



Deusto Meetings on Business Diplomacy
Bilbao, 28th May, 2014



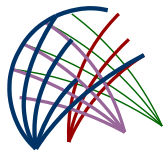
Features of Business Diplomacy

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Diplomacy
Dialogue

« Business Diplomacy »



- ◆ **Business Diplomacy should not be seen as a brand-new contemporary phenomenon. Since ancient times it has always been one of the twin tasks of traders – selling goods/services **and** negotiating levies, tariffs, right to conduct business, conditions of residence etc..**
- ◆ **In the international system business diplomacy takes prominence when globalization is accompanied by an increase of interaction with non-traditional business partners (civil society, regional political groupings).**

« Business Diplomacy »



Faced with pressures from governments and civil society, MNEs have increasingly

- committed themselves to signing codes, charters and guidelines of good conduct
- developed for instance by the United Nations (UN Global Compact), the OECD (Guidelines for Multinational Enterprises) or Multi-stakeholder Initiatives like the
- Kimberly Process (joint governments, industry and civil society initiative to stem the flow of conflict diamonds).

« Business Diplomacy »

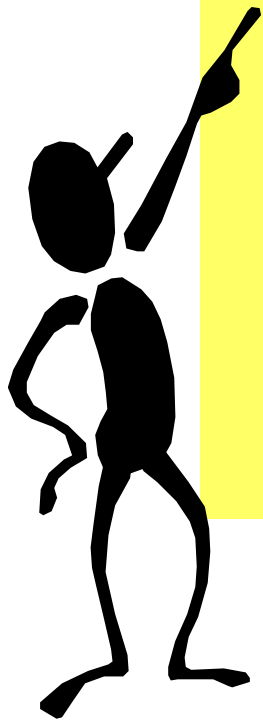
R. Saner, L. Yiu (in press)



- **Business Diplomats are best qualified to nurture a business culture which supports, leads, and cajoles an enterprise towards orienting its business activities towards an overall balance of divers objectives and respect of obligations which at times are in opposition with each other and at other times coalesce towards the **achieving of a sustained business based on publically agreed criteria of good conduct.****



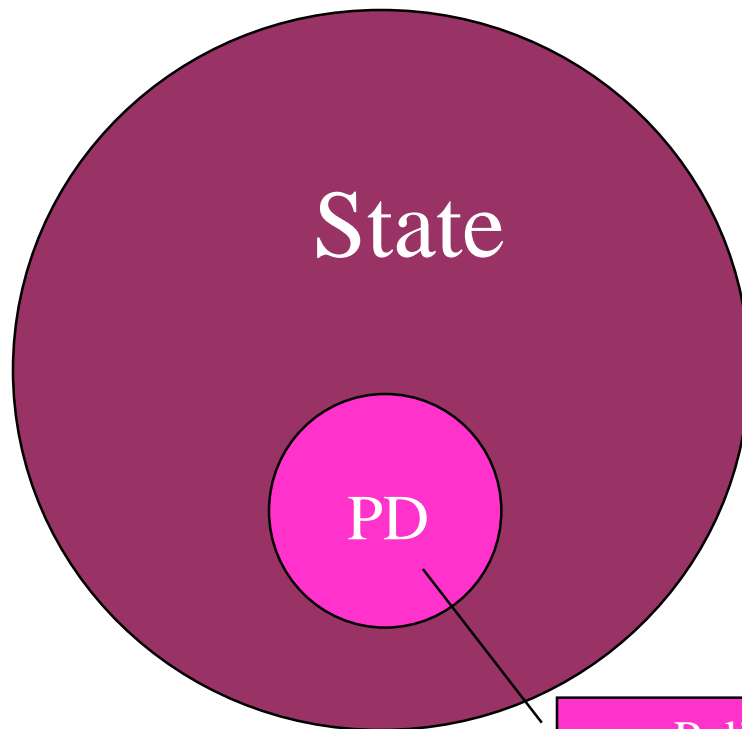
Calling for New Diplomacy Roles in Public & Private Sector



“New Genres
of
Diplomacy”



Evolution of Modern Diplomacy

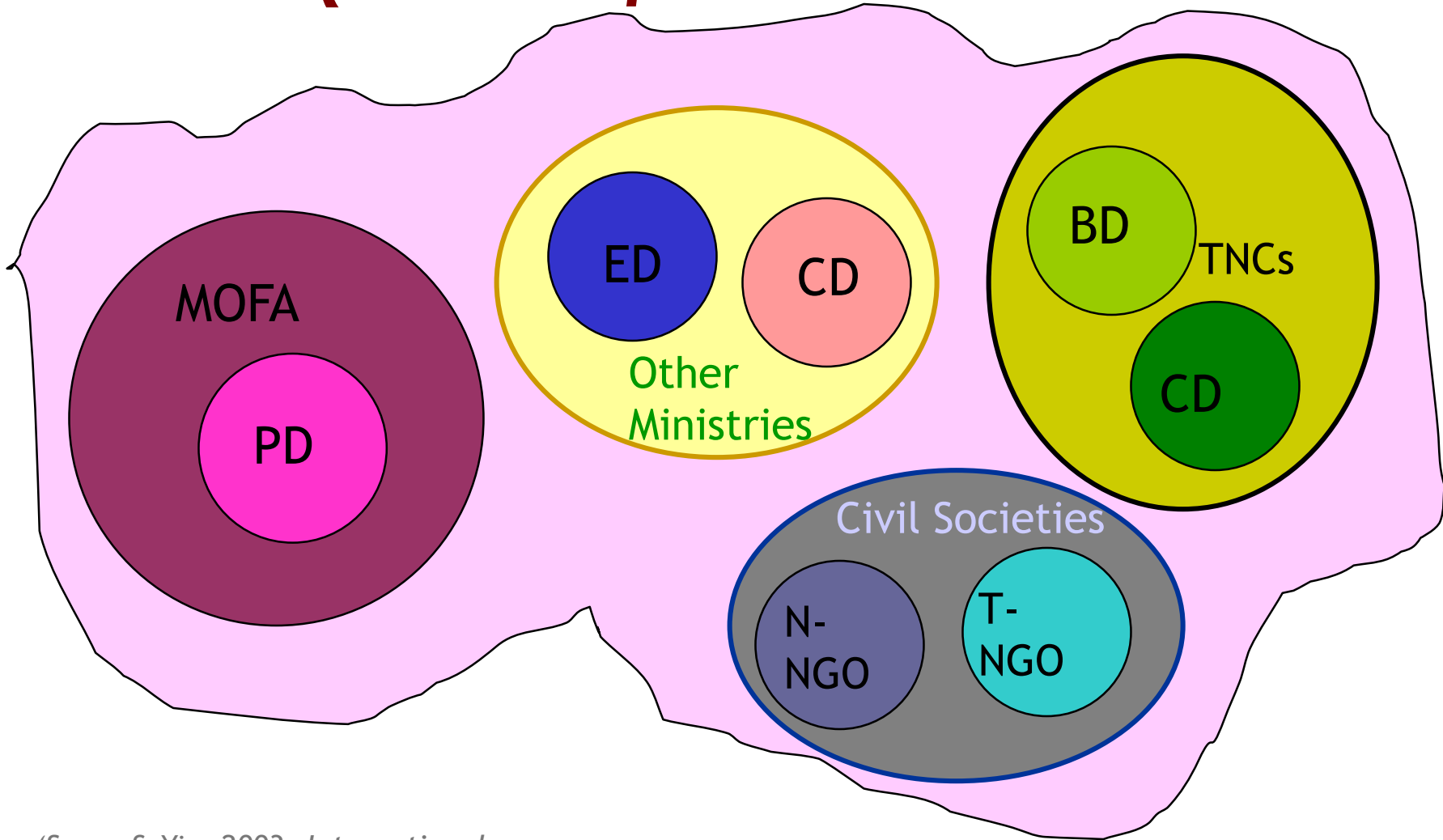


- Representation abroad
- State Affairs
- Privileged communication
- Information gathering

Political Diplomats

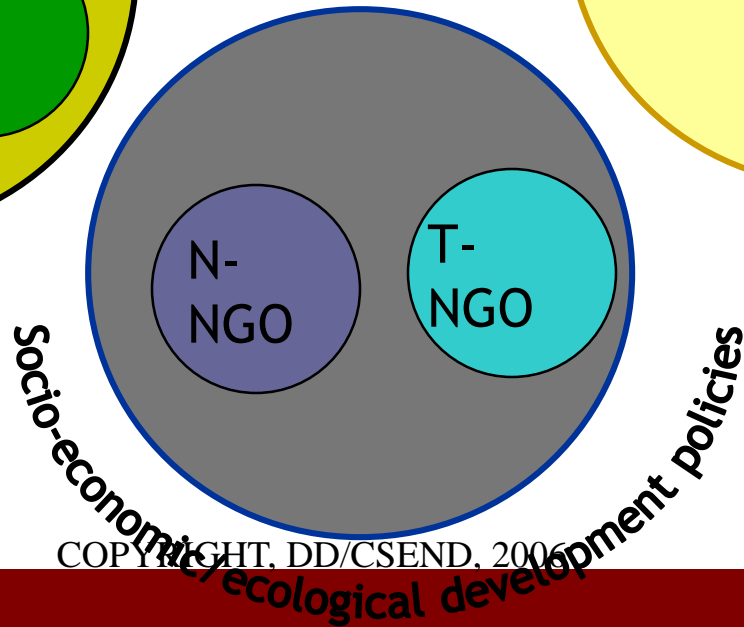
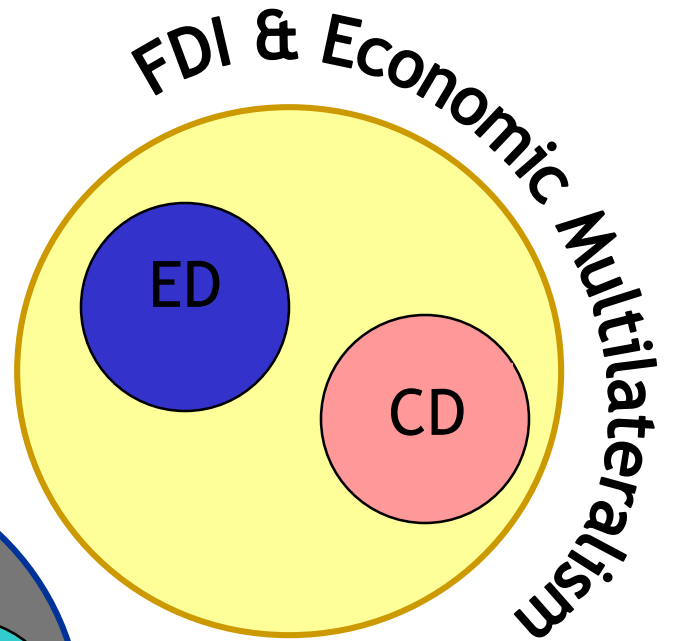
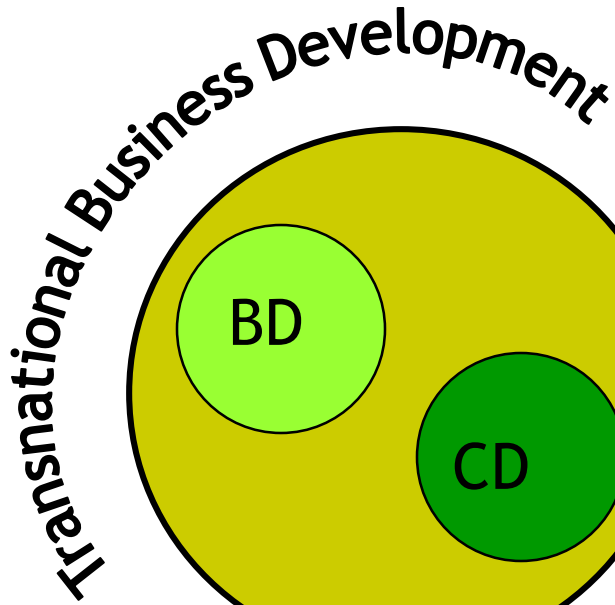


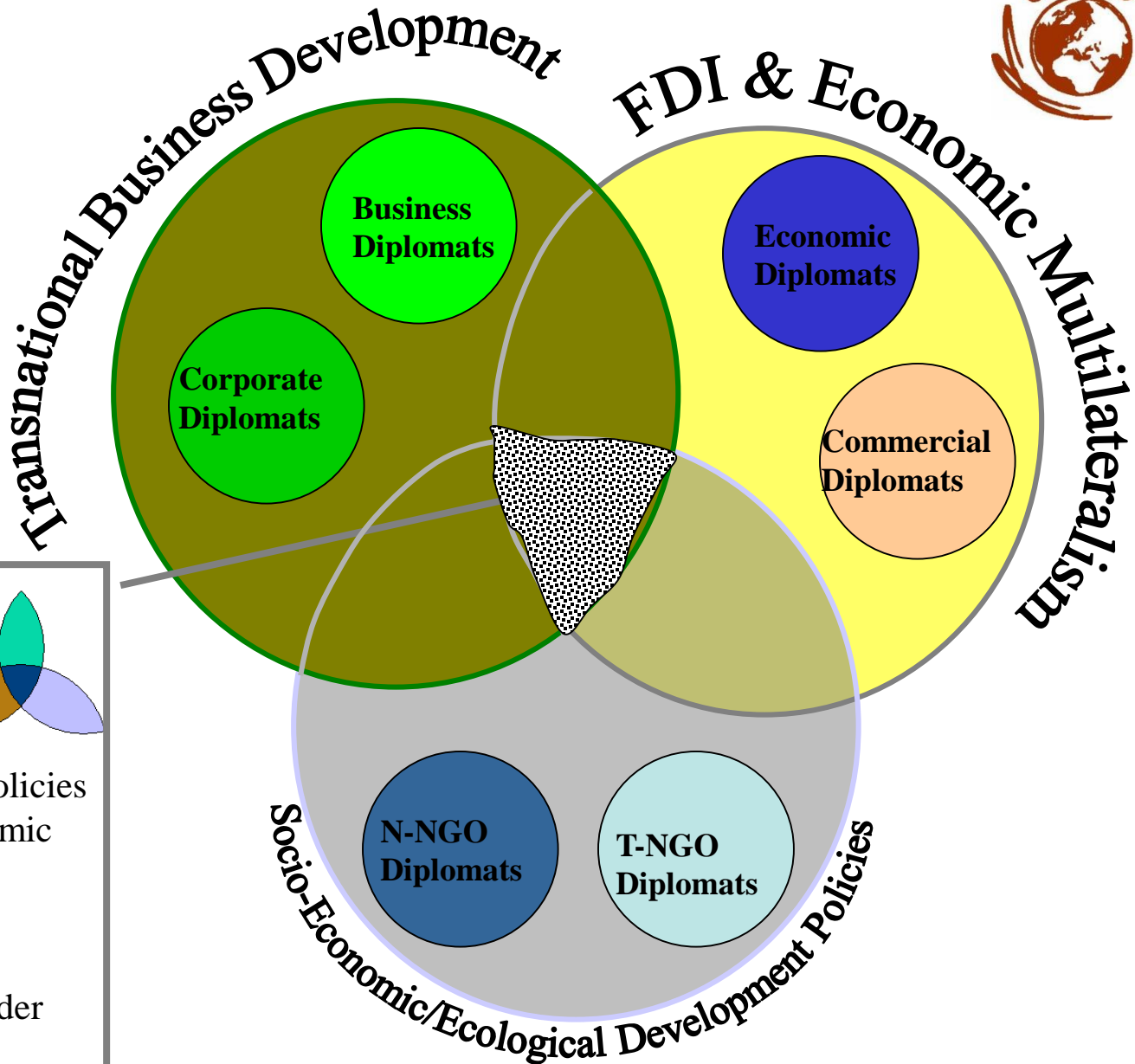
Post-Modern Economic Diplomacy ("New Diplomacies")



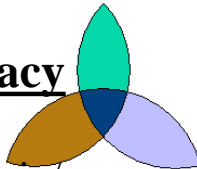
Interests of State and Non-State Actors

(Saner & Yiu, 2003)





Postmodern Economic Diplomacy

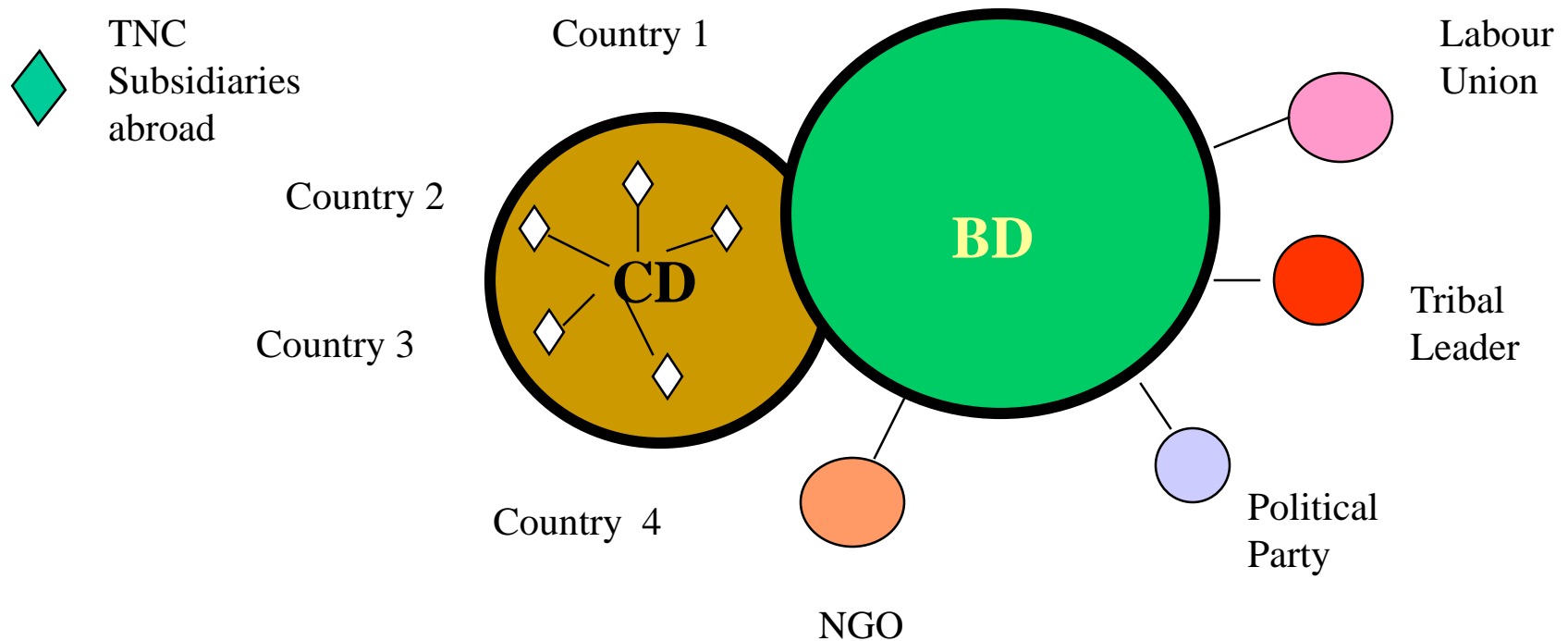


Shaping socio-economic/
ecological development policies

- Negotiating global economic governance architecture
- Setting standards at multilateral organisations
- Managing multi-stakeholder coalitions & alliances

- **Diplomacy should:**
 - **Manage differences &**
 - **Magnify commonalities!**

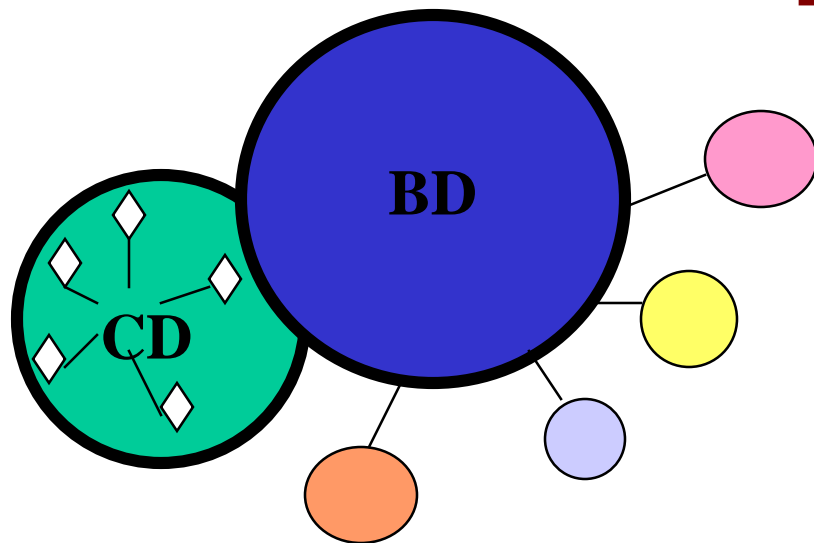
Corporate Diplomat vs Business Diplomat



CD = between TNC HQs and TNC subsidiaries
BD = between TNC and external constituencies



Corporate Diplomat vs Business Diplomat



BD = Business Diplomat

Manager/Former diplomat/ Diplomat-on-secondment who manages interfaces between TNC and external non-business constituencies like Labour Unions, Tribal groups, NGO's, UN agencies and various civil society groups in foreign countries

CD = Corporate Diplomat

Manager who interfaces between TNC and its foreign subsidiaries either from national Headquarters to subsidiaries or from main subsidiaries to HQs

Qualifications of Business Diplomat

- **Economic and Business Know-how**
 - through career as TNC representative with 3-5 years experience in different foreign countries
 - through a MBA education or economics degrees
- **Diplomatic Know-how**
 - through being a career diplomat, e.g., retired diplomat, diplomat-on-secondment
 - through management training in business diplomacy, e.g., corporate managers

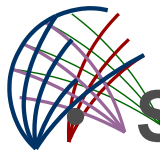


Swiss BD: Pharma and Food Industry MNCs

Presentation



- **Based on a survey conducted in 2004 in Switzerland**
- **Paper published in Organisational Dynamics, 2005, with the same title as this session by Raymond and myself**



Context

Diplomacy
Dialogue



Swiss Economy is heavily dependent on trading with EU 15 (60.2% of exports and 81% of imports in 2004 were with these countries)

- **Switzerland remains outside of the European Economic Area and relied on bilateral agreements to frame the business conditions which needed to be ratified by all parties and renewed on periodical basis.**
- **Swiss companies needed to reduce business risk due to their non-EU domicile**
- **Increasing power and activism of non-business stakeholders through their “watch dog” status and “advocacy” role in influencing standards and consumer choice, as well as government regulations (39 pharma companies against S. African government over patent law override, and role of TAC, 2005)**

Characteristics of Civil Society Organisations and Communities

- **Diverse**
- **Decentralised and fragmented**
- **Cross-border outreach and alliances**
- **Media savvy**
- **Mission driven and committed**
- **Power of persuasion and mobilisation**



Survey Results

Survey Methods

- **Semi-structured interviews based on a non- intrusive questionnaire**
- **Informal inquiry and discussions with staff in charge of BDM**
- **Total of 20 Swiss MNCs were contacted**
- **Data were gathered from 6 companies**

© Saner & Yiu, 2011

- **4 of them are reported here**

Research Challenges

- **“Trust” issue and personal connection**
- **BDM function was organised differently in different companies and BDM managers held positions in different parts of the hierarchy (Consequence: different titles)**
- **Taking lot of time and perseverance**



COMPANY	Total Annual Sales (in billions of USD ^{c)})	Number of Employees Worldwide	Number of Countries Present	Sales Revenue Originating in Europe ^{a)} (in billions of USD)	Sales Revenue Originating Outside Europe (in billions of USD)	World's Top 100 Non-financial TNCs by Foreign Assets, Sales & Employment ^{d)}
Roche	26.5	65,000	150	9.9	16.0	6
Novartis Group	28.2	81,392	140	10.2	17.9	34
Syngenta	7.2	19,000	90	2.8 ^{b)}	4.3	N.A.
Nestlé	73.9	253,000	87	23.8	50.1	48



Dedicated Staff for BD?

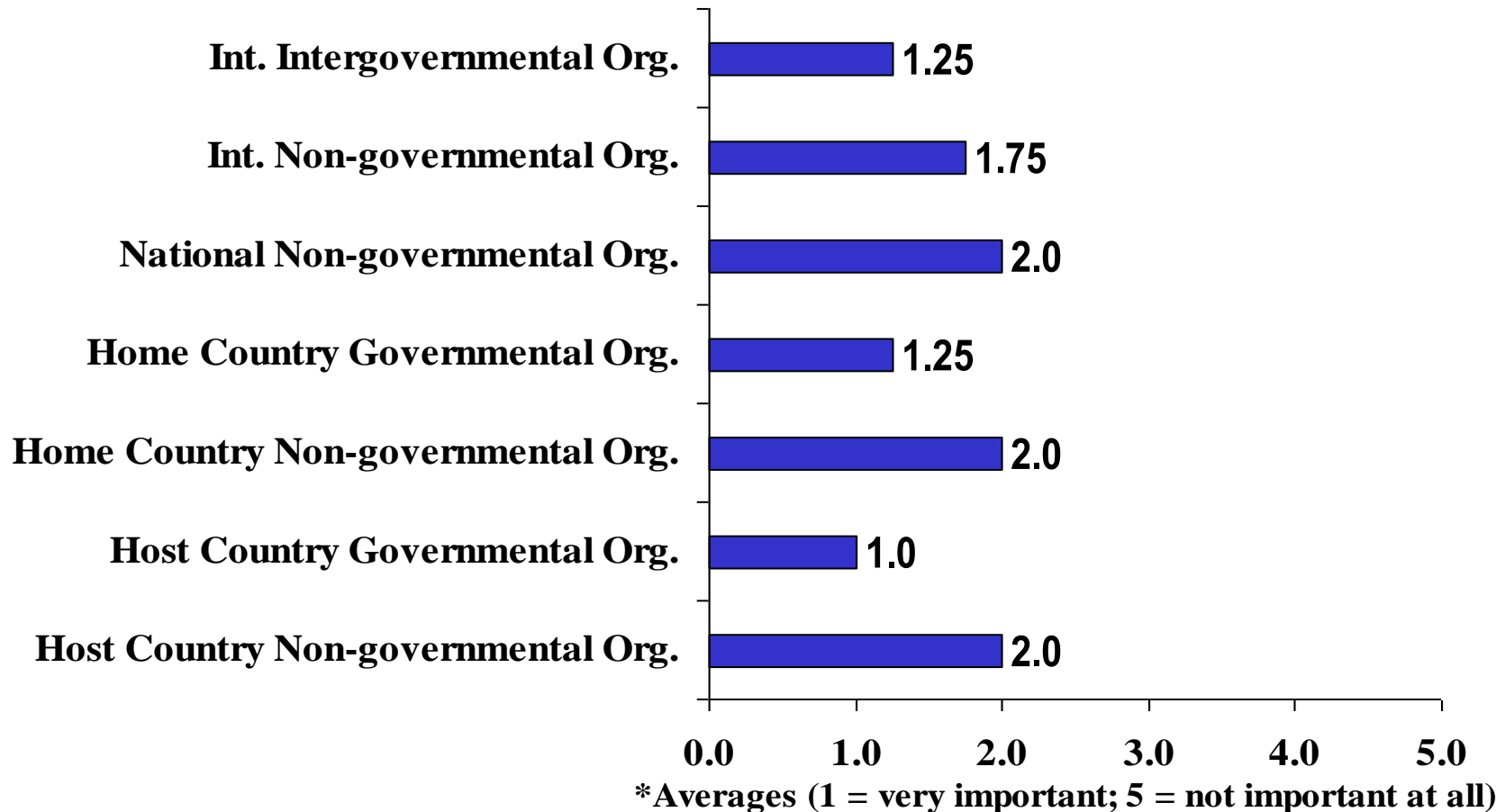
- 3 out of 4 companies said yes

Professional Backgrounds?

PR Consultants	75%
Senior Gov't Officials	50%
Diplomats	50%
Former Exec.	25%
Lawyers	25%



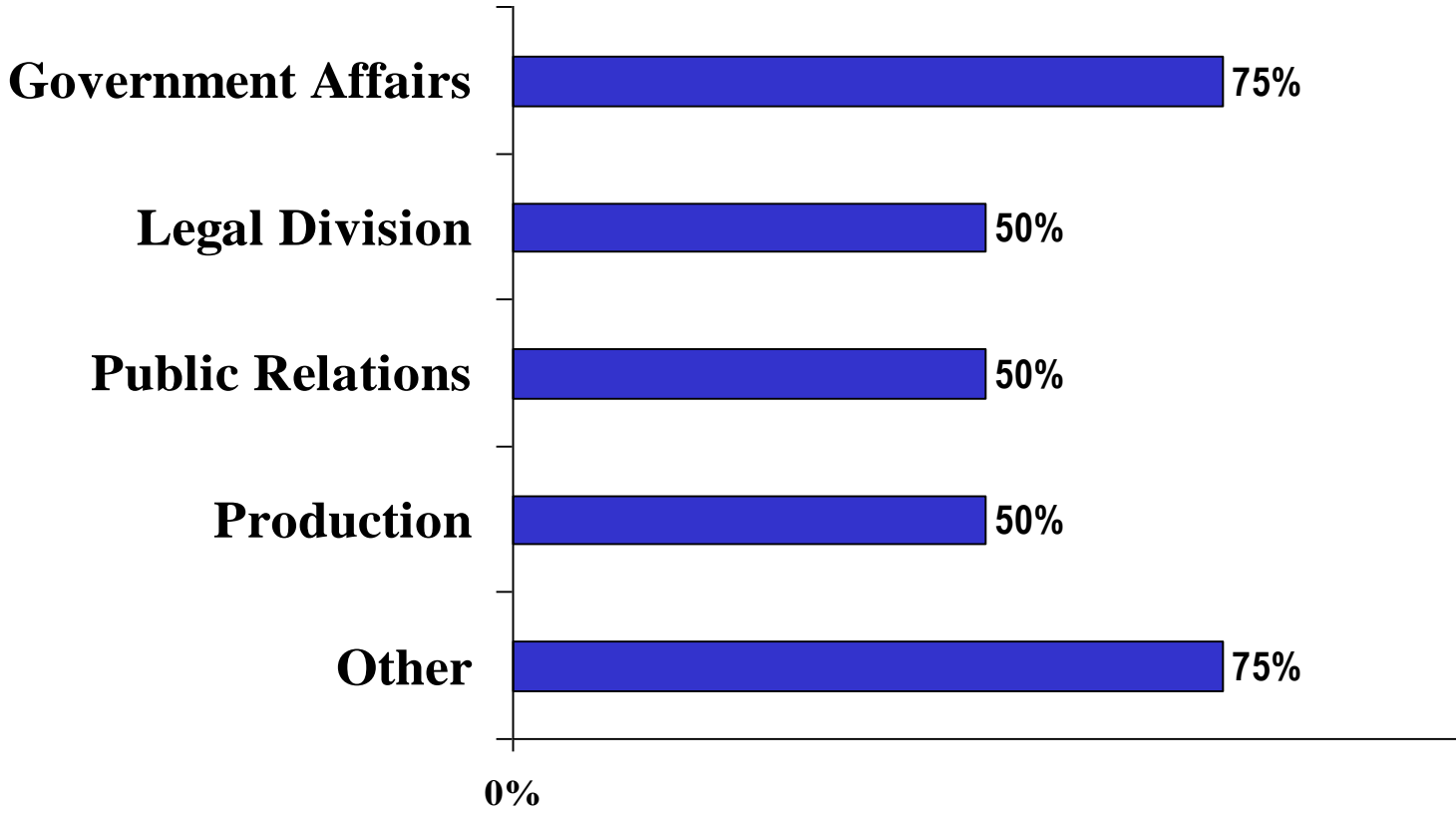
Importance of External Stakeholders



Departments responsible for Business Diplomacy



(Source: R. Saner, 2004)



* Multiple choice possible

Knowledge Domain Important For BDM & Company Success?

(by

importance)

- Reporting standards to different stakeholders
- Domestic decision-making process in the host countries
- Diplomatic instruments
- Key international business standards
- Mechanisms of international crisis management
- International NGOs

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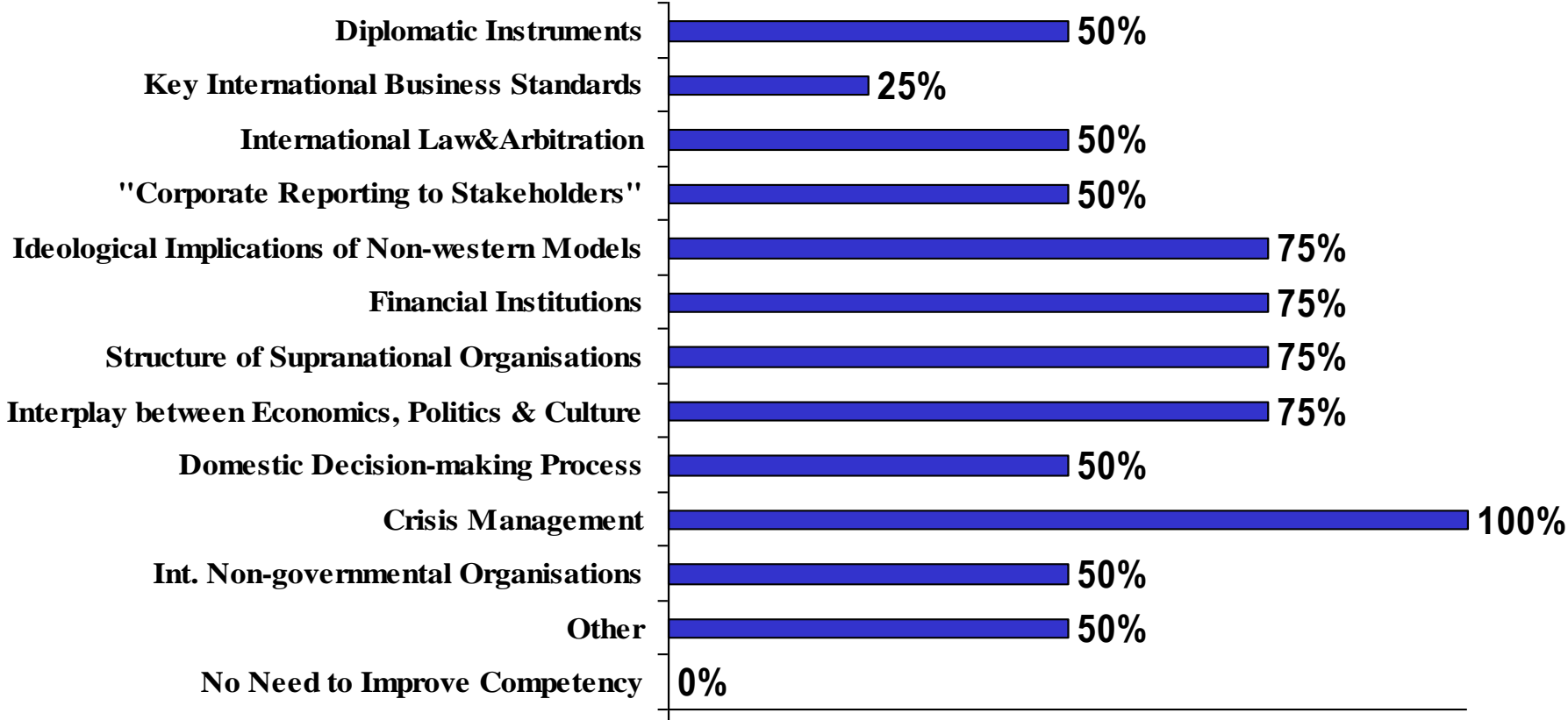
- International law and arbitration



Areas where Knowledge in Business Diplomacy Could be Improved

(Source: R. Saner,

2004)



0%

* Multiple choice possible

Developing BD Competence?



- **In-house training as primary avenue**
- **Partnering with B-school was only considered by ONE company of the sample**
- **Ruled out: partnership with diplomatic schools, hiring additional former diplomats, outsourcing**



Traditional Knowledge Areas for BD and ED

(1)

Business Schools

- General Management
- Strategic Management
- Management Accounting
- Financial Management

Diplomatic Academies

- History of Diplomacy
- Treaty Making
- International Law
- International Economics

Learning from failures by Western energy sector MNCs present in DCs

- **Failure:**

- ◆ **Shell in Nigeria**

Financial Times Wednesday October 5, 2005

Oil groups face rise in threats to security

Shell warning of risks from terrorism and corruption
 'It is very uncomfortable to produce oil with guns'

By Peter Brabeck-Letford and Thomas C. O'Connell

International terrorism, corruption and local violence are increasing oil companies' risk of conflict, one of the world's major security officials warned.

Mr. Brabeck, head of Global Policy Services at Shell International, said the growing risk of terrorism and corruption is not just a local issue but a global one. He said the industry is 'very uncomfortable to produce oil with guns'.

Mr. Brabeck told the conference 'It is going to be a very uncomfortable situation to produce oil with guns and we don't like it'.

Last month, Chevron was forced temporarily to shut down a primary market in Nigeria and Shell had to evacuate staff from three oil and gas facilities because of local violence.

Mr. Brabeck highlighted the critical flow of operating trade rights security for Shell and 'it was a warning sign that we were not an oil company but a security company'.



Shell faces the risk to make its own security arrangements in 'hot' environments

Mr. Brabeck also noted the risk of expansion for foreign companies in the world.

He said that in a world where security is a major concern, major companies are looking for ways to protect their assets in the world where local security forces are weak.

Mr. Brabeck said that Shell has a security team in Nigeria, a local force in Pakistan and a local force in Indonesia. He said that the industry is looking for ways to protect their assets in the world where local security forces are weak.

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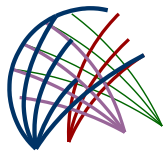
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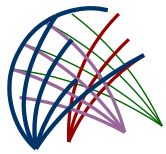
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One example with Oil Companies:
 Their problems are also concerns of the UN and the international community at large, calling for cooperation not confrontation

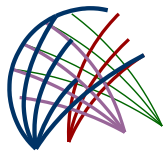


- **Accepting exploitation conditions set by military ruler (joint venture with “National Energy Company” source of corruption, mismanagement)**
- **Perceived as “treasurer” of military dictator providing finances for arms purchases used to repress ethnic minorities (Ogoni tribe)**
- **“business as usual” = lost time to create perceptual distance between Shell and dictator = target for insurgents**
- **Underestimating international NGO’s power, catastrophic loss of reputational capital despite effort to “repair” perceived past mistakes (building schools, hospitals, clean up polluted rivers etc)**



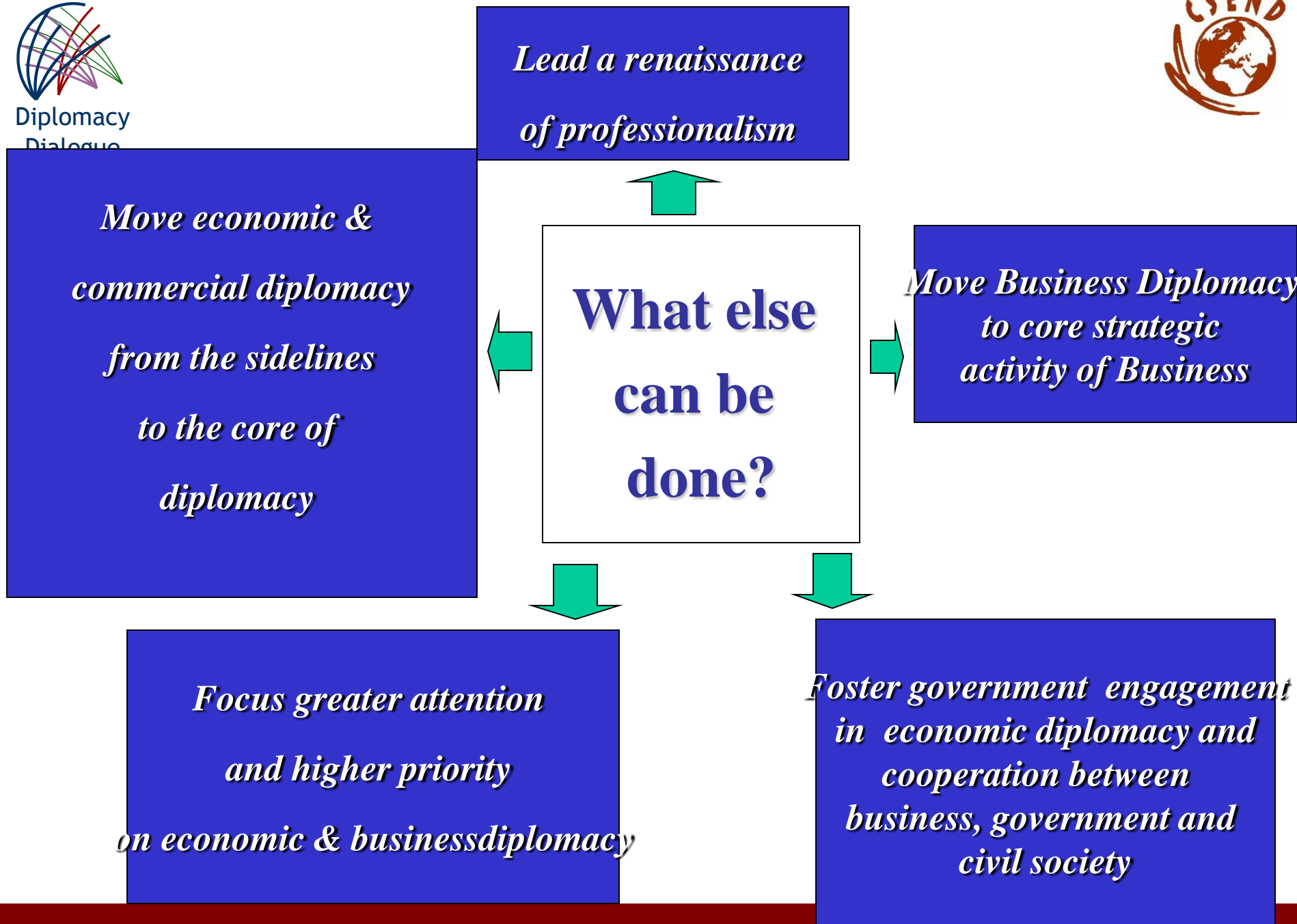
Why failure?

- 1. Business is business (shareholder vs stakeholder)?**
- 2. Biafra war dividend and commitments?**
- 3. Colonial habits? (siding with ruling elite, old ties, comfortable with rent seeking)**
- 4. Local MD not competent in BDM?**
- 5. Headquarters mesmerized by stock market valuation?**
- 6. Other?**



Possible solutions?

- 1. Stop hemorrhage to reputational capital, cut losses and get out or reduce exposure, e.g. bring in new energy MNC, sell or swap majority share, take minority position or get distribution contract/guarantees from new owner**
- 2. Start somewhere else with promising deposits but on new grounds (no confluence with authoritarian regime, include stakeholders)**



Move economic, commercial & business diplomacy from the sidelines to the core of diplomacy & business

Diplomacy must be proactive in promoting Basque/Spanish policies and values, and interactive in engaging domestic and foreign publics.

- ◆ **For this purpose, it is essential to re-define public diplomacy to include education and early public engagement in the conduct of diplomacy, and amend legislation to improve communication with the Basque/Spanish public**
- ◆ **It is equally essential to help business broaden its understanding of globalization and the need to foster a business diplomacy function in its management structure.**



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Business Diplomacy: Reflection from China

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A joint venture gone bad



Wahaha employees in Shanghai yesterday hold a banner saying, "We want Zong Qinghou. We oppose Danone". The employees were angry over an alleged takeover bid by Danone of its Chinese partner. [newsphoto, 13/06/2007]

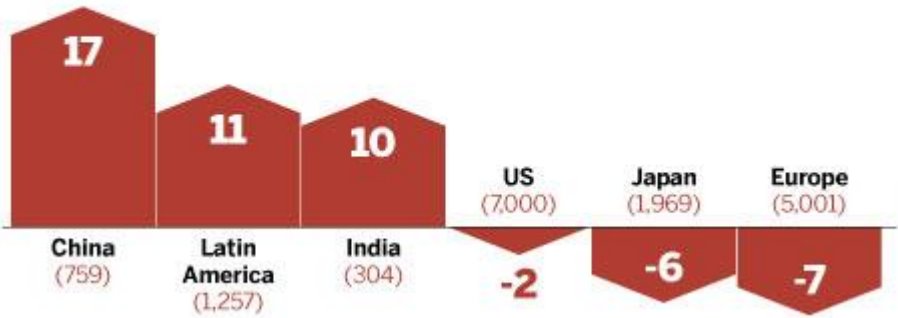
GSK had used travel agencies as conduits to pass bribes to government officials, doctors, hospitals and industry associations

Hunger for drugs



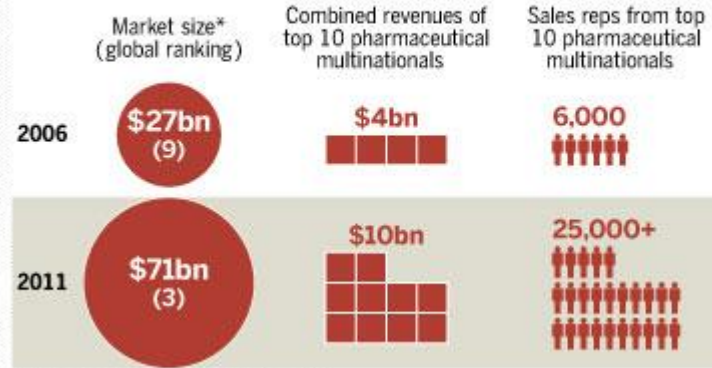
GSK pharmaceuticals and vaccines

Annual % change (turnover, £m) 2012



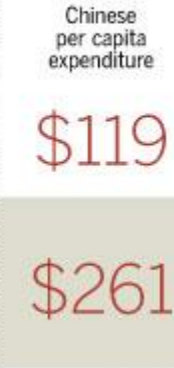
Sources: company; McKinsey

Pharmaceuticals in China



* Value measured at ex-manufacturer price

Healthcare



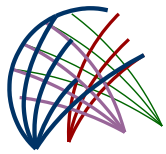
FT graphic

Going East

- **Mapping the socio-political landscape**
- **Learning the culture and shared history**
- **Scale matters – creating alliance and shared services**
- **Personal Rapport**

Non-business Stakeholders

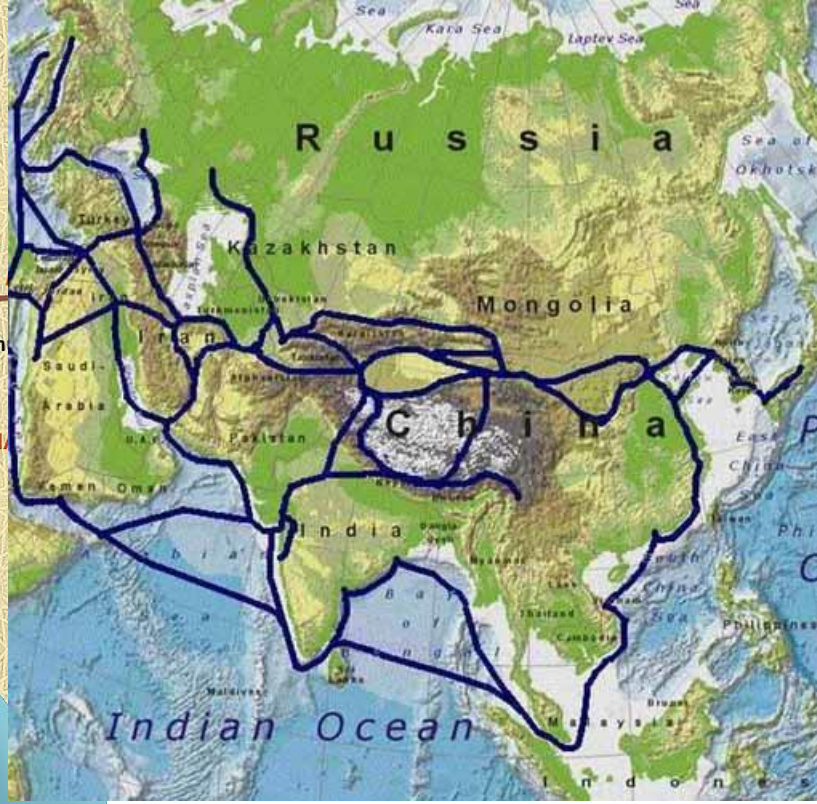
- **CCP**
- **National government & regulatory bodies**
- **Local government**
- **Power elites**
- **Communities**



Diplomacy
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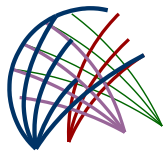
http://www.face-music.ch/Bilder/silkroad_2009.jpg



Marco Polo (1271-1295)

Venetian, worked for Qubilai Khan, Mogol rulers, Muslim Merchant community, Dictated his experiences to Rustichello da Pisa “Travels of Marco Polo”, **detailed descriptions of the wealth of China, a Japan filled with gold, and the exotic custom of Central Asia, West Asia and Southeast Asia.** Bestseller, stimulus for travel and discovery

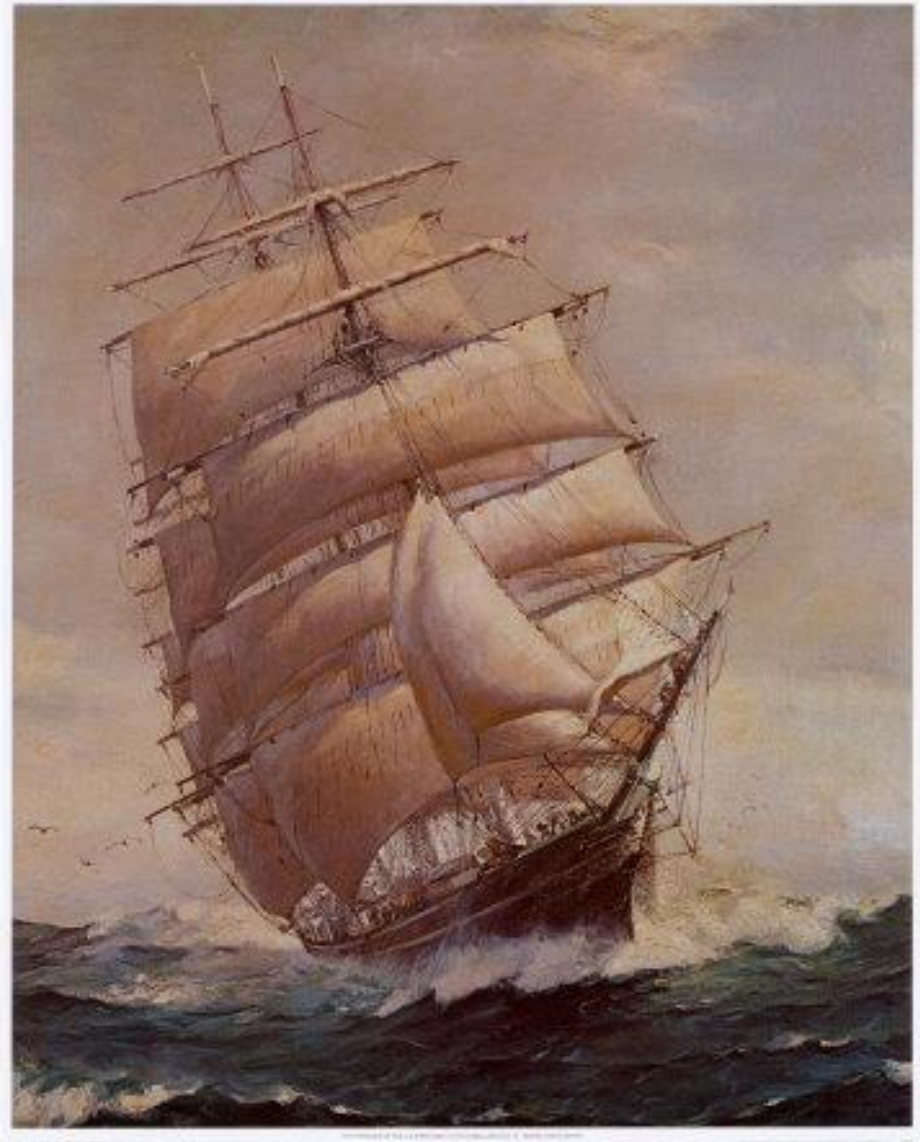




Diplomacy
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- **Advantage sea travel: less dangerous and no tariffs**
- **1514: portuguese reached Cathay (China)**

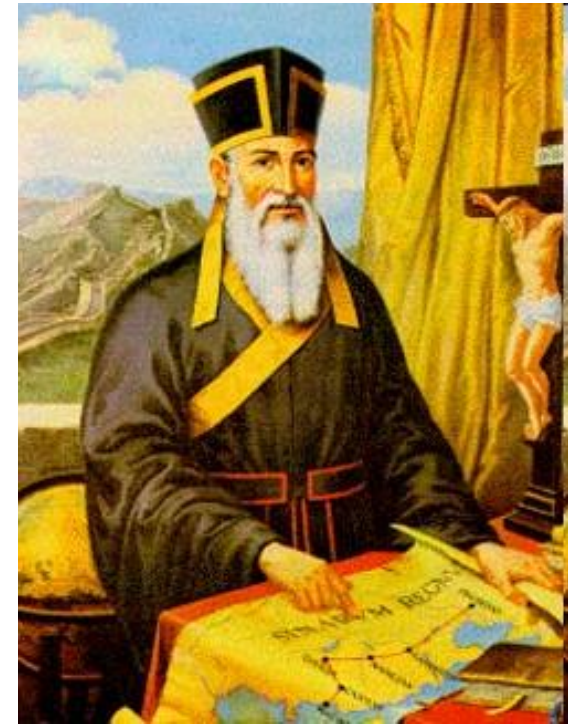




Jesuits in China

- **Matteo Ricci, Giuseppe Castiglione, Johann Schall von Bell and many others**
- **1742, Pope Benedict XIV, forbade ancestor worship, withdrawal of Jesuits from China**
- **1773, Pope Clement XIV dissolves Society of Jesus**

Mateo Ricci (利瑪竇)



Giuseppe Castiglione

Lang Shi'ning 郎世寧 (1688-1766)



What Matters?

- **Case by case Decision Making**
 - **Negotiation power**
 - **Clustering and platforms**
 - **Perception and reputation**
 - **Social networks and social capital**
 - **“God father”**

Thank you