

Business Diplomacy: a tool to manage the increased power and influence of Multinational Corporations

-Final Dissertation -

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ACRONYM LIST

BD Business Diplomacy

CD Corporate Diplomacy

CMD Commercial Diplomacy

PA Public Affairs

IC International Community

MNC Multinational Corporation

TNC Transnational Corporation

NGO Non-Governmental Organization

VCDR Vienna Conventions on Diplomatic Relations

VCCR Vienna Conventions on Consular Relations

TRIPS Trade-Related Aspects of Intellectual Property Rights

IPL International Public Law

INTRODUCTION

1. Purpose of the paper

In the last century the International Community has undergone multiple transformations. One of the most noticeable is how Multinational Corporations have appropriated part of the power belonging to traditional state actors and governmental institutions, and have gradually started to take up more space within the global decision-making sphere. In this context, the paper seeks to analyze the consequences of these changes, and how Business Diplomacy is slowly becoming the tool multinationals require for managing and adapting to such transformations. Accordingly, the research question of this paper focuses on understanding how and why Business Diplomacy has emerged as a tool for managing the complex relationships Multinational Corporations have with different stakeholders, and how Corporate Social Responsibility can be used for the purpose of executing BD strategies.

Since the execution of diplomacy has traditionally been subject to state actors, the paper begins by examining the evolution of the field of diplomacy, and how it is adapting to the new circumstances taking place within the international arena. For this reason, several configurations of diplomacy are identified and distinguished between one another, depending on the functions they serve. Accordingly, the first part of the paper studies the factors which forced the emergence of new forms of diplomacy, and the role MNCs have had in the evolution of the global society in response to globalization.

Once having analyzed the role of MNCs, the central part of the dissertation studies the links between multinationals and diplomacy, since the internationalization of businesses is forcing them to use traditional state-related mechanisms employed for executing international relations and managing foreign affairs. On this stand, the increased need businesses have for using diplomatic means as a way of relating with other actors and conducting their communication and negotiation interactions, is evaluated. To do so, the origins and evolution of Business Diplomacy are assessed through research carried out with the purpose of providing a deep understanding of what this practice consist of. Accordingly, the research focuses on scholar's theorizations about this field of study to provide an accurate definition of the term. In addition, the different tools used to carry out Business Diplomacy are identified, as well as the persons in charge of executing it, and the abilities needed to do so.

In the last chapter, the paper also draws special attention to the tool of Corporate Social Responsibility, as it has become a common mechanism used by firms as part of their overall Business Diplomacy strategy. In line with this, the dissertation will conduct an examination of how multinational firms make a use of social responsibility tools for achieving the goals of Business Diplomacy. To do so, it will focus on its contributions in terms of reputation, and economic and social development. Additionally, this last part includes two case studies which provide evidence on how necessary BD and CSR has become for international firms operating in foreign markets.

Therefore, as nowadays it is inevitable to not think globally, it is relevant to assess the role diplomacy has had in international interactions between countries, and how actors of different nature need similarly engaging tools for conducting diplomatic relations with others, due to their increased relevance within the overall international arena. Furthermore, despite several scholars criticize the surge of new diplomatic practices, the paper attempts to raise awareness on the importance of Business Diplomacy as a new field within the studies of diplomacy. In addition, the fact of focusing on Multinational Corporations is meant to demonstrate how the role of big corporations can no longer be ignored, and it must be assessed whether their engagement in these practices is beneficial for the global society, their survival and growth.

2. Methodology

The recent emergence of the field of Business Diplomacy and its recent inclusion within business literature has translated into a lack of studies which organize and bring together the fragmented literature on this topic, compare the different views proposed by authors, and study these aspects together with an analysis on corporate power, and the social responsibility deriving from such clout. For this reason, the purpose of this paper is to fulfill the absence of this type of research on this field. To do so, the paper uses the deductive method based on the examination of the bibliography to contribute to the study of this subject by providing an inspection on how and why Business Diplomacy is emerging as an essential field of work and study. Accordingly, this initial section outlines the main parts of the dissertation and the research method they will follow.

Different forms of diplomacy have appeared as the result of the emergence of new actors participating or influencing the international political and economic governance processes. Even though there are several authors who oppose to the adaptation of diplomacy into other fields which are not related to conducting states' international relations, not doing so has been inevitable. This is because diplomatic knowledge nowadays also appears to be necessary for Multinational Corporations. Considering that actors of different nature have come to occupy and share a space which was traditionally comprised of states, has resulted in MNCs using the same tools created for countries, but adapting it to their own nature. Accordingly, Business Diplomacy is most commonly referred to as the transformation of classical diplomacy into the business sphere.

In response to the transformation of classical diplomacy, this Final Masters' Dissertation aims to provide further evidence about how the practice of Business Diplomacy is becoming increasingly necessary for Multinational Companies, as a tool to manage their increased presence within the International Community, and the consequences such a presence entails. However, as of today, there is no consensus on the term *Business Diplomacy*. Accordingly, the paper identifies three different definitions of multiple authors, these being Manuel London (1995), Raymond Saner and Lichia Yiu (2005), and Huub Ruël and Tim Wolters (2012). The paper studies the definitions provided by these authors since among the limited literature there is on this topic, they are the ones who have conducted more research and provide more empirical and theoretical evidence which has allowed the study for this dissertation. Moreover, the theoretical development of this field carried out by such authors has permitted its integration within the business literature, and a starting point for future research. At the same time, considering that BD is a field which has emerged just recently, and there is scarce and fragmented literature on the topic, the paper uses the term *Corporate Diplomacy* as a synonym,

to analyze bibliography which can contribute with the purpose of this research due to the similarities with BD. Nonetheless, the term BD is distinguished from other related terms, which besides being related to the field of diplomacy, serve different purposes within the business sphere.

The paper also draws special attention to the field of CSR because it focuses on the management of stakeholder relations and the compliance with social and environmental demands. Hence, the dissertation analyzes how corporate citizenship is related to the field of BD and how in nowadays' business environment both disciplines need each other. To do so, the paper uses the definitions developed by the European Commission and the International Labor Organization, and it studies the activities such practice involves, as well as the standards developed by international organizations aimed at providing businesses with a guide on how to act ethically.

CHAPTER 1: EVOLUTION OF DIPLOMACY AND CHANGES WITHIN THE INTERNATIONAL COMMUNITY

3. Classic Diplomacy and its origins

Although diplomatic negotiations and practices can be traced back to earliest human communities, the antecedents of the modern notion of *diplomacy* arose by the 15th century from the relations of early sovereign states, after the Peace of Westphalia.¹ At that point, the first diplomats appeared, and through the centuries, their work gained the prospects of a profession, which expanded from Northern Italy across Europe.² However, diplomatic practices among human groups and communities go back before the earliest historical records.³ Long before the term *diplomacy* was coined, humans had already engaged in methods through which they executed a series of actions which allowed them to cooperate, negotiate, end conflicts peacefully, and preserve and assess their relationships with other communities and peoples.⁴ Hence, although there were no diplomatic institutions or figures *per se*, diplomatic negotiations can already be distinguished in the first human societies.

Leaving behind the initial non-official forms of diplomatic practice, by the year 1648 and the Westphalian Peace, diplomacy acquired a central role within the relations between states.⁵ Since that moment, the first definitions on diplomacy and the role of diplomats began to be drafted.⁶ However, it was not until the year 1815 with the Vienna Congress, that the first formal diplomatic protocols were established.⁷ Evolving around the objective of peace for Europe after the Napoleonic Wars, the Congress of Vienna established the basis for nowadays states'

¹ NIGRO, L. J., *Chapter 13: Theory and Practice of Modern Diplomacy: Origins and Development to 1914*, 2010. p.181.

² *Ibid.* p. 179.

³ RUEY, T. D., "The History of Diplomacy and the Ancient Greek, Italian, Roman and French Diplomatic Traditions", *Diplomatic World Institute*, 2021, fecha de consulta 15 enero 2021, en <https://www.diplomatic-world-institute.com/en/history>.

⁴ *Idem.*

⁵ *Op. cit.* Footnote 1.

⁶ *Ibid.* p. 182.

⁷ SOFER, S., "Old and New diplomacy: A Debate Revisited", *Review of International Studies*, vol. 14, n.º 3, 1988, p. 195.

diplomatic encounters, one of the most successful diplomatic events.⁸ As regarded, at that point, diplomacy, or as referred to by some scholars as *old diplomacy*, was established as a set of mechanisms which could maintain Europe from major military conflicts.⁹ Hence, new instruments which could be employed for negotiations were undeniably useful to assess the changes in the balance of power between states.

At this point of history, countries' relationships were mainly managed through diplomatic institutions, and other political and administrative channels were rarely used for such purposes.¹⁰ Despite its functionality, *old diplomacy* came to an end since it failed its purpose with the outset of the First Great War, and it proved unsuccessful in guaranteeing its central objective.¹¹ Despite its failure, the early notion of diplomacy did provide a central aspect which has evolved together with the term itself; its adaptability. In fact, it can be said that diplomacy itself arose as a mechanism to adjust the states to the changing circumstances of the international society.

By the year 1914, *old diplomacy* entered a deep crisis which was not able to recover from. With the outbreak of hostilities of the First World War, it became clear that the instruments and institutions used for international diplomacy at the time had failed. Aware of the necessity to prevent another Great War, numerous scholars and politicians were driven to find new forms of diplomacy which could serve such purpose, and which could better adapt to the new and fast-changing international order. It was the United States' President Woodrow Wilson, who, in 1918 preceded the search for a *new diplomacy*.¹² With his speech on the Fourteen Points, President Wilson introduced a new system through which international behaviour could be managed and discussed among states. His proposal at the Versailles Peace Conference; the League of Nations, since the creation of such an organization would become a guarantee for peace and dialogue.¹³ Accordingly, this new form of diplomacy aimed at expanding democracy and rule of law across the globe, through multilateral cooperation.¹⁴ Together with the rejection of expansionist war aims and the *secret diplomacy* among powerful politicians, a new form of diplomacy began to take form.¹⁵ Among the points introduced by President Wilson, diplomacy was put at the core as an instrument for managing these new freedoms and types of relations which displaced old diplomatic practices when carrying out foreign policy.

Despite the high hopes Wilson had placed on the International Community, secrecy and opacity made a comeback. However, history proved once again that war and conflict were not a failure of diplomacy itself, rather what failed was the way in which diplomacy was being carried out, and how poorly the balance of power was being handled. It therefore became evident that diplomacy needed to rest upon a set of moral principles.¹⁶ Following this idea, a series of efforts were made with the aim of drafting a document which would incorporate the

⁸ PLICHKE, E., *Modern Diplomacy. The Art and the Artisans*, American Enterprise Institute for Public Policy Research, 1979. p. 7.

⁹ LANGHORNE, R., "The Regulation of Diplomatic practice: The Beginnings to the Vienna Convention on Diplomatic Relations, 1961", *Review of International Studies*, vol. 18, n.º 1, 1992, p. 4, 5.

¹⁰ HUGHES, M., *Diplomacy before the Russian Revolution. Britain, Russia, and the Old Diplomacy, 1894-1917*, vol. 53, 1, Palgrave Macmillan, London, 2015. p. 2.

¹¹ *Op. cit.* Footnote 7. p. 197.

¹² *Idem.*

¹³ *Op. cit.* Footnote 10. p. 4.

¹⁴ *Idem.*

¹⁵ *Idem.*

¹⁶ *Op. cit.* Footnote 7. p. 197.

principles of diplomacy and its objectives, together with the norms which would regulate diplomatic relations, as well as the role of diplomatic representatives, and the rights and immunities they assumed with the role. The outcome of these attempts resulted in the Vienna Conventions on Diplomatic and Consular Relations of 1961 and 1963. Such Conventions are the principal regulatory means for these types of relations, and altogether, they have contributed to the current codification of Diplomatic Law within International Public Law.¹⁷ Additionally, there are several other Conventions which have been drafted to assess the growing fields in which diplomacy is expanding.¹⁸

Considering the changes that diplomatic practice has undergone throughout history, it is relevant to provide a definition which also considers what factors and actors are involved within the exercise of such practice. Authors like Alan James and G. R. Berridge in their work *A Dictionary of Diplomacy*, provide a state-centered interpretation and use it as a synonym for foreign policy:

Diplomacy:

*The conduct of relations between *sovereign states through the medium of officials based at home or abroad, the latter being either members of their state's *diplomatic service or *temporary diplomats. (...) Diplomacy is therefore the principal means by which states communicate with each other.*¹⁹

Other scholars, however, provide an interpretation which changes the conceptualization of the term itself, and open the possibility to consider diplomatic practice in a broader sense, detaching it from the state-centric approach. As Stuart Murray suggests, when assessing the theory and practice of diplomacy, the evolution of its understanding must be considered, since there are a broad number of analytical perspectives which derive from it.²⁰

It is Elmer Plischke who introduces a definition with enough detail to assess the evolution of diplomatic practice throughout time:

*Diplomacy may be defined as the political process by which political entities, generally states, conduct official relations with one another within an international environment. With the proliferation of the institutionalization of international affairs by other than classical diplomatic processes, and with the engagement in interrelations by political institutions other than states – such as international and supranational organizations, emergent political entities, and the Vatican – diplomacy can no longer be said to be confined solely to the conduct of the international affairs or foreign relations of established national states.*²¹

At this point, Plischke introduces the idea that the concept can also be applied to political institutions other than states, private individuals, and corporations, since they can also engage

¹⁷ Costas M. Constantinou, Pauline Kerr, Paul Sharp (eds.) *The SAGE Handbook of Diplomacy*, SAGE Publications, London, 2016, p. 7.

¹⁸ *Op. cit.* Footnote 17.

¹⁹ BERRIDGE, G. R.; JAMES, A., *A Dictionary of Diplomacy*, 2, Palgrave Macmillan, London, 2001. p. 69.

²⁰ MURRAY, S., "Consolidating the Gains Made in Diplomacy Studies: A Taxonomy", *International Studies Perspectives*, vol. 9, n.º 1, 2008, pp. 23, 27, 28.

²¹ PLISCHKE, E., *Modern Diplomacy. The Art and the Artisans*, American Enterprise Institute for Public Policy Research, 1979. p.33.

in practices and functions like those pursued by national states and international organizations.²²

Although considering there seems to be a lack of common understanding on the term itself in the current international order, the paper is going to work with this last definition since it adapts to new emerging forms of diplomacy. Many scholars propose interpretations which fail to consider new diplomatic practices and the involvement of new actors. Due to the evolution of international relations, diplomacy has appeared to encompass more activities, and states are no longer the only actors which seem to be involved in its exercise. Moreover, the emergence of new challenges within the global sphere, which also require from diplomatic cooperation, have outdated the traditional state-centric definition. Accordingly, it is precise that we analyze the impact globalization has had on international affairs and consequently, on how diplomacy has had to adapt to the changing circumstances.

4. Power shifts within the International Community: the rise of MNCs

It is difficult to signal a point in which globalization started. Accordingly, it is more convenient to assess globalization as a process marked by specific moments in history which can be considered turning points in the evolution of such process.

After the Second World War, a vast number of states became independent, while many regional and international organizations were also created. Moreover, one of the main changes which have been introduced by globalization is the appearance of new actors which have the ability and the capacity to interfere within traditional international interactions, due to their growing power and influence. Their appearance has reshaped international relations in a way in which states are no longer the sole actors within the international arena. Resulting from this fragmentation of actors and change in composition, diplomacy has shifted from a bipolar stand to a multipolar approach, forcing diplomatic relations to increase dramatically since the 20th century.²³ But not only diplomatic relations have increased, but they have also been transformed.

Although globalization spurred the emergence of new actors with great amounts of power, it is the liberalization of trade which has permitted the wide expansion of companies into foreign markets.²⁴ Accordingly, since the Second World War and the creation of organizations like the World Trade Organization, the trade of goods and services has progressively increased year by year, and it continues to do so, engaging all states in the world.²⁵ For this reason, international treaties and organizations have been drafted with the purpose of directing and safeguarding international trade. However, although states are the actors entitled to negotiate and decide upon the regulation of international commerce, the ones in charge of providing goods and delivering services are companies. In this stand, deriving from the importance of economic capitalism, states are constantly fighting for a leading position within

²² *Ibid.* p.34.

²³ "Evolution of trade under the WTO: handy statistics", *World Trade Organization*, fecha de consulta 12 enero 2021, en https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm.

²⁴ MULDOON, J. P., "The Diplomacy of Business", *International Journal of Phytoremediation*, vol. 16, n.º 2, 2005, p. 347.

²⁵ CHENG, D., "Contributions of International Organizations towards Globalization in the 21 st Century", *The Journal of Global Business Management*, vol. 10, n.º 2, 2014, pp. 94, 98-101.

the global economic market.²⁶ This situation has caused huge competition between states and they have no other option but to negotiate with private companies, both local and foreign, for them to remain or establish subsidiaries in their territory.²⁷ Accordingly, this has endowed large companies like MNCs real power and influence.

As a consequence of the constant flow of people, goods, and services, the process of interchanging culture and ideas has been eased. Simultaneously, the proliferation of new technologies has facilitated such process. Specifically, Transnational Corporations and Multinational Companies have contributed to globalizing the world by developing technologies which bring together cultures and communities of people, and by taking advantage of such new developments to gain more profit and expand throughout the globe. Either way, their growing participation within the international sphere cannot be discussed. Despite the power shift caused by the numerous changes which have taken place in the international system, there are many international actors who are still reluctant to allowing TNCs and MNCs into *the conversation*.²⁸

Despite the power which states hold, the market economy is mostly governed by the most powerful MNCs' executives.²⁹ Having such an influential role upon nowadays ideology of capitalism, such corporations have used their power as leverage, with the purpose of influencing both the social and political spheres, and on many occasions, shaping them in accordance with their interests. Consequently, they are engaged within the process of policy making through *agenda building*,³⁰ because they are capable of influencing governments and organizations, while they use to their advantage the fact that nation states are losing much of their power.³¹

As both large corporations and non-governmental organizations are gaining influence,³² altogether, they are reshaping the central role of the state within the international community,³³ and their soft power is forcing diplomacy to change and adapt to new circumstances.

When they first started gaining power, MNCs cooperated with states' institutions to fulfill the government's economic, political, and social interests.³⁴ Nonetheless, with the rapid growth of Multinational Enterprises, large corporations have challenged states' power, and their position within the international community has grown apart from the one of the states. Such separation of interests grew by the 1980's, when large private businesses became aware of the larger profit they could make by breaking up their production process throughout the globe.³⁵ By disintegrating their production across different production plants situated in different parts of the globe, their fabrication process became much more profitable.³⁶ By 2018, MNCs were already accounting for half of global exports, almost one-third of world GDP and about one

²⁶ STRANGE, S., "States, firms and diplomacy", *International Affairs*, vol. 68, n.º 1, 1992, pp. 6, 7, 11.

²⁷ *Idem*.

²⁸ *Ibid.* p. 11.

²⁹ *Op. cit.* Footnote 24. p. 341.

³⁰ ORDEIX-RIGO, E.; DUARTE, J., "From Public Diplomacy to Corporate Diplomacy: Increasing corporation's legitimacy and influence", *American Behavioral Scientist*, vol. 53, n.º 4, 2009, p. 561.

³¹ *Op. cit.* Footnote 24. pp. 341, 346.

³² COOPER, A. F.; HEINE, J.; THAKUR, R., *The Oxford Handbook of Modern Diplomacy*, Oxford University Press, Oxford, 2013. pp. 3, 4, 8.

³³ *Op. cit.* Footnote 20. p. 60.

³⁴ *Op. cit.* Footnote 32. p. 4.

³⁵ "Interconnected Economies: Benefiting from Global Value Chains", *Meeting of the OECD Council at Ministerial Level*. p. 5.

³⁶ *Ibid.* p. 9.

fourth of employment.³⁷ However, although initially these new global value chains appeared as convenient both for the businesses and society, their implications have further deepened the challenge of global governance and have deepened differences. This is because their transnational activities have transformed the nature of international trade, investments, and technology transfers in the era of globalization.³⁸ For this reason, numerous times states and international organizations have attempted to assess the asymmetry created by globalization. Nonetheless, such a task seems rather complicated for actors which do no longer hold the sole capacity to govern today's globalized world. Therefore, although globalization has allowed independence from sovereign states, MNCs have become a challenge to traditional state power and to global governance.³⁹

Being aware of their different nature and the large power they hold, MNCs pressure decision-makers to further allow them to become involved in the process of global governance and global decision-making.⁴⁰ Despite the reluctance of some states, MNCs' expansion, and the fact that they have become one of the main providers for the global society, grants them with the authority and capacity to participate, or at least influence, state behaviour to favor their interests and individual goals. This weakens the monopoly of states and forces them to share their traditional exclusive competences on global governance. This comes to evidence how the control MNCs exert can no longer be minimized, neither can their influence over political, social, and environmental matters.

A clear exemplification of this argument can be observed with the TRIPS Agreement, because in some way, it materializes the power western multinational companies have acquired in relation to states and international commerce. This is because, as many authors argue, such agreement has strengthened the capitalist system and the monopoly of multinational enterprises within the world economic scene.⁴¹ Because the articles contained within TRIPS contribute with strengthening the power asymmetry between large corporations and developing countries, MNCs' interests are protected and imposed.⁴² Based on this, it can be argued that business lobbies within western countries have such a power for influence that they manage to position international enterprises before the authority of many developing countries, or low income countries by taking up their space in international decision-making and limiting their potential for growth. Accordingly, the economic power of MNCs is continuously increasing, and on many occasions, growing more robust than the power specific countries hold. Thus, their economic dominion is allowing them to mold international politics in accordance with their interests.⁴³ Following the idea that an increased economic revenue is comparable to having higher influence within international politics, it could then be argued that companies like Walmart or Royal Dutch Shell, among many others, hold more power than many states since they possess a higher revenue.⁴⁴ Nonetheless, although it may be questionable to proclaim that

³⁷ OECD, *Multinational enterprises in the global economy. Heavily debated but hardly measured.*, 2018. p. 6.

³⁸ KIM, I. S.; MILNER, H. V., "Multinational Corporations and their Influence Through Lobbying on Foreign Policy". p. 2.

³⁹ *Op. cit.* Footnote 26. p. 10, 11.

⁴⁰ *Op. cit.* Footnote 26. p. 4.

⁴¹ ABDELGAWAD, W., *TRIPS Agreement: From Minimum Standards to Double Standards of Intellectual Property Rights Protection in North-South Relations*, 2015. p. 2.

⁴² *Ibid.* p. 6-10.

⁴³ BABIC, M.; FICHTNER, J.; HEEMSKERK, E. M., "States versus Corporations: Rethinking the Power of Business in International Politics", *The International Spectator*, vol. 52, 2017, online.

⁴⁴ BABIC, M.; HEEMSKERK, E.; FICHTNER, J., "Who is more powerful – states or corporations?", *The Conversation*, 2018, en <https://theconversation.com/who-is-more-powerful-states-or-corporations-99616>.

some companies hold more power than states because of their profit, what can be confirmed is that globalization has transformed the international power structure to the extent that multinational companies have become political actors and *state power is not the exclusive governing principle anymore*.⁴⁵ In this sense, the structure of the IC has been transformed because globalization has reshaped the distribution of power, allowing the institutionalization of large corporations which have access to authority positions many countries have never reached due to their lesser influence and participation within the global economy.

Regarding large businesses' liability, it is important to mention that throughout time, they progressively have had to show more accountability for their actions.⁴⁶ By the moment businesses started to emancipate from states, internationalize, and provide more public goods, they have been forced to move from showing little to no accountability, to having many responsibilities towards the global society, reshaping the relationship the private sector has with the public. Thus, their international presence and the fact of being unattached from the states, has allowed businesses to focus more on the global sphere, where their concerns and positioning have been gradually becoming more relevant. Their growth and their recent involvement with public society, has caused the popular opinion on large international firms and their power to be rather unfavorable and pessimistic.⁴⁷ Moreover, their unpopularity has grown due to their regular abuse of authority and power.⁴⁸ This has inevitably resulted in non-ending hostilities between large corporations and the public. Therefore, their emergence as a new type of actors who mostly manage the global market economy, has resulted in the need for developing mechanisms which can control their expansion throughout the globe, and the impact of their actions upon public opinion, considering that what mostly allows MNCs' institutionalization within the IC is their capacity to fulfill the expectations of stakeholders.⁴⁹

As it can be seen, globalization has not only played in businesses' favor; while it has increased their power, their obligations towards their stakeholders have also increased due to public expectations. Thus, the larger they become, and the greater economic control they acquire, the greater their responsibilities. The fact that they have become the main providers of public goods, inevitably translates into having to be more accountable and legitimate with their actions. Hence, although having separated from domestic restraints, they face more pressure for being more transparent, especially in complying with environmental and human rights standards.⁵⁰ Altogether, pressure coming from public opinion, non-governmental organizations, and states, is forcing international companies to having to rethink and reshape their relationships with stakeholders, since their growth and prosperity ultimately relies on them.⁵¹

When assessing their control and the fact that they are becoming more influent in shaping public policy, it is evident that multinational corporations need to develop their own set of tools for addressing how they are represented before their stakeholders and other institutions. As they become more involved in global challenges, their partnerships with other institutions, governments, lobbies, or social alliances must be managed efficiently, since their survival

⁴⁵ *Op. cit.* Footnote 43.

⁴⁶ CHAN, L. Y., "Corporate social responsibility of multinational corporations", 2014, University of Washington Tacoma. pp. 1, 2, 3.

⁴⁷ *Op. cit.* Footnote 24. p. 343.

⁴⁸ *Op. cit.* Footnote 24. p. 343.

⁴⁹ *Op. cit.* Footnote 30. p. 557.

⁵⁰ *Ibid.* p. 348.

⁵¹ *Idem.*

largely depends on them. Thus, at the point where successful business not only depends on economic profit, is when Business Diplomacy becomes very much relevant, as it offers the mechanisms needed for managing companies' capacities on communicating with stakeholders, being transparent, and at the same time safeguarding their interests.⁵² Consequently, the need for separating diplomacy from its traditional purposes, has become essential in nowadays society, since diplomatic means are no longer only required for states or governmental organizations. On this stand, together with Business Diplomacy, a large range of new diplomatic practices have been forged to serve the purposes of new types of actors besides the states.

5. New forms of Diplomacy

The appearance of new actors has made Diplomacy go beyond the traditional discipline of states' International Relations. This is because relations within the international arena are no longer only carried out between nation-states. Although states and international organizations seem the only actors capable of possessing formal diplomatic institutions, this does not exclude new actors from relating with others through their representatives and executing diplomacy through other – *may be non-official* – means, as Elmer Plischke introduces with his definition on diplomacy, in comparison, to other more classical definitions, such as the one offered by the Britannica Encyclopedia; *the conduct of official (usually bilateral) relations between sovereign states*.⁵³

The Vienna Conventions on Diplomatic and Consular Relations of 1961 and 1963 respectively, incorporate and modify diplomatic norms established throughout the 19th century.⁵⁴ The norms accorded with the VCDR and VCCR, established the states as the holders of formal diplomatic institutions, and recognized different figures within states, qualified for representing them and acting on their behalf.⁵⁵ In accordance to such norms, diplomats are recognized a number of immunities and privileges, while other members of the diplomatic missions are also recognized some rights.⁵⁶ What is relevant is that in order for an actor to engage in diplomatic relations with others, it must comply with a set of requisites, which guarantee that such actor is effectively recognized as an international actor in accordance with International Public Law, and that both agree on the establishment of their diplomatic relationship.⁵⁷

However, contemporary definitions of diplomacy, have adapted to the current reality and understand that nowadays, actors of different nature associate and communicate with others through diplomatic methods:

(...) By the 20th century, however, the diplomatic practices pioneered in Europe had been adopted throughout the world, and diplomacy had expanded to cover summit meetings and other international conferences, parliamentary diplomacy, the international activities

⁵² KESTELEYN, J.; RIORDAN, S.; RUËL, H., "Introduction: Business diplomacy", *The Hague Journal of Diplomacy*, vol. 9, n.º 4, 2014, p. 306.

⁵³ MARKS, S., "Diplomacy", *Britannica*, 2020, fecha de consulta 20 enero 2020, en <https://www.britannica.com/topic/diplomacy/New-styles-of-diplomacy>.

⁵⁴ *Op. cit.* Footnote 17.

⁵⁵ *Vienna Convention on Diplomatic Relations*, United Nations, 1961. And *Vienna Convention on Consular Relations*, United Nations, 1963.

⁵⁶ *Idem*.

⁵⁷ *Idem*.

*of supranational and subnational entities, unofficial diplomacy by nongovernmental elements, and the work of international civil servants.*⁵⁸

A clear exemplification of why actors of different nature require diplomatic know-how and new forms of diplomacy are increasingly necessary is reflected through multi-stakeholder approach summits. *Multistakeholderism* proposes the interaction and participation of different sets of actors engaged in global issues, rather than only considering the view of states and international organizations.⁵⁹ Within these conventions private and public actors participate, either by offering expertise opinions, or also by taking part in the decision-making processes. Hence, the decision-making process is disconnected from the intergovernmental sphere.⁶⁰ Accordingly, it may be argued that Multistakeholderism offers a more legitimate and democratic method, since it considers the interests of actors of different nature, which represent global society more accurately. In fact, although companies are not international actors as recognized by IPL, the size and influence of multinational corporations, urges them to become diplomatic actors and institutions, so as to effectively communicate and engage within the international community, taking into account that diplomacy consists of two core functions: representation and communication.⁶¹ On this stand, Huub Ruel seems to offer the most accurate definition of diplomacy, which takes into account its functions adapted to nowadays society:

*Diplomacy is 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 (either in a physical sense or in non-material sense such as a knowledge domain, an interest domain or market) in order to achieve common objectives in a peaceful and sustainable way.*⁶²

The transformation of diplomatic practices and the use of diplomatic means by non-governmental actors has pushed scholars to theorize diplomacy outside the field of International Relations. This has resulted in the emergence of a vast spectrum of new forms of diplomacy in which traditional mechanisms are used and adapted into other fields of work and study, due to their convenience and usefulness for negotiation, communication, and mediation. Accordingly, new definitions have also been proposed, in an attempt to describe the common elements which characterize all new forms of diplomacy. The changing nature of diplomacy and its evolution evidence its capacity of adaptability and inclusiveness. Another proof of it, is what Craig Hayden coined as *Hyphenated Diplomacy*.⁶³ The expression is used to refer to how the responsibility of diplomacy expands into other fields and peoples, and how this results in new terminology such as *celebrity diplomacy*, *business diplomacy*, *cultural diplomacy* or even *ping-pong diplomacy*, used during the Cold War.⁶⁴ However, the fact that diplomacy has been linked to everyday aspects threatens the understanding of institutional diplomacy, and can challenge

⁵⁸ *Op. cit.* Footnote 53.

⁵⁹ GLECKMAN, H., *Multistakeholder Governance and Democracy. A Global Challenge*, 1, Routledge, New York, 2018. p. Preface XIII.

⁶⁰ *Idem.*

⁶¹ RUEL, H., "Diplomacy means business", *Windersheimreeks Kennis en Onderzoek*, n.º 46, 2013, p. 16.

⁶² *Ibid.* p.17.

⁶³ HAYDEN, C., "The Lesson of Hyphenated Diplomacy", *USC Center on Public Diplomacy*, 2011, fecha de consulta 10 enero 2021 1a. C., en https://uscpublicdiplomacy.org/pdin_monitor_article/lessons-hyphenated-diplomacy#:~:text=Hyphenated%20diplomacy%20implies%20recognition%20that,of%20labor%20in%20international%20relations.

⁶⁴ *Idem.*

the actual meaning of diplomatic methods and its relevance as a mechanism for managing relationships.⁶⁵ Nevertheless, there are certain types of *new diplomacies* which cannot be underestimated due to their importance and suitability for managing new forms of relationships.⁶⁶

Among the various classifications of diplomacy, due to globalization and the changes the International Community has undergone, BD seems to have increased in popularity. Thus, with the rising participation of MNCs and large firms, as well as the growing engagement of individuals in the process of International Relations, it seems more than logic that BD becomes more relevant and necessary. Along these lines, the present paper's goal is to give a response to this trend, and how diplomacy is being conducted by such an influential part of society like multinational enterprises. Accordingly, this study will use and refer to the definition provided by Huub Ruel when alluding to the term *diplomacy*.

CHAPTER 2: Business Diplomacy

6. Historical origins of Business Diplomacy

Despite the recent surge of diplomatic practices within large corporations, Business Diplomacy is nothing new. Although the lack of early theorization may point to a recent development of this new form of diplomacy, the practices which involve Business Diplomacy can be traced back to the 17th century.⁶⁷

In recent years, due to globalization, the growing number of international firms and their expansion across the globe, has increased the necessity of firms to engage in these types of practices, due to growing risks and new circumstances which may jeopardize a company's survival and economic development. New hazards which companies may face go from the deterioration of their reputation, the relationship they have with governments and NGOs, to fake news spreading through the mass media. Thus, the need of mechanisms adopted to tackle these threats has become increasing necessary. However, this does not mean that before the appearance of nowadays' MNCs, similar tools were not used in events in which some companies started operating beyond their national frontiers.

To assess the starting point of BD, we must go back in time to the creation of the first MNC, which due to its nature, had to employ diplomatic means for expanding through the new commercial routes. The *Vereenigde Oost-Indische Compagnie*, or most commonly known as the Dutch East India Company, which began operating in the year 1602 as a spice trader, was one of the first companies to pioneer the expansion of markets to the East.⁶⁸

During the 17th century, several businessmen from the European continent established their own companies through which commercial ties were established with regions across East

⁶⁵ *Idem*.

⁶⁶ *Idem*.

⁶⁷ *Op. cit.* Footnote 32. p. 3, 4.

⁶⁸ THE EDITORS OF ENCYCLOPAEDIA BRITANNICA, "Dutch East India Company", *Britannica*, 2020, fecha de consulta en 11 enero 2021 <https://www.britannica.com/topic/Dutch-East-India-Company>.

India.⁶⁹ In the Dutch Republic, due to the high risks the vessels faced when sailing across the new routes, independent businessmen decided to unify into one large company, and the Dutch government founded the Dutch East India Company, which also gathered the authority to represent the state abroad.⁷⁰ To counter the Dutch monopoly, there were other countries which also began to use the commercial routes from Europe to Asia, like France and Great Britain, founding their own national companies.⁷¹ Doing so increased competition and the need to develop negotiation and mediation skills, while also representing the company and the state they belonged to.

Due to the spur in mercantilism, the grueling desire for domineering new commercial routes, and companies' valuable functions in relating with such remote regions of the globe, states saw an opportunity. Accordingly, many states bestowed the authority to such companies to sign different types of agreements and declare war,⁷² acting as governments themselves overseas, and serving as diplomatic actors.⁷³ Additionally, they were able to represent their state in foreign courts and claim territories.⁷⁴ This exercise of diplomacy, permitted states to obtain benefits in a more relaxed manner than through official state representatives.

At the same time, businesses used these diplomatic methods for their own profit, either to safeguard relationships with traders, negotiate prices or mediate conflicts over prices or products. However, early methods through which businesses conducted BD by obtaining contracts and privileges abroad involved some difficulties.⁷⁵ Given that firms had loose administration structures in charge of planning and carrying out diplomatic strategies, the usefulness and success of such strategies overseas mostly depended on the abilities and aptitudes of the representatives to operate within local power structures.⁷⁶ Thus, what also made the companies' traders successful in relating with other communities of peoples, was their capacity to integrate themselves within foreign cultures and institutions, and the establishment of all sorts of ties, such as marital, sexual or commercial.⁷⁷ This practice is known as *cosmopolitanism* and into a large extent, it permitted the expansion of occidental peoples abroad.⁷⁸

Therefore, as it can be seen, the use of diplomacy and the profound assimilation of alien civilizations and lifestyles for business purposes can not only be attributed to current international companies, since even the first private firms which had international presence needed to maintain relations and negotiate with foreign institutions and authorities, engaging in what can be understood as diplomatic practice.

⁶⁹ *Idem.*

⁷⁰ *Op. cit.* Footnote 52. p. 305.

⁷¹ *Idem.*

⁷² BLACKWOOD, D., "The Rise and Fall of The World's First Multi-National", *Manage My Marketing*, 2019, fecha de consulta 11 enero 2021 en <https://managemymarketing.com.au/blog/the-rise-and-fall-of-the-worlds-first-multinational-2/>.

⁷³ *Op. cit.* Footnote 52. p. 304

⁷⁴ VEEVERS, D.; PETTIGREW, W. A., "Trading Companies and Business Diplomacy in the Early Modern World", *Diplomatica*, vol. 2, n.º 1, 2020, p.42.

⁷⁵ ANTUNES, C., "Early Modern Business Diplomacy: an Appraisal", *Diplomatica*, vol. 2, n.º 1, 2020, pp. 23, 25.

⁷⁶ *Idem.*

⁷⁷ GAMES, A., *The Web of Empire: English Cosmopolitans in an Age of Expansion, 1560–1660*, 1, Oxford University Press, Oxford, 2008. p. 10.

⁷⁸ *Idem.*

At those times, it was possible to carry out foreign policy through companies since the objectives of both the states and the corporations were aligned.⁷⁹ Colonialism and expansionism shaped States' interests.⁸⁰ Accordingly, States focused on attaining power and authority abroad, and it was both profitable and easier for them to do it through national companies, which also aimed to control and secure commercial and trading routes to prevent other European countries from winning them over. The fact that businesses could adapt to new necessities which were not economically centered proves how the development of BD is not a recent event, and how they contributed to shaping foreign and state policy by combining their company's and the state's agendas.

Nonetheless, as the industrial revolutions took place and globalization embarked into a never-ending process, the interests of the states and the ones of the large companies grew apart.⁸¹ States could no longer obtain privileges upon others through businesses, since companies began focusing on their own advantage and avoiding their own risks. Moreover, as international relations began to change, diplomacy had to adapt to such changes, hence, both, the states and companies had to develop their own methods and styles for carrying out representation abroad, and which could adjust to the changing international sphere.

Such differentiation allowed scholars to develop and elaborate on new fields within diplomacy, by considering other diplomatic actors besides the states. Despite early BD used authority from the state, as MNCs started gaining importance, the necessity of firms to obtain license to operate from states and act on their behalf decreased. Therefore, the fact that firms increasingly engaged in diplomatic practices due to the broader benefits they could obtain through them, further deepened the requirement to separate businesses' international relations from the ones of the states.

The power MNCs have retained throughout history, and their presence within many different countries, has resulted in their actions and decisions being analyzed from different approaches, values, and rule systems. Companies are conducting business across OECD countries, newly emerging markets such as Eastern Europe and China, and newly industrialized economies.⁸² Accordingly, firms face new challenges such as wars, nationalization, political blackmail, and the spread of harmful information across mass media. Such threats have come to prove how firms must develop diplomatic tools for themselves, since governments or embassies are not always able to aid them in confronting such risks, or do not possess the capacity to do so.⁸³ Hence, MNCs are forced to manage a set of issues which were originally managed by governments. Moreover, the fact that the nationalities of firms become more fluid, can create a conflict of interests between states, and at the same time, complicate the determination of what state should a company approach to seek aid.⁸⁴ Another factor which has pushed firms to conduct their own diplomatic relations is the fact that the state from which the firm holds the nationality may not be present in a certain country or region, or the states may have a hostile relationship.⁸⁵ Furthermore, research shows how countries possess very diverse

⁷⁹ *Op. cit.* Footnote 32. p. 4.

⁸⁰ *Op. cit.* Footnote 17. p. 388.

⁸¹ *Op. cit.* Footnote 24. pp. 344, 345.

⁸² SANER, R.; YIU, L.; SØNDERGAARD, M., "Business Diplomacy Management: A core competency for global companies", *Academy of Management Executive*, vol. 14, n.º 1, 2000, p. 80

⁸³ *Op. cit.* Footnote 52. p. 305.

⁸⁴ *Idem.*

⁸⁵ *Idem.*

work values and organize their personal and institutional relationships in very different manners,⁸⁶ and MNCs must adapt to the demands coming from these new cultural traits.

Because of the multiplying difficulties appearing due to multinationals' physical and economic expansion, firms have opted for developing their own mechanisms, in parallel to the ones of the states. Doing so, has provided them with the opportunity to have an increased presence and influence in foreign markets and international negotiations by building stronger relationships with local and national institutions and businessmen, independently from the state from which they hold their nationality. Nevertheless, the interconnection between businesses and states' affairs should not be underestimated, as global companies need diplomacy and the expertise from governments in order to be successful in the international arena and vice versa.⁸⁷ The sharing of knowledge between both fields can be exemplified in former ambassadors or former figures working for the state or government, who have then moved to top management positions.⁸⁸ However, only a few companies are aware of the necessity to understand international affairs and diplomacy until they fail, or they are almost forced to by a specific situation.⁸⁹ Instead, many companies choose to outsource and hire temporarily diplomats for their experience or contacts.⁹⁰ However, due to the increased interconnection between the business environment and international and political relations among countries, outsourcing may not be enough. Instead, to in-source can offer more opportunities and better results.⁹¹ Moreover, the empirical study carried out by Saner and Yiu in 2005, proves how MNCs preferred in-house training rather than hiring formal diplomats, partnering with MBA schools and diplomatic academics or outsourcing, since it granted better results.⁹²

The fact of framing their own networks of influence and alliances provides MNCs with the know-how to succeed in the business and international relations fields.⁹³ Nonetheless, although during the Middle Ages the disciplines of Business and Economic Diplomacy were not developed, historical events show how from the moment the earliest MNCs appeared, an early form of BD was already being implemented, and this pushed scholars to contemplate and theorize on the practice, to through time, formally constitute a definition for Business Diplomacy.⁹⁴

As of now, we have identified some of the factors which have urged the development of BD due to increasing pressures and necessities MNCs face. As time goes by, there are new responsibilities and circumstances which impact MNCs, and further force them to develop BD mechanisms. Accordingly, to consider all the factors which have contributed with the emergence of BD, the paper will focus on the figure structured by Fahad Alammam and David Pauleen, on their article *Business Diplomacy Management: A conceptual overview and an integrative framework*,⁹⁵ to explain the reasoning behind each element and address them in the

⁸⁶ *Op. cit.* Footnote 82.

⁸⁷ *Ibid.* p. 83

⁸⁸ *Ibid.* p. 82.

⁸⁹ *Ibid.* p. 83.

⁹⁰ *Idem.*

⁹¹ *Idem.*

⁹² SANER, R.; YIU, L., "Swiss executives as business diplomats in the new Europe: Evidence from Swiss pharmaceutical and agro-industrial global companies", *Organizational Dynamics*, vol. 34, n.º 3, 2005, p. 307.

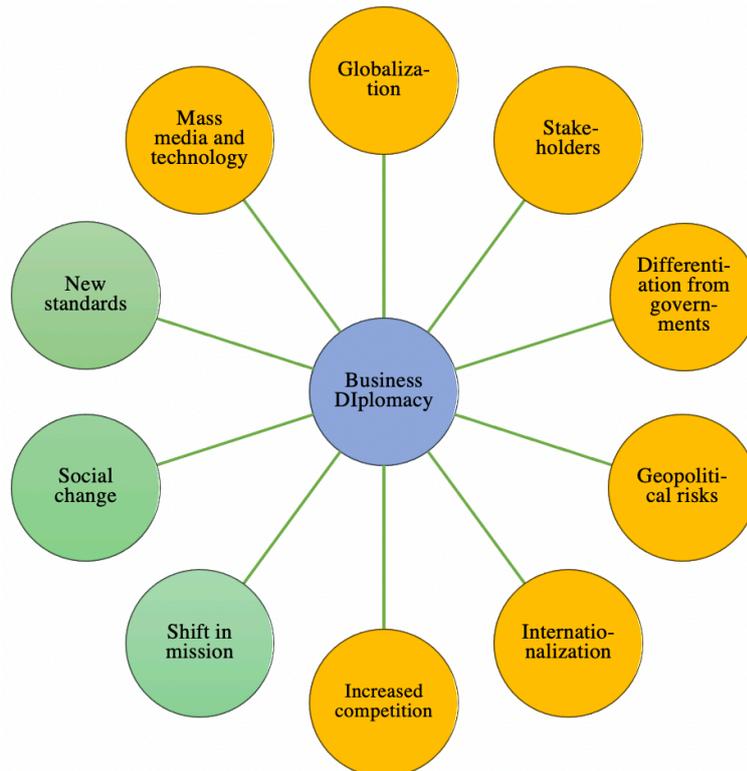
⁹³ *Op. cit.* Footnote 52.

⁹⁴ *Op.cit.* Footnote 74. P. 41.

⁹⁵ ALAMMAR, F. M.; PAULEEN, D. J., "Business Diplomacy Management: a conceptual overview and an integrative framework", *International Journal of Diplomacy and Economy*, vol. 3, n.º 1, 2016, p.15.

different parts of the paper. The research carried out for the purpose of the paper has permitted the figure to be adapted to include new components and differentiate the factors which are related to social pressure and demands (green circles), from other business related or globalization elements (orange circles).

Figure 1: Factors contributing to the emergence of business diplomacy



7. Definition and Purpose of Business Diplomacy

Despite its growing popularity, literature and research on BD are still very limited. To date, there is not an officially recognized definition. However, we can refer to three scholars which have theorized about the field and have provided different conceptualizations to the term as a tool used within an international firm.

In 1999, Manuel London proposed a first notion by defining it as *what principled leaders and managers do to apply kyosei*,⁹⁶ a term through which *individuals and organizations live*

⁹⁶ LONDON, M., "Principled Leadership and Business Diplomacy", *Journal of Management Development*, vol. 18, n.º 2, 1999, p. 172.

*and work together for the common good.*⁹⁷ As we can extract from this definition, London does not refer to specific tasks and tools used to carry out BD, rather he describes the aptitudes which are necessary to do so⁹⁸. This points to the fact that BD does not necessarily imply the execution of certain practices, but rather a mechanism through which business is conducted, in accordance with a set of values. This leads London to believe that the use of diplomacy within business makes *principled leadership* possible in western culture, since it provides the means for resolving conflicts and cooperating within the work field.⁹⁹

Later in 2005, Saner and Yiu referred to BD as:

*An activity that 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.*¹⁰⁰

Their definition is much clearer in the sense that it specifies that it is used for the management of relationships of a global company. Additionally, it offers a more inclusive perspective on BD, since it specifically mentions the different stakeholders which are involved in the process of executing BD. However, it remains vague in the sense that it neither considers concrete actions for implementing it and it speaks in very general terms.

Lastly, the most recent conceptualization we can refer to is the one provided by Ruël and Wolters, which also seems the more detailed:

*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.*¹⁰¹

This latter definition seems the most suitable for describing and analyzing BD since it includes four important dimensions; (1) the activities BD refers to, (2) the parties involved, (3) the purpose of BD, and (4) the context in which it is conducted. Specifically, it mentions the goal of BD is to *build and sustain legitimacy*. This is important because it includes an aspect of BD which can serve to differentiate it from other similar fields. Moreover, it helps understand why BD should be planned from the core of the company and expand into every field of work, since legitimacy is acquired with every action involving the firm and any stakeholder.

For the purpose of this paper is to analyze the practice of Business Diplomacy, and how it has evolved in relation to the changes within the International Community, it will focus on the latter definition. The reason for this is that it provides the most detailed and up-to-date considerations, which better express the way BD is exercised nowadays and under what circumstances.

⁹⁷ KAKU, R., "The Path of Kyosei", *Harvard Business Review*, 1997, fecha de consulta 20 enero 2021 en <https://hbr.org/1997/07/the-path-of-kyosei#:~:text=The%20answer%2C%20in%20my%20experience,together%20for%20the%20common%20good>

⁹⁸ *Op. cit.* Footnote 96

⁹⁹ *Idem.*

¹⁰⁰ *Op. cit.* Footnote 92. p. 302.

¹⁰¹ RUEL, H.; WOLTERS, T.; *Business diplomacy in multinational corporations: An exploratory qualitative study*, Zwolle, 2012. p. 2.

Nonetheless, having analyzed the relevant terminology, it is pertinent to touch upon on how BD is different from other practices or work fields, which in occasions, have been characterized as synonyms or as comparable to the exercise of BD.

The term *Corporate Diplomacy* is commonly used as a synonym for BD, since they both seem to refer to the same process of managing shareholder's relations. Although both terms can be applied to the same sphere of a global company, they both serve different purposes. CD as described by Ordeix-Rigo and Duarte is *a valid way for organizations to extend their social power and influence, and thus achieve their status of institutions within society*.¹⁰² Therefore, in comparison with the definition of BD we are working with, the nuance lies in the fact that BD is not aimed at enhancing a corporation's power, rather it focuses on building relationships with a wide range of stakeholders which can endure throughout time. To do so, it centers on obtaining legitimacy, rather than power, since by managing geopolitical risks, a firm can acquire a *license to operate* which is not only based on external influence, but on the conservation of positive relationships and being prepared to confront external threats.¹⁰³ Nonetheless, authors like Huub Ruël, Rui Monteiro or Raquel Meneses use both terms as synonyms due to their similar objective and the activities they entail within a firm's business process.¹⁰⁴ Accordingly, considering the similarities both terms entail, for the purpose of this paper and the limited literature there is for research in the field of BD, the term *Business Diplomacy* and *Corporate Diplomacy* are going to be used as synonyms. Although only for analyzing the research on CD which can also be applied to the field of Business Diplomacy due to the similar activities both fields entail.

To further examine what makes BD different from other fields of work and study, it is important to assess the fact that global companies pay special attention to their public affairs, however, BD goes beyond the management such field. According to the definition provided by John F. Mahon, PA can be described as:

*those activities taken by organizations to acquire, develop, and use power to obtain an advantage (a particular allocation of resources) in a situation of conflict.*¹⁰⁵

Therefore, in practice, many companies delegate the tasks relating to BD to the PA Department since both fields work around the relationships with stakeholders. However, BD focuses on obtaining a type of legitimacy which is sustainable throughout time, and not so much on the power and influence a company is willing to attain through its relationships for obtaining advantages. Moreover, the field of PA specially focuses on the affairs relating to economy, justice, law, and competitiveness.¹⁰⁶ However, BD also centers its activity in relating with non-business stakeholders, such as media, individual activists, and NGOs.¹⁰⁷ Furthermore, PA does not consider the international factor as BD does.¹⁰⁸ Thus, even though in many cases PA

¹⁰² *Op. cit.* Footnote 30. p. 557.

¹⁰³ *Op. cit.* Footnote 61. pp. 40-42.

¹⁰⁴ ALAMMAR, F., "Business Diplomacy in Practice: A Grounded Theory Study in Management Among Professional Diplomats", 2018. p. 50.

¹⁰⁵ MAHON, J. F. IN LERBINGER, O., *Corporate Public Affairs, Interacting with interest groups, media and government.*, Lawrence Erlbaum Associates, Publishers, New Jersey, 2006. p. 7.

¹⁰⁶ *Op. cit.* Footnote 30. p. 554.

¹⁰⁷ *Op. cit.* Footnote 104. p. 52, 53.

¹⁰⁸ *Op. cit.* Footnote 52. p. 304.

departments carry out BD related activities, it is important to illustrate their dissimilarities for a better execution of both.

Having examined the literature and studies on BD, it seems relevant to also distinguish BD from *Commercial Diplomacy*, since on many occasions it is used as a synonym, when in fact, it is not. Com.D mainly focuses on economic aspects which relate to business support and policymaking through the collaboration between public and private actors, by using diplomatic means for commercial objectives.¹⁰⁹ Such term is described by Alan James and G. R. Berridge in their work *A Dictionary of Diplomacy* as:

*The work of *diplomatic missions in support of the home country's business and finance sectors. Distinct from although obviously closely related to *economic diplomacy, it is now common for commercial diplomacy to include the promotion of inwards and outward investment, as well as trade.*

Just like BD, Com.D is nothing new, however, Com.D is conducted together between governments and businesses. Thus, businesses use it for gaining support and being promoted abroad since while it also grants increased economic benefits for a country. Contrary to Com.D, BD is carried out independently from governments' policies, hence, it only works for the business' benefits. Moreover, although BD contributes to economic gains, it goes beyond that. BD specially draws attention to stakeholders' relationship with the purpose of building a favorable image which in turn can translate to economic profit, among many other benefits for the firm. On the contrary, Com.D centers its attention to gaining economic advantages in foreign markets to expand a business reach, and to foster the growth of a state's economy.¹¹⁰

What can be regarded from the examination of different definitions of BD is the clear evolution it has undergone throughout history, due to the changes within the International Community, and its adaptation towards the greater demand of BD mechanisms companies have. Furthermore, it is also evident that within the different work fields BD has been distinguished from, there are many activities and functions which overlap within other forms of diplomacy. This is mainly due to the fact that there is little theorization about BD, and the specific tasks it implies. Nonetheless, the fact that its main objective is to obtain legitimacy through fostering good relationships among stakeholders, can be used as the principal distinguishing factor which identifies BD among a vast number of diplomatic procedures, while it also pushes global companies to develop their own BD department, separately from PA, despite being closely related. Moreover, it should also be regarded that BD shares many characteristics with the classical notion of diplomacy, since in fact it originates from it. However, it is aimed at different actors to face different types of risks.

8. Planned execution of Business Diplomacy

Having analyzed the origins of this field and understanding the purpose behind it, we should now focus on how such practice is materialized within businesses, taking as a reference the definition provided by Huub Ruel.

¹⁰⁹ MERCIER, A., "Commercial Diplomacy in Advanced Industrial States", *Discussion Papers in Diplomacy. Netherlands Institute of International Relations 'Clingendael', The Hague*, 2007. p. 3.

¹¹⁰ *Op. cit.* Footnote 109. p. 25.

As Chapter 1 examines, the emergence of new forms of diplomacy is a direct consequence of the power shifts which have gradually taken place within the International Community. Therefore, in a way, the fact that large companies as MNCs increase in number and in power within the global sphere also has direct consequences for them; having increased responsibilities. Accordingly, BD is a mechanism for responding to such responsibilities by gaining legitimacy and license to operate through the interaction with all sorts of stakeholders, instead of only focusing on shareholders. In this regard, it can be said that the scope of action of an MNC has become so broad that it can no longer only focus on its shareholders, instead it must show accountability to the general public since, in some way or another, a company's actions and choices have an extended impact within the global society.

Within this background, additional risks MNCs can face go from failing to meet consumers' needs, to geopolitical risks or unethical actions.¹¹¹ However, these threats are closely related and dependent on MNCs' relationship with their stakeholders and the image they have about the company. Therefore, if a corporation aims to safeguard its relationship with a stakeholder, it will have to put up with the demands coming in form of responsibilities.

MNCs clearly profit from becoming providers of global public goods, however, as their power expands, their responsibilities do too. The fact of having to deal with new responsibilities translates into a challenge for corporations. This is because they must now comply with a wide range of non-market obligations, which put at stake their legitimacy and authority within the global economy and policymaking spheres.¹¹² This is causing businesses to rethink their role within society as well as their relationships.¹¹³ Accordingly, BD arises as a way for dealing with these new challenges which businesses are not used to managing, rather they are more common for states. Nonetheless, BD has appeared as a tool for developing and deploying diplomatic mechanisms which are used by states, transforming them to adapt to the business sphere. Thus, it only seems logical that businesses acquire and enhance their diplomatic know-how for relating to external stakeholders, due to their growing resemblance to states as actors within the IC.

For a company to enhance its diplomatic capabilities and incorporate a BD department we must first analyze the threats which can potentially damage a business, to then assess what abilities and capabilities a company needs to develop to meet such dangers. To do so, we must first analyze the hazards it can face, and which can be approached through diplomatic tools:

Increased Competition: Business strategies have become more important than ever, and a factor which determines their businesses' progress. Within a highly competitive market, businesses must develop efficient strategies for securing an advantageous position, mobilizing resources more efficiently, assessing new opportunities, meeting challenges and pleasing customers.¹¹⁴ For this reason, they must develop a long-term plan which structures strategies at a firm level and at an international level, for increasing their overall performance and achieve a desired image which aligns with social demands.¹¹⁵ Competition pressures businesses to innovate, and although too much competition may become pervasive, it is useful in the sense that it constantly incentivizes businesses to adapt to new demands.

¹¹¹ *Op. cit.* Footnote 52. p. 303.

¹¹² *Op. cit.* Footnote 24. p. 348.

¹¹³ *Op. cit.* Footnote 112.

¹¹⁴ *Op. cit.* Footnote 17. p. 565.

¹¹⁵ *Op. cit.* Footnote 82. p. 85.

Failure to meet consumer needs: The rapid development of technologies has allowed consumers to demand rapid change and adaptation. Accordingly, businesses must constantly challenge themselves to keep up with what consumers require.¹¹⁶ If a company can do so, a client will most likely choose that company before another. Therefore, if a company can assess those needs even before the consumer becomes aware of them, it will safeguard its relationship with the client. Moreover, interaction with clients guarantees companies key information on how to assess new demands. Additionally, the increased number of stakeholders which are not only clients translates into more pressure to meet all stakeholders' expectations and requirements.

Geopolitical risks: In the process of internationalization, a company not only has to consider economic risks related to the market and economic factors, rather it must pay attention to the international relations, tensions between states and violent or political conflicts.¹¹⁷ This is because such factors can also have a negative impact on a company's activity within a specific territory.

Technology and mass media: Any damage to the perception external stakeholders have of a brand will most likely translate into financial consequences. Accordingly, a company must act consciously to prevent reputational damage, and the spread of harmful news across the mass media.

Unethical performance: As societies become more engaged with social and environmental concerns, MNCs are also demanded to engage with such matters.¹¹⁸ As of today, international businesses should focus on making sustainable and ethical decisions in relation to their production processes, and when approaching both external and internal stakeholders. This is because companies are no longer only judged by their economic gains, but also by the impact they have upon society.¹¹⁹

Regulatory and legislative changes: These types of changes can difficult the process of doing business. Moreover, there are increasing regulations on fields relating such as data protection, production processes, workers' rights and safety, pricing, and environmental standards. Accordingly, it is increasingly necessary for a company to be able to effectively engage with governmental and non-governmental stakeholders for negotiating and being able to take part, or influence, the decision-making process in order for them to pursue their interests.¹²⁰

Although such risks have different nature, they are all related in the sense that they evolve around the relationships a company has with both governmental and non-governmental stakeholders. Accordingly, it is necessary that firms develop their diplomatic know-how with the purpose of effectively managing such relationships.

As of today, most MNCs already have mechanisms in place to meet most of these threats. However, there are only a few companies which focus on developing diplomatic management

¹¹⁶ *Op. cit.* Footnote 104. p. 57.

¹¹⁷ *Op. cit.* Footnote 95. p. 14, 19.

¹¹⁸ *Op. cit.* Footnote 61. p. 39.

¹¹⁹ *Op. cit.* Footnote 61. p. 38.

¹²⁰ *Op. cit.* Footnote 30. p. 561.

skills.¹²¹ This is because many of the tasks related to BD are delegated to other departments such as PA or Marketing. On many occasions, in practice it is the CEO or the directives of a company who carry out diplomatic duties without even noticing. However, as businesses become more dependent on their external relations with non-business actors, the need for them to develop diplomatic expertise grows. The importance of having diplomatic skills lies in the fact that the success of a business in a foreign context or market is directly related to having a deep understanding of non-related business factors, some of these being broad knowledge on international relations, social and cultural factors, multilateral agreements, or politics.¹²²

There are different examples of companies which have hired an expert on international relations and foreign affairs as *an advocate for international growth*, often being someone who has previously worked at a country's foreign service.¹²³ Nonetheless, companies which do so are mainly American, and in fact the number of MNCs which deliberately engage in the field of international relations and diplomacy, and train their managers on this field is very little.¹²⁴ On the contrary, firms opt for hiring temporarily professional diplomats as advisers, and use their contacts or their *extensive regional experience to help a company manage difficult relations with foreign government officials*.¹²⁵ Although at times this practice might contribute with managing specific events, outsourcing BD tasks is not an effective, nor efficient, way of managing risks. A diplomat may possess the abilities to effectively engage with governmental and non-governmental foreign actors. However, a profound understanding of the functioning, values and objectives of the firm is needed to conduct and design BD strategies. Just like states, it can be said that global companies also carry out missions abroad, hence, what seems a better alternative is to train in-house managers for them to be able to carry out diplomatic tasks. Diplomatic-related tasks have become too important to only be managed by temporarily hired diplomats, instead a group of qualified, full-time employees is required to face risks and seize new opportunities.

The principal aims of BD are to provide long-term benefits for a company, and an impactful way of doing so translates in extending their influence across different actors through active participation within global society. It is for this reason that the execution of BD does not consist of mere communication with stake and shareholders. BD aims to increase interaction and actively seek lasting public support by responding to the consequences of their activities.¹²⁶

9. Functions and characteristics of Business Diplomacy Management

To properly assess how a company should execute BD, we must now examine the functions it serves. Doing so will provide an approach on what specific instruments will be required, and the role that BD managers will take on.

Taking into consideration the broad range of bibliographical resources that have been used for the purpose of this paper, it can be concluded that there are a small number of studies on the specific tasks the field of BD encompasses, partly because many of the duties it entails

¹²¹ *Op. cit.* Footnote 82. p. 83.

¹²² *Idem.*

¹²³ MILNE, R., "The corporate diplomats", *Financial Times*, 2009, fecha de consulta en <https://www.ft.com/content/8f03208e-d86a-11de-b63a-00144feabdc0>.

¹²⁴ *Op. cit.* Footnote 82. p. 83.

¹²⁵ *Idem.*

¹²⁶ *Op. cit.* Footnote 30. p. 557.

are delegated to other departments such as PA. However, what can be extracted from such sources are the different functionalities BD serves. Accordingly, this section of the dissertation will focus on identifying the different purposes BD serves, which will facilitate the allocation of tasks to one department or another within a company. In their work, Saner and Yiu provide a clear set of functions which BD focuses on, these being:¹²⁷

- Forestalling potential conflicts and minimizing risks
- Safeguarding corporate image
- Abiding by national and international laws
- Negotiating with state and non-state actors
- Managing business and non-business stakeholders
- Influencing rule making and standard-setting organizations
- Participating in cross-sector social interactions
- Creating social capital
- Sustaining credibility and legitimacy

For the purpose of this paper, such functions have been grouped and used to develop five major groups which integrate these specific functions, and which together compose the area of work a BD unit should work on by providing an explanation for each one of them:

(1) *Data collection and management*: Information must be efficiently managed at different levels. Moreover, the information coming from external stakeholders or other outer sources is extremely relevant for a company. Thus, such data must be efficiently collected and analyzed for a firm to be able to develop a business strategy which adjusts and takes into consideration stakeholders' expectations. In relation to this, the development of a business strategy is a key factor for a company since it becomes another element through which it can deliver a certain image about itself and show accountability to the interested parties. At the same time, the behaviour of a company will produce information which can be used when approaching stakeholders. Hence, it is important that a firm can generate positive data about itself and establish its own corporate values clients can identify to. Accordingly, it is of great importance that a firm maintains fluid communication with clients through campaigns or other strategies, and with other interest groups by actively participating in different fora, summits, or fairs, both for delivering and gathering information.

(2) *Managing relationships*: Such a tool is the principal mechanism for conducting BD. Accordingly, business diplomats must establish a set of connections with all sorts of stakeholders and interact with them at different levels with the objective of attaining a high level of trust and advantages. Establishing advantageous and sustainable alliances with other institutions, non-governmental organizations, other companies, or governments, directly translates into benefits for the parties involved. Moreover, through representation in

¹²⁷ SANER, R.; YIU, L., "Swiss executives as business diplomats in the new Europe: Evidence from Swiss pharmaceutical and agro-industrial global companies", *Organizational Dynamics*, vol. 34, n.º 3, 2005, p. 303. Extracted from ALAMMAR, F. M.; PAULEEN, D. J., "Business Diplomacy Management: a conceptual overview and an integrative framework", *International Journal of Diplomacy and Economy*, vol. 3, n.º 1, 2016, p. 17.

international summits and foreign markets, big firms like MNCs have the opportunity of influencing public opinion and policymaking. For these purposes, it is extremely important that business diplomats have a broad understanding of how business is carried out according to local customs, are cognizant of politics, and are capable of accurately communicate the firm's interests, and become an ambassador for the company's values. Additionally, connections can be a determining factor when facing crises, while they may also represent an opportunity for a firm to grow and expand into foreign markets. Further to this, business diplomats should engage with consumers to understand their needs and expectations since nowadays companies must respond to social demands. For all these reasons, the success of a company when expanding into other markets is highly dependent on its business *know-how* and its relationships.

(3) *Negotiating*: When interacting with other actors and entering discussions about complex matters, business diplomats must be able to defend the firm's interests while mediating possible conflicts. For this reason, diplomatic know-how can help a firm negotiate with businesses in foreign markets, media outlets, NGOs, international organizations, or governments besides other actors, by using tools which guarantee the firm attains its objectives. Negotiating implies the previous planning of strategies and styles, having persuasive skills, being a great communicator and having analytical skills among many others. Given the fact that nowadays companies negotiate almost everything, negotiating on behalf of an MNC requires a team of skillful negotiators who have knowledge on different fields, and who can obtain the best possible outcome for the firm. When negotiating, firms are also representing the firm before other parties, hence, it is important to use these situations as opportunities and manage possible negative outcomes.

(4) *Building brand image*: As the power and influence of MNCs continues to grow, every action and decision they make has a direct impact on their reputation. Accordingly, the image consumers have about a company will determine its positioning within the market. For these reasons, it has become their responsibility to act ethically and have a positive social impact. Doing so, companies are simultaneously building a positive public profile for themselves and gaining advantages in such a competitive market. Thus, it is important that companies engage with the public and are open and transparent about their values, their objectives, and the activities they undertake.¹²⁸ Accordingly, it is important for MNCs to become engaged with social and environmental projects which strengthen their reputation and make it stand out. Moreover, since business diplomats become the link between the company and the stakeholders, they are a direct representation of the brand. Hence, their activity must project the brand's personality.

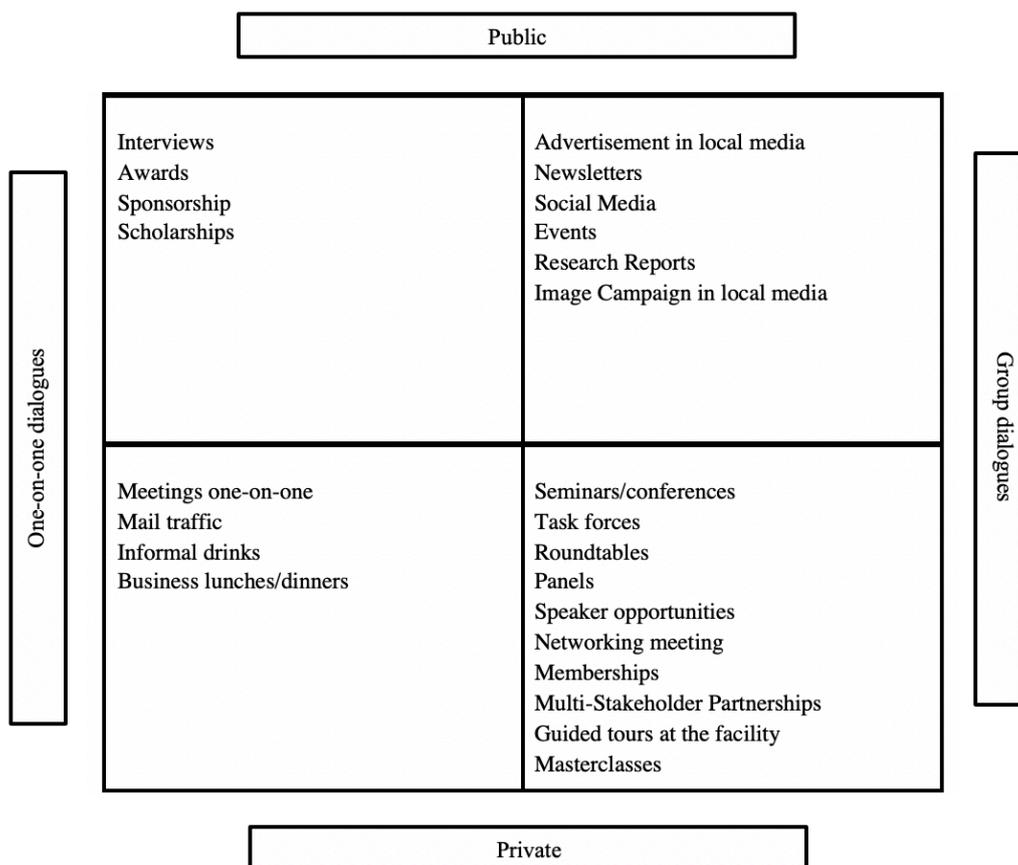
(5) *Compliance with legal, social, and environmental frameworks*: The international nature of MNCs may harden the tasks of complying with both international and national laws. However, not doing so can have devastating impacts. Accordingly, businesses must not only focus on abiding with international law, but also with the legislation of the foreign markets they access. Moreover, MNCs should also show compliance with non-binding social and environmental standards set by international organizations to prove ethical performance. In his context, the environmental management of their operations and activities becomes increasingly important.

¹²⁸ AGUILERA-CARACUEL, J.; GUERRERO-VILLEGAS, J.; GARCÍA-SÁNCHEZ, E., "Reputation of multinational companies: Corporate social responsibility and internationalization", *European Journal of Management and Business Economics*, vol. 26, n.º 3, 2017 p. 330.

All the four functions are directly related with conditioning the business environment for a company to operate according to the public opinion. On this regard, businesses are now forced to not only focus on their internal activity, rather, they are forced to have a visible and active external role. In response to this necessity BD appears as a complex mechanism which manages a new sphere within businesses. Although the four tools are interconnected in the sense that they their principal focus is on representing the company and interacting with stakeholders, the main objective behind the four instruments is to acquire transparency and license to operate. Nonetheless, BD also plays a big part in acquiring business opportunities, conflict resolution and crisis management.¹²⁹

To understand how, and in which context the tools of BD should be put into practice we must examine the contributions to BD by Jolanda Knobel and Huub Ruël in 2017. Their study focuses on a set of interviews to employees who execute BD-related tasks within MNCs. Through the interviews they obtained information on how the MNCs interacted with their stakeholders, and they used the data to set up a matrix which included the most common instruments which multinational companies use to execute BD.¹³⁰

Figure 2 Business diplomacy instruments matrix ¹³¹



¹²⁹ *Op. cit.* Footnote 82. pp. 87, 88.

¹³⁰ KNOBEL, J.; RUËL, H., "How do MNCs conduct business diplomacy? Exploratory study on business diplomacy instruments", *International Journal of Diplomacy and Economy*, vol. 3, n.º 3, 2017, p. 248.

¹³¹ *Idem.*

The matrix identifies the types of instruments MNCs use the most for conducting BD, and in what context. Hence, it serves as an exemplification of the events in which MNCs put into practice the afore-mentioned tools.

Within firms, BD is either conducted by diplomats who are contracted on a temporary basis for managing specific situations, by head executives who have a leadership position within the company, or by the public affairs, communication, or marketing departments, or a mixture of all of them.¹³² Due to the lack of studies on this field, and even yet the little practice within large companies, as of now, an official framework for applying BD has not been structured.¹³³ As Saner and Yiu explain in their study on how BD is structured in a number of Swiss MNCs, although the field of BD proved to be an essential mechanism for doing business in Europe, the operationalization of BD within the companies was conducted very differently in all of them.¹³⁴ Although BD is to be conducted through different procedures depending on the market sector a company belongs to, the capacitation on diplomacy is becoming more necessary for MNCs as a mechanism for managing globalization. For this reason, it is important that firms develop their own BD working unit, consisting of ex-diplomats or employees who are well accomplished on diplomatic practices. Such a function is to be designed and implemented by each firm individually, in accordance with their own necessities and risks. In relation to this, it is important to analyze what characteristics and skills BD managers must possess for executing it. Therefore, the paper uses the study carried out by Raymond Saner, Lichia Yiu, and Mikael Sondergaard in order to assess the most essential abilities.

Within a company the persons dealing with the relationships with stakeholders should possess or be trained for the development of a set of competences which will allow them to meet BD requirements and become a Business Diplomat or also known as BD Manager. Therefore, according to the diverse tasks BD entails, the skills a business diplomat must integrate are several. This is because global managers mostly do not have experience in managing non-business stakeholders around the world, and they must learn to manage complex political-economic environments, and not doing so could translate in missed opportunities, crises, or conflicts.¹³⁵

Considering the nature of such role, the foremost important factor is that the person who is going to assume such capacity is aware of, and understands, the importance of the values and principles the company stands for. The greatest way of doing so is having worked at that company for enough time and have been in different job positions. This is crucial for a representative since its role will be to be the embodiment of such qualities and act on behalf of the firm. The purpose of this is that the stakeholders who come across such person can recognize the values of the firm within that specific person. Moreover, given the fact that its role will be to conduct communications with external stakeholders, he or she must be a successful communicator, and must put special attention to non-verbal communication. For this reason, corporate diplomats are expected to observe protocol and etiquette while interacting with groups of interest and business partners.

¹³² *Op. cit.* Footnote 82. p. 83.

¹³³ *Op. cit.* Footnote 95. p. 14.

¹³⁴ *Op. cit.* Footnote 92. p. 305.

¹³⁵ *Op. cit.* Footnote 82. p. 81.

BD Managers must also have great negotiation skills since their role will require to reach agreements in relation to various matters. Hence, it is important that the brand diplomat has the capacity and the experience to use different strategies and knows how to manage and direct such situations while considering the other party's demands.

As BD's focus is to relate to foreign stakeholders, a business diplomat must be aware of cultural and ideological background differences. When doing business with foreign stakeholders, cultural differences can translate into possible conflict, since cultural and language barriers become more evident.¹³⁶ Such differences can difficult the exchange of ideas and the decision-making processes. Thus, a business diplomat must have an intercultural mindset which facilitates the management of multicultural relationships and can avoid situations of conflict. In accordance with this, the BD manager must understand how the society and the market they are planning to enter functions, and how their products or services could better adjust to such society, or even if there is room for them in that specific market. Relating to this, knowledge on international relations and politics is therefore increasingly necessary. Globally active companies are not fully aware of how international business entails political, military, social and cultural factors which are not directly related to business.¹³⁷ However, knowledge on these fields is essential for business success in foreign markets.¹³⁸ These fields are directly related, or can have a great impact, on how relationships between actors from different countries progress. For this reason, when communicating or negotiating with foreign stakeholders, matters related to politics or states' diplomatic relations must be considered and approached prudently, since they can become a source of tension or disagreement.

Political economy and economic relations are also very much relevant in the sense that they provide the MNC with knowledge on how to operate in different markets and how their production process or provision of services will be influenced by regional laws and politics, customs, and economic traits. Additionally, BD managers must have analytical skills to interpret data and situations with facility. This ability contributes to the process of acquiring new business or relationship opportunities for the company. However, it is also useful for anticipating and managing complex situations. Hence, crisis management is an essential skill which can be used for assessing crises between the company and stakeholders.

Lastly, when executing BD, it is crucial to have a basic understanding on how central governments of specific countries and international organizations operate and carry out their decision-making processes.¹³⁹ Moreover, it is necessary that they possess knowledge on business-related legal standards. Hence, experience in these fields is necessary because MNCs interact with such actors and they must be able to influence and negotiate laws and standards related to their business operations. Therefore, to know how international organizations make decisions and the way they function can allow a company to recognize possible areas where they can have influence or can acquire opportunities for growth.

As diplomacy encompasses the development of most of these abilities, to have a diplomatic background or be trained on diplomatic know-how will most likely become a

¹³⁶ COX, T. H.; BLAKE, S., "Managing cultural diversity: implications for organizational competitiveness.", *Academy of Management Executive*, vol. 5, n.º 3, 1991, p. 45-56.

¹³⁷ JONES, M. T., "The institutional embeddedness of foreign direct investment: An empirical analysis", *Journal of Transnational Management Development*, vol. 3, n.º 1, 1997, p. 57.

¹³⁸ *Idem*.

¹³⁹ *Op. cit.* Footnote 82. p. 83.

guarantee for improving business relationships and acquiring new ones. For this reason, the materialization of these skills in employees will contribute with capacitating them into becoming successful business diplomats. This is crucial for MNCs since they will become the image of the company. However, diplomatic knowledge should not only be possessed by one person, rather for an MNC to benefit from BD, diplomatic knowledge should be accepted as a core competence.¹⁴⁰ This is because BD has an impact on the overall strategy of an MNC, and its approach to stakeholders. Accordingly, as core competences must have implications at the overall strategic level,¹⁴¹ BD should be considered as a company-wide responsibility.¹⁴² Therefore, to develop and extend this competence throughout the company, Saner, Yiu and Sondergaard in their article *Business Diplomacy Management*, suggest that a BD department should be established, and it should integrate the following elements:¹⁴³

- An Office in charge of BD, which is similar to Public Affairs, but it incorporates the diplomatic tasks, and that is directly supervised by the CEO.
- BD Office composed of BD Managers who are specially trained managers and seconded by foreign service officers.
- BD Liaisons located in key subsidiaries of an MNC, which directly report to the top manager of the subsidiary and the central BD department at the headquarters.
- A BD technological data system which contains information relating to BD and the profiles of all types of stakeholders at the global level, and in potentially conflictual areas.
- Formalized link with the Strategic Planning of the MNC to develop a business-related socio-political perspective, like the analysis of stakeholders, the managing of hostile stakeholders, etc.
- A Mandate to strengthen the overall organizational capacity of BD.

As the authors explain in their article, this structure permits that there is good communication between the different BD liaisons and coherence in their functions and activities. Moreover, the fact that it is located under the supervision of the CEO adds coherence and confidence, since on many occasions the CEO acts on the capacity of business diplomat and has a close relationship with many of the stakeholders.¹⁴⁴ Therefore, it is important that BD managers act in accordance with their team's previously designed strategies. This is because the overall BD strategy is aimed at creating legitimacy and license to operate.¹⁴⁵ Which in this context refers to increasing credibility, integrity, loyalty, and status,¹⁴⁶ with the purpose of anticipating and meeting the expectations of stakeholders for being able to continue with their activity and safeguarding their relationship with the firm. Moreover, to acquire *license to operate*, translates into being welcomed by the local community and society.¹⁴⁷

¹⁴⁰ *Op. cit.* Footnote 82. p. 90.

¹⁴¹ SRIVASTAVA, S. C., "Managing core competence of the organization", *Vikalpa*, vol. 30, n.º 4, 2005, pp. 49-51.

¹⁴² *Op. cit.* Footnote 82. p. 90.

¹⁴³ *Idem.*

¹⁴⁴ SANER, R.; YIU, L., "Business diplomacy competence: A requirement for implementing the OECD's guidelines for multinational enterprises", *The Hague Journal of Diplomacy*, vol. 9, n.º 4, 2014, pp. 318-319.

¹⁴⁵ *Op. cit.* Footnote 61. p. 41

¹⁴⁶ *Op. cit.* Footnote 104. p. 150.

¹⁴⁷ RUËL, H.; WOLTERS, T., "Business Diplomacy", en Costas M. Constantinou, Pauline Kerr, Paul Sharp (eds.) *The SAGE Handbook of Diplomacy*, SAGE Publications, London, 2016, p. 569.

CHAPTER 3: CORPORATE SOCIAL RESPONSIBILITY, A TOOL FOR EXECUTING BUSINESS DIPLOMACY

10. Corporate Social Responsibility: a response to social demands

BD is field which has been developed just recently.¹⁴⁸ This results in the fact that not many MNCs are aware of how necessary it is. Rather MNCs seem to develop BD tools progressively as new necessities emerge within the international business environment. Although BD does share many elements with the fields of public affairs and public relations, large companies need diplomacy to address issues which are not only aimed at relating with commercial or governmental stakeholders. BD, besides establishing strong ties with all types of stakeholders, also aims to assess geopolitical factors and commit to social causes and guidelines for acting responsibly. Therefore, new challenges can no longer be addressed by traditional functions within MNCs. Moreover, as large companies are positioned at the center of the public eye by the mass media, businesses' actions suffer greater public scrutiny. At the same time, multinational's increased presence within the global economy, directly translates into more business news coverage.¹⁴⁹ This can influence public opinion because what stakeholders learn and hear about enterprises and their affairs, most surely comes from the mass media.¹⁵⁰ This can impact the perception and the image stakeholders have about a firm because through news coverage and the exposure of information, the mass media has the power to shape companies' reputation in accordance with its interests.¹⁵¹ Considering that the stakeholders of a corporation can include shareholders, non-governmental organizations, business partners, lenders, insurers, communities, regulators, intergovernmental bodies, consumers, employees and investors,¹⁵² it is of increased importance that a company protects its reputation and maintains it favorable. Additionally, there is a growing number of popular movements empowering civil society to demand better conditions for workers, more engagement with the environment, and a positive use of their influence upon all kinds of societal-related issues. Therefore, this forces companies to engage with civil society in a manner that has not been done before.

Up to this point, the paper has analyzed the different factors which influence the emergence of the field of BD, and has examined the reasons behind such factors, as well as the mechanisms MNCs need to confront the risks such factors entail. However, this third part of the paper will specially focus on the aspects which have more of a social background, and how these elements respond to the demands within the sociopolitical environment, these being the green circles within Figure 1 in Page 19 (New Standards, Social Change, and Shift in Mission). Moreover, it will address how CSR arises as an essential mechanism through which MNCs are able to respond to these social demands.

¹⁴⁸ *Op. cit.* Footnote 95. p. 14.

¹⁴⁹ CARROLL, C. E.; MCCOMBS, M., "Agenda Setting Effects of Business News on the Public's Images and Opinions About Major Corporations", *Corporate Reputation Review*, vol. 6, n.º December 2003, 2016, p. 36.

¹⁵⁰ MULDOON, J. P., "The Diplomacy of Business", *International Journal of Phytoremediation*, vol. 16, n.º 2, 2005, p. 358.

¹⁵¹ *Op. cit.* Footnote 24. p. 349.

¹⁵² TEODORESCU, C.; LEHR, C. B., *Corporate Social Responsibility – an Implementation Guide for Business*, 2015. p. 6.

The concept of *New Standards* refers to how due to the impact MNCs have upon many aspects of society, they should comply with a set of principles created by different organizations to show accountability for their actions in relation to social and environmental causes. The greater impact companies can have is directly connected to globalization.¹⁵³ As international trade and global supply chains increase, so do the concerns related to the protection of humans' and animal's lives, as well as the environment, among other aspects.¹⁵⁴ Accordingly, governments and intergovernmental organizations have developed several standards that businesses should maintain to guarantee that their values, goods, services, and working conditions abide with human rights, good health and environmental conditions. To measure such requirements and prevent and mitigate possible negative impacts MNCs have upon the environment and society, there are different types of standards which have been developed.

In this context, the United Nations Global Compact (UNGC) emerged in 1999 as a mechanism to *call companies to align with strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.*¹⁵⁵ At the same time, the IFC Performance Standards on Environmental and Social Sustainability also aim to engage businesses in protecting biodiversity, cultural heritage, and local communities.¹⁵⁶ Additionally, the OECD Guidelines for Multinational Enterprises, adopted in 1976 and their recent modifications, constitute an international corporate-accountability mechanism that is aimed at encouraging responsible business behaviour.¹⁵⁷ There are also other standards like the Equator Principles or the Kimberley Process which are set to measure the social and environmental risks in projects,¹⁵⁸ or reduce the flow of conflict diamonds around the world.¹⁵⁹

Although the paper does not intend to analyze the different set of standards which have been developed, the fact that the establishment of these forms of measures is rather recent, proves that only in the last decades civil society has become more engaged with the impact business activities have upon society.¹⁶⁰ And although the engagement with these standards is not mandatory, MNCs can feel pressured to comply with measures like these. As states are the most common actors who cooperate and work closely with international organizations and NGOs in relation to these matters, BD will aid companies to develop the competences necessary for relating and negotiating with these actors. Specially now, that activism of NGOs and interest groups against MNCs has become more sophisticated and coordinated, and with increased power to influence public debate.¹⁶¹

¹⁵³ *Ibid.* p. 7.

¹⁵⁴ KOTLER, P.; LEE, N., *Corporate Social Responsibility. Doing the Most Good for Your Company and Your Cause*, John Wiley & Sons, Inc., New Jersey, 2005. pp. 1, 2.

¹⁵⁵ "United Nations Global Compact", fecha de consulta 9 marzo 2021, en <https://www.unglobalcompact.org/what-is-gc>.

¹⁵⁶ "Performance Standards", *Internatioanl Finance Corporation*, fecha de consulta 9 marzo 2021, en https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards/.

¹⁵⁷ OECD, *OECD Guidelines for Multinational Enterprises*, OECD Publishing, 2011, fecha de consulta 15 marzo 2021 en <http://dx.doi.org/10.1787/9789264115415-en>.

¹⁵⁸ "The Equator Principles (EPs)", *Equator Principles*, fecha de consulta 9 marzo 2021, en <https://equator-principles.com/>.

¹⁵⁹ "What is the Kimberley Process", *Kimberley Process*, fecha de consulta 9 marzo 2021, en <https://www.kimberleyprocess.com/>.

¹⁶⁰ "Introducción a la Responsabilidad Social Corporativa", *Observatorio de RSC*, 2014, p. 9.

¹⁶¹ *Op. cit.* Footnote 24. p. 349.

What can be extracted from the creation of new standards is the fact that their development necessarily implied a previous change within the social sphere. Therefore, the *Social Change* factor can be regarded as the transformation of the public opinion, which has made civil society more critical and demanding of how companies operate.¹⁶² Surely incessant media coverage and social media platforms have facilitated the spread and the uncovering of news and information of social injustices carried out by businesses. Moreover, thanks to the mass media, critical voices have a wider reach. This has resulted in a social change which inevitably impacts businesses interests. Although the development of new technologies can be beneficial for facilitating internal management, externally, it can lead to a quicker assessment of business practices which are either problematic or exemplary.¹⁶³

In this context, companies, specially MNCs, which have a greater impact upon society due to their power and influence, have been forced to introduce shifts within their missions, which go beyond economic gains and market positioning. As pressures to act ethically may also come from states themselves, the case of Canada shows how some countries have forced national firms operating abroad to comply with ethical standards as a way to promote their national brand image. This specific case provides a clear example of the influence classical diplomacy can have upon corporate diplomacy since Canada expects from all its national companies to comply with social and environmental standards to give them support and guidance in their operations abroad.¹⁶⁴ Moreover, this case shows how by investing in state-owned international corporations, states can gain strategic leverage since multinationals can have a bigger impact than classical state power.¹⁶⁵ This is because doing business successfully in today's environment requires MNCs to become active members of stakeholder networks and engage in all types of social matters which do not necessarily imply direct economic benefits but are beneficial for reputational and positioning purposes.¹⁶⁶ As, firms' objectives can no longer be based on purely economic strategies, the extent to which MNCs engage in stakeholder commitment significantly determines the success of an organization.¹⁶⁷

As MNCs become aware of the claims for more social commitment, companies want to show their social sensitiveness by acting ethically. Therefore, this requires finding effective ways to expose what changes and actions an MNC is undertaking, with the purpose of maintaining a good reputation and creating social capital; this being one of the most important competitive advantages that organizations of the 21st century can rely upon.¹⁶⁸ The term *Social Capital* has become increasingly relevant for MNCs. Although there is not a consensus on a single definition of the term, the OECD describes it as *networks together with shared norms, values and understandings that facilitate co-operation within or among groups*.¹⁶⁹ For this reason, the creation of social capital will allow MNCs to acquire new opportunities and develop a positive brand image. Therefore, it constitutes an integral part of BD.

¹⁶² RUËL, H.; WOLTERS, T., "Business Diplomacy", en Costas M. Constantinou, Pauline Kerr, Paul Sharp (eds.) *The SAGE Handbook of Diplomacy*, SAGE Publications, London, 2016, p. 565.

¹⁶³ *Op. cit.* Footnote 152. p. 7.

¹⁶⁴ "Canada's Enhanced Corporate Social Responsibility Strategy to Strengthen Canada's Extractive Sector Abroad", *Global Affairs Canada*, fecha de consulta 18 marzo 2021, en <https://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/other-autre/csr-strat-rse.aspx?lang=eng>.

¹⁶⁵ *Op. cit.* Footnote 44.

¹⁶⁶ *Op. cit.* Footnote 162. p. 570.

¹⁶⁷ *Op. cit.* Footnote 52. pp. 308-309.

¹⁶⁸ *Op. cit.* Footnote 30. p. 560.

¹⁶⁹ OSTROM, E., "What is social capital?", *OECD Insights*, 2009, pp. 17-38.

Accordingly, to give response to these three elements, BD uses the tool of *Corporate Social Responsibility*.

During the second half of the 20th century the debate over the social responsibilities of businessman began to take place, a term which then shifted to the well-known CSR.¹⁷⁰ In the 1990s' the debate escalated into a point that international organizations and several states called on the private sector to engage in a new model through which businesses actions could contribute with assessing the challenges which were emerging in the changing international society.¹⁷¹ However, it was the afore-mentioned UNGC of 1999, which marked the initial steps of today's CSR.¹⁷² From that point onwards, through the increased participation of civil society in international summits, it became evident how necessary it was to develop formal policies for implementing and regulating the practice of CRS.¹⁷³ Accordingly, numerous international organizations started to develop new standards and mechanisms for businesses to respond to their responsibilities, and more firms are gradually engaging in this practice.¹⁷⁴ This supposed a change within the traditional mindset which understood that the only social responsibility of firms should be to increase their economic profit.¹⁷⁵

There are several definitions on the term of CSR, however for the purpose of this paper, we will work with the ones provided by the European Commission (1) and the one from the International Labour Organization (2):

(1)
*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*¹⁷⁶

(2)
*Is a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values, both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to the activities that are considered to exceed compliance with the law.*¹⁷⁷

¹⁷⁰ GARRIGA, E.; MELE, D., "Corporate social responsibility theories: Mapping the territory", *Corporate Social Responsibility*, 2017, pp. 51-62.

¹⁷¹ *Op. cit.* Footnote 160. p. 9.

¹⁷² *Ibid.* p. 13.

¹⁷³ *Idem.*

¹⁷⁴ "A Brief History of Corporate Social Responsibility (CSR)", THOMAS, 2019, fecha de consulta 10 marzo 2021, en <https://www.thomasnet.com/insights/history-of-corporate-social-responsibility/>.

¹⁷⁵ SARRO ÁLVARES, M. DEL M.; CUESTA VALDIÑO, P.; PENELAS LEGUÍA, A., "La Responsabilidad Social Corporativa (RSC), una orientación emergente en la gestión de las entidades bancarias españolas.", *Conocimiento, innovación y emprendedores: Camino al futuro*, 2007, p. 1930.

¹⁷⁶ "A renewed EU strategy 2011-14 for Corporate Social Responsibility", *Communication From The Commission To The European Parliament, The Council, The European Economic and Social Committee and The Committee of The Regions*, 2011, fecha de consulta 10 marzo 2021, en <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF#:~:text=>.

¹⁷⁷ "Corporate Social Responsibility", *International Labour Organization*, 2006, fecha de consulta 10 marzo 2021, en <https://libguides.ilo.org/corporate-social-responsibility-en>.

Considering there are several definitions on the term, they all coincide in the fact that it is aimed at responding to the necessity of promoting good practice within the business environment, by addressing the impact of their activities.¹⁷⁸ Moreover, they all refer to the fact that CSR necessarily entails interactions with civil society and stakeholders. In this aspect, these two definitions provide a general perspective of what CSR involves. Accordingly, it becomes the tool through which MNCs show accountability for how their actions and values comply with laws and standards, and how, in the long term, it enhances the social value of the company.¹⁷⁹

As CSR becomes more necessary, the development of CSR departments and strategies within MNCs has become almost crucial as a distinguishing factor and for business success.¹⁸⁰ Although CSR is a discipline which embarks many fields of action, it is based upon five principles:¹⁸¹

- Compliance with national and international legislation on Human Rights, OECD, and UN standards for business activities.
- It has a global reach; it affects all business activities, and it is applied in all territories where such activities are carried out. Therefore, it affects the overall value chain needed for the development of an activity, the provision of a service or the production of a good.
- It entails the compliance with ethical principles.
- It manifests in the impact which business activities have upon the social, environmental and the economic spheres.
- It is oriented towards the satisfaction and information of the expectations and necessities that of groups of interest.

However, the fact of adjusting to these principles and the overall CSR objective, as the authors Elisabet Garriga and Domènec Melé explain in their study, does not necessarily imply that companies are pursuing the same ends. Garriga and Melé integrate the different purposes within four different groups of theories of why companies engage in CSR practice:¹⁸²

A first group would be the so-called *Instrumental* theory. This is because it views the practice of CSR solely as a mean for generating wealth and economic profit. Hence, it only considers the economic matters within the relationship a company has with society. The main purposes behind this theory are to maximize shareholder value or achieve competitive advantages. Therefore, it can be described as a self-oriented use of CSR, since it centers its attention on profits to improve corporate financial performance.

A second group could be described as the use of CSR companies make to respond to their political influence and power within society. Thus, CSR strategies are used to respond to the responsibility of businesses to undertake social duties and participate in social cooperation. This

¹⁷⁸ NUÑEZ, G., “La Responsabilidad Social Corporativa en un marco de Desarrollo Sostenible”, *CEPAL - SERIE Medio ambiente y desarrollo*, vol. 72, 2003, pp. 11, 12.

¹⁷⁹ *Ibid.*

¹⁸⁰ *Op. cit.* Footnote 152. p.9

¹⁸¹ “Introducción a la Responsabilidad Social Corporativa”, *Observatorio de RSC*, 2014, p. 9.

¹⁸² *Op. cit.* Footnote 170.

second one is known as the *Political* theory, and its main objective is to develop on the *Corporate Citizenship*¹⁸³ of a company.

Additionally, the *Integrative* theories focus on identifying and responding to social demands coming from interest groups. The reasoning behind this group of theories is that businesses depend on society, thus, since companies obtain legitimacy from society, firms must assess social demands considering the values of society in that specific moment, and integrate them within their business strategy.

The last group of theories is based on the idea that the responsibilities businesses have upon society are ethical. These Ethical theories understand that businesses must contribute with building a better society by acting ethically.

All these theories provide different reasonings for why enterprises should engage in the practice of CSR, and how the market sector and values of each company influence their engagement in social and environmental issues. Nonetheless, independently from which theory a business bases its CSR strategy upon, all of them entail interactions with stakeholders. Accordingly, it is necessary to assess how the execution of CSR also requires diplomatic abilities, and how it is closely related to the field of BD, especially in the cases where MNCs implement CSR policies for pursuing BD objectives.

11. Corporate Social Responsibility as a tool for Business Diplomacy

As the role of businesses gains more power within public life, diplomatic know-how becomes fundamental as a mechanism to build trust and legitimacy. As CSR pursues the same objective through the engagement in social and environmental matters, BD comes to use CSR as a tool. The connection between both fields is that, besides having related goals, they both require the interaction with external stakeholders. Thus, to effectively engage in relationships and build partnerships, diplomatic abilities and knowledge becomes essential.

Accordingly, this part of the dissertation will analyze how these two fields are connected, and how CSR inevitably requires of diplomatic knowledge, and how BD uses CSR as one of its tools for attaining legitimacy and license to operate.

Due to the power the corporate sector has to impact social and environmental issues, and the vast relevance the field of CSR has gained, it is now common that MNCs have a specific working group in charge of social responsibility strategies.¹⁸⁴ However, due to the recent emergence and theorization of this field, there is a lack of studies and research on how to implement such a practice within the overall business strategy.¹⁸⁵ In response to this absence, standards developed by governments and organizations become a guide for companies on how to operate in relation to their social responsibilities. However, as all companies are different, their social responsibilities will vary, hence, the way in which they assess such responsibilities will differ as well. Nonetheless, for a proper execution of CSR, such practice must penetrate

¹⁸³ The term *Corporate Citizenship* refers to the idea that businesses are part of civil society and thus has responsibilities beyond maximizing its economic profit. Retrieved from: "Corporate Citizenship", *Oxford Reference*, fecha de consulta 10 marzo 2021, en

<https://www.oxfordreference.com/view/10.1093/acref/9780199684984.001.0001/acref-9780199684984-e-7455>.

¹⁸⁴ *Op. cit.* Footnote 152. p. 47.

¹⁸⁵ *Op. cit.* Footnote 128. p. 330

the firm's core decision-making, strategy, management processes and activities,¹⁸⁶ for the purpose of developing an implementation framework.

Based on a study from the International Institute for Sustainable Development, the process of framing and implementing a CSR strategy into a firm consists of six tasks:¹⁸⁷

- Conduct a CSR assessment; examine how a firm's overall strategy and decision-making process adapts to CSR principles. The assessment should provide an evaluation on how the firm is currently standing in relation to CSR, and any aspects which can be problematic from a CSR point of view.
- Develop a CSR strategy; the development of a detailed CSR action plan which sets what resources will be used and how in every step. The strategy should be based on the previous assessment and should specify priority areas.
- Develop CSR commitments; should establish short-term and long-term objectives on how the company is willing to address its social and environmental impact.
- Implement CSR commitments; this step refers to the specific decisions and actions the company executes for carrying out the overall CSR strategy.
- Assure and report on progress; a real CSR strategy only provides outcomes when executed. Accordingly, it is necessary to establish a set of tools and activities to verify and assure the correct implementation of the strategy.
- Evaluate and improve; to keep track of CSR strategy performance will provide information on new opportunities or changes that must be made to meet the objectives.

All the six tasks are comprised within four major blocks; the Planning Phase, the Materialization Phase, the Evaluation Phase, and the Improvement Phase.¹⁸⁸ Within all of them, there is at least one task which entails an engagement with external stakeholders and civil society actors. This comes to prove that even before the CSR strategy of a company is executed, stakeholders are one of the most important factors to consider when planning and framing social responsibility functions. This is because MNCs need to identify what the public interest is, to then frame a social responsibility plan.¹⁸⁹ In this sense, if a firm manages to work for the public interest effectively, the public decisions it makes will much better suit the expectations of interest groups.¹⁹⁰

The fact that stakeholders are an essential element around which the CSR approach is planned, explains the fact of why some authors consider the Stakeholder Theory as the framework for integrating social demands into a business strategy.¹⁹¹ As authors Thomas Donaldson and Lee E. Preston explain in their study, such theory is based on two main ideas;

¹⁸⁶ *Op. cit.* Footnote 152. p. 18

¹⁸⁷ *Op. cit.* Footnote 152. p.19

¹⁸⁸ *Op. cit.* Footnote 152. p.19

¹⁸⁹ *Op. cit.* Footnote 30. pp. 559-560.

¹⁹⁰ *Ibid.*

¹⁹¹ *Op. cit.* Footnote 170. pp. 60, 61.

*that stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity, and that the interests of all stakeholders are of intrinsic value, hence each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners.*¹⁹²

Following the idea proposed by this theory, the principal reasons of why companies put into practice socially responsible management are because actions which have an unfavorable impact upon social issues have a very negative effect on the stakeholders' perception of the firm,¹⁹³ and because, as other authors believe, since firms and society complement each other, they should act jointly.¹⁹⁴ Accordingly, it is necessary to address into what extent a company is satisfying interest groups' expectations and whether the intensity of the firms' social actions should vary.¹⁹⁵ Moreover, the Stakeholder Theory becomes increasingly relevant for MNCs, since due to their international nature, this type of companies are forced to interact and address stakeholders located in different regions, with different expectations and in different contexts.¹⁹⁶ At the same time, multinationals face more pressure since the interests groups they have to address are more diverse and stronger.¹⁹⁷ Additionally, for firms which internationalize, foreign factors may impede their entry to other markets, hence, having the right tool to overcome cultural and social barriers can become the key element for meeting such challenges.¹⁹⁸ For these reasons, it can be argued that social and environmental actions play a mediating role between the internationalization and the reputation of MNCs.¹⁹⁹ All of this factors must be thought through because CSR becomes a tool for standing out as a company, and there is a real risk that a percentage of stakeholders would switch companies. This has been proven by several studies which analyze how the publics' choices are heavily influenced by the company's reputation in relation to the environment and its ethics.²⁰⁰

Considering there are several guidelines which firms can follow to ensure their business conduct is responsible, for the purpose of this paper we are going to follow the application of the OECD 2011 updated Guidelines. The reason behind this choice is that, although there are many guidelines businesses can adhere to, the OCED Guidelines can be distinguished in the sense that they have an international nature, they are government-backed, and they have a dispute resolution mechanism for assessing conflicts related to alleged corporate misconduct, these being the National Contact Points (NCPs).²⁰¹ All of these features make them one of the most well-received and accepted among multinational enterprises, States and different

¹⁹² DONALDSON, T.; PRESTON, L. E., "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications.", *The Academy of Management*, vol. 20, n.º 1, 1995, p. 67.

¹⁹³ FREEMAN, R. E., *Strategic management: a stakeholder approach*, Pitman Press, Boston, 1984.

¹⁹⁴ PORTER, M. E.; KRAMER, M. R., "Strategy & society: The link between competitive advantage and corporate social responsibility", *Harvard Business Review*, vol. 84, n.º 12, 2006, p. 82.

¹⁹⁵ LUNA, L.; BARAIBAR, E., "Análisis sectorial del efecto de las acciones de responsabilidad social corporativa en la reputación", *Revista Europea de Dirección y Economía de la Empresa*, vol. 20, n.º 4, 2011, pp. 177-196.

¹⁹⁶ *Op. cit.* Footnote 185.

¹⁹⁷ KANG, J., "The relationship between corporate diversification and corporate social performance", *Strategic Management Journal*, vol. 34, n.º 94-109, 2012. pp. 4, 6.

¹⁹⁸ *Op. cit.* Footnote 197.

¹⁹⁹ *Op. cit.* Footnote 185. p. 330.

²⁰⁰ *Op. cit.* Footnote 154. p. 12

²⁰¹ OECD, *OECD Guidelines for Multinational Enterprises*, OECD Publishing, 2011, fecha de consulta 15 marzo 2021 en <http://dx.doi.org/10.1787/9789264115415-en>. p.19

organizations since they became a universal standard.²⁰² For this reason, although they are non-binding, their growing popularity and the pressure to be more transparent encourages the OECD-based multinationals to follow them everywhere and not only in OECD Member countries.²⁰³ However, non-member states are also encouraged to adhere to the Guidelines.²⁰⁴

In this context, to implement the commitments which CSR entails, we must analyze the specific tasks and requirements which businesses have to execute to comply with the OECD Guidelines and combat the *triple bottom line* challenge, which aims to achieve social, economic and environmental sustainability.²⁰⁵ The General Policies of the OECD G. compose a list of fifteen guidelines enterprises should follow, and two additional ones which enterprises are encouraged to comply with.²⁰⁶ Figure 3 analyzes which of the seventeen guidelines fall within the field of BD.

Figure 3 OECD Guidelines and Business Diplomacy capabilities

General Policies	Requirement of BD Competence
1. Contribute to economic, environmental, and social progress with a view to achieving sustainable development.	✓
2. Respect the internationally recognized human rights of those affected by their activities.	✓
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.	✓
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.	✓

²⁰² *Op. cit.* Footnote 144. p. 316.

²⁰³ RUGGIE, J. G.; TAMARYN, N., *Human Rights and OECD Guidelines for Multinational Enterprises: Normative Innovations and Implementation Challenges*, Cambridge, MA, 2015. p. 323-324

²⁰⁴ *Ibid.*

²⁰⁵ ROGERS, K.; HUDSON, B., "The Triple Bottom Line", *Journal of the National Organization Development Network*, vol. 43, n.º 4, 2011, p. 4.

²⁰⁶ *Op. cit.* Footnote 201.

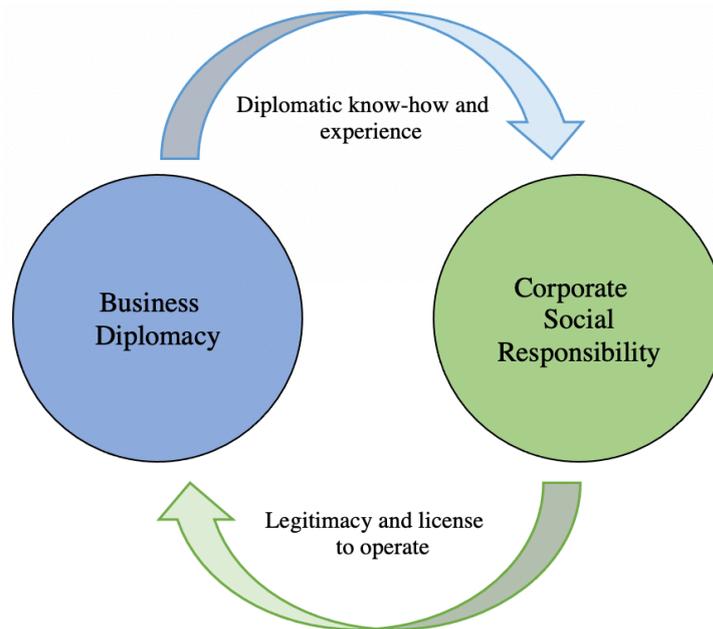
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labor, taxation, financial incentives, or other issues. ✓
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups. ✓
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate. ✓
8. Promote awareness of and compliance by workers employed by multinational enterprises with respect to company policies through appropriate dissemination of these policies, including through training programmes.
9. Refrain from discriminatory or disciplinary action against workers who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines, or the enterprise's policies. ✓
10. Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.
11. Avoid causing or contributing to adverse impacts on matters covered by the Guidelines, through their own activities, and address such impacts when they occur.
12. Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.
13. In addition to addressing adverse impacts in relation to matters covered by the Guidelines, encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of responsible business conduct compatible with the Guidelines. ✓
14. Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact local communities. ✓
15. Abstain from any improper involvement in local political activities. ✓

16. Support, as appropriate to their circumstances, cooperative efforts in the appropriate forums to promote Internet Freedom through respect of freedom of expression, assembly, and association online.
17. Engage in or support, where appropriate, private, or multi-stakeholder initiatives and social dialogue on responsible supply-chain management, while ensuring that these initiatives take due account of their social and economic effects on developing countries and of existing internationally recognized standards. ✓

Out of the seventeen guidelines, there are twelve which can be considered as tasks that can, or should be, assigned to a BD department or carried out by business diplomats. The reason for why so many of the guidelines require diplomatic know-how, is because they demand abilities to engage external counterparts constructively.²⁰⁷ Moreover, having examined the tasks and abilities BD requires in Chapter 2, it can be argued that the better suited and qualified employees to guide and manage the execution of CSR guidelines are business diplomats, since they possess the experience and knowledge in building a positive brand image, managing relationships, and negotiating in different contexts and with different stakeholders. Considering the fact that some of the stakeholders an MNC interacts with can be involved in the development of standards and business legislation, places even more importance to the fact that diplomatic know-how should be the mediating tool between CSR and external stakeholders, at the same time that BD uses CSR as a mechanism for its ultimate goal of acquiring license to operate and legitimacy. In fact, Figure 4 shows how it could even be argued that both fields are dependent since they need each other for attaining their own goals. This is because, considering the social demands and challenges business must confront and assess, together with their need to interact with stakeholders of different natures, both fields contribute with each other with some of the tools needed to accomplish their objectives more efficiently and effectively in today'.

Figure 4 Business Diplomacy and CSR contributions on each other

²⁰⁷ *Op. cit.* Footnote 144. p. 311.



12. Interconnection between Business Diplomacy and Corporate Social Responsibility

In this last part of the paper, the study will focus on assessing two real-life examples of businesses which either used BD and CSR strategies to face a challenge and succeeded or failed because of their lack of performance in the fields of BD and CSR.

Shell Oil and the Ogoni People in Nigeria^{208 209}

Since 1958, Shell oil has been the largest private company which produces oil and gas in Nigeria. However, under the 1989 Constitution, Nigeria's mineral rights are held by the government, which negotiates the deals with foreign oil exploitation companies. In this context, Shell Petroleum Development Company (SPDC) initiated a joint venture with the Nigerian National Petroleum Corporation (NNPC).

Within Ogoniland, situated in the Rivers State of the Niger Delta, the joint venture owns most of the 100 oil wells. Since the very beginning, Shell Oil refused to consider the claims of the Ogoni people, who started to experience problems after oil was discovered in 1958. Moreover, besides being deprived of their right to exploit the oil wells within their territory, the Ogoni people suffered from the continuous oil spills which contaminated water supplies and deteriorated their livelihoods and living conditions. The outcome of all these events translated into the Ogoni's sabotage of the Shell oil wells, which soon united with the claims for democracy. However, the rebellion was repressed by the Nigerian government and its military dictator, with an outcome of eight Ogoni activists being killed.

²⁰⁸ *Op. cit.* Footnote 82. p. 81.

²⁰⁹ DUTCH, R.; GROUP, S., "Shell, Nigeria and the and Implications of Strategy", *Sustainable Development*, vol. 9, July 2001, pp. 177-196.

Given the circumstances, Greenpeace and other NGOs condemned the activity of Shell oil, since they were cooperating and contributing with a regime which was silencing and threatening the human rights of the communities living in the Niger Delta. The continuous claims of NGOs accusing oil activities of affecting health, sustainable development and ecological balance resulted in damaging Shell's image, and it was not until 1997, that Shell decided to approach the Ogoni people.

Considering the events, it can be argued that Shell failed to consider the social dimensions of its activities in developing countries. Moreover, it did not contemplate the fact that the weakness of the Nigerian State was enlarging the power of the oil companies and that their actions had a devastating impact upon the local communities. Accordingly, Shell lacked diplomatic knowledge on three main aspects; it did not analyze the political and social circumstances within the country, it failed to develop a strategy for approaching the local communities, and it did not study the environmental impact of its actions. Consequently, it was unable to foresee the risks which then deteriorated its image.

Whether Shell had had BD abilities, it could have prevented damages to its reputation and operations within the country. This is because BD considers the political and social background and develops a strategy which can anticipate and meet the challenges that may arise within a specific situation. Moreover, BD know-how would have been able to prepare Shell with the capacity to negotiate with stakeholders; the government, Ogoni people and NGOs, to consider the demands from each group and try to come up with solutions. Although BD cannot always foresee all risks, it can contribute by preventing an issue like this to escalate into a crisis affecting its international image. In addition, although the importance of CSR of companies has not been considered and evidenced until more recent years, if Shell oil had possessed real mechanisms to anticipate and address the social and environmental impact of its activities, it could have most surely prevented a situation like this one.

Pepsi's entry to India: A lesson in Globalization²¹⁰

During the late 1980's, the Indian Government was characterized by its interventionism within the corporate and business sector. In this context, although the Indian market was highly appealing for foreign multinationals since the vast population could provide a very lucrative base and Indians were becoming familiar with global brands, large international firms like PepsiCo or Coca-Cola were forbidden the entry. Although Pepsi engaged in intense lobbying with the Indian government, many parties rejected their activities in the country. Accordingly, Pepsi had to come up with a strategy which would permit its entry to the Indian market.

In 1985 Pepsi partnered with a leading group of Indian enterprises known as RPG Group with the purpose of beginning operations in the country. Nonetheless, the be allowed by the government, Pepsi said that the import of cola concentrate would essentially be in return for exporting juice concentrate from operations to be established in the northern Indian state of Punjab. Moreover, in their proposal, they explained that their objective was to *promote and develop the export of Indian agro-based products and introduce and develop PepsiCo's products in the country*. Nevertheless, the government rejected this proposal because the

²¹⁰ IBS CENTER FOR MANAGEMENT RESEARCH, *Pepsi's entry into India: a lesson in Globalization*, 2003, pp. 1-11.

products would use a foreign brand name and because it refused the import of the cola concentrate.

A few months later, PepsiCo put forward another offer to the government without the support of the RPG Group. Aware of the political and social issues the situation between India and Punjab entailed, Pepsi saw as an opportunity to link its entry with the development and welfare of the state, considering its rich agricultural sector. Hence, it aimed to win the government over with this approach, and its plan to invest more than \$1 billion in India by 1998. With this new proposal, they put a lot of emphasis to the effects of PepsiCo's entry on the development of the agricultural sector and the employment opportunities in Punjab. Moreover, the offer explained that with the creation of new jobs, terrorists would be tempted to return to society. Additionally, it explained how its entry would boost the image of the Indian brand in the foreign market, it set up agriculture research centers and it created programs for the agricultural education of farmers.

After long negotiations and large marketing campaigns, Pepsi was allowed the entry to India, also because it was able to win the support of various interest groups. However, it still had to engage with local farmers in order to contract them. At this point, it had to adapt to their needs and the fact that many of them did not even have a bank account. Although at the beginning many farmers opposed to its entry, the benefits in the agricultural sector soon became evident since Pepsi allowed for the increasing of agricultural production, and at the same time it introduced new technologies which helped the sector modernize.

Considering that India was a closed economy until 1991,²¹¹ and that it was facing profound social and political challenges, PepsiCo's expansion into the Indian market can be considered a great success for the company. Moreover, it proves how diplomatic knowledge and practice within MNCs can offer great compensations and opportunities while interacting with state and non-state actors. By analyzing this case, we can argue how Pepsi was forced to not only focus on the economic aspects of entering a foreign market. Rather, it had to understand and adapt to internal legislation, politics, and culture to seek new opportunities. Additionally, its understanding of how the government and interest groups functioned allowed the soft drinks company to make concessions and offers which would meet their expectations and high demands. At the same time, it evidences how necessary it is for MNCs to have knowledge on conflict and social issues to create social capital and anticipate risks. By doing so, Pepsi was able to successfully increase brand credibility and legitimacy, which allowed the firm to establish itself firmly within the Indian market.

The evidence provided by these two examples shows how with the use of Business Diplomacy and CSR strategies, many risks can be anticipated and mitigated effectively and efficiently. This is because they both provide mechanisms to develop strategies and core competences which impact all fields of work within a multinational company. Accordingly, in nowadays business environment, these competences have gained much relevance and cannot

²¹¹ JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, D. AND T., "Chapter 1: India's Transition from a Closed to an Open Economy", fecha de consulta 23 marzo 2021, en https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=jfadt/india/indch1.htm

be ignored. At the same time, both examples come to prove how in order to effectively execute an CSR strategy which complies with social and environmental standards, diplomatic knowledge is needed. Moreover, they display how in BD uses CSR strategies to maintain a reputation and attain legitimacy and license to operate within the changing business environment. In this context, it can be said that BD ease the process of foreseeing hazards and overcoming them.

CHAPTER 4: CONCLUSIONS

To address the research question of the dissertation, the paper has begun by assessing the transformations the field of diplomacy has suffered throughout the years due to the changes within the international community. Accordingly, the term *diplomacy* has been defined to provide a clear idea of what *diplomatic know-how* refers to, and to differentiate it and relate it to the new emerging forms of diplomacy, such as Business Diplomacy. The adaptation and the new surge of forms and new methods to execute diplomacy has come to evidence its changing and adaptable nature, and how essential it is becoming for businesses. Furthermore, the paper has studied the development of new types of diplomatic practice which come to assess the changes within the business environment, and how globalization has resulted in a set of changes within the sociopolitical and business-related spheres which have transformed the role of multinational corporations, and have positioned them as new influential and power-holding actors, together with states and international organizations. By providing an insight on MNCs' power and comparing it to the one of the states, the huge influence of international corporations in relation to global politics and governance shows how state-corporate relations are becoming increasingly important.

In response to the renewed role of international businesses, the second chapter has examined how BD emerges as a mechanism developed to manage the new relationships such companies must maintain and foster to grow, seek new opportunities, and confront old and new risks. In this context, it has also examined the necessity to have in-house personnel which can act on behalf of the MNC and carry out BD, while it also identifies the specific capabilities Business Diplomats should possess.

Lastly, it has analyzed how the social responsibility of companies is linked with BD, since it is a tool which can contribute with the broader objective of BD. Moreover, it has also examined how the engagement with socially responsible actions and the compliance with environmental and social standards also requires diplomatic knowledge.

Every part of this paper has provided essential inputs for shaping a study aimed at identifying and assembling the different views on BD and how it is evolving into an essential field of work and study given the changes within the IC. Accordingly, having provided the sufficient evidence and studied the fragmented literature on this subject, this last part will focus on providing a clear and precise answer to why nowadays multinationals require BD, and how is it beneficial for them. Further to this, it will also assess into what extent the execution of CSR plays a part in attaining the end goal of BD.

By analyzing the different functions and goals of BD and arguing why it should be developed as a core competence, this dissertation shows how the development of a BD strategy

and its incorporation within the overall strategy of the firm is crucial for properly transmitting the company's values and achieving its goals. Even though not many multinational enterprises recognize the necessity of this field of work, the importance of negotiating, influencing, and maintaining constructive relationships with external stakeholders has become crucial for MNCs given their role within the IC.²¹² Accordingly, so has the development of a BD office which is able to coordinate and integrate its strategy within the overall business plan of the company. This is because, since MNCs increase their international presence in foreign markets, they face the pressures and demands of foreign institutions and societies to which MNCs are required to accommodate their activities to. Considering these factors, BD emerges from the necessity to meet new challenges businesses face due to globalization. These new challenges originate from the global market and from the repercussion the activities of MNCs can have upon the global society. Therefore, MNCs' impacts are no longer limited to the society of one state, rather they come to have an international reach due to the global value chains and the environmental footprint they have. In this context, the fact that international businesses need trained personnel with diplomatic abilities to address issues relating to these matters cannot be ignored. Moreover, due to globalization and the increasing number of laws, treaties, and standards which businesses must comply with, and the large number of international organizations and governments they ought to relate to, BD is becoming imperative to operate in the global sphere, influence decision makers, and develop state-corporate alliances.

The fact that MNCs develop BD strategies is not only beneficial for securing relationships with stakeholders. As the study carried out by Ordeix-Rigo and Duarte explains, the practice of diplomatic know-how within businesses becomes a way of increasing the power and legitimacy of a corporation.²¹³ Therefore, considering that business success nowadays can not only be achieved by considering the business-related and economic factors, it is also essential for MNCs to consider the sociopolitical elements, since this can allow them to prosper and grow. As a result of this, BD allows international companies to attain a certain status and reputation which can become a distinctive factor among other firms. To do so, it develops a long-term strategy for earning the confidence and credibility of interest groups through the creation of channels for dialogue and negotiation. Thus, BD can also contribute to MNCs' recognition as social representatives and institutions.²¹⁴ This is because by engaging in sustainable relationships and contributing with having a positive impact upon society, international corporations gain trust and loyalty from stakeholders. Hence, trust can enlarge their capability to mobilize social issues into the agenda of governments, international organizations, and other decision makers.²¹⁵ In this manner, through BD social capital is created in multiple cultural settings, and if maintained through time and used properly, it can become a guarantee for business success since it can increase the value of both tangible and intangible assets of corporations.²¹⁶

In relation to the functions stated in the second chapter which BD aims to accomplish (pages 25 and 26), research shows how it can use social responsibility as an instrument for assuming some of the tasks which relate to safeguarding corporate image, creating social capital, and sustaining credibility. All of these contribute with the creation of reputational capital; *that portion of the excess market value that can be attributed to the perception of the*

²¹² *Op. cit.* Footnote 61. p. 37

²¹³ *Op. cit.* Footnote 30. p. 562

²¹⁴ *Ibid.*

²¹⁵ *Ibid.*

²¹⁶ MAČERINSKIENĖ, I.; ALEKNAVIČIŪTĖ, G., "The Evaluation of Social Capital Benefits: Enterprise Level", *Business, Management and Education*, vol. 9, n.º 1, 2011, pp. 122-123.

*firm as a responsible domestic and global corporate citizen.*²¹⁷ The reason for this is that reputation capital is attained by showing credibility among institutional and individual stakeholders, by ensuring quality, service and innovation, by showing accountability, complying with regulations, and proving responsible practices among different communities.²¹⁸ In accordance to this, through the creation of reputational capital, along with other CSR strategies, multinationals can maintain a positive image notwithstanding their location. Further to this, the fact that a company can increase its social status through good corporate citizenship, also enables it to have a wider influence within international organizations and interests groups.²¹⁹ Moreover, as explained in the third chapter of this dissertation, the fact that the compliance with CSR requirements also demands of diplomatic know-how becomes another solid reason for MNCs to acquire diplomatic knowledge, seeing that the social and environmental impact of the activities of businesses is constantly being scrutinized by society and the media.

Although even now there are many people who remain skeptical about the advantages of engaging in CSR,²²⁰ there are several studies which prove how practicing it is in fact very beneficial for companies in the long term, and how the public does take into account the social responsibility of firms when choosing between one company or another which offer similar product quality and price.²²¹ In relation to this, the International Institute for Sustainable Development identifies eleven potential benefits for firms implementing CSR.²²² Out of these advantages, there are seven which contribute with attaining the objective of BD:

- Better anticipation and management of risks
- Improved reputation management
- Improved market positioning
- Improved ability to attract and build effective and efficient supply chain relationships
- Enhanced ability to address change
- Robust social license to operate in the community
- Improved relations with regulators

Altogether, these aspects while being convenient for business success and growth, they also contribute with attaining legitimacy and license to operate because they help in the process of establishing and sustaining positive relationships which can translate into enduring public, private and civil society alliances.²²³ Thus, corporate citizenship has also rearranged companies' external representation process, because of the need to employ diplomatic practices which cannot be resumed once employed.²²⁴ For this reason, in today's business environment,

²¹⁷ PETZICK, J. A.; SCHERER, R. F.; BIODZINSKI, J. D.; QUINN, J. F.; AININA, M. F., "Global leadership skills and reputational capital: Intangible resources for sustainable competitive advantage", *Academy of Management Executive*, vol. 13, n.º 1, 1999, p. 60. Extracted from FOMBRUN, J., *Reputation: Realizing Value from the Corporate Image*, Harvard Business School Press, Boston, MA, 1996.

²¹⁸ PETZICK, J. A.; SCHERER, R. F.; BIODZINSKI, J. D.; QUINN, J. F.; AININA, M. F., "Global leadership skills and reputational capital: Intangible resources for sustainable competitive advantage", *Academy of Management Executive*, vol. 13, n.º 1, 1999, p. 60

²¹⁹ *Op. cit.* Footnote 30. pp. 562-563

²²⁰ *Op. cit.* Footnote 24. p. 349

²²¹ *Op. cit.* Footnote 154. p. 12

²²² *Op. cit.* Footnote 152. pp. 10, 11, 12

²²³ *Ibid.* p. 11

²²⁴ *Op. cit.* Footnote 24. p. 352

the opportunities corporate citizenship can offer should be used as an advantage for executing Business Diplomacy. As MNCs engage with diplomatic methods for advancing in certain objectives, in occasions, to acquire such objectives CSR is needed. What is more, the increasing number of companies developing CSR reveals how firms have come to understand that business success depends on the ability to engage with stakeholders.²²⁵ Prove of this is the growth of firms' participation in social and multi-sector partnerships.²²⁶ Even more so now that the legitimacy of corporations as institutions is changing due to globalization.

Appropriately, a way to sum up the ideas brought up throughout the dissertation, is by concluding that BD arises as the sole mechanism which multinationals should use to confront changes in their legitimacy to operate and to meet the equally changing expectations coming from stakeholders. Given the fact that changes in their power and legitimacy have come to evidence that the future of MNCs depends on meeting expectations, Business Diplomacy not only becomes a necessity but an imperative for making effective the international component which lies within MNCs' nature.

²²⁵ *Ibid.* p. 348.

²²⁶ *Ibid.* p. 352.

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