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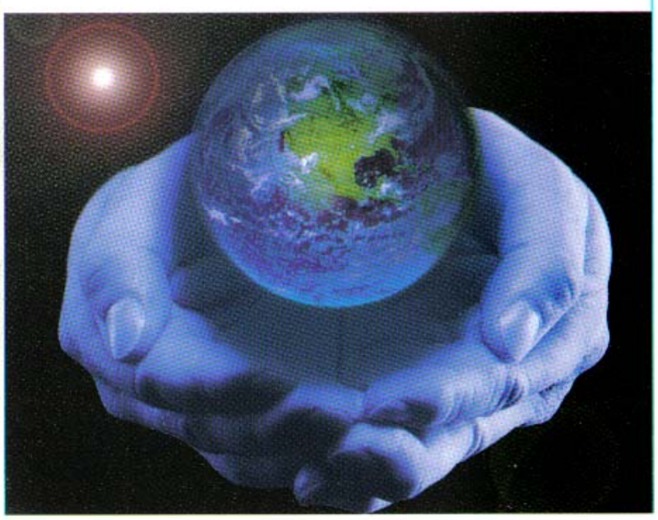
Inter-con-nec-tions



Perspectives on international management practice

Ashcroft International Business School

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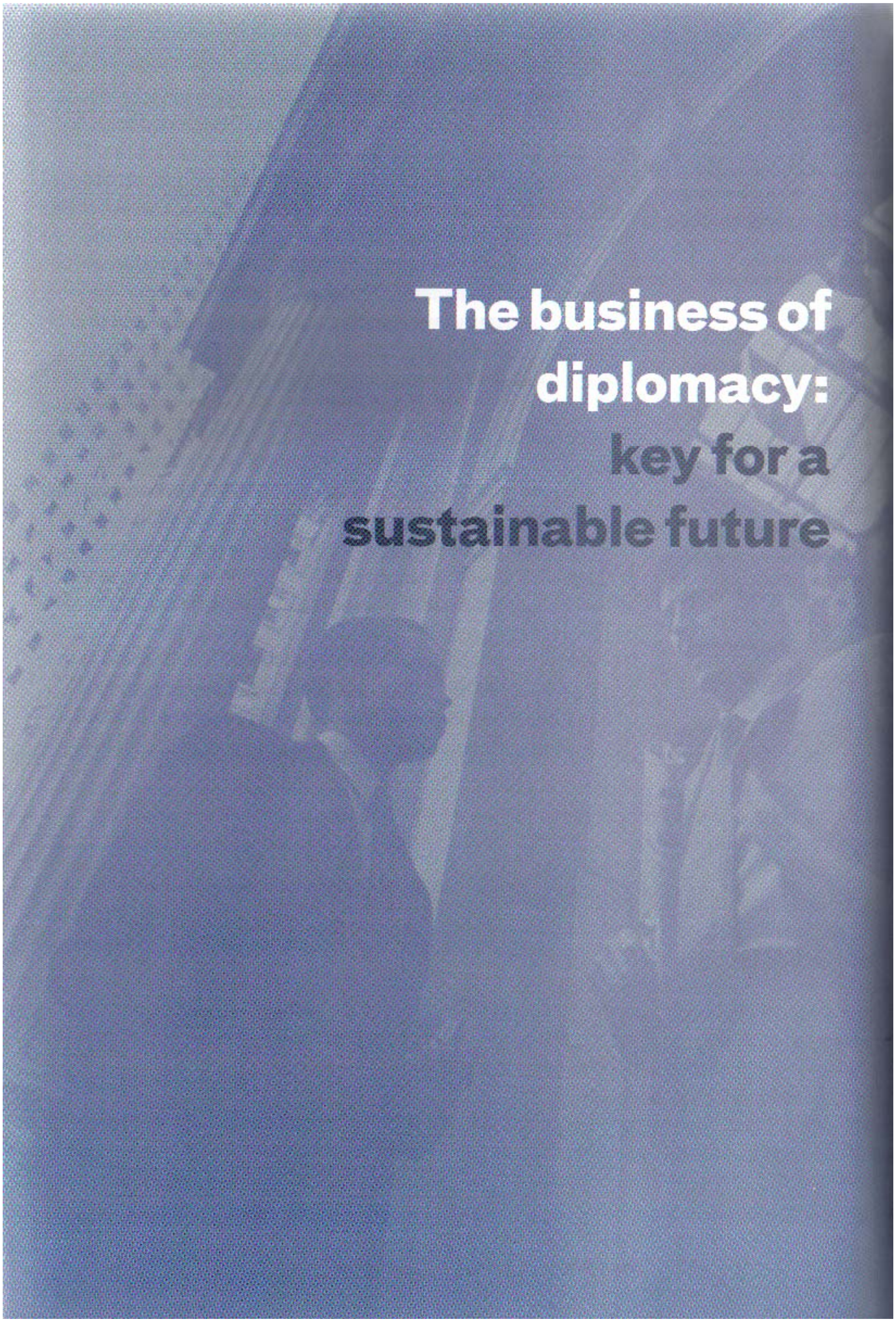
The business of diplomacy: key for a sustainable future



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Over the last 30 years, businesses have operated in an ethical vacuum. The authors draw on the example of Shell in Nigeria to argue that our global leaders need to be trained in business diplomacy as much as operational and strategic capacity to meet business imperatives and social needs.

IT has become a truism that the world is becoming connected in increasingly complex ways. To survive, global companies must be competitive in the business they are in and at the same time show dexterity in managing multiple stakeholders at home and abroad. However, global managers and leaders not only need to deliver competitive products, but they need to be able to inquire into and respond to the conditions in the outside world which are outside of their immediate control. This calls for powers of diplomacy and ethical insights that are not traditionally the domain of the global manager. This has considerable implications for what is offered in the business school or on business training courses.

The size of the modern multinational is such that it can carry as much weight, and sometimes more than, a national government. It is imperative both from a business and ethical perspective, that bridges and networks are built between global companies and the complex socio-political landscapes within which they conduct business. Global managers have to deal with any number of differing groups and situations such as civil society groups, tribal leaders, NGOs, foreign multiple domestic and foreign pressure groups and media. Recent examples of such cases are the compromise on intellectual property rights concerning HIV/AIDS medication (e.g. Abbot Inc. and other pharmaceuticals vs. Thai and Brazilian government); the violent conflicts around water rights (Suez and Bechtel in Bolivia and Argentina); powerful consumer backlash against child labour (Nike); contaminated products (Coca Cola); destruction of production equipment (sabotage of Shell Oil's pipelines in Eastern Nigeria by dispossessed and oppressed minority tribes); hostagetaking (Sinnoc in Ethiopia); and the now questionable report of contaminated baby formula from Nestlé.

This requires skills and competencies that go way beyond those currently taught in the business schools. Indeed, many of the challenges met by current global managers are akin to those met by a political diplomat. Traditionally, the skills needed to meet these challenges are only gained through a long and prestigious training that includes in-depth social, political and historical analysis and awareness and language learning, amongst others. Perhaps one of the reasons that the world is in such a difficult financial and political imbalance is due to the fact that the perspective of the business-school trained manager is limited. Global managers can no longer afford to work from this limited perspective – both for the business they serve, and the various situations in which they operate. It seems that diplomacy needs to be an inherent part of this training. Let's look at the consequences of not taking this account through the experience and conduct of Shell Oil Company in Nigeria.

Shell Oil and the Ogoni People in Nigeria

For many years, Shell Oil refused to consider the claims and misgivings of the Ogoni people who live in Ogoni, a region in Rivers State, Eastern Nigeria. Approximately 500 000 Ogoni people live in an area of 650 square kilometers on fertile lands of the Niger delta. The Ogoni people started to experience problems after Shell discovered oil there in 1958. At that time, Nigeria was under British colonial rule, and the Ogoni had no say in the oil exploitation. With the coming of independence in 1960, the Ogoni situation did not improve – being a minority ethnic group in a country which has a current population of 88 million, the Ogoni never had an effective say in Nigerian politics.

Under the 1989 Constitution, Nigeria's mineral rights are held by the federal government which directly negotiates conditions for oil exploitation with foreign oil companies. Shell Petroleum Development Company (SPDC), in a joint venture with the Nigerian National Petroleum Corporation (NNPC) owns most of the 100 oil wells in Ogoni territory. From the point of view of the Ogoni people, their own oil wealth has been plundered by the Generals who run the country and the foreign oil companies, without any trickle-down effect for their own population.

Further, environmental disasters due to oil spills, contaminated water supplies, and air pollution has led to a massive deterioration of the Ogonis' living conditions. In the 1990s, this resulted in a rebellion in which the Ogoni people sabotaged some of the Shell oil wells. This rebellion was harshly put down by the Nigerian government under General Babangida. The ensuing bitterness soon became part of the on-going call for democracy which continued to shake the country over several years reaching tragic proportions with the hanging of eight Ogoni activists in November 1995.

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Many NGOs openly accused Shell of colluding with the Nigerian regime in violent repression of the Ogoni rebellion. Ogoni people continued to sabotage Shell's oil wells and the effective advocacy of NGOs resulted in damaging Shell's international image. Shell finally decided in 1997 to reach out to the depressed Ogoni community. Meetings were organised with Ogoni groups to find ways to alleviate economic hardship through Delta-wide community development programs – building of roads and market stalls, and water renovation projects.[1] Belatedly Shell recognized the Ogonis as a crucial non-business stakeholder in their operation in Nigeria.

However, this was all too late, and the situation worsened. A militant group emerged about three years ago, calling for more federally controlled oil-industry revenue to flow to the southern states where the petroleum is pumped. These militants focused attacks primarily on the country's oil infrastructure, seeking to heighten pressure on the government. Other armed groups emerged to attack oil rigs, kidnap foreign managers and technicians. A loosely organised group called the Movement for the Emancipation of the Niger Delta even threatened war on the government and foreign oil companies on 14th September 2008 after being attacked by government troops. The group, which is a loose alliance of various armed gangs operating in the southern Niger Delta, attacked military positions, destroyed pipeline-switching stations and blew up pipelines that carry crude oil from wells to export terminals in southern Nigeria. According to the Nigerian state oil company, daily production is down about 40 percent from Nigeria's normal daily output of 2.5 million barrels, helping send crude prices to historical heights this year in international markets.

1. Shell's point of view can be accessed at www.shellnigeria.com/info/People_env/html_versions/relations_t.htm

It was only after appeals from elders and politicians in the region that hostilities ceased. Thus three years of attacks have cut Nigeria's oil production from 2.5 million barrels per day to around 1.5 million barrels.

Who was responsible?

But the situation was not clear cut: much of the political justification for the kidnapping and violence has been seen by many foreign observers as a cover up for mostly criminal activity aiming at self-enrichment of violent gangs to the detriment of oil companies, government officials and the local communities in whose name the violence was being committed.

Of course, it is all too easy to see the mistakes made in hindsight. Shell initially lacked the political foresight and diplomatic skills in dealing with a population directly affected by their business operations. The Shell headquarters were not equipped with the skill base required to alert its Nigerian subsidiary of possible conflict. In addition, Shell should have at least questioned its close relationship to the previous dictator and kleptomaniac régime build on violent oppression of all forms of democracy. At the very least, to be seen so close to the central corrupt powers makes a large transnational company vulnerable to reprisals especially if it is present in the oppressed regions of the country, not to mention the ethical rights of the Ogoni people.

Of course, this raises many questions, both operational and ethical. Should a large multinational venture into countries which have military dictatorships? What is the political and ethical responsibility? How can this be handled? We can't answer any of these questions for each needs to be taken on its merits, and on a case by case basis. But what is clear is that Shell would have benefited from having someone on the ground, investigating the conditions, and negotiating where necessary with the government, the local tribal leaders and concerned international NGOs before the situation deteriorated into a full crisis. These problems in Nigeria were linked to its inability to interface proactively and simultaneously with government officials, regional opposition leaders and local community groups. Shell's organisational myopia towards its external environment would not have been so damaging had the company been equipped with adequate diplomatic know-how, political foresightedness and social competence.

That way, it may have been possible that equitable solutions for all stakeholders could have been reached rather than hiding behind quasi-legal arguments which were totally unacceptable to the non-business stakeholders. At the end, the company's reputational capital was also diminished.

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What was a political struggle turned into professional criminal activities similar to other conflict-ridden regions where prolonged political struggle attracts armed groups who turn their political struggle into mafia-like criminal activities, as was the case in Liberia and Sierra Leone. The lesson here to learn is that foreign enterprises involved in raw material extraction in countries where corruption reigns and minorities are systematically oppressed are prone to become targets by local armed groups who learn to turn political strife into criminal violence. Ultimately this turns both foreign business and local communities into hostages of indiscriminate violence. Finding remedial solutions are almost impossible now. In hindsight, preventative actions focusing on equitable distribution of wealth to local communities generated from locally sourced raw material extraction would have been less profitable in the short term but much more beneficial in the future for all parties concerned. This shows the importance of finding long-term sustainable solutions.

Why global companies need to develop diplomatic skills

It is clear from the above example, and many others we could cite, that global businesses play a major social and political role in the countries in which they operate. There is a gulf here between the skills of diplomacy and politics, and the operational and strategic requirements of business. While the foreign services of most OECD countries make great efforts in teaching diplomats the functioning and needs of business, the opposite is not true. There are only a few global companies which consciously make an effort to understand the world of international relations and diplomacy and fewer even are the global companies who train their managers in diplomacy and international relations.

Instead, global companies prefer to hire either professional diplomats as full-time or part-time advisers on a punctual and opportunistic basis. The given objectives are mostly narrowly defined – those hired are expected to provide the company with contacts or use their extensive regional experience to help a company manage difficult relations with foreign government officials. Former diplomats might also be hired by a global company for their contacts and experience in a specific industry – for instance, aviation or GM food.

Referring to the examples of Shell, it appears that outsourcing this business diplomacy management function to security firms or foreign consultancies is not enough. Instead, the global companies need seriously to build up their own proactive diplomatic competency. This is as much an ethical as a business requisite, as business managers need to be able to balance the short- and long-term consequences of their actions.

CEOs of global companies need the competencies of Diplomatic Know-How to carry out an increasingly large number of 'diplomatic' missions. Traditionally, expatriate managers were expected to handle these diplomatic assignments as part of their job portfolio. However, with increasingly vocal and self-assured host country governments and interest groups, and the proliferation of information over the internet by NGOs and opinion-making by interested bloggers, business diplomacy should no longer be left alone to former ambassadors serving as 'temporary' business diplomats for the global company. To include former professional diplomats in top level staff positions is certainly already a great help, but more needs to be done!

For instance, global companies need to anticipate environmental conflicts, communicate effectively with non-business interest and pressure groups, influence decision making of foreign governments, maintain and cultivate constructive relations with external constituencies and negotiate on behalf of the company in foreign countries with non-business groups. All these competencies are too important to be left to advisers from the foreign service alone.

Faced with the challenges of globalisation and its multiple business and non-business stakeholder interfaces, global companies need to expand the traditional concept of public affairs and acquire diplomatic know-how which goes beyond what is normally expected of public affairs officers. In particular, global companies need to be able to forecast, plan and manage international issues, cope with multiple crises, influence and work with intergovernmental organisations and operate appropriately within diverse cultural and societal environments.[2]

Such business-oriented diplomatic skills would safeguard a multinational company's reputational capital and could also assist in seizing proactively business opportunities embedded in non-business environments (influencing of standard setting, utilising trade rules, negotiating with governments and intergovernmental organisations).[3]

As companies own more foreign assets, and create complex global value chains which often impact many different countries, there is an imperative for a radical shift in the training of business managers, who need to be as well versed in international and social relations as they are in business operations and strategy. Diplomatic skills would be essential here in order to meet business imperatives, along with a mapping of the social and ethical conditions in order to meet increasing public scrutiny and call for accountability. We live in a world that is constantly shifting. The current credit crisis and recession shows us that an alertness and willingness to respond to the conditions are prerequisites of those leading our global organisations. Awareness, and care for, the many groups affected by their activity is crucial if they are to maintain a sustainable position. In business terms, global companies need to acquire a new core competency – Business Diplomacy Management – as part of their reputational capital strategy.

2. Wartick, S.L. & Wood, D. J. (1998). *International Business & Society*, Oxford: Blackwell Publ.

3. Petrick, J. A., Scherer, R. F., Brodzinski, J. D., Quinn, J. F. & Ainian, M. F. (1999). Global Leadership skills and reputational capital: intangible resources for sustainable competitive advantage. *Academy of Management Executive*. 13(1):58–69.

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