-Gas, 1 February 2008)

Even when the government was forced by demonstrators and local politicians to take action against the construction of the plants in Damietta, it offered settlement options to the MNEs instead of coercing them.

> Worse came when the governor of Damietta, a local power-broker who had been promoting beach developments, declared that the city's industrial area should be re-zoned for tourism. Agrium soon found itself embroiled in a mysterious dispute over military clearance and the target of unfounded accusations of failure to comply with environmental regulations. [...] But just as suddenly as they started, the problems besetting Agrium's Egyptian venture were recently resolved. In August, the government offered a share-swap deal in which the state-owned Misr Oil Processing Company (Mopco), which had recently built a urea plant less than a kilometre from Agrium's Damietta site, would acquire the Agrium/Echem venture. (The National, 2 October 2008)

While civil society was already active before the eruption of much bigger demonstrations during Arab Spring, their concerns were overlooked or received only ceremonial attention from political committees with no executive power.

> Nevertheless, with local government officials and civil society groups all voicing opposition to the project, the case was eventually referred to parliament. A parliamentary committee drawn

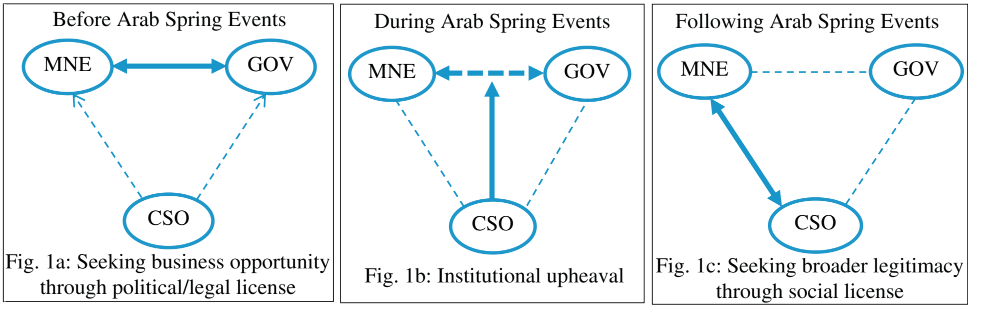

Figure 1: Evolution of Relationships between Stakeholders over Time. Solid/dashed line: Established/emergent relationship; Bold/thin line: Strong/weak tie; Presence/absence of arrow: Proactive/reactive interaction; MNE: Multinational Enterprise, GOV: Government officials, CSO: Civil Society.

> up to discuss the issue recommended that the factory be moved to Suez. But the recommendation was never implemented. The Canadian firm refused to move the plant and threatened to resort to international arbitration since it had already obtained all necessary legal permits – and a green light to commence operations – from the Egyptian government. (Ahram Online, 14 November 2011)

The actions undertaken by the government under the pressure of civil society never threatened the presence of the plants in Damietta or even their normal operations. The actions of the civil society were generally discounted by the MNEs and neutralised by the government (Figure 1a). The firms seemed content with the situation insofar as they had the government's political support and legal licence to take advantage of the business opportunity.

Overall, institutional arrangements around the Canadian firms were dominated by their 'overtly political work' (Lawrence et al., 2009, p. 8) that seemed to be effective in buffering them from a hostile civil society. However, the advent of Arab Spring challenged the sustainability of such a model in dealing with frustrated indigenous people.

Facing Civil Society's Efforts to Upset Firm–Government Ties during the Unrest As the revolution erupted, the behaviour of civil society shifted from arguing with the firms and the government separately to depicting them as an interdependent system. In other words, the target of activists became the relationship between actors rather than the actors themselves. They exploited the negative reputation of the two firms to challenge their legitimacy and accused them of conspiracy and collusion with a corrupt government.

> Protestors first gathered on the steps of the syndicate in front of a security cordon and chanted slogans against the plant, indicating in clear terms that for the people of Damietta, it was a matter of life and death. 'Stay away from us you thieves; all we have left is air and water. The government says Amen to thieves and the corrupt', the protestors chanted. (Daily News Egypt, 28 July 2008)

As expected, the attempts of civil society to confound foreign firms that became a symbol of unprincipled greed and a government that is accused of prejudice and corruption have pressed the protagonists to emphasise their independence and distance themselves from each other. What is more, the government started to side by activists as they embattled the two firms. Both companies complained they were the target of unfair smear campaigns and the government did not dare to protect them. As one of Agrium's senior directors stated:

> 'Sometimes there were 10 articles per day in the local press. People were in the street protesting and very emotional, and the government was not prepared to use force to protect our 1,200 people on site', said Mr. Lauweryssen. (Al-Masry Al-Youm, 12 December 2011)

A few months later, Methanex was also forced to evacuate its Canadian personnel and close the plant temporarily:

> Methanex Corp. is curtailing operations in Egypt and evacuating international staff and their families in light of ongoing civil unrest in that Middle Eastern nation. 'Our first priority is the safety and security of all our employees. As a result of the civil unrest in Egypt, the decision has been taken to minimise operating activities there,' president and CEO Bruce Aitken said. (Vancouver Sun, 2 February 2011)

The institutional work undertaken by civil society has not only distanced the two firms from the government but it also triggered hostilities between them and subsequently turned old allies into new enemies (Figure 1b). The suspension of operations by the two firms has clearly signalled the decomposition of the ties they managed to build with government officials before the revolution. Clearly, the two firms ended up with neither political support nor social legitimacy.

Seeking to Build Social Legitimacy with Civil Society Following the Revolt The revolution ended by the fall of the Mubarak regime and by the appointment of transitional council. As the two firms kept distancing themselves from the government, they sought to flatter civil society. Methanex, for instance, approached the Canadian government to intervene and ask the Egyptian government to respect international trade laws and treaties.

> 'We want to make sure the Canadian government is aware of the size of our investment in the region, and that they are able to make those representations to their Egyptian counterparts [...] We expect our investments to be treated according to the rule of law,' said Dupont, director of government affairs. (Blacklock's Reporter, 17 December 2012)

At the same time, they tried to flatter the community through community work. For instance, the corporation released a report titled 'Good Neighbours Around the World' in which they stated:

> We increased our stakeholder engagement activities in 2011, as employees listened to community concerns and worked to help alleviate regional issues [... underlining] the importance of

> building and maintaining a positive, trusting and sustainable relationship between ourselves and our community neighbours. (Methanex CSR Report, 2012)

As shown in Figure 1, the MNEs were engaged in various forms of institutional work that led to the reconfigurations of institutional arrangements over time. Furthermore, Table 2 provides more specific information about the micro dynamics underlying the shift in institutional arrangements over time as well as their outcomes from a firm's perspective.

Shifting Logics of Institutional Work by Firms Dealing with Institutional Turmoil To further understand the co-evolution between the changing institutional arrangements in the outer environment and the strategic moves of the MNE, we conducted a fine-grained analysis of the corporate diplomacy and institutional work of the two firms. In particular, we sought to understand the ways they managed to 'swing between agency and embeddedness' (Seo & Creed, 2002, p. 1) not only to respond to external institutional pressures but also to take advantage of the peculiar conditions generated by Arab Spring events.

Consistent with our longitudinal approach to the analysis of evolving institutional arrangements, we compared and contrasted the dominant logics underlying the behaviour of the firms before, during and after the upraising. To this end, we used Oliver's (1991) typology of possible institutional response tactics to guide our initial coding of their actions and reactions over time. Since such typology provides links between low-order tactics and higher-order strategies, we privileged the use of tactics so as to maximise the accuracy of coding and analysis. Table 2 provides contextualised strategies and tactics employed by the two companies while dealing with the government and civil society over time.

Before the upraising, both MNEs adopted a proactive strategy and engaged in institutional work that aimed to build strong political alliances with the Egyptian government. Political risk management is instrumental especially in autocratic countries where the rules of the game are unclear or cannot be taken for granted (North, 1990). While dealing with civil society, the firms were generally passive and occasionally reactive when they felt threatened. Overall, civil society was constantly viewed as a potential source of distress while the central government was viewed as an essential partner.

Consistent with our earlier findings (Figure 1) which suggested that MNEs strove to build political alliances with the government before the rebellion, Table 3 shows that the two firms adopted proactive and reconciliatory tactics. These consisted in compliance with local rules (acquiesce strategy) and bargaining with the government when their interests diverge (compromise strategy). While they also adopted more aggressive strategies occasionally, they seemed to do so to signal determination to civil society or support the bargaining process with the government. In other words, the general stance of the firms was largely reconciliatory and collaborative when they dealt with the government.

On the contrary, most of the incidents between the two firms and civil society before Arab Spring indicated the companies generally discounted the concerns of

Table 2: Evolving Logics of Institutional Work by MNEs.

Timeline	**Before Arab Spring (prior to 25-Jan-2011)**	**During Arab Spring (25-Jan-2011 to 30-Jun-2012)**	**After Arab Spring (after 30-Jun-2012)**
MNE's posture	Proactive political work	Reactive corporate citizenship	Proactive social work
Logic of predominant institutional arrangement	Political alliance	Institutional distancing	Social alliance
Basis of legitimacy	Regulatory compliance	Economic contribution	Social embeddedness
MNE's perception of protagonists' roles	Civil society was viewed as a potential source of distress while the central government was viewed as a protector.	Partners engaged in conflict with collateral effects on the MNE.	The government was viewed as a 'necessary evil' while civil society was viewed as a new ally.
MNE's institutional response strategies and tactics	*Government* Strategy: Acquiesce and compromise; Tactics: Compliance and bargaining *Civil Society* Strategy: Avoidance; Tactics: Concealing and buffering	*Government* Strategy: Defiance and manipulation; Tactics: Challenge and co-optation *Civil Society* Strategy: Avoidance and defiance; Tactics: Escape and dismissal	*Civil Society* Strategy: Manipulation and compromise; Tactics: Influence and pacification *Government* Strategy: Manipulation; Tactic: Co-optation
Outcomes/ implications	Acquisition of *political licence* to operate in the country and exploit a *business opportunity*	Defensive *crisis management* in response to hostile actions of civil society	Initiation of social actions aimed at securing *social licence* and log-term *legitimacy*

Table 3: Contextualised Response Strategies and Tactics of the MNEs.

Posture	Protagonist	Strategy	Tactic	Illustrative Quote from Collected Data
Offensive Before Arab Spring	Government (Focus)	Acquiesce	Compliance	G1: 'The company has fulfilled all its obligations and obtained approvals from various government agencies over the project which would spur an upsurge in ammonia production'
Proactive *Political Work*		Compromise	Bargaining	G2: '"We certainly are going into negotiations with them very quickly here", said Richard Downey, senior director of investor relations. Agrium, which has a 60% interest in the plant near Damietta, will also seek an undisclosed amount for future lost profit on the contract there'
	Civil Society	Avoidance	Conceal	C1: 'Local residents were recently disconcerted to find new construction work on what the company is calling 'extensions' to the factory. The apparent resumption of the project has again galvanised local activists, who have since been joined by thousands of concerned citizens'
		Avoidance	Buffering	C2: 'Agrium is an Egyptian company, as the Egyptian government owns 33% of it. It is one of the best projects in Egypt, and we as advisers for the project assure the people of Damietta that we did not come to harm them because we are Egyptians too'
Defensive During Arab Spring	Civil Society (Neutral)	Avoidance	Escape	C3: '[Methanex's] first priority is the safety and security of all our employees. As a result of the civil unrest in Egypt, the decision has been taken to minimise operating activities there'
		Defiance	Dismissal	C4: 'Although we were not the focus of the protests, we ultimately made the decision to temporarily suspend our operations in Egypt in order to protect the safety of our employees'

Table 3: Continued.

Posture	Protagonist	Strategy	Tactic	Illustrative Quote from Collected Data
	Government (Neutral)	Defiance	Challenge	G3: 'MOPCO said that halting work could lead to layoffs of about 3,500 workers and the loss of investments estimated at $2 billion. The factory's closure deprives Egypt's economy of LE2.5 billion annually in net profits, the memo said'
		Manipulation	Co-optation	G4: 'A factory official said the company would file a complaint with the International Court of Arbitration in Paris and request the Egyptian government to pay US$10 million in compensation'
Offensive After Arab Spring:	Civil Society (Focus)	Manipulation	Influence	C5: 'In late 2011 and early 2012, we launched several initiatives to enhance our relationships with the community in Damietta to help support our social licence to operate'
Proactive *Social Work*		Compromise	Pacification	C6: 'The [management] has approved EMethanex's response to the [external] committee, and we remain dedicated to working with our government partners and the local community to address environmental and other concerns'
	Government	Manipulation	Co-optation	G5: '[Methanex] is appealing to the federal government to ensure Canadian assets are protected by "rule of law" amid civil unrest overseas. […] We have about a billion dollars invested in a joint venture with the Egyptian government'

the community (avoidance strategy). For instance, Agrium bypassed a government order to refrain from building new facilities by calling ongoing construction an 'extension' of an already authorised project. The dominant response strategy of the firms to civil society's pressures was generally that of avoidance except in seldom occasions when their presence in the region was threatened. The institutional work by the two firms was essentially political in nature and focused on influencing the local government. Clearly, the objective was to secure the political/legal licence to operate in the country rather than building legitimacy with a broader community of stakeholders.

During the revolution, Agrium and Methanex adopted a more detached and reactive stance in general. They strove to portray themselves as corporate citizens that contribute to Egypt's economic development (Table 2). To achieve this, they depicted themselves as collateral victims of a broader social phenomenon and employed a variety of defensive tactics to distance themselves from the government (Table 3).

The two firms either avoided or defied civil society. They escaped confrontation with protestors by closing the plant temporarily (avoidance strategy). They also dismissed being the sole target of demonstrators (defiance strategy) and claimed the plant closure was for security concerns which could affect any other businesses in the region. By doing so, they tried to depict themselves as random collateral victims of a general social unrest.

They also challenged the government about closing the plants (defiance strategy) and claimed that halting operations would lead to significant loss in terms of jobs for the community and investment funds for the state-owned partner of Agrium. In addition to resisting the government on economic grounds, they co-opted and imported new stakeholders to the situation (manipulation strategy) by filling two lawsuits in Egypt and by threatening to sue the government before the international court as well.

Socio-political tensions started to appease after the collapse of Mubarak's regime. At that time, Agrium and Methanex announced more proactive and community-focused strategies (Table 2). The intent of firms to reconcile with the community shifted the focus of their institutional work from the government before the Arab Spring to civil society after the revolution (Figure 1).

Both Agrium and Methanex made significant efforts to influence their corporate image in the eyes of civil society (manipulation strategy). As they introduced social programs to the community, they downplayed their foreignness by emphasising their local social impact and partial ownership of the company by a state-owned partner. They also signalled their willingness to listen to the concerns of the population (Table 3) and pacify the relationship with civil society (compromise strategy). They clearly made significant corporate diplomacy efforts to build social capital with non-government stakeholders.

While they sought to involve the government in seeking compromise with the community, they also increased pressure on officials by co-opting (manipulation strategy) and importing the Canadian government and Canadian law-makers into the situation (Table 3).

Discussion and Conclusion

The objective of this qualitative study was to explore the nature, antecedents and consequences of the behaviour of multinational firms in unstable and hostile institutional environments of a host country. The socio-political unrest caused by the so-called Arab Spring events that swept many countries across the MENA (Middle East and North Africa) region in 2011 was a perfect open laboratory for the study of such phenomenon. We focused on the experiences of two Canadian companies in Egypt in the context of the January 25th revolution. In addition to operating in a country during major social unrest and institutional change, Agrium and Methanex have been targeted namely by demonstrators not only during the unrest but also before and after the revolution. For this reason, we extended the timeframe of our analysis so that we could account for the antecedents and consequences of such institutional turmoil from a firm's perspective.

To this end, we gathered longitudinal data from reliable secondary sources, including corporate reports and press documents, and analysed them in strategic episodes – before, during and after Arab Spring – from corporate diplomacy and institutional work perspectives. The assumption underlying such choices is that multinational firms are not always passive investors that take their host institutional environment for granted (Scott, 2008) or settle for merely responding to external institutional pressures (Oliver, 1991). Instead, they actively seek to influence host-country institutions and foster the emergence of new institutional arrangements that serve their interests (Maguire, Hardy, & Lawrence, 2004). The fiery nature of Arab Spring settings intensified the magnitude of external institutional pressures as well as institutional entrepreneurship opportunities in a developing country that already required significant strategic and operational versatility in regular time (Taleb, 2010). It also highlighted the dramatic consequences of failing to have a proactive and inclusive corporate diplomacy strategy.

The grouping and analysis of incidents from complementary perspectives helped make sense of a plethora of rich data. First, the analytical distinction between strategic episodes – before, during and after the revolution – assisted in unravelling the specific effects of Arab Spring events on the behaviour of Agrium and Methanex. Such distinction is instrumental because the turmoil led to a major restructuring of institutional arrangements in Egypt. As a result, the nature and intensity of contingencies the two firms faced changed dramatically in a very short period of time. Secondly, the identification of three key institutional actors – firm, government and civil society – that shaped the experience of Agrium and Methanex in Egypt helped understand various institutional work strategies and tactics over time. The volume and quality of data was such that we were able to map out intense interactions between the three protagonists and link the evolution of a firm's behaviour to the reconfiguration of broader institutional arrangements. Finally, the focus on the evolution of the corporate diplomacy efforts of the two multinationals over time helped understand the consequences of their actions and non-actions.

This study makes several contributions to the existing literature in corporate diplomacy, organisation theory and international business. First, it illustrates the importance for firms to have a proactive and inclusive corporate diplomacy strategy. Securing the political support to operate in a country is clearly not sufficient for the long-term survival of a firm regardless of the magnitude of a local government's power at any given time. Effective corporate diplomacy requires both explicit political/legal licence and implicit social licence to secure broad and sustainable legitimacy and hence a long-term survival.

Second, we analysed the behaviour of firms as series of interdependent events rather than isolated responses to specific institutional pressures. The chronological analysis of several incidents confirmed that there is indeed a path dependency between events that occurred sometimes in different strategic episodes. This is important because a firm's action is not only conditioned by external institutional pressures but also by previous actions of the firm itself. Developing a proactive corporate diplomacy strategy – that goes beyond the necessary development corporate communications, public relations and crisis management capabilities – is absolutely instrumental to the mitigation of dire situations like the one the two Canadian firms faced in Egypt.

Third, we showed how the postures of firms have changed over time. In so doing, we established linkages between changing institutional arrangements in the outer environment (what) and the institutional work done by the two firms (how) in order to respond to a particular pressure, anticipate a move by a protagonist, or reconfigure institutional arrangements. Accordingly, various changes in the firms' postures reflected their ability to engage in a fast double-loop learning (Argyris, 1995), adapt to changing institutional arrangements (Greenwood & Suddaby, 2006) and even contribute to their emergence (Maguire et al., 2004). The shift of posture from overtly political work (Lawrence & Suddaby, 2006, p. 8) to overtly social work reflected a strategic move from 'negative legitimacy' (Kostova & Zaheer, 1999, p. 1) based on autocratic coercion to more positive legitimacy driven by community acceptance. While the tactics used by the two firms differed sometimes depending on context, their response strategies or postures were surprisingly very similar.

Fourth, the ability of civil society to upset the relationship between the firms and the government, especially during the revolution, is of particular interest. As such, the study provides a supporting argument to the proponents of a political strategy that is not only defensive (Bonardi, 2004) but also offensive with the intent to shape a boarder external environment (Capron & Chatain, 2008).

Finally, the longitudinal investigation of co-evolution between shifting institutional arrangements and the behaviour of the firm often requires patience and time. Arab Spring events provided a unique research field for researchers to fast track the observation process and study institutional change and organisational phenomena within a relatively short and delimited period of time. Moreover, the situation is recent and was widely publicised through electronic media, which produced a considerable amount of reliable secondary data of various sources. This allowed us to triangulate information and strengthen the validity and reliability of our analysis and conclusions (Patton, 2002; Yin, 2013).

The practical implications of this study are threefold. First, managers should be aware of the danger of disregarding the concerns of civil society even when they benefit from the protection of autocratic regimes in their host countries. Obtaining political support from a government may not be a substitute for engagement of a wider community of stakeholders. Second, an inclusive corporate diplomacy strategy is critical to the survival of an organisation, even more so in countries with autocratic regimes where power may shift towards the oppressed population anytime. This brings about an interesting research question in relation to the reason why demonstrators choose specific firms in their respective countries – like Agrium and Methanex in Egypt – and use them as scapegoats instead of other foreign or local companies. On the other hand, researchers should find the conceptualization of institutional responses as a portfolio of interdependent actions a useful tool to bridge multiple levels of analysis and establish a link between individual actions and organisational logics (Bettis & Prahalad, 1995) for instance. This advocates for a more proactive, holistic and inclusive corporate diplomacy strategy than merely responding to pressures from stakeholders as they arise.

Future research may also address the limitations that are intrinsic to any fine-grained qualitative study like ours. In particular, we have focused our empirical analysis on two Canadian firms operating in the same host country and belonging to the same industry. Our choices were driven by the need to control for industry- and country-level factors in order to minimise the possibility of confounding cause–effect relationships. We were also constrained by the availability of data to conduct a reliable analysis of the phenomenon of interest. Therefore, it could be useful to carry similar research in different organisational and institutional contexts.

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Selected Global Challenges in View of a Commercial Diplomat: Selected Practical Cases from the Business, Trade and Commercial Diplomacy

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Abstract

Purpose — This chapter provides a few practical cases in the framework of selected global challenges from the experience of a practitioner – commercial diplomat that have been chosen according to the combination of relevant experience and legitimacy issues.

Design/methodology/approach — This empirical study has no conceptual or big theoretical ambitions. The approach of a multiple case study was chosen as it provides a high-level view of different cases and questions describing practical aspects of selected theoretical topics in the work of a commercial diplomat in the framework of the International Business. Thus the simple narrative descriptions are shown below to provide some important or interesting elements in order to yield different and practical details of Business and Commercial diplomacy which are often different from the theoretical conclusions and outcomes. Hence, some challenges have been selected and analysed as it is assumed that narrative may provide a good insight into the decision-making and into the processes of Business and Commercial diplomacy.

Findings — It covers the role of the commercial diplomacy in the EU, the challenges of limited capacities, the comparison of OECD guidelines versus EU acquis communautaire, the sustainable development in the EU and in developing countries, the impact and potential of digitalisation, some notes on the tax avoidance and the importance of public–private partnership.

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Originality/value — This study provides practical context for some global challenges and issues from the point of view of a commercial diplomat. There is also a trial for the new definition of Commercial diplomacy and comparison of approaches of Business, Commercial and Trade diplomacy to these issues.

Keywords: Business; commercial; multilateral diplomacy; embassy; practical cases; global challenges

Introduction and Theory

Business and commercial diplomacy has an important role in our increasingly globalised world. This chapter examines the different issues from the perspective of a commercial diplomat. The objective is to provide the narrative cases on chosen legitimacy challenges and global issues concerning the EU, OECD, sustainable development, tax avoidance or public–private partnerships. There were two main inspiration resources for this chapter – the inauguration lecture by Ruël (2013) 'Diplomacy Means Business' and the master thesis by Haaf (2010) 'Commercial Diplomacy and the Role of Embassies'.

Similar to Ruël and Wolters (2014), we see business and corporate diplomacy as practical synonyms. If we want some more differentiation, then I suggest perceiving them as two parts of the same process or concept, with corporate diplomacy describing the internal activities and business diplomacy labelling the external activities and outputs. Thus I can accept the definition by Ruël (2013) that 'business diplomacy is the representation and communication activities deployed by international businesses with host government representatives and non-governmental representatives in order to establish and sustain a positive relationship to maintain legitimacy and a licence to operate'.

For our chapter I will also need the definition of multilateral diplomacy which can be defined 'as the management of international relations by negotiations among three or more states through diplomatic or governmental representatives' (Rahim, 2015). Finally, for the commercial diplomacy we could use the different definitions provided in the thesis by Haaf (2010) but I would like to propose my own definition of the successful commercial diplomacy that 'should help home country (both public & private) actors to find or even to create new business opportunities in the foreign country markets. It does this through its financial and mainly non-financial capacities – networks, knowledge, properties, people, processes, projects, publications, etc. Simply said, turning global and local challenges into business opportunities!'

I have tried to provide certain examples of different approaches and activities in reaction towards the selected global issues and legitimacy challenges in Table 1.

Table 1: Examples of Different Approaches and Activities in Reaction Towards the Selected Global Issues and Legitimacy Challenges in Business Diplomacy, Multilateral (Inter-governmental)/State Diplomacy, and Commercial Diplomacy.

Global Issue/ Legitimacy Challenge	**Business Diplomacy**	**Multilateral (Inter-governmental)/ State Diplomacy**	**Commercial Diplomacy**
Climate change	Shell 'stress nexus' and scenarios; Magritte Group; developing new technologies	COP (21); OECD Work on Climate Change – The Economic Consequences of Climate Change; EU Climate Change Programme	Analysing and looking for the opportunities in the changing energy market – renewable energy sources
Tax avoidance	Exploiting opportunities; Selecting suitable countries as their HQs seats; Lowering tax base	OECD BEPS (Base Erosion and Profit Shifting); EC vs. Starbucks vs. the Netherlands; EU fight against tax fraud and tax evasion; Tax competition and/or increasing taxes or cutting expenditures	Analysing tax rules and promoting 'tax-best-practices'; Supporting companies paying taxes
Limited capacities	Fight for top brains; Cost-cutting; Off-shoring; Out-sourcing	Capacity Building; OECD Human Capital; Complicated budget negotiations	Increasing effectivity and productivity; Priorities changing
Poverty reduction	CSR; Private sector development support; Business development; Billionaires foundations	OECD DAC; WB/IFC; EU development aid; UN Sustainable Development Goals	Opportunities and cooperation in developing countries; Higher priority; Dutch Good Growth Fund
Digitalisation	Business Intelligence; Big Data; Cloud computing; Software/Infrastructure-as-a-Service; e-banking, shopping online	OECD Digital Economy Outlook; EU Digital Agenda/Europe 2020; e-government	Special projects for ICT companies; Incentives for ICT investments; 'Digital diplomacy'; Social media usage
Excessive lobbying	Lobbyists promoting the interests of big business; 'Group of Thirty'; TTIP negotiations largely driven by businesses; Power of car industry lobby – spends more than €18 million lobbying in EU	OECD Principles for Transparency and Integrity in Lobbying; EU transparency register; Revolving door phenomenon	Lobbying of Commercial Diplomats; lobby for public procurement contracts; targeting decision-makers; lobby for national interests and firms

Challenges and Issues – Cases and Questions

Challenges of the Commercial Diplomacy in the EU

This section summarises shortly the challenge of the commercial diplomacy in the EU member state. Does the Economic diplomacy in the Netherlands and in the EU make sense at all? First, I would like to answer this 'philosophical' question by the general 'yes' (Holý, 2014a). Here I have to agree with Mr President Miloš Zeman, and H.M. King Willem-Alexander, and perhaps most precisely, with the US Secretary of State, Kerry (2013) – 'More than ever, foreign policy is economic policy'. This was also confirmed in practice by the actions and by the blog of the former US Ambassador in Prague, H.E. Eisen (2014) who had started the first day in his office by meeting Mr Anders Jackson, Westinghouse's President of the EMEA Region, and by supporting him openly in the Westinghouse's bid for the 28 billion USD Temelín, the Czech nuclear power plant, expansion contract. I think this is a very strong example of the US commercial diplomacy and at the same time also an example of the instance of successful or excessive lobbying by Westinghouse.

Is this specific to the Netherlands or the EU? Candidly, I can understand these views which say that economic or commercial counsellors in the EU are useless (I myself thought the same before I was assigned to The Hague ...). We have the European single market, theoretically without any internal borders or other regulatory obstacles to the free movement of goods and services. In addition, there is so much information available on the Internet, thus it should be indeed easy to do business in the EU.

Nevertheless, in business, a large number of other barriers and challenges remain – linguistic, psychological, cultural, legal, monetary, financial or geographical to name a few. And we, commercial diplomats, do help to overcome these obstacles – based on several weekly inquiries from both Czech companies and, perhaps surprisingly, even more from the Dutch firms. Furthermore, there is an important quantitative criterion – the Czech export to the Netherlands is about 4–5 billion EUR per year (depending on the statistics chosen – Czech or Dutch but growing again in both cases) and the Czech export for example to China (it used to be for me also the world market no. 1) is approximately 1.5 billion. EUR and although its annual growth is about 15%, I estimate that export to the Netherlands will exceed export to China, according to the simple extrapolation, at least till year 2020. So, with all due respect, I serve in principle to more companies with a greater volume of exports than all my colleagues in China. So, there is the challenge of lower commercial priority of the EU and on the other hand growing demand and volume of trade inside of the EU.

Challenges of Limited Capacities

During my first study researching different foreign services (Holý, 2005), I read the book by Hocking (1999) 'Foreign ministries: change and adaptation' where it is stated that foreign ministries, including commercial diplomats, have to do ever more with ever less resources. The development of the Czech (Czechoslovak) commercial diplomacy capacities in the Netherlands provides a good example for this. Due to the growing agenda, mainly commercial, but also the press, and political information, the second building was bought in 1920 (based on Sklenářová, 2010). In 1922, there was total (max.) number of 15 employees of the Czechoslovak embassy in The Hague. During the times of the Czechoslovak Socialist Republic (1960–1990) there were many commercial diplomats, logically, as international trade was completely secured by the state. Yet, in 2004 two commercial diplomats – counsellor and his attaché – were working at the Embassy. In addition to that, two employees of the CzechTrade (Czech Trade Promotion Agency) were active in Rotterdam in those years. And now? The position of the commercial attaché has been cancelled, as was similarly done for the positions of the consular assistant and the diplomat for EU affairs. Thus, I have to substitute for the consul as well when he is absent and I am supposed to cover many tasks concerning the EU such as briefings or the research for the Dutch positions on different EU issues, as requested by headquarters. In total, based on my sincere estimates, I dedicate approximately 15% of my time to the service for companies, in addition to that I spend approximately 40% on preparing, participating and reporting on different, mainly economic or business, events. So, there are practically only two part-time workers available for companies – myself and the CzechTrade director in Rotterdam.

As a result, there is the challenge that we are less but we should do more – new sector and trends analyses, new processes, new planning and higher standards of services for companies, greater coordination with other agencies and always more bureaucracy. However, sometimes too much is too much. On the other hand, I know embassies with only two diplomats (ambassador +1) in The Hague and I admire that very much as this means that usually one diplomat must do the job of at least four people (even though there are typically quite less consular affairs). So naturally they have to be much more selective and the pressure is enormous. And it must be difficult to keep the quality high. My personal approach and consultancy advice would be that it was better to keep a smaller number of embassies and consulates with more employees at each one. The problem of small embassies has also been demonstrated in the internal report by Deloitte (2006) where it was estimated (measured) that small embassies spend more than 65% of their capacities in order to keep themselves running, that is by the supporting processes and purely administrative work and not by the key processes (like foreign policy analysis or commercial diplomacy).

Challenges of OECD and EU

First, I must admit that I am biased as I spent (and loved it) four years with the OECD in Paris and only less than two weeks in total with the EU in Brussels (and did not like it so much).

The chapter of Fienhold (2014) investigates the relationship between risks to multinational corporations (MNCs) involved in conducting international business diplomacy and the possible facilitating effect of the OECD Guidelines for Multinational Enterprises. Only one of five analysed companies (only partially) applied the OECD Guidelines for Multinational Enterprises to particular aspects of their internal regulations. But all companies, if they are active in the European Union, have to follow and comply with many EU Directives and Regulations; the list is available at EU Directives and other Official Acts (2015). On the one side (OECD) it is usually only the 'soft law' – peer reviews, recommendations and guidelines, on the other side (EU) it is the 'hard' binding law which has its impacts and costs. Saner and Yiu (2014) suggest that business diplomats 'are best qualified to meet these complex but also increasingly important business challenges'.

This is also discussed by Marcussen and Trondal (2011) who stated that 'OECD reports and the very particular OECD peer-review technique were defining characteristics of the organisation, other international and national, public and private organisations now started to do similar activities'. Moreover, 'organisations such as the IMF and the European Union were able to bolster their analyses with hard law and/or finance – something that the OECD has never been able to do. In competition with other expert organisations, the OECD has nothing but the better argument' which is not very often enough. The different importance and influence of these organisations (OECD and EU) can be documented by the personal and professional development of my predecessor who left Paris as the OECD 'lover', overlooking slightly the EU positions and recommendations but after four years inside of the EU institutions in Brussels he came back as the strong EU supporter. The second evidence is simple and quantitative – the Permanent Delegation of the Czech Republic to the OECD has six diplomats including the Ambassador and the Permanent Representation of the Czech Republic to the EU has more than 70 diplomats comprising a few military representatives to the EU. The last indication could be the participation of ministers, deputy-ministers or high-level officials. They usually go to the EU meetings every month but to the OECD only once a year (for Ministerial Council Meeting) and only exceptionally also for other meetings. All these numbers clearly show where resources, priorities and the influence are.

But is this optimal? I do not think so as I do believe that we should use the expert and global evidence-based and peer-review-based recommendations by the OECD a little bit more and, maybe, the EU law a little bit less. We could also say that the EU is challenged by the increasing level of bureaucracy and the danger of separation from the ordinary people. The OECD is in danger of becoming less and less relevant and becoming the 'economic UN' organisation by increasing the number of member states and thus decreasing the level of like-mindedness (especially after Russian involvement).

Challenge of Sustainable Development in the EU and in Developing Countries

There is a challenge – huge discrepancy between the level of support of the sustainable development in the EU and in developing countries. We, in the EU, support individual farmers by subsidies of hundreds EUR per hectare or even per animal and in developing countries, there are billions of people living on less than one or two EUR per day.

To be more specific – the direct subsidy for farmers is projected in the range of 260–425 EUR (average is approximately 389 EUR) per hectare in the Netherlands (Ministerie van Economische Zaken, 2014). Total financial support, including tax reliefs, for the Dutch farmers and agro-food companies is at least 5 billion EUR a year – based on calculations of Voskuilen, Luijt, Meulen, Silvis, and Velden (2014) and our own. In France, there is a slightly different system; their financial support is calculated per cattle in the range of 34–180 EUR per animal. The total budget for the EU Common Agricultural Policy for the period 2014–2020 is EUR 387 billion as stated in European Commission (2011).

Now we can compare these numbers with the allocations of the EC for development instruments into the Development and Cooperation Instrument, European Development Fund, Global Climate and Biodiversity Fund; and Emergency Aid Reserve that makes a remarkable total of 424 billion EUR for the period 2014–2020. But the numbers are much lower if we take them annually and consider only the net official development assistance (ODA) as calculated by the OECD/DAC (2015). In 2014, the total net ODA from the 28 EU member states was USD 74.5 billion representing 0.41% of their GNI. Net disbursements by EU institutions were USD 16.1 billion.

Now we could count the number of people living in poor or developing countries, that is approximately 6 billion in total but this would not be fair as not all of them are poor indeed. On the contrary, some of them are very rich as it is also said that the ODA is the assistance from poor people in rich countries to the rich people in poor countries. So, let us count only really poor people which are approximately 2.2 billion people who live on less than USD 3.10 a day in 2011, which is the average poverty line in developing countries and another common measurement of deep deprivation according to the World Bank (2015). Thus, based on the simple calculation we can say the EU member states support the poor people by a rough amount of 34 USD (74.5 divided by 2.2) that is less than the cheapest 'French cow' and much less than the average Dutch farmer. Everybody can judge if this is right and ethically, not politically, correct from the human and developing perspective?

Of course, we could discuss the necessity of the support of farmers in developed countries or the usefulness of the ODA but this challenge would need another long chapter and to large extent this has already been done by somebody else – for example, Anderson and Martin (2005), Elbehri and Sarris (2009, June), Moyo (2009) or Collier (2008).

Challenge of Digitalisation

In the report 'Digital Infrastructure in the Netherlands – Driver for the Online Ecosystem' by Deloitte (2014), the importance of the Digital Infrastructure (Internet connectivity, colocation housing and hosting) for the Dutch economy is clearly shown. It also suggests that its function is similar to that of Schiphol Airport and the Port of Rotterdam.

The overall picture of the Internet economy has been described by the OECD (2015) Digital Economy Outlook. The Netherlands is among top 10 exporters of ICT goods (4% of the total world trade in this category; growth 6% per year). But international trade in ICT services grows even faster than in ICT goods – 30% per year. For the Netherlands, it meant again approximately 4% share of total world ICT services exports or 13 billion USD in 2013.

The Netherlands is on the top position in all the online activities – sending e-mails, searching online, reading news online, e-banking, shopping online or e-government (based on the OECD Statistics, 2014). The strength of Dutch Internet economy is described by Deloitte (2014). The Dutch Internet economy is estimated to be 5.3% of GDP and increasing 9% a year. The digital infrastructure is an important enabler for direct employment in e-commerce and cloud services, providing jobs for at least 100,000 people. The estimated annual growth rate for the Infrastructure-as-a-Service is 19% between 2010 and 2018 and for the cloud services and data centres it is even 35% (2012–2017). The total value of the Dutch Internet economy, including private investments, government spending and trade, is an estimated 39 billion EUR.

It documents clearly how important the digital part is for our economies and lives. Are people, governments and companies ready for this digital challenge?

Challenges of Tax Avoidance and Tax Attraction

What makes the Netherlands (and not the Czech Republic) so popular for the headquarters of large MNCs as well as for small 'letter box' or intermediate companies that 'only' transfer the profits from incoming dividends, interest and royalties from one country to another (1,750 companies from a total of 12,500 of intermediate (or 'conduit') companies)? It is not, according to the report Court of Audit (2014), only tax purposes but also other factors as an educated workforce (the university education and the knowledge of foreign languages!), socioeconomic stability, investment protection schemes and certainly a long tradition. And as stated by my favourite economist Michl (2013): 'There are other important factors – e.g. the stability and enforceability of the law or the fact that the Netherlands has a lot of exceptions to the taxation of income which is generated by the Dutch companies in the Czech Republic' as well as in other countries.

And all this makes the Netherlands a little bit more rich country – average dividend payments (total positive inflow) is annually about 4 billion EUR; on royalties – 2.5 billion EUR and interest payments 'only' 400 million EUR. When we include the estimated 3.5 billion EUR from the related charges, activities and taxes of more than 13,000 highly skilled workers, then we get the nice lump-sum of 11 billion EUR per annum, that is almost 2% of the Dutch GDP as calculated in Holý (2014b).

And what about the 'Czech' companies registered (either directly or through the owners) in the Netherlands? The facts – statistics from Bisnode (2014) speak as follows – the number of Czech companies with owners from the Netherlands dropped slightly to 4,222, that is, still roughly a third of all reported companies (13,167). Small note – I wonder if the Dutch Embassy in Prague protested against labelling the Netherlands as a 'tax haven'?

What I also find interesting, is the list of companies in the Czech Republic which pay the most taxes as published by General Financial Directorate (2015). I would like to name and thank at least three largest tax 'payers' in this country – the 1st is the ČEZ Group (integrated electricity conglomerate), the 2nd is Česká spořitelna, a.s. and the 3rd is Komerční banka, a.s. (both banks). It is probably characteristic that the list of companies paying taxes is quite different from the list of companies that are domiciled in the Netherlands. Is it a coincidence? Is it right?

And finally, the most important question – how much money is transferred by this way from the Czech Republic? Of course, there are only rough estimates which indicate that it is likely to be several tens of billions of CZK and the highest estimates reach up to 100 billion CZK annually (or even up to 300 billion CZK based on the analysis of the Government!) which is surprisingly almost the same amount as what the other companies currently pay as the income tax (precisely 123 billion CZK in 2014)!

There is the point of this case in the time of writing this chapter (22 October 2015) – the European Commission has just decided that selective tax advantages for Starbucks in the Netherlands are illegal under EU state aid rules and it would require Starbucks to pay tens of millions of Euros in back taxes. As rightly stated, Starbucks pays scarcely any tax in the Netherlands by shuffling royalties around while the ordinary (the Dutch one not the MNC) coffee shop at the corner pays taxes at full rate. And inevitably, the less the taxes that MNCs pay, the more other companies and employees have to pay.

Challenge of Public–Private Partnership – Czech Dutch Chamber of Commerce

This final section describes the challenge of cooperation of the Embassy with the private sector. In 2014, we helped establish the Czech Dutch Chamber of Commerce (CDCC, 2015) in The Hague. Originally, we planned to contribute even financially but the project was not approved by the headquarters of our Ministry. So, we have supported the Chamber 'only' by our contacts, recommendations, organisation capacities and space – providing the residence of Ambassador for the founding and some following receptions.

The goal of the CDCC is to support business development and growth of Czech companies and entrepreneurs in the Netherlands and Dutch entities in the Czech Republic. Its main services include hosting of regular business and social meetings and specialised seminars, support in search for new business partners, information and intermediary services. The CDCC was founded with the support of the Embassy as a non-profit organisation in The Hague in June 2014. Every start is usually difficult, so we should remain humble. The same applies to the CDCC. The number of members is growing, and so is the frequency and quality of events. As the main benefit for the Embassy, I see the mutual exchange of useful contacts, enlargement of our networking capacities and the help with organising some events – for example, the last time it was during the third annual Embassy Festival. The Czech Republic stand was jointly presented by the Embassy, the CDCC, the Czech Centre and the Czech Tourism Agency. And before it was even more important and challenging (because on very short notice) – on the 29th June 2015, we have jointly organised the Czech Dutch Business Forum (together with the Chamber of Commerce – Kamer van Koophandel, KvK) in Rotterdam on the occasion of a visit of the Minister of Foreign Affairs of the Czech Republic, Mr Lubomír Zaorálek in the Netherlands who was accompanied by a business delegation of the Czech Chamber of Commerce (www.komora.cz). Some outputs can be found on Trade Mission (2015).

Finally, as suggested by Lee (2004) or Saner, Yiu, and Søndergaard (2000), the cooperation of public and private actors, the exchange of information or even people ('diplomats´ revolving door') is in the framework of commercial diplomacy quite natural, usually suitable and sometimes even necessary. Three main challenges of cooperation with Czech Chamber of Commerce – (1) limited capacities on both sides; (2) risk of image's damage in case of any serious problems or misbehaviour; (3) possibility of accusations of biased cooperation or in eventual case of financial loss – bankruptcy. Some other challenges of public–private partnerships can be found in the work of Hodge and Greve (2005).

Conclusions and Recommendations

This chapter tries to document both in theory and in practice the relation of business diplomacy, multilateral (inter-governmental)/state diplomacy and commercial diplomacy towards the global issues and legitimacy challenges. I suggest that this relation can be as follows – business diplomacy tries to ensure the growing profit using all the opportunities, legal and sometimes even illegal; multilateral or state diplomacy attempts to create the legal framework (EU) and 'soft' principles and recommendations (OECD) for them; and commercial diplomacy should try to transform the challenges into opportunities and to support the companies in the given frameworks.

The nature and scope of the commercial diplomat activities have been evolving together with the development of new democracies, new technologies, globalised trade and investments and new tasks over the last 25 years. To be successful means overcoming the above-mentioned challenges and many others; a commercial diplomat needs extensive managerial and commercial experience, as well as interpersonal and analytical skills and mainly many useful contacts. The chosen cases describe different activities and the knowledge which is necessary for this. The used approach is also in accordance with the typical work of the commercial diplomat, who usually assists with many different issues, but commonly not very in-depth. For his success, the involvement of his ambassador is crucial too (Abbink, 2014).

I can also confirm most of developments noted by Ruël (2013) from my experience. Commercial and economic diplomacy play a more central role in diplomatic policy and practice which could be documented by the increasing activities of the Ministry of Foreign Affairs in this field – namely, the number of prepared trade missions, economic publications, increasing number of commercial diplomats outside the EU or pushing the economic activities to other (territorial) departments and levels (ministerial and ambassadorial) of the Ministry. Companies are charged for services by the CzechTrade, so services are also expected to have higher standards. Asia, as a region of interest for our countries, is becoming more important than before, especially the relations with China have the highest priority. More activities or economic projects are to be done with fewer or the same staff because of lower budgets. The question has arisen again and again about how commercial diplomacy adds value, and it needs to be proved over and over again how the information that is offered is more valuable than what one can find through other sources. So its quality, impacts and feedbacks are more and more measured and evaluated. Smaller budgets are a driver for innovation, efficiency and improved productivity, and the budgets are reallocated based mainly on the project, strategic and political decisions.

So, hopefully, we can conclude this chapter by making the allegation similar to Sedláček (2011) that it is not so important if it is the business, commercial, economic or trade diplomacy or challenge but 'that more ethics is better for the economy'.

Disclaimer

This chapter was prepared by Roman Holý in his personal capacity. The opinions expressed in this chapter are the author's own and do not reflect the view of the Ministry of Foreign Affairs of the Czech Republic, or the Embassy.

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What Companies and Universities Mean by Business Diplomacy

Guilherme Fráguas Nobre

Abstract

Purpose — This chapter focuses on the role played by both companies and universities on the dissemination of services and courses related to Business Diplomacy (BD). Special attention is given to the partnerships between companies and universities and to how BD is taught by universities around the world.

Design/methodology/approach — With an exploratory analysis technique, we have surveyed the websites of 22 companies and 20 universities and institutions, belonging to various countries, engaged in activities related to BD (i.e. services supply, courses at different stages of the academic curricula, workshops, seminars, training etc.).

Findings — The objective of the analysis was twofold: first, to give a better understanding of the concept of BD and of the various meanings associated with it; the results indicate that in both cases the practiced concept of BD is converging to the canonical set of diplomatic functions; second, to offer useful insights to practitioners in the field of BD by looking at the type of BD courses covered by the academic curricula of various universities and BD services offered by market companies.

Originality/value — This chapter presents a comprehensive analysis of the BD issue, going beyond its treatment as a mere auxiliary activity. It also offers a detailed overview of diplomacy's main functions and adjuvant activities, with the purpose of advancing organisational charts' structures inside companies, and academic syllabi offerings by universities.

Keywords: Business diplomacy (BD); BD syllabus; global legitimacy; firm–university partnership

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Introduction

According to Nobre (2015), from a historical perspective, many of the services usually associated with diplomatic competences, such as, representation, negotiation, information (communication), promotion, protection and defence, have also been supplied by companies. Nowadays, not only the business sector, but also the academia – offering courses, seminars and workshops in the diplomatic field, to a large spectrum of assistants – are seeing themselves as diplomatic entities also, thus going beyond the public servants' category. Hence, universities are treating diplomacy as a field of knowledge extendable to all social agents. While an increasing bulk of research is analysing the role of (commercial) diplomacy in the globalised economy and the value addition generated by the diplomats' functions and activities, other authors are stressing the increasing complexity of the functions to be undertaken by the diplomatic staff, thus pointing to the necessity of studying and understanding the role played by companies and also by the academic institutions in (re)defining the diplomatic field (see e.g. Kostecki & Naray, 2007 for a comprehensive overview).

A significant bulk of research (see Dickens, 1998; Roula, 2002; among others) is arguing in favour of the changing role of the university in the society: the necessity to adapt its organisational structure in order to allow for a better interaction with the environment; new funding needs/restrictions; the new Information and Communication Technologies (ICTs) and their impact on society, together with knowledge creation and dissemination – not any longer exclusively based on university but rather at the intersection between different sectors of activity – are only few arguments backing this necessary change of paradigm (see also the triple-helix literature; Gibbons et al., 1994, etc.). Along this line, the Anglo-Saxon academic environment offers many examples of pioneership, with universities strengthening partnerships with other universities (university–university alliances), with the industry and/or the government (industry–university; government–industry–university) or expanding the traditional teaching model to the virtual campus, taking advantage of the Internet. A good example is discussed in the work of Roula (2002) where the author presents the case of the UK universities and the Teaching Company Scheme (TCS) introduced in 1975 by the UK government and initially meant '… *to help form lasting partnerships between higher education and industry in order to improve UK industrial performance, profitability and management*' (cited in Roula, p. 210).

The objective of this chapter is to analyze an exploratory survey conducted on how companies and universities are using the Business Diplomacy (BD) concept in their websites in order to verify the practical understanding of those who are already supplying BD services either as a main or auxiliary activity to the market. The identification of companies and universities' names was based on internet search and literature review. Findings could help answer the question whether the market diplomacy players are evolving towards their own model of industry or rather not. The new research schemes, applied in some countries, both at national and regional levels, have shown that knowledge creation is no longer based exclusively in the academic environment; the private sector makes a significant contribution both as a buyer and producer of research. The role of the academia could therefore be expanded beyond the BD syllabus, given the increasing number of strategic alliances between industry, university, and governments.

The chapter is organised as follows: 'Business Diplomacy' section is dedicated to a literature review of the BD concept; in 'The Business/Diplomacy Interplay' section we analyse the interplay between business and diplomacy; the 'Business Diplomacy inside Companies' section focuses on the BD inside companies; in section 'Business Diplomacy inside Universities' the BD issue inside universities is addressed; in the 'Conclusion' section, some conclusions are provided.

Business Diplomacy

It is generally accepted that BD deals with individuals and companies performing diplomatic activities and functions in order to achieve their market goals. Researches on historic antecedents have shown that both, the Greek *proxenos* and the first consuls, have served private persons and for-profit corporations, clearly servicing business through diplomacy. Nowadays, the honorary consuls and the chambers of commerce are the best examples of such an approach. However, neither the latter nor the former are for-profit institutions; to this, we must add the fact that the honorary consuls still hold the status of public servants (in spite of remaining businessmen) and, moreover, the chambers of commerce became privileged governments' partners – in some way losing their independency and autonomy (Nobre & Filimon, 2015). It is therefore important to analyse whether what these above mentioned agents have done so far can/cannot be called BD.

London (1999) is one of the first to relate BD and corporate management. According to London, BD is an art, a mindset, a technique that helps companies to make sense out of their existence in a community. His vision is based on moral principles, in contrast with the 'sole-profit-matters' drive. According to London (1999), BD does not mean the use of diplomacy by business so it can improve profits as never before; it is rather about how diplomacy seasons business so it becomes sensitive to social and political aspects. Profit is still the main objective of firms but the author tries to show how it can be better served by respectful, alterity awareness and long-termed contractual relationships.

> Business diplomacy is a way of working with people effectively to get things done. Rather than work over, around, or through other people, the idea of business diplomacy is to help managers understand each other's point of view and reach common ground without hostility. Diplomacy is treating people with respect, being honest, recognizing and valuing differences, voicing agreement when appropriate, and accomplishing goals. Diplomacy uses tact and understanding to build trust and develop relationships. This applies to business just as it does to foreign relations or almost any interpersonal situation. Business diplomacy is most important when there are disagreements, interpersonal conflicts, and a lot at stake. It is a way to work within corporate politics to make things happen rather than get bogged down in turf battles, resource wars, and dysfunctional, unpleasant competition. (London, 1999, p. 171)

As diplomacy was conjugated with peaceful dealings, London (1999) appears to treat BD as a vector for corporate pacification: both internally (human resources and contractors) and externally (competitors, governments and other stakeholders), the focus lies on the tension alleviation, disagreement solving and conflict resolution.

Other authors, like Saner, Yiu, and Sondergaard (2000), are more market-oriented, introducing BD as a managerial technique to improve companies' productivity and competitiveness. They clearly see companies as independent diplomatic agents that do need autonomous in-house foreign affairs departments and personnel (see also Saner & You, 2005).

> Business diplomacy management therefore involves influencing economic and social actors to create and seize new business opportunities; working with rule-making international bodies whose decisions affect international business; forestalling potential conflicts with stakeholders and minimizing political risks; and using multiple international forums and media channels to safeguard corporate image and reputation. (Saner et al., 2000, p. 84)
>
> …
>
> Business diplomacy pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, governments, political parties, media and other representatives of civil societies) and external constituencies. For instance, global companies are expected to abide by multiple sets of national laws and multilateral agreements set down by international organizations such as the World Trade Organization (WTO) and the International Labour Organization (ILO). On account of a global company, Business Diplomats negotiate with host country authorities, interface with local and international NGOs in influencing local and global agenda. At the firm level, they will help define business strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, collect and analyse pertinent information emanating from host countries and international communities. (Saner & Yiu, 2005, pp. 302–303)

According to these authors, BD combines both embassies (political) and consulates' (economical) approaches – the management of the environment, processes and stakeholders – so the company can thrive in its industry. That implies removing obstacles (risks, threats and negotiation problems) as well as the creation of advantageous opportunities (deals, sales, agreements). They have in mind global companies functioning in several countries and under diverse social, political and legal systems. Here, BD is the element which can harmonise such diversity without fragmentation, namely, by being aligned with supra-national regulation (e.g. UN, WTO) while maintaining the corporate organicity. As stated by London (1999), it is a multi-stakeholder perspective, but the accent was sensibly put over the business part of the equation.

While Saner and Yiu (2005) expect BD to be involved with negotiation, influence and information analysis, Kesteleyn (2011) openly states the diplomacy's activities as being related to representation, communication and negotiation. This setting represents an advancement, given that it denotes a direct reference to the technical literature on diplomacy – which establishes representation, protection, information, promotion, negotiation and extended public service as the elements of the diplomatic activity (Magalhães, 2005, p. 32). To Kesteleyn (2011), the goal of BD is to ensure the existence of the company and to defend its interests in front of the other stakeholders.

> BD is diplomacy practiced by individual companies. It is a mechanism to achieve the central goal, namely ensuring the existence of a company, through the use of representation, communication and negotiation towards other (non) economic stakeholders to defend company interests. Managing these relations is seen as useful because it enables the chance to avoid unnecessary and unwanted conflicts. Also, the external environment wherein a company acts is made more susceptible to their specific interests. (Kesteleyn, 2011, p. 3)

Wolters (2012) goes further, evoking the word 'sustainability', in a sense meant 'to ensure the sustainable existence of the company' – which is done through (mutually) positive relationships. It looks like London's (1999) framework was brought back, because the focus seems to rely rather upon 'legitimacy' – as a *sine qua non* condition to profit. Thus, to Wolters (2012) BD would be the professional cultivation of (mutually) beneficial relationships that ensure a sustainable (social, political and economic) existence of the company. In a foreign (or international) environment, the activities performed are:

> Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment. This can help businesses to create opportunities. (Wolters, 2012, p. 3)

Ruël (2013, p. 41) introduces a BD definition that can help distinguish it from, for example, the corporate political activity, corporate social responsibility, lobby and so on; the author proposes a triple axis: foreignness, long-term positive relationships and legitimacy. BD is, then, an activity carried out at an international level through representatives: between business representatives and the other stakeholders (directly or via their own representatives). This mediated character is definitely part of diplomacy, since the *diploma* is a folded document to introduce and formalise the representation. Other presumptions of diplomacy assume mutual, balanced and reciprocal relationships: all sides must benefit, the benefits shall be fairly distributed and one agent will probably echo what the counterpart has done (i.e. paying goods with goods). Perhaps this was what the author has meant by 'positive relationships'. Another possibility would touch the company's resilience, with diplomacy helping to overcome difficulties towards a better position. Aligning with Wolters (2012), Ruël (2013) too focuses on the role of legitimacy to the company's sustainability (i.e. time endurance of the business).

> In order to arrive at a clear and specific definition of international business diplomacy, therefore, I propose the following: international business diplomacy is the representation and

> communication activities deployed by international businesses with host government representatives and non-governmental representatives in order to establish and sustain a positive relationship to maintain legitimacy and a 'license to operate'. Three key aspects distinguish international business diplomacy from concepts and phenomena that seem similar: its focus on foreign governments and foreign non-government actors, its focus on long-term, positive relationships ('…establishing and sustaining positive relationships…'), and its focus on MNC legitimacy and a 'license to operate' as the goal. (Ruël, 2013, p. 41)

Riordan (2014) brings some crucial contributions to the debate, like for example: BD is bonded with the historical practice and study of diplomacy, it has a geopolitical stance, there are private sector agents involved, coalitions are strategic, it is profit-driven and it aims to promote private-sector interests. Therefore, it seems mandatory that BD bases itself on history and over the diplomatic technical literature.[1] The geopolitical stance of BD sets a connection between power and location, which is somehow more meaningful than 'foreign' or 'international'. Although for a nation's diplomat it makes sense thinking who is alien or not (foreign) and what is in or out of the homeland (inter/national), BD is rather patron-compassed. The environment is glocal (global and local), it is where the stakeholders (not citizens *vs.* foreigners) belong to, work and live. BD is a private sector's service provider and the government is just a stakeholder (or a potential patron) amid others. Power management and political coalitions fit well together, and are at the very basis of BD. Finally, the pursuit of profit submits the socio-political considerations to the economical result – bringing back the discussion on mutuality, balance and reciprocity (see Riordan, 2014, pp. 1–4).

Small (2014) pivots his argument over the official support, in some sort returning to the state-to-state relationship – but this time the homeland government comes into scene to help its flagged companies. The importance lies, then, on the alignment between the national interests and those of the companies': so public–private interests' convergence is playing a leading role and company–government partnership or cooperation gains prominence. The quest for the 'common goal' is at the very heart of diplomacy, as well as all the work performed to create the momentum towards convergence. According to Small (2014), it could be inferred that the companies also have diplomatic personnel to deal with both national and foreign governments – functioning in a multi-stakeholder diplomacy mode. Moreover, it seems that companies have attained a 'nation' nature and status: in spite of their size, companies have become 'independent countries' with embassies (political headquarters) and consulates (commercial outposts) all over the world. Consequently, even their relationships with the homeland government are done in a state-to-state-like basis. That is why some words such as 'foreign' and 'international' blur the view: what is at stake concerns the paranations[2] entities, personal and corporate

[1]Business diplomacy (BD) offers an approach to geopolitical and non-commercial risk management that is based on the practices and the mindset of diplomats. […] In essence, BD occurs when firms do diplomat-like things. (Kesteleyn, Riordan, & Ruël, 2014, p. 303)

[2]The prefix 'para-' means similar, as for paramedic or paramilitary.

multi-citizenships, static and dynamic transterritorialities and multi-stakeholders' geopolitics. In a globalised world, companies have been transformed into 'international waters' – at the same time touching and blending themselves with diverse national waters but without losing singularity.

> Business diplomacy, for me, is what is set in motion when a company's commercial interests align with a home or supportive government's national interests in order to overcome the actions of a host government that have harmed, or will harm, the company's business in that host country. The act of business diplomacy involves relying, in whole or in part, on a home or supporting nation's diplomatic resources and relationships to advance the aligned interests of the nation and the company towards a common objective. Given this perspective, I consider business diplomacy as being defined more by how and why certain activities are undertaken in pursuit of this common objective, rather than who is responsible for achieving the ultimate result. The objective may be to resolve a difficult commercial dispute between the company and the host government. Successfully achieving that result will depend on the ability of both the company and the home or supporting country's government to align their respective interests and to act in pursuit of the common goal. Getting the company and a supportive government to align their respective interests is the first step of a successful business diplomacy effort. Only once this alignment has occurred can those interests be successfully advanced. Based on my experience, what distinguishes business diplomacy from lobbying, public affairs and government relations undertaken by a company is the temporary alignment of the commercial interests of the company with the permanent, national interests of a home government to resolve an issue caused by the action, or inaction, of a host country government. It is this connection to a nation's interests, and being able to draw upon that connection in support of resolving a commercial dispute, that gives business diplomacy its potency. (Small, 2014, p. 377)

Kesteleyn et al. (2014) mention alliances of stakeholders, shared interests, risk management and 'defence' – as one of the diplomatic functions. It is worth noting that what authors usually refer to as information or communication is seen, in diplomacy, as a means to intelligence – a more complex activity that demands analytical and synthetic capabilities. Given the previously mentioned concepts and definitions, it is already time to try to wrap them all up in a comprehensive view on BD. Last but not least, it is possible to say that BD encompasses the following features. First, it is based on and comes from the historical practices,[3] researches and studies done in the field of diplomacy.[4] That sees it as professional, formal,[5] technical and scientific. Second, it is private-sector-based: that is, companies become diplomatic entities,[6] either partially or entirely. Third, it is supposed to service both the company and the other stakeholders.[7] Fourth, it is profit-driven and business-oriented. Fifth, it is a multi-stakeholder social contract:[8] so the economical goal is

[3]The Greek *proxenos*, first consuls, aldermen, honorary consuls, chambers of commerce, etc.

[4]That covers representation, negotiation, communication, protection, promotion and defence as a coherent set of professional activities.

[5]It requires a *diploma* (a document that formalizes representation) and might require a contract (to regulate each other's performances).

[6]Diplomatic services supply.

[7]Diplomatic services demand.

[8]Governments can be either a partner, a patron or a stakeholder.

dependent on the political management.[9] Sixth, it aims sustainability[10] both as 'enduring through time' and as 'resilience'. Seventh, it is spatially global and local. Eighth, it needs a 'licence to operate' granted through legitimacy.[11] Ninth, it is a peaceful[12] set of values and behaviours, like traditional diplomacy. Tenth, it is a principled activity.[13]

> BD recognizes that the core objective of a firm is to make profit. The role of BD is to help ensure that the firm's ability to make profits at an international level is not undermined by geopolitical risk. BD helps firms to identify both the geopolitical and other non-commercial risks that threaten the firm's bottom line at a global level, but also the international governmental and non-governmental actors that mediate those risks. Among the latter, it constructs multi-level networks of information and influence. These, in turn, permit the creation of global and regional alliances of heterogeneous stakeholders, built around shared interests, which serve to multiply the influence of the firm, both positively and defensively. In this way, analysis of the geopolitical risk, and the stakeholders that shape it, is integrated into a holistic strategy to manage them. (Kesteleyn et al., 2014, p. 306)

The Business/Diplomacy Interplay

Business inside Diplomacy

The interplay between business and diplomacy is twofold: first, when business is brought inside the traditional diplomacy; second, when diplomacy is brought inside the traditional market. The first option approaches the BD (the function of the traditional diplomatic staff) and the business' influence into diplomacy (i.e. market lobby on diplomats). The second option deals with how diplomacy can be internalised by the market (chambers of commerce activities and retired ambassadors' consultancies) and whether companies could serve as diplomatic institutions.

Business inside diplomacy:	1) What diplomats do as a career
	2) Economic diplomacy (Government's interests)
	3) Commercial diplomacy (Market's interests)
Diplomacy inside business:	1) Companies behaving with social-political sensibility
	2) Dedicated managerial auxiliary activity in-company
	3) Main activity of companies in a market niche

[9] The privileged interlocutors bear the 'power to decide'.
[10] That includes the resources, environments, relationships, outputs and stakeholders.
[11] Real legitimacy is rooted on mutuality, balance and reciprocity.
[12] Seeks for alignment, convergence, coalition, disagreement management, conflict resolution.
[13] Ruled by professional deontology, moral code, protocol, etiquette, law, contract, custom, etc.

Diplomacy inside Business

How companies can implement diplomacy as part of their organisational architecture is paramount. We mention here only two possibilities: one, when diplomacy gives support to the company's main activity, another, when diplomacy is the company's main activity. The first case is already well-documented (Saner et al., 2000; Wolters, 2012), representing the research evidence on multinational companies' adoption of diplomacy as a managerial tool. They advocate for the creation of a diplomatic corps inside the company's organisational structure. The second case is rather rare: although it is possible to find companies offering services that implicitly match some of the diplomatic activities, only a few define themselves as full-fledged market diplomacy providers.

BD as an auxiliary area:	1) Support to the main activity
	2) New department inside the company
BD as a main activity:	1) That is the main activity
	2) Market supply of diplomatic services

Business Diplomacy inside Companies

Companies functioning as BD players go way beyond hiring former Ministry of Foreign Affairs' personnel or changing internal labels (renaming the international relations area as BD department, for instance). In this respect, in parallel with the internalisation of diplomacy inside the organisational chart of some companies, there have been cases where companies are presenting BD either as the main or major activity in their business portfolio. Some references shall include: ADIT (France); Bucy Group (France); Business Diplomats (Switzerland); BHB Emissary (USA); EPEE (France); Edwards and Willems (Belgium); Aurora Partners (UK); AESMA (France); Invist (Turkey); BVTBD (Dubai-UAE); BGLOBAL (USA); DAGERO (UK); ABD (Netherlands); Glenobre (Canada); APCO (USA); LGE Partners (France). All the companies surveyed in this chapter received a number ranging from 1 to 22 (see Table 1). Please note that the order companies are tabled in is partly due to the sequence they were found along the research. After tabling the presented contents it is possible to categorise them according to the main diplomatic functions and the more general activities performed within each of these functions. Here below it follows the grouping by the main diplomatic functions identified:

> *Representation:* mediation [2, 21, 22], networking [1, 2], representatives training [6], connectivity [10], intermediation [12], corporate diplomatic corps [15], liaison [16], in your name to participate/organise events [16], connections [19], serving as your ambassador [19], interests [21], spokespersons [21].

Table 1: Companies.

Company	Meaning	Services	Country	Group	Link	Access
Diplomatie Digitale [1]	Pour accroître et protéger leur sphère d'influence, les entreprises entretiennent sans cesse des relations avec les acteurs clés du marché ainsi qu'avec leurs différentes parties prenantes (autorités de régulation, associations, think tanks …). Ces relations s'inscrivent dans ce que l'on peut appeler la 'diplomatie d'affaires', qui consiste à accompagner les entreprises dans leur développement en intégrant les acteurs de leur 'écosystème' .... To protect and increase their sphere of influence, companies continually maintain relationships with key market players and with their various stakeholders (regulators, associations, think tanks …). These relationships are part of what might be called the 'business diplomacy', which is to support companies in their	Veille et monitoring: veille médiatique et des media sociaux, détection des signaux faibles, de rumeurs, de campagnes hostiles. Etudes et cartographies: cartographie des leaders d'opinion et des parties prenantes, analyse de l'empreintes et des opinions numériques. Engagement et valorisation de l'identité sur Internet: accompagnement dans la stratégie digitale, production de contenus porteurs de valeurs, animation de media de référence, engagement avec les parties prenantes .... Observation and monitoring: media monitoring and social media, detection of weak signals, rumours of hostile campaigns. Studies and maps: mapping of opinion leaders and stakeholders, analysis of digital fingerprints and views	France	ADIT	www.diplomatie-digitale.com	29/07/15

	development by integrating the actors of their ‘ecosystem’	Influence strategies: support in digital strategy, production of values bearing contents, incentives for reference media, engagement with stakeholders				
ADIT [2]	An exclusive subsidiary of ADIT, Entreprise & Diplomatie boasts a team of experts in international contracts and public affairs. Led by Bruno Delaye, five-time French ambassador to countries in Africa, Latin America and Europe, Entreprise & Diplomatie enjoys privileged access to high-level decision makers and has in-depth knowledge of political and administrative systems	Strategic and diplomatic advice: We provide operational advice on public affairs and relations with key partners, including institutions and governments, in order to support your company’s international development. Operational mediation: We offer support during the negotiation and non-litigious resolution of complex export disputes and investment issues. Advocacy and influence: We develop and implement the influence strategies that will create the necessary conditions for your stakeholders to keep your company’s interests in mind	France	ADIT	www.adit.fr/en/diplomatie-affaires	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
EPEE [3]	EPEE, société de conseil en intelligence stratégique, accompagne ses clients dans leurs projets d'entreprenariats dans les pays émergents. Son réseau de partenaires à travers le monde apporte aide et soutien aux entreprises à la recherche de nouveaux débouchés quelque soit la région .... EPEE, consulting firm on strategic intelligence, assists its clients in their entrepreneurship projects in emerging countries. Its worldwide network of partners provides help and support to companies seeking new opportunities, whatever the region	Identification et qualification des acteurs décisionnaires et des leaders d'influence. Sensibiliser et convaincre les acteurs locaux à la problématique de l'entreprise cliente. Mise en relation et établissement d'un contact privilégié entre le client et les acteurs-clefs du dossier concerné. Accompagnement dans la conquête de marché (appels d'offre, rapprochement d'entreprises, …) .... Identification and assessment of policy makers and influence leaders. To raise awareness and convince local actors about the problems of the client. Linking and establishing a special relationship between client and key players over the concerned matter. Support in gaining market (tenders, matchmaking, …)	France		www.epee.fr/diplomatie-daffaires	29/07/15

LGE Partners [4]	In-depth guidance on government and regulatory affairs	LGE Partners supports senior corporate leaders by: – identifying key political, economic and financial decision-makers; – working with public and private gate-keepers and opinion leaders; – verifying the reliability of the decision-making process and people involved	France	www.lge-partners.com	29/07/15
Edwards and Willems [5]	We support companies in their trade and investment-related activities by targeted leveraging of international, European and national or regional institutions and diplomacy. Economic and Business Diplomacy Consulting, Advocacy and Tailor-Made Operational Support	Consulting: To optimise results of requested diplomatic actions for specific business projects/interests in a key country, market or international organisation. Advocacy: To influence decision shaping and decision making through advocacy work focused on regulatory, tax or any other trade or investment-related policies, actions or measures. Operational support: To apply diplomatic skills and experience to networking and negotiating with authorities; stimulating B2B contacts; optimising communication.; any other international business activities	Belgium	www.edwardswillems.com	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
IoDB [6]	The Institute of Diplomacy and Business provides a unique and comprehensive range of services to prepare representatives of businesses and other organisations to operate in and, if necessary, relocate overseas	Strategic business and political briefings by former senior diplomats from the Foreign and Commonwealth Office. Business etiquette. Business culture. One-to-one mentoring. Project consultancy. Spouse/partner relocation briefings and support. Relocation services. Property sale, lease and purchase, expert guidance for partners to settle into the new destination, children's education, home content removal, security and family pet transport are all taken care of	UK		www.diplomacyandbusiness.com	29/07/15
Bucy Group [7]	The Bucy Group provides strategic advisory services to help its clients protect their interests as their businesses grow, as well as conducting lobbying at the highest levels of decision-making, both nationally and internationally	Bucy's consultants help companies to design their lobbying strategies, in the interest of penetrating new markets abroad: analysing decision-making processes; deciphering networks of influence; managing political transitions; providing project assistance and support (tender processes, direct award	France	Bucy	www.bucy-international.com/en/business-diplomacy	29/07/15

		contracts, external growth operations, etc.); providing negotiation support and building local support networks. Bucy also support companies to manage crises that may harm their business or reputation. As such, Bucy is able to define a 'Public Affairs' policy, both in France and at European level. Defining a crisis management strategy; Developing communication materials; Conducting lobbying campaigns; Providing political support; Delivering strategic foresight services (political, media, trends)				
Salveo [8]	X	X	France	ADIT	www.salveo.fr/en/services/business-intelligence/business-diplomacy	29/07/15
Business Diplomats [9]	Organisational Consultants promote effective business diplomacy within the business communities around the world and aims at developing the requisite management competence in business	Research: Best practices of Business Diplomacy within global companies; Profiles of practicing business diplomats; Case studies of (un)successful use of Business Diplomacy Management (BDM) in	Switzerland		www.businessdiplomats.com	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
	diplomacy through research, consulting, training and auditing. Organisational Consultants collaborate with other experts in fulfilling this mission	different countries and sectors. We help global companies become better prepared to deal with the continuously changing relationships between business, government, international organisations, and civil societies/ communities. We consult global companies on how to build their own organisational capacity in Business Diplomacy Management. Training: To help global companies identify and develop managers who are or will be responsible for the global company's relations with governments, local communities, international organisations across the globe. Auditing: To review the current practices within a given global company and to assess its readiness to manage business diplomacy in multi-layered contexts and in				

		different structured and informal fora. Establishing and maintaining a BDM audit help global companies close the gap between the needs of the global business and the organisational capabilities and to safeguard its reputational and social capital. Publications.			
BHB Emissary [10]	Through our work, we enable companies to build the foundation for their future commercial engagements. We help international firms engage the Iranian market with the necessary credibility and knowledge. We help Iranian firms reach out to global markets in accordance with best practices. Overall, BHB Emissary provides unique advisory services that can help companies intelligently navigate the immense opportunities represented by Iran's reengagement of global markets for goods, services and capital	These five services constitute the key elements of business diplomacy: organise international business conferences to 'set the stage' for trade and commercial ties; produce bespoke market research resources; advise on corporate communications to make the right impression; consult on strategy and business development; broker relationships and exchanges and provide connectivity in the marketplace	USA	www.bhbemissary.com/?page_id=10	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
Aurora Partners [11]	Increasingly organisations are operating internationally, whether in search of new markets, resources or the pursuit of more cost effective manufacturing options. Operating internationally increases an organisation's vulnerability to non-commercial risks including geopolitical, economic, political, reputational, physical, cultural and legislative. To succeed in an international business environment requires a paradigm shift to manage the dynamic and complex interactions with multilateral institutions, foreign governments and social movements	Identification and management of non-commercial risks and issues; identification and exploitation of opportunities; development of key networks of influence and coalitions to influence outcomes and manage risk; development of a business diplomacy culture.	UK		www.aurorapartners.co.uk/svc_bd.html	29/07/15
AESMA [12]	Genuinely tailored operational tools, AESMA's services provide the strategic analyses needed in international	Strategic analysis: crisis and rupture anticipation, risk exposure analysis; market intelligence : sectorial	France		www.aesma-group.com/en/index.php?	29/07/15

	business development and investments in order to optimise the decision-making process and anticipate risks	evaluations, assessments of market entry and access; risk and network cartography : deciphering of networks of influence, key actors, and decision-making patterns; partnership identification and intermediation; due diligence and reputational background checks; analysis and mapping of judicial and financial risks		static7/business-diplomacy	
Invist [13]	One of our core service is Business Diplomacy and Government Relations services which requires competency and experience where we are confident due to our team's strength and back ground. Business Diplomacy is today's must for long-term and sustainable success	Business diplomacy is the key tool for the secure; start-up, development and coordination of an efficient and profitable business relation. We aim to prevent, solve or minimise the impacts of conflicts. Our interpersonal networks, local value added information and strategies, expertise on local culture and socio-economic dynamics create solutions to save cost and time which is an extremely important factor to minimise the risks. We create effective communication channels besides the existing business channels to provide long-term stability	Turkey	www.invist.com.tr/#!services/c1iwz	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
Madison PLLC [14]	We recognise that challenging international issues are not always solved in the courtroom, and there are times when the best solution necessitates the intersection of law, policy and relationships, focused on efficiently and effectively solving complex international problems. Our team is well-versed in international and domestic law – and we have significant experience working with sovereign governments, international organisations, non-governmental organisations and civil society, while leveraging critical relationships around the world to assist clients with their international legal, policy and business diplomacy needs. Madison has deep experience in a large number of countries throughout the world, as well as international institutions such as the World Bank	International Law, Policy & Business Diplomacy	USA		www.madisonpllc.com/services	29/07/15

	Group, the United Nations, INTERPOL, EUROJUST and NATO, and domestic institutions, such as the Pentagon and the White House. In addition to our global reach, we have a particular expertise in the areas of public international law, international criminal law/international humanitarian law and human rights and national security issues				
APCO [15]	Multinational corporations are larger than many of the world's nations, and they continue to expand across the globe. (...) These emerging 'corporate superpowers' face a significant need for a diplomatic corps to help their representatives open the right doors, say the right things and reach the right audiences abroad – and tell that story effectively back home. (...) Business diplomacy has become a strategic initiative adopted in the boardrooms of the most forward-looking	Business Diplomacy	USA	http://www.hks.harvard.edu/m-rcbg/CSRI/events/APCO%20Worldwide%20Global%20Business%20Diplomacy%20Study.pdf	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
	companies. In the future, these strategies will be recognised as an essential tool for global business success					
BVTBD [16]	Business diplomacy is mostly about ensuring the initiation, development and coordination of a secure, efficient and profitable relationship with business partners, customers or associates, as well as their own environments such as lawyers or business consultants be they private or government, organisations or individuals. The general aim is to prevent and, when they happen, minimise the impacts of conflicts and misunderstandings. It is an essential part of any business development and project management process that proves both cost and time savings. It requires both strong interpersonal networks, the capacity for local value added information and strategies, a	Tender preparation and follow-up: interpretation and implementation of administrative requirements, understanding the competitive environment and in many cases the political related issues, identifying and meeting the right person to address, sending the right signals, coordinating with local partners. We help you identify the tricks and get through the whole process so that you can focus on providing the best offer and adjust your project management teams to local requirements in the best manner. Liaison, Networking and Meeting coordination: arranging through us non-committing pre-screening meetings, sending messages in a non-committing way,	Dubai-UAE		www.bvt-business-dev.com/business-diplomacy.html	29/07/15

	strong understanding of local cultures and socio-economic systems. The business diplomat ensures your views are shared and implemented and enables you to adjust them to your business partner's perspectives, as well strategic insights	participation in your name and/or organise relevant events that may generate the whole set relations you request. It is also about assisting you during the whole meeting set-up and implementation. For all these opportunities we provide as a minimum: Identification and approach of contacts, briefings and debriefings, set-up of the agenda, coordination of participants and logistical assistance, as well as in-meeting/event assistance, including note writing, live interpretation (when needed), facilitation. Government and Media Relations: long-term relation with governments and also attract local media attention, and deal with the constraints of international politics and geo-strategy			
Networld-Risk [17]	NETWORLD-RISK is a consulting firm. It supports the international development of French companies: by securing their positions in foreign markets, by securing	Coordination missions and follow-ups with local authorities. Organisation of meetings for a sustainable partnership between clients and local authorities	France	www.networld-risk.com/services	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
	the partnership process with foreign companies, by preparing them to negotiate in complex situations					
BGLOBAL [18]	Government engagement is absolutely fundamental to targeting new markets and reaching influential opinion-makers, whether in Brazil or the United States. We develop integrated diplomatic business solutions aligned with communications and government relations	• Government Relations • Public Affairs • Business development	USA		www.bglobal.net.br	29/07/15
DAGERO [19]	We are business diplomats. We are not PR people, professional lobbyists or risk/crisis/security managers, but we are experienced in all these areas, all over the world. Working with the experts, we can make connections that others are bound to miss – an integrated approach to international problem-solving that is unavailable elsewhere	Helping you identify, map and manage your international stakeholder networks, building your reputation; supplying confidential political and security background briefing that draws on the knowledge of inside experts, not just public sources; plugging you into the worlds of government and civil society where it matters (e.g. gratis support services, specific industry	UK		www.dageroconsult.co.uk/business-diplomacy	29/07/15

		associations and initiatives); providing strategic and tactical advice on extra-financial business factors, making overseas introductions and even serving as your business ambassador; customising your communications effort to local circumstances; quickly mobilising our international contacts to help in the event of a crisis			
ABD [20]	Atlantico Business Development provides consultancy services for companies and organisations when doing business in Portugal, Brazil and Portuguese speaking countries in Africa, as well as for Portuguese, Brazilian and African companies and organisations when doing business in the Netherlands	Business diplomacy and lobby: if special attention is needed from the authorities in one of our core markets, we can effectively lobby for your project or create a smooth path for your business	Netherlands	www.atlanticobusinessdevelopment.com/our_services	29/07/15
GLENOBRE [21]	Business diplomacy is a high-level market consultancy operating independently from governments and chambers of commerce. This professional outsourcing will be able to represent your interests,	(1) Negotiation: Seeking partners for industry and trade. Preparatory discussions and advanced contract negotiation. Designing contract clauses that fulfil technical, commercial and	Canada	www.glenobre.com	29/07/15

Table 1: Continued.

Company	Meaning	Services	Country	Group	Link	Access
	negotiate new deals, and promote your business in Brazil. We will identify opportunities, open new markets and source local partners for you	social requirements. Enhancing existing contracts and agreements. Advice on dispute management and conflict resolution: mediation and arbitration. (2) Representation: Business mission settlement. Engaging accredited intermediaries. Developing a sustainable strategic network. Promoting open, objective, critical and constructive conversations. Cross-cultural translation of ideas, beliefs, attitudes and behaviours. Defence of interests and advocacy. Improving cooperation. (3) Information: compiling relevant, reliable and useful information. Constant observation and continuous reporting. Analysing publicised and published material. Creating communications sensitive to cultural, social and political components. Public speaking				

		and training of spokespeople. Events and protocol				
E&D [22]	Diplomacy at your company's service	STRATEGIC AND DIPLOMATIC ADVICE: Short- or medium-term operational advice on public affairs and relations with institutions and governments in support of your company's international development or its establishment in France. OPERATIONAL MEDIATION: Support with the negotiation and non-litigious resolution of disputes or investment issues. ADVOCACY AND INFLUENCE: The development and then management of influence and advocacy operations for the purposes of creating a favourable climate for our clients' interests	France	ADIT	www.entrepriseetdiplomatie.fr/en/prestations.php	29/07/15

Negotiation: operational [2], sensitisation and persuasion [3], authorities [5, 20], support [7, 22], in complex situations [17], new deals [21], contracts and clauses [21], mediation and arbitration [21].

Promotion: advocacy [2, 5, 21, 22], influence [1, 2, 5, 11, 22], interests [2], lobbying [7, 20], opportunities exploitation [11], coalitions [11], business [21].

Communication: media monitoring [1], public opinion [1], intelligence [3], optimising [5], briefing [6, 16, 19], material developing [7], publications [9], effective channels [13], debriefing [16], events [16], media relations [16, 21], customisation [19], promote open/objective conversations [21], information gathering [21], observation and reporting [21], sensitive to cultural/social/political components [21].

Defence: non-litigious dispute resolution [2, 22], courtroom and international/domestic law expertise [14], problem-solving [19], crisis management [7, 19], dispute management [21], interests [21].

Protection: interests [7], foresighting [7], risks anticipation [12], vulnerability to risks [11], secure business relation [13, 16], prevent/solve/minimise conflicts [13, 21] and misunderstandings [16], identify the tricks [16].

Each of the previously mentioned diplomatic function implies a collection of activities that could also be assembled by their reason, intention, talent demanded, targeting and stakeholders involved, time/space coordinates, and so on. For instance, diplomacy always presupposes relationships' cultivation, decision power mastery, skills for analysis and synthesis, strategy and tactics consideration, supporting planning and provision, bridging and bonding initiatives, intelligence, social events attendance and promotion, sustainability in a broad sense, principles/rules from diverse types and sources, peaceful mindset and means, multiple interlocutors, inter- and transculturality, draft of the mission and desired goals, etc. Hereafter we present some examples extracted from the surveyed companies (see Table 1).

Relationships cultivation: ecosystem of actors and engagement of parties [1], privileged contacts [3], opinion leaders [4], B2B contacts [5], networks building [7, 11], network cartography [12], broker [10], key actors [12], government [13, 14], critical relationships leveraging [14], right person to address [16], identify and approach of contacts [16], opinion-makers [18], source local partners [21].

Decision makers/making: access [2], identify and qualify [3, 4], shaping [5], highest levels lobbying [7], optimising [12], patterns [12].

Analytical skills: in-depth knowledge [2], deciphering [7, 12], research [9, 10], auditing [9], risk exposure [12], publicised and published material [21].

Synthetic skills: advising [2, 7, 10, 19, 22], counselling [3], consulting [5, 6, 9, 17, 20, 21], complex international problems solving [14].

Support to business: set the stage [10], settlement [6, 21, 22], help to start [3], development [2], trade and investment [5], staff relocation [6], projects [7], political [7], training [9, 21], to assist with legal/policy needs [15], tender preparation [16], meeting coordination [16], event logistics [16], secure position in foreign markets [17], identify opportunities [21].

Strategy: designing [3, 7], briefing [6], crisis management [7], geo-strategy [16], and tactic [19].

Internationalisation: emerging countries [3], new markets penetration abroad [7].

Monitoring: market conquest [3], trends [7], crisis and rupture anticipation [12], reputation [12], tender [16], local authorities [17].

Principled: contracts [2], etiquette [6], law [14], international/domestic regulations [14], protocol [21].

Bridging: cultures [6], local culture and socio-economic dynamics [13, 16], interpretation [16], customising your communications to local circumstances [19], cross-cultural translation of ideas/beliefs/attitudes/behaviours [21].

Bonding: commercial engagements [10], coalitions [11], potential partnerships [12], shared views [16], secure partnership [17], government engagement [18], specific associations [19], making overseas introductions [19], engaging accredited intermediaries [21], cooperation [21].

Leading: in-depth guidance [4], mentoring [6], open the right door and say the right thing to the right audience abroad [15], sending the right signals [16].

Legitimacy: reputation [7, 9, 11, 12, 19], social capital [9], credibility [10], make the right impression [10].

Multi-stakeholders: continuously changing relationships with [9], dynamic and complex interactions with [11], significant experience working with [14], secure/efficient/profitable relationship with [16], stakeholder networks [19].

Glocal: different structured and informal fora [9], local information [13], experience in a large number of countries throughout the world and in domestic institutions [14], corporate expansion across the globe [15], local media attention [16].

Intelligence: knowledge [10], market intelligence [12], local value added information [13, 16], legal expertise [14], environment and issues understanding [16], inside expertise [19].

Sustainability: long-term stability [13], long- term relation [16], sustainable partnership [17], sustainable strategic network [21].

Peaceful: create a smooth path [20], promote constructive conversations [21], creating a favourable climate [22].

Goal: success [13, 15], profitable business relation [13, 16], save cost and time [13, 16].

Findings show that companies offering BD services are rather attuned to the prior advanced comprehensive view on BD. Actually they go further to present a cornucopia of practical activities that really comply with the theoretical functions of diplomacy, and which can also be organised and hierarchised in accordance with the historical registers (e.g. the case of *proxenos*, first consuls, aldermen, etc.). This proves that BD was brought back to the scene (either as the company's main activity or as an auxiliary one), in an adequately adapted and contemporary manner. Nonetheless, it would be convenient to see up to what extent such movement has been accompanied by a proportional formative/educational infrastructure. In other words, it helps to see if there has been any synchronicity between the market and the academia.

Business Diplomacy inside Universities

The socio-economic impact of the university in the territory has become a recurrent topic of analysis, the perception of the community vis-à-vis the contribution of such an institution being as important as the issue of corporate social responsibility for the business firms. So far, many universities across the world have been offering courses, seminars and workshops on BD. For example: PhD in Business Diplomacy to Governments Bilingual Training (CEDS, Senegal); MBA in Business Diplomacy (INSEEC, France); MBA in Global Business Diplomacy (Arcadia University, USA); MBA honours certificate in International Business Diplomacy (Georgetown University, USA); mini-MBA in Business Diplomacy and International Finance (UMEF University, Switzerland); course on International Business Diplomacy (University of Cincinnati, USA); course on International Business Diplomacy (Newcastle University, UK); course on International Business Diplomacy and Negotiation (University of Coventry, UK); online course on BD (University of Sterling, UK); etc. For analytical purposes, all the universities/institutions analysed here were labelled with letters from A to V (see Table 2); the survey included 20 academic institutions from different research and educational fields, and countries. Please note that the order of the table's entries goes from the most complex (a doctorate course) to the least complex (a single seminar).

Main characteristics of the academic curricula. Several significant features can be highlighted from the analysis of the academic curricula on BD: (1) companies are becoming diplomatic entities in themselves [L, N, R, T, U]; (2) there is a correlation between BD and the theory/practices taken from the traditional diplomacy, sometimes referred to as 'political diplomacy' [L, P, T]; (3) the prominence of the company's representative – treated both as emissary, intermediary, interest defender, ambassador [A], representative [J], delegate [K], BD manager [L]; (4) the peaceful orientation of BD[14] taught in the academia, which is clearly linked with a 'constructive manner' [U] that leads to business sustainability [O]; it must be mention here that, the idea of 'sustainability' can also be found elsewhere [T], long haul [U]}

[14]What includes working also with both adversaries and neutral bystanders [U]?

Table 2: Universities.

University	Type	Level	Label	Meaning	Country	Link	Access
Centre d'Études Diplomatiques et Stratégiques de Dakar [A]	Graduate Studies	PhD	Business Diplomacy to Governments Bilingual Training: English and French	Ainsi assiste-t-on au développement d'une fertilisation croisée entre diplomatie d'État, diplomatie économique et diplomatie d'entreprise. Ce lien si étroit entre politique étrangère, économie et entreprises, puise sa source dans la certitude, que, l'influence politique passe par le rayonnement économique. Dans l'entreprise, le métier de diplomate d'affaires, qui n'est pas reconnu comme tel, qui n'est pas professionnalisé, est identifiable par la fonction de 'responsable des relations institutionnelles (RRI)'. Lobbying,	Senegal	www.cedsdakar.fr/?p=29	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				réseau, levier d'influence, veille, relationnel dans un environnement jugé 'politique', correspondent aux activités dites 'Business to Governments'. Émissaires devenus incontournables, intermédiaires privilégiés entre les décideurs politiques et les sociétés, les business diplomates, défendent les intérêts de leurs états et de leurs entreprises et s'appliquent à anticiper tout changement de l'environnement politique. Rouage essentiel à la mise en oeuvre de la stratégie d'entreprise, ils sont les ambassadeurs des affaires. Ils y jouent un rôle-clé, politique et			

stratégique..................
So we are witnessing the development of a cross-fertilisation between state diplomacy, economic diplomacy and business diplomacy. This so narrow link between foreign policy, economy and business, has its source on the certainty that the political influence passes through the economic radiation. At the company, the career of business diplomat (which is not recognised as such nor is professionalised) is identifiable by the function of 'responsible for institutional relations (RIR)'. Lobbying, networking, leverage of influence, observation, relationship in a 'political' environment,

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				correspond to the so-called 'Business to Governments' activities. Emissaries that have become essential, privileged intermediaries between policy makers and companies, the business diplomats represent the interests of their states and their companies and try to anticipate any change in the political environment. Vital part in the implementation of the corporate strategy, they are the business ambassadors. They play a key role, politically and strategically			
Georgetown University [B]	Landegger Program in International	MBA/BSc honors certificate	International Business Diplomacy	The primary mission of the Landegger Program is to train students for work at	USA	www.ibd.georgetown.edu	29/07/15

	Business Diplomacy			the intersection of international public and private sector activities. These young professionals, highly attuned to and knowledgeable of the demands and requirements of both sectors, will help bridge the differences in perception and communication that often separate these vital segments of society			
INSEEC [C]	MBA Business Diplomacy	MBA	Business Diplomacy	The significant and increasing interaction of state and non-state actors in business and diplomacy has accordingly led to the emergence of Business Diplomacy. More than ever before, government officials and representatives are urged to deal with non-state representatives to advance businesses, economies,	France	www.masters.inseec.com/en/masters-mba-programs/management-strategy/mba-business-diplomacy.cfm	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				development, cultural and public diplomacy. Business Diplomacy is of immediate and potential interest for students seeking to work in international organisations, non-governmental organisations, government institutions, diplomacy, global business and economy, think tanks, public relations and international negotiations. This MBA Programme, taught in English, treats Business Diplomacy in four different aspects: States & International Institutions; Non-State Actors; Corporate Strategy and Global Economy & Markets. The programme also			

				includes study tours and visits to international organisations, diplomatic and business representations, as well as workshops			
University od Cincinnati [D]	Course	BSc	International Business Diplomacy	Course classes include Service Marketing, B2B Negotiation, Financial Management, Sales Management, Fundamentals of International Trade, Cross Cultural Management, How to Deal with the French, International Business Diplomacy and A to Z Product Management.	USA	www.business.uc.edu/content/dam/business/academics/international/docs/Toulouse.pdf	29/07/15
Paris School of Business [E]	International Business Diplomacy Chair	Graduate	International Business Diplomacy	The Chair aims to cover an area of rising importance for companies looking at new markets and states willing to improve their external trade. At a time when France, a G8 country, sees economic diplomacy as 'a key	France	www.psbedu.com/business-school-news/launch-international-business-diplomacy-chair-paris-school-business	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				factor for influence and growth', the Paris School of Business believes that the creation of this Chair will provide a platform for discussion that relates to France's strategic objective			
International School of Protocol & Diplomacy [F]	Course	Intensive Training	Business Diplomacy & Public Affairs	Economic Diplomacy and Trade Missions; Country Branding; Intercultural Negotiations; Conflict Management ; Events Organisation: Diplomatic & Business Protocol; Image and VIP Management; Image and Business Table Protocol; Public Affairs and Institutional Relations; Who do you lobby and how?; Stakeholder management and coalition building; Reputation Management and Media Relations	Belgium	www.ispdbrussels.org/brochures/BDPA2.pdf	29/07/15

University of Stirling [G]	Online	Executive Course	Business Diplomacy	Business Diplomacy in the City of London	UK	www.stir.ac.uk/londonacademyofdiplomacy/online-and-executive-courses/	29/07/15
University of Deusto [H]	Meetings	General	Business Diplomacy	Deusto Business School and the Faculty of Social and Human Sciences are organising some meetings for leading Basque businesses and organisations as a means to provide information about this new type of management. Business Diplomacy has become increasingly important in recent years. This new business action area focuses on creating the conditions needed to succeed on foreign markets and boost achievement of organisations' objectives on the international scene. Given the University of Deusto's	Spain	www.dbs.deusto.es/cs/Satellite/dbs/en/the-university-of-deusto-organises-the-deusto-business-diplomacy-meetings/noticia?cambioidioma=si	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				engagement with the Basque productive fabric, the decision was made to organise a specialist seminar on Business Diplomacy tools and practical concepts. The event is being organised jointly by Deusto Business School and the Faculty of Social and Human Sciences.			
University of Gent [I]	Seminar	Academic	Business Diplomacy: International Relations in International Business	Practitioners and researchers met to define business diplomacy (and compare with related concepts), confront research with business diplomacy practice and vice versa and identify the key questions for a research agenda and for practice	Belgium	www.giis.ugent.be/events/seminar-business-diplomacy-international-relations-in-international-business	29/07/15

Newcastle University [J]	Course	BSc	International Business Diplomacy	1. Power, elites and governance in national business systems. 2. Transnational communities and global economic governance. The necessity, function, style and practices of international business diplomacy. 3. Elite networks and network governance. The axis of power between business, politics and government agencies. 4. Diplomacy, personal conduct and communication. Effective and efficient communication. 5. Diplomacy, joint ventures and alliances. The intricate web of international business. Joint ventures and alliances. Working with legal, financial and media professionals. 6. The media, campaigns and lobbying. Being a representative.	UK	www.ncl.ac.uk/undergraduate/modules/module/BUS3057	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				Scripting official communications. Influencing, shaping and mobilising public opinion. Legitimisation: concept, realisation and importance. Mass media and social movements, national and transnational			
UMEF University [K]	Graduate Studies	Mini-MBA	Business Diplomacy and International Finance	This tailored programme shows how to implement strategic thinking and planning, highlighting the issues that matter for your career and for your corporation. It shows delegates how to apply key concepts in making crucial decisions	Switzerland	www.umef-university.ch/minimba-in-business-diplomacy-and-international-finance/	29/07/15
European Institute for Advanced Studies in	I Workshop	Academic	Business Diplomacy	The competencies needed to deal with non-business counterparts such as foreign governments,	Switzerland	www.eiasm.org/frontoffice/event_announcement.asp?event_id=605	29/07/15

Management [L]				multiple domestic and foreign pressures groups or domestic civil society groups like tribal leaders or NGOs predispose that global companies acquire organisational competency in Business Diplomacy Management. This competency would help build bridges and networks between global companies and the complex political landscapes within which they conduct business. Many needed attributes of a Business Diplomacy Manager are comparable to the competency profile of a political diplomat other attributes are unique to the context of international business			
University of Coventry [M]	Course	General	International Business	The role of international business has increased	UK	www.seriousgamesinstitute.co.uk/study/International-	29/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
			Diplomacy and Negotiation	enormously over the past decades, providing many new global ventures and development, which in turn has called for a greater understanding of international diplomacy and negotiation. This module will provide students with the unique opportunity to develop their skills in business diplomacy, through a series of case studies, seminars and practical activities. Business leaders who have gained expertise in this field will give lectures discussing real world problems and solutions. Students will be introduced to case studies founded in diplomacy scenarios where they will learn how to conduct		Business-Diplomacy-and-Negotiation.aspx	

				negotiations across borders. Students will develop skills in the following but not limited to areas; diplomacy theory and practice, international business, cultural awareness, media and digital communication and team management			
Diplomatic Academy of Vienna [N]	Training	Directors & Deans of Diplomatic Academies and IR Institutes	Training for Economic / Business Diplomacy	'What business expects from Diplomacy' (Martin Bartenstein). Business Diplomacy; a survey among multilateral corporations (Raymond Saner). Training of Diplomats for economic/business diplomacy (Paul Meerts)	Austria	www.bdi.mfa.government.bg/download/WienProgram.doc	30/07/15
Arcadia University [O]	Graduate Certificate Program	MBA	Global Business Diplomacy	Offered in collaboration with Arcadia's International Peace and Conflict Resolution programme and the University for Peace in Costa Rica,	USA	www.arcadia.edu/file/global-business-diplomacy-certificate-completion1doc	30/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				the MBA in Global Business Diplomacy allows MBA students to combine peace studies with an examination of the global business environment. This programme goes well beyond the concepts of peace studies and human rights by incorporating fieldwork and problem-based learning focused on conflict resolution and sustainable development			
Geneva School of Diplomacy and International Relations [P]	Special Lecture	Master	Diplomacy and Business Management	The lecture dealt with suggestions on what global companies could learn from diplomacy and how global companies could improve their effectiveness by setting up a company-wide Business Diplomacy Management function.	Switzerland	www.genevadiplomacy.com/nyenrode-business-university-visits-gsd	30/07/15

Vrije Uniersiteit Brussel [Q]	Brussels Diplomatic Academy introduction	General	business diplomacy and international entrepreneurship	The Academy – with a clear focus on business diplomacy and international entrepreneurship – will prepare students for a career in diplomacy and international business. In addition the Academy offers a comprehensive range of topical seminars and executive courses to diplomats and business people and is your first point of call for consultancy, research and coaching on diplomacy and international business	Belgium	www.vub.ac.be/sites/vub/files/en/BDA/BrochureBrusselsDiplomaticAcademy.pdf	30/07/15
Federal University of Rio Grande do Sul [R]	Job market for future IR professionals	Admission	Business Diplomacy	Setor privado : aquelas mesmas habilidades e competências são necessárias para o sucesso de atividades em empresas privadas de diversos setores que interagem com o ambiente internacional. A defesa de interesses	Brazil	www.ufrgs.br/decon/ri/mercado.htm	30/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				comerciais, financeiros, tecnológicos, etc., de empresas privadas que atuam no mercado internacional está propiciando a emergência de uma nova atividade: a diplomacia de negócios (business diplomacy)................... Private sector: those same skills and competencies are required for successful activities in private companies from various sectors that interact with the international environment. The defence of commercial, financial, and technological interests of private companies operating in the international market is favouring the emergence of a new activity: business diplomacy			

University of Gent [S]	Ghent Institute for International Studies	Research	Economic and Business Diplomacy	GIIS places a special emphasis on economic and business diplomacy, which has been an archetypical feature of Belgian foreign policy decision making – as GIIS' research has been able to establish and anchor in the research field on this topic	Belgium	www.giis.ugent.be/research	30/07/15
University of Gent [T]	Seminar	Academic	Multinational corporations in a geopolitically dynamic world: How to shape Business Diplomacy competencies in practice	This expert-practitioner seminar will bring together businessmen, experts and other practitioners to deepen the understanding of how MNCS can shape Business Diplomacy competencies. Moving away from a purely shareholders approach to a stakeholders approach is a necessity in this geopolitically dynamic world. Firms will need executives with skill sets similar to those of effective diplomats. It is only by	Belgium	www.giis.ugent.be/events/multinational-corporations-in-a-geopolitically-dynamic-world	30/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				adopting a more 'diplomatic mindset' provided by Business Diplomacy that a company will be able to manage ever-expanding international risks, safeguard its profit-making and secure in the long haul its existence			
European Institute for Advanced Studies in Management [U]	II Workshop	Academic	Managing non-market corporate relationship capital: The role, function, and competency requirements of Business Diplomacy	This workshop builds on findings of the first workshop held at EIASM on 13–14 November 2008. The second workshop will deepen the conceptual development of Business Diplomacy and share both research findings and practitioners' reflection on sector specific applications. The workshop addresses the needs of business to conduct sustainable and	Switzerland	www.diplomacydialogue.org/images/files/20110409-Business%20Diplomacy%20DD%20EIASM%202010.pdf	30/07/15

				mutually beneficial relations with a multitude of parties in a multi-stakeholder context. Business diplomacy goes beyond corporate social responsibility. It attempts to defend an enterprise' interests in a constructive and diplomatic manner vis-à-vis non-business stakeholders. Business diplomacy thus assists the companies in maintaining a working rapport with both adversaries and neutral bystanders resulting in more effective risk management and limitation of potential lose–lose confrontations			
Netherlands Institute of International Relations (Clingendael) [V]	Seminar	Academic	Multinational Corporations, Geopolitics and Business Diplomacy	This seminar will bring together businessmen, other practitioners and experts to deepen the understanding of how MNCs can shape Business Diplomacy competencies. Geopolitical change	Netherlands	www.clingendael.nl/event/multinational-corporations-geopolitics-and-business-diplomacy-competencies	30/07/15

Table 2: Continued.

University	Type	Level	Label	Meaning	Country	Link	Access
				demands a move away from a shareholders perspective to a stakeholders approach. Firms are no governments, but they need executives with skill sets similar to those of effective diplomats. By adopting a more ‘diplomatic mindset’, companies will be able to manage ever-expanding international geopolitical risks, safeguard profit-making and secure their existence in the long haul			

surely alluding to legitimacy [J], public opinion [J] and reputation management [F]; (5) the need for mutually beneficial relationships within a multi-stakeholder context [U]; actually, dealing with multi-stakeholders is in the very premises of diplomacy [C, F, J, L]; the 'political power' of diplomacy comes next [A, J, K], calling for coalition [F], joint ventures and alliances [J]; (6) diplomacy is seen as a principled activity: protocol [F], governance [J], law [J], and culture [F, M]; (7) the companies´ goals prevail: trade promotion [E], market success [H], profit-making [T], limitation of risks [U].

Main diplomatic functions. The analysis identified: representation [A, J]; negotiation [C, F, M]; communication [F, J]; promotion {improve trade [E], boost objectives [H]; protection [O, T, U]} and defence [A, R, U]. As for the alternative regrouping of the activities belonging to each main diplomatic function, it is possible to retrieve the following features: decision makers/making-power [A, J, L]; analytical skills development [M]; synthetic skills [K, L, T]; support to business [F]; market strategy [F, K]; internationalisation [H, J, L, R]; monitoring [A]; bridging [A, L]; bonding [J, U]; leading [U]; glocal [L] and intelligence [M, T].

It is significant to note that BD has been appointed as an area with a great potential for new jobs creation {for students seeking to work [C], emergence of a new activity [R]}; as well as it has been used to develop new syllabus {see for instance [F] and [J]}. The cited syllabus[15] includes topics such as trade missions, branding, intercultural negotiations, conflict management, events organisation, protocol, image management, lobby, coalition building, reputation management, media relations, governance, elite networking, power agency, personal conduct, efficient communication, alliances, influencing, mobilisation, public opinion, legitimisation, social movements, etc.

Saner et al. (2000, pp. 88–90) have introduced some key features to the training in BD that could also function as platform for an academic syllabus, since they suggested, among others, subjects like: history of international relations and diplomacy; roles and functioning of intergovernmental organisations such as the UN family institutions; basic knowledge of key national legal systems; evolution of the world economy; understanding and influencing the decision-making process; ability to be a gracious host to a wide variety of interlocutors; cross-cultural awareness; understanding the management of international crisis; skills in presenting and representing one's own company and country; strategy, tactics and procedures of negotiations; understanding and mastering the use of diplomatic instruments, protocol, etiquette and practice. Nobre (2011) has also submitted a syllabus for a course on BD that contained: history and philosophy of diplomacy; BD as a multi-stakeholder/multi-disciplinary/client-oriented/result-driven field; types of diplomacy (public, private, NGOs, etc.); diplomatic functions (representation, negotiation, communication, promotion, and defence); BD embassies and consulates; media relations; crisis management; ethics and protocol; BD goals, techniques, performance, outputs; planning /marketing/management for companies' BD.

[15]A plan showing the subjects to be studied in a particular course.

Conclusion

The chapter has presented evidence on the growing interest of business and academic sectors (companies and universities) for BD. In a globalised world, companies have to adapt their market strategies and business models to include a BD unit as part of their business portfolio or as their main activity. In line with this, the value addition associated with BD activities invites universities to do more research in the field and to include BD studies in their academic curricula. Moreover, as the above surveyed universities have shown, the supply of courses on BD, together with knowledge creation and dissemination could contribute to a better perception of the business firms' involvement in the social environment. The changes undertaken by the national research systems, both at the country and regional level (i.e. the creation of the European Research Area), have shown that a new research model must come into place, and BD could play a role, by intermediating the partnerships between university, industry and also governments. In particular, the market-model, usually associated with a greater risk, derived from the nature of the strategic alliances and the venture capital involved, could benefit from this agency relationship. Moreover, both firms and university could mutually benefit from a greater impact of their research in the community, thus, further legitimising their role in the society. In the new paradigm of the knowledge-based society, where both the academia and the industry are participating in the creation of knowledge, BD could play an important role in the partnerships between university, industry and governments.

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