

Working Paper

Project “Diplomacy in the 21st Century”
Stiftung Wissenschaft und Politik (SWP)/
German Institute for
International and Security Affairs

Wilfried Bolewski

Corporate Diplomacy as symbiotic transnational governance¹

Working Paper
Project “Diplomacy in the 21st Century”
No 17
September 2017

¹ The working paper was produced in the framework of the project “Diplomacy in the 21st Century”, which is funded by the German Ministry of Foreign Affairs and the Zeit-Stiftung.

Table of Contents

| | |
|--|---|
| 1) Changing expectations weighing on transnational corporations..... | 3 |
| 2) Transnational corporations' reactions to public expectations | 3 |
| 3) Corporate Political Activity | 3 |
| 4) Corporate Diplomacy/ Corporate Statecraft as business approach..... | 4 |
| 5) Change in corporate mind-set | 5 |
| 6) Relationship between diplomacy and Corporate Diplomacy | 5 |
| 7) New set of relational competences for Corporate Diplomats | 5 |
| Recommendations..... | 6 |

SWP

Stiftung Wissenschaft und Politik
German Institute
for International and
Security Affairs

Ludwigkirchplatz 3- 4
10719 Berlin
Phone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

SWP Working Papers are online publications of SWP's research divisions which have not been formally reviewed by the Institute. Please do not cite them without the permission of the authors or editors.

1) Changing expectations weighing on transnational corporations

With globalization and the rise in social power of transnational corporations they face constantly changing expectations of their role in society as the ultimate stakeholder. Global business firms are confronted with social and environmental demands and are requested to take responsibility for issues of public concern in creating more just and peaceful societies. These are new challenges and new roles for business that were previously thought to be the domain of nation states, such as public goods. Today, corporations are under increasing scrutiny by the general public including civil society and their external stakeholders with regard to their social responsibilities. By contributing to economic growth, companies play a significant social and political role in addition to their economic one, with an impact at the local, national and transnational levels. They are now expected by public pressure to reconcile the interests of their shareholders with those of society while addressing issues of public goods. Global corporations thus become political actors extending their social power and influence.

Globalization calls for a fresh view concerning the political role of business in society and its contribution to private and public values. Business must become conscious of its social capital and responsibility. The reality in the 21st century is that transnational corporations cannot escape politics, nor can they consistently pretend to be politically neutral. The solution is to embrace the need to engage politically and diplomatically.

2) Transnational corporations' reactions to public expectations

Transnational companies may choose or be forced by public expectations to having a foreign policy in order to navigate these challenges on the global scene and to connect their self-narrative and their perceived identity as well as their economic strategy, risk management, corporate social responsibility.

In the process of voluntary, discretionary and subsidiary corporate-governmental task-sharing, global business nowadays assumes quasi-governmental functions and social responsibilities (without legal obligations) in the international policy-making process (Corporate Political Activity), such as:

- a) Proactive and deliberate participation in creating, enforcing and changing formal rules and social norms of international business (as rules entrepreneurs), instead of having inimical rules imposed
- b) Provisions of public goods and social services
- c) Enforcement of human rights
- d) Participation in public diplomacy
- e) Creation and insurance of a stable external environment: searching, discovering, conceiving, and implementing favourable conditions for the conduct of corporate activities
- f) Responsibility for global economic stability
- g) Joint public and private risk assessment and management: minimise or overcome critical challenges (contributions to societal peace and conflict resolution)

The most appropriate way to comply with these societal expectations and social responsibilities of concern/care for transnational (private and public) conflict-prevention and -solution is through the conceptual means, procedures and principles of diplomacy.

3) Corporate Political Activity

Given the human-centric and politicized nature of international business, its leaders can and should draw on procedures and tactics used within the diplomatic world as »best practices« (dialogue, empathy and sensitivity for the other, mutual restraint for the sake of sustainability) to engage with other firms, governments, NGOs, media and the general public. The civilizing virtues of diplomacy offer a rich set of lessons and insights into causes of success and failure in a human-centric environment. Applying these lessons and select skills from the

»business of diplomacy« can be useful to commercial ventures in a complex global business environment, creating new, relationship-driven, risk mitigating and prospect maximizing opportunities:

- a) In response to their political corporate social responsibility transnational companies engage in activities such as public health, education, social and security services, public infrastructure and even protection of human rights in countries where such services are failing. Examples: (1) The work of Chevron in Angola and Nigeria to craft multi-stakeholder partnerships to further broad-based development goals and contribute to peace building and poverty alleviation. (2) The success of the Niger Development Partnership Initiative in restoring Chevron's licence to operate in the aftermath of violent inter-ethnic conflicts in 2003.
- b) Global corporations take on the role to address governance gaps or political conflicts in host countries when nation-states and/or international organizations are unable to address and resolve pressing social issues. While mitigating social or political tensions in conflict-prone regions, they can ultimately achieve societal benefits, while at the same time reducing business risks, capturing new business opportunities and safeguarding the company's image and reputation.
- c) With their communication and engagement activities corporations are interacting with governments, NGOs and other corporations to maintain their political and moral legitimacy and a social licence to operate as strategically relevant in the eyes of society, meeting public expectations. Their interactions must be perceived as fair and appropriate by both local and global stakeholders, critical in securing support and building trust for a sustainable reputation. Perception of an ethical business behaviour matters as much, maybe even more, than facts and figures.

4) Corporate Diplomacy/ Corporate Statecraft as business approach

These tasks of planning, forecasting and managing international issues, influencing and working with other international actors, operating within diverse cultural and societal environments, anticipating conflicts and coping with multiple crises should induce transnational companies as interlocutors in global governance to adopt and invest in Corporate Diplomacy/Corporate Statecraft. Thus, diplomacy – as the behavioural craft to peacefully and sustainably manage the needs and interests of all concerned transnational parties - can serve as a bridge into a mix of complementary political, economic, social and cultural dynamics. Human engagement is the key to understanding potential pathways to successfully meeting the social and ecological expectations and creating shared value and stability for society without sacrificing the business mission of attaining economic, reputational and relational advantages.

Corporate Diplomacy can be described as a business approach and management practice of influence. Its main goal is to strategically manage the stakeholders' universe of the corporation, in order to ensure a favourable international business environment, by increasing the level of transparency, aiming for a long-term bond of complicity, with a positive-sum nature, amongst other social purposes.

In times of governmental retrieve, disturbances or radicalizing dysfunctionalities (Presidents Trump's climate change policy or President Erdogan's international restrictions), corporate diplomacy by transnational corporations could even play a balancing role. Under these circumstances corporate diplomacy can become as important as political diplomacy.

Transnational corporations that fail to engage proactively in corporate diplomacy risk being criticised by the general public and might not be able to uphold their legitimate socio-political role in society.

5) Change in corporate mind-set

Corporate Diplomacy requires a new way of thinking within corporations: thinking and acting diplomatically in pursuing an enlightened self-interest will provide sustainability and acceptance. It incorporates a consciousness of companies managing global governance in conjunction with other actors on the world stage to satisfy the broader expectations in today's world. This expanded corporate mind-set cultivates an externally facing long-term attitude, integrating the principles of diplomacy into its strategies for international markets.

Corporate leaders could learn much from diplomatic practitioners in terms of a decentralized diplomacy:

- a) Mastering the arts of cross-cultural and strategic communications, relationship and network building, advocacy and representation. This includes the opening of the traditionally static business mind-set to the changing dynamics of the political, social and cultural environment.
- b) Building-up human-centred, long-term orientation knowledge of »how to work the system« instead of just »how things work«.
- c) Practicing another approach to business, peace and security to control the new normal of turbulences and uncertainties in order to find ways of working between diplomats, government and civil society to prevent, mitigate and resolve conflicts.

Corporate diplomacy is a mind-set that sees the role of business as working with government to create societal rules which govern the conduct of business.

6) Relationship between diplomacy and Corporate Diplomacy

Today, international business involves the need to incorporate traditional diplomatic practices alongside management policies. The relationship between diplomacy and Corporate Diplomacy is neither one of pure rivalry nor complementarity, but one of

functional symbiosis between diplomatic tools, procedures and mind-set and best practices of international management (such as flexibility, imagination, innovation and motivation). Corporate Diplomacy is a practical mix of tough analysis and gentler interpersonal elements in pursuit of hard-edged objectives. Corporate diplomats are engineers of consent with stakeholders' long-term interests at heart. This practice of Corporate Diplomacy leads to mutually beneficial cross-fertilization between the two systems, adding value and creating shared values according to private and public societal needs.

The dynamic capability of Corporate Diplomacy provides the bridging of the gap between the core business activities and having an understanding of the politico-social elements. Hence, in the current and future international business environment, Corporate Diplomacy practices, already present in some transnational corporations, will be perceived as an indispensable tool that can translate into a form of competitive edge.

In the ongoing process of privatization and trans-professionalization of diplomacy, Corporate Diplomacy – with de facto diplomats - is enlarging the diplomatic space, drawing corporations into diplomatic processes to influence the political space by addressing the (social) root causes of conflict and embracing their role in global governance, a dynamic capability not yet fully exploited.

7) New set of relational competences for Corporate Diplomats

The synergy of business interests, corporate values and diplomatic know-how requires additional specific tools and integrated diplomatic capacities for the Corporate Diplomat – beyond the traditional managerial intelligence –:

- a) Psychological skills: enthusiasm for diversity, self-assurance, self-confidence, and willingness to challenge oneself, maintaining a prepared mind
- b) Intellectual skills: contextual intelligence

and knowledge of foreign business as well administrative cultures and international affairs, analysing information and providing advice with a political awareness; language skills; mastering diplomatic practices and protocol

- c) Social skills: moral underpinning and ability to build trusting relationships and integrated networks with people from different parts of the world, balancing competing motives, acting like an orchestra conductor searching for harmony
- d) Behavioural skills: passion and empathy for the other; enthusiasm for working globally;
- e) Discretion, patience, humility, restraint and a high sense of ethics, in order to make acceptable and sustainable win-win decisions.

Recommendations

- a) Corporate Diplomacy is becoming the transnational process of social relationship adopted by an extended diplomatic community. Thinking and acting diplomatically not only promotes understanding of international societies, it also offers the cutting-edge for tomorrow's management of transnational partnerships.
- b) Transnational Corporations should proactively embrace the strategy of Corporate Diplomacy and set up Corporate Diplomacy Management Offices under the direct supervision of the CEO creating their own contextual, industry- and firm-specific Corporate Diplomacy culture throughout the company and practicing the civilizing virtues of diplomacy (dialogue, engagement, empathy and sensitivity for the other)
- c) Joint diplomatic and management leadership training should be provided in-house seconded by professional diplomats.
- d) Diplomatic academies, international business schools and universities (following the examples of Harvard, Wharton, USC Annenberg, Hult and Sciences Po Paris) should introduce Corporate Diplomacy as an optional curriculum.

About the author

Wilfried Bolewski was a German Ambassador and Chief of Protocol for Chancellors Schröder and Merkel. He closely observed international diplomatic practice at the highest level. As Professor of International Law and Diplomacy he has been teaching at Freie Universität Berlin, Sciences Po Paris, the American University of Paris and the American Graduate School in Paris. He is an Associate Editor of the new journal »Diplomacy and Foreign Policy« (Brill Research Perspectives in Diplomacy and Foreign Policy).

wilfried.bolewski@sciencespo.fr;
wb.diplo@hotmail.com

Selected references

- Chipman, John, »Why your company needs a foreign policy«, in: *Harvard Business Review*, September 2016, p. 36
- Constantinou, Costas M./Cornago, Noé/McConnell, Fiona »Transprofessional Diplomacy«, in: *Diplomacy and Foreign Policy*, 1 (2016) 4, p. 1
- De Fouloy, Christian D., »The corporate diplomacy manager; competences and training«, Association of Accredited Public Policy Advocates to the European Union, 10.10.2016, <<http://www.aalep.eu/corporate-diplomacy-manager-competences-and-training>>
- Fort, Timothy L., *The diplomat in the corner office. Corporate Foreign Policy*, Stanford University Press, 2015
- Haynal, George, »Corporate statecraft and its diplomacy«, in: *Hague Journal of Diplomacy*, 9 (2014) 4, p. 393
- Henisz, Witold J., *Corporate Diplomacy: Building reputations and relationships with external stakeholders*, Greenleaf Publishing, 2014
- Porter, Michael E./Kramer, Mark R., »Creating shared value«, in: *Harvard Business Review*, 89 (2011) 1-2, p. 62

- Ruël, Huub/Wolters, Tim, »Business Diplomacy«, in: Constantinou, Costas M./Kerr, , Pauline/Sharp, Paul(eds.), *SAGE Handbook of Diplomacy*, 2016, p.564-573
- Sako, Mari (2016), »The need for Corporate Diplomacy«, in: *Communications of the ACM*, 59 (April 2016) 4, p. 33
- Westermann-Behaylo, Michelle K./Rehbein, Kathleen/Fort, Timothy, »Enhancing the concept of corporate diplomacy: encompassing political corporate social responsibility, international relations; and peace through commerce«, in: *Academy of Management Perspectives*, 29(2015)4, p. 387