Business diplomacy management: A core competency for global companies

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Executive Overview

   Global companies can improve their effectiveness by setting up a business diplomacy management function and *by developing and* utilizing competent business *diplomacy* managers. *Global* companies must succeed in the business they *are* in *and at* the same time show competence in managing multiple **stakeholders** at home and abroad. While it is of key importance to have the *right* products and services at the right price and time, *global* companies might not be *able* to deal successfully with obstacles outside *their* direct *sphere* of control. Recent *examples are* the destruction of production equipment-such as the sabotage of Shell *Oil's* pipelines in *Eastern Nigeria* by *dispossessed and* oppressed minority tribes, or the persistence *of nontariff* trade barriers in Japan's telecom **industry-such** *as Cable and Wireless's* difficulties in acquiring International *Digital* Communications *against* strong opposition *by Japan's NTT* Company.

   Facing such challenges, *global* companies require business competencies in *which* most managers have no **background** or training. The competencies needed to deal with foreign country interests, multiple domestic and foreign pressure *groups,* or international conflict *demand* that *global* companies *acquire* organizational competency in business diplomacy management. This competency *would build bridges* between core businesses *and* the *complex political* environments within *which global firms conduct* business. In *fact, many* of the attributes *of a* business *diplomacy manager are* comparable to those of a political diplomat.

The Complex Global Business Environment

Globalization as measured by worldwide foreign direct investment flows is galloping ahead, apparently unaffected by Asia's financial crisis.' Transnationalization is also speeding forward? Companies are increasingly conducting business across OECD countries, newly emerging markets such as Eastern Europe and China, or newly industrialized economies, including Southeast Asia and South America. However, research shows that countries have very different work values and organize their institutional and personal relationships in unique fashions.[3] Consequently, expatriate managers of multinational companies in these economies need to adjust their managerial behavior to the unique demands of the cultural settings in which they work.[4]

   While cross-cultural awareness certainly helps global managers avoid making mistakes resulting from cultural myopia, the actual situation global companies face is much more complex. Multinational companies have been experiencing a diverse array of problems for several decades.[5] Doing business in Russia, China, Japan, or the Middle East requires specific country knowledge and business acumen that often cannot be managed by best practice recipes imported from the U.S. or Western Europe.

   In addition, increased globalization has led to the development of a multitude of standards that govern business behavior. It is no longer sufficient to know the business and legal conditions of a global company's headquarters country and of some of the countries where it operates foreign subsidiaries. Multilateral and intergovernmental organizations are increasingly defining industry standards that become mandatory for global companies. Business decisions have to comply with

such international standards, no matter whether a global company is American, French, or Japanese. For example, a global company's price dumping strategy might be illegal according to the trade rules of the World Trade Organization (WTO). Another company might get market access to foreign markets thanks to regulations agreed to by the International Telecommunications Union (ITU). Another might get help in protecting its patents thanks to multilateral agreements signed at the World Intellectual Property Organization (WIPO). Still another global company might see its unfair industrial relations practices criticized by countries that signed the labor conventions of the International Labor Organization (ILO).

The Internet has also changed greatly the power relationship between multinational companies and their nonbusiness stakeholders.[6] Nongovernmental organizations (NGOs), as well as civil societies in general, are putting demands on global companies for more information and more transparent business practices. At the same time, they are using IT to exert influence deep into the structures of global companies.

Global managers do not necessarily know how to manage nonbusiness stakeholders in all the countries where they operate. They urgently need to learn to manage complex political-economic environments. Failure could easily lead to crisis, open conflicts, or missed business opportunities.

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The two following examples highlight the need for competent management of nonbusiness stakeholders. The first case describes a failure by a global company owing to the lack of competence in business diplomacy.' The second example describes a success story when business diplomatic management was used skillfully and appropriately.

Why Do Experienced Multinational Companies Stumble?

For many years, Shell Oil refused to consider the claims and misgivings of the Ogoni people, of Eastern Nigeria. Approximately 500,000 Ogoni live in an area of 650 square kilometers on fertile lands of the Niger delta. When Shell discovered oil there in 1958, 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. A minority ethnic group in a country of 88 million, the Ogoni have 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. The Ogoni people have widely publicized through the Internet[8] their claim that their oil wealth has been plundered by the government and the foreign oil companies.

Environmental disasters resulting from oil spills, contaminated water supplies, and air pollution have led to massive deterioration of the Ogoni's living conditions. As a result, the Ogoni began sabotaging some of the Shell oil wells. The Nigerian government, tightly controlled by General Babangida, harshly put down the Ogoni rebellion in the early 1990s and crushed the growing calls for democracy, culminating in the hanging of eight Ogoni activists in November 1995.

Many NGOs openly accused Shell of colluding with Nigeria in violently repressing the Ogoni rebellion. Continuing Ogoni sabotage and the advocacy of NGOs damaged Shell's international image. Shell finally decided, in 1997, to reach out to the Ogoni. Meetings were organized with Ogoni groups to find ways to alleviate economic hardship through such community development programs as building roads and market stalls, and water renovation projects.[9] Shell belatedly recognized the Ogoni as a crucial nonbusiness stakeholder in Nigeria.

Shell lacked political foresight and diplomatic skills in dealing with a population directly affected by its business operations. Shell headquarters did not alert its Nigerian subsidiary of possible conflict and did not anticipate damage to its image.

A business diplomacy manager could have saved Shell time, money, and reputation, warning Shell's management and starting negotiations with the government, the local tribal leaders, and concerned international NGOs before the situation deteriorated into a full crisis. Such a manager could have worked with these stakeholders to come up with equitable solutions, rather than hiding behind quasi-legal arguments that were totally unacceptable to these nonbusiness stakeholders.

Shell's problems in Nigeria were linked to its inability to interact with government officials, regional

opposition leaders, and local community groups. Its organizational 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.

Smart Business Diplomacy Pays

Cable and Wireless (C&W), a U.K.-based global communication and data processing company with more than 38,000 staff worldwide, first entered the Japanese telecommunications market in 1986 as a founding shareholder of International Digital Communications (IDC), a Japanese international carrier of data products. Many Western companies report difficulties when trying to enter the Japanese market because of Japan's conservative industrial culture, which puts a priority on long-term relationships. C&W proved that this does not have to be the case.

Following the deregulation of the Japanese telecommunications market, NTT, the former monopoly, created IDC in 1986 without becoming a shareholder itself. C&W was a co-founder of IDC, along with such Japanese shareholders as Toyota and Itochu.[10] IDC had 700 staff and an annual turnover in the year ending March 31, 1999 of 75.2 billion yen, with operating profits of 4.1 billion yen.

Even though NTT was not a shareholder, it retained strong links to IDC because IDC's top directors were all former NTT managers. C&W successfully took control of IDC in June 1999 in Japan's first serious hostile takeover bid, against stiff opposition from NTT, from IDC's own Japanese top management, and from some of the other Japanese shareholder companies of IDC.

According to C&W's executive director, Stephen Pettit, the tender offer process was open, transparent, and fair, and the bid went to the highest offer." However, according to newspaper reports, the takeover battle would not have been successful had the Ministry of International Trade and Industry (MITI) not remained neutral. MITI officially wanted to support the restructuring of the telecom sector by increasing competition. But MITI reportedly withheld approval of a rival bid by NTT because of "the U.K. government's saber rattling about market access."[12] Some analysts also suspect that the Japanese government, which owns 59 percent of NTT, encouraged NTT to back away from the contest because it did not want to spark a trade dispute, especially since Britain had been actively lobbying for C&W.[13]

C&W demonstrated expert diplomatic know-how by coordinating its moves with the U.K. govern-

ment, the U.K. Embassy in Japan, and other equally supportive foreign country governments. C&W understood and utilized to its advantage the internal political conflicts between market reformers and traditional mercantilists. Most importantly, C&W skillfully elevated the takeover bid to a bilateral and multilateral trade issue between the U.K. and Japan, and between Japan and other key industrial powers. By raising the stakes of a possible failure to the level of international trade politics, C&W successfully outmaneuvered NTT in the battle for IDC, thus gaining a significant foothold in the lucrative Japanese telecom market.

Diplomats' Revolving Door

Most globally active companies know that the context of international business involves economic, political-military, social, and cultural factors interacting at the organizational, industry, national, international, and global levels.[14] They also know that business success in foreign markets is determined by such nonbusiness factors as the quality and intensity of international relations, the legal stringency of multilateral conventions and agreements, and the power of governments and political decision makers. In France, the United Kingdom and the U.S., traditional practice has involved cross-fertilization between business, government, the foreign service, and academics, and making sure that knowledge acquired in any of these fields is diffused across professional boundaries. A few examples from U.S. practice illustrate this cross-fertilization:

- George Schultz moved from a top management position at Bechtel and teaching assignments at Stanford University to become Secretary of Labor, then Secretary of the Treasury, then Secretary of State, then back to Bechtel and Stanford.
- James Baker moved from a Wall Street investment bank to the Republican National Committee to Secretary of State, then back to business.
- Henry Kissinger moved from being a professor at Harvard to National Security Adviser, then Secretary of State, then on to academic assignments and advisory roles through his own consulting firm.
- Madeleine Albright moved from being a research professor at Georgetown University's School of Foreign Affairs, to U.S. Representative to the United Nations, and to Secretary of State.
- Jeffrey Garten took a different route, moving from Under Secretary of Commerce, to Under Secretary of Trade, to Dean of Yale School of Management.

Some former ambassadors become vice presidents for international relations at global companies. Other former ambassadors become partners of law firms, investment firms, consulting companies, or policy advisory agencies. Conversely, U.S. presidents often nominate influential and often wealthy business people to ambassadorships. These different variants are also practiced by continental European countries and many other countries.

The Interdependence of Global **Business and International Politics**

Professional boundaries between business and diplomacy have gradually become blurred, especially after the Cold War. States champion economic development and trade relations in today's global economy, which is increasingly interconnected and interdependent. Foreign service, government, business, and universities need each other's special expertise to be effective in the global market place. Nonetheless, this realization is not shared by most global companies.

While the foreign services of most OECD countries make great efforts to teach diplomats about business, few global companies try to understand the world of international relations and diplomacy. Fewer still train their managers in diplomacy and international relations. Instead, global companies prefer to hire professional diplomats on an ad hoc basis. They are expected to provide the company with contacts or use their experience to help the company manage difficult relations with foreign government officials. Former diplomats might also be hired for their contacts and experience in a specific industry, for example, aviation.

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Instead of outsourcing, global companies could use an in-sourcing approach to be more competitive and smarter than their competitors. [15] Both Shell and C&W found that outsourcing business diplomacy management as a response to the nonbusiness challenges was not enough. Instead, global companies need to seriously build up their own diplomatic competency.

Why Global Companies Need Diplomatic Skills

CEOs of global companies need 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 with the proliferation of information provided over the Internet by NGOs, business diplomacy can no longer be left to former ambassadors serving as temporary business diplomats for a global company. Having former professional diplomats in top-level staff positions certainly helps, but more must be done.

Global companies need to anticipate environmental conflicts, communicate effectively with nonbusiness interest and pressure groups, influence the decisions of foreign governments, maintain and cultivate constructive relations with external constituencies, and negotiate on behalf of the company in foreign countries with nonbusiness groups. All these competencies are too important to be left to advisers from the foreign service alone. Global companies need to acquire diplomatic know-how that goes beyond what is normally expected of public affairs offices. In particular, global companies need to be able to forecast, plan, and manage international issues; cope with multiple crises; influence and work with intergovernmental organizations; and know how to operate appropriately within diverse cultural and societal environments. [6]

Managing a multitude of business and nonbusiness stakeholders at the international level requires diplomatic skills to safeguard a multinational company's reputational capital" and to seize business opportunities embedded in nonbusiness environments. Examples include influencing standards, utilizing trade rules, and negotiating with governments and intergovernmental organizations. Recruiting foreign service personnel might cover some of these threats and opportunities, but this practice appears increasingly unsatisfactory because of the following developments.

Increasing Public Scrutiny *and* Push for Accountability

The public has more access to **information** and more influence on corporate governance than ever before. Its voice and opinion can **no longer** be ignored. The recent case of **illness** attributed to drinking Coca-Cola in Belgium is **a** case in point. Lacking competence in **business** diplomacy, Coca-Cola failed to respond in time to requests for clar-

ification and remedial action by the government, media, politicians, and citizens of Belgium. Public fury in Belgium cost Coca-Cola millions of dollars and damaged its reputation.

Emerging Markets, Security Issues, and Power Politics

The revolving door approach described earlier was sufficient when multinational companies had to deal mostly with OECD countries with which they were familiar. China, Brazil, and India represent major markets for U.S. and European global companies today. Hiring temps to deal with potential political and social issues in these countries is no longer sufficient because of the multitude of problems that need to be addressed at intergovernmental, central, provincial, and municipal levels. The restriction on exports of militarily sensitive technology by the U.S. government that has undermined plans by Motorola to commission a $2.5 billion semiconductor wafer factory in China is one example of how international politics frustrates business ambitions of global corporations in the world's **largest potential market.'$**

Securing Foreign Assets

The number of companies with a high degree of transnationality has increased noticeably in the 1990s. Foreign assets represented 55 percent of the total assets of the top 100 global companies in 1996.[19] The need is therefore growing for global companies to secure their foreign assets. Relying on a small pool of competent former diplomats to take care of business-related diplomatic functions is no longer viable. Competence in business diplomacy management needs to be increased and spread more widely within the global company **context.**

Global Value Chain

Global companies look for high value-added activities all over the world.[20] This trend has further accelerated, and its major beneficiaries are countries in East Asia, Europe, Southeast Asia, Mexico, and India. However, kinks in any one point of this global value chain could cause costly interruptions of their complex and increasingly interdependent business operations. Even though the host governments tend to bend backwards in their pursuit of foreign investment, their local nonbusiness stakeholders often hold opposing views from their respective governments regarding employment practices, working conditions, and environmental

standards, resulting in sometimes violent and embarrassing clashes for global companies. Insights and experiences gained from diplomacy offer suggestions about how global companies could develop these new competencies.

Political Diplomacy and Political Diplomats

The recorded history of diplomacy[21] goes back to ancient Greece. Important contributions to the practice of diplomacy have been made over time, particularly during the period of the Italian city-states; in France, before and after 1789 revolution; and in England, starting with industrialization and expansion of its empire. Systematic contributions to the development of diplomatic theory and methods have mostly been made in the U.S., especially after World War II, with the start of large-scale social science research on the behavior of international negotiators.[23]

The definition of diplomacy has further evolved over the last four decades. However, the main features of diplomacy as postulated by Satow in 1917 still hold. He stated: "Diplomacy is the application of intelligence and tact to the conduct of official relations between the governments of independent states, or more briefly the conduct of business between states by peaceful means."[24] Diplomacy should restrain from sowing discord between states and build confidence between them. The goal is to build and sustain positive and constructive relations. More recently, Sharp defines post-war diplomacy as characterized by "increasing institutionalized multilateralism aimed at a stronger international order either by improving cooperation between states or transcending the need for it."[25]

To give a flavor of how political diplomats, or diplomatists, as some prefer to call themselves, see their role, it is useful to cite the "Nicolson test." Named after the famous British diplomat, Sir Harold Nicolson, the test determines the qualities of a diplomat as consisting of truth, accuracy, calm, patience, good temper, modesty, loyalty, intelligence, knowledge, discernment, prudence, hospitality, charm, industry, courage, and tact.[26]

Political diplomats perform tasks requiring specific skills and competencies. These tasks include giving policy inputs to help shape foreign policy; organizing and managing international conferences; conducting bilateral, multilateral and plurilateral negotiations; and collecting and analyzing information from a variety of government and non-government sources. Political diplomats have to comply with protocol, procedures, and etiquette based on international practice and norms appropriate to local culture.[27] They

must live with ambiguities when solutions cannot be agreed on and modulate communication to fit the context. They have to know national, international, and host country laws and regulations, and must manage their own mission or embassy as well as the relationship between their own government and the host government.[28]

Diplomacy continues to evolve and so does the role of today's political diplomat. Listing these responsibilities gives executives and management researchers a keen impression of the intricate complexity of the political diplomat's task. It also helps delineate similarities between the role of a business diplomat and that of a political diplomat. Both are capable of influencing others, shaping policies, interacting with counterparts of different cultural and professional backgrounds, acting at home in multiple cultural environments, and, most of all, balancing the delicate tension of multiple interests and loyalties. Nicolson's description of the diplomat's different loyalties is also relevant for a business diplomat who faces a similar multitude of loyalties. Nicolson states:[29]

> The professional diplomatist is governed by several different, and at times conflicting, loyalties. He owes loyalty to his own sovereign, government, minister and foreign office; he owes loyalty to his own staff, he owes a form of loyalty to the diplomatic body in the capital where he resides; he owes loyalty to the local British colony and its commercial interests; and he owes another form of loyalty to the government to which he is accredited and to the minister with whom he negotiates.

Goals of Business Diplomacy Management

Fundamental changes have taken place over the last fifteen years in how international business is conducted. Global companies can no longer maintain an arm's length relationship with foreign host governments since their drive toward greater local presence has significantly expanded their exposure to local conditions. The companies are expected to abide by multiple sets of national laws and multilateral agreements set down by such international organizations as the WTO and the ILO. Negotiating and renegotiating with local authorities and making compromises and adaptations are some of the tasks to be handled through business diplomacy.

Not to be underestimated is the growing assertiveness of the local and international NGOs in setting local and global agendas. Global compa-

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nies have to remain sensitive to their demands and expectations and intervene at the appropriate moment to dissipate potentially damaging confrontations. Global companies also need to take advantage of the more open global economy and newly gained access to previously protected markets. Business diplomacy will create new business opportunities through the skillful use of international treaties and agreements. Global companies need to proactively influence government officials and international bodies in order to seize new business opportunities around the world.

Business diplomacy management therefore involves influencing economic and social actors to create and seize new business opportunities; working with rule-making international bodies whose decisions affect international business; forestalling potential conflicts with stakeholders and minimizing political risks; and using multiple international forums and media channels to safeguard corporate image and reputation.

Dimensions of Business Diplomacy Management

Business diplomacy managers need to be competent at international, national, community, and firm levels. At the firm level, they help define business strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, and collect and analyze pertinent information emanating from host countries and international communities.

Internationally, competent business diplomats lobby with finesse, are gracious hosts, and know how to comply with protocol according to local customs and practices. They are able to develop local connections and relationships and manage the multiple and sometimes conflictual interfaces. They need to be active at important international forums to influence the agenda and public opinion.

When dealing with stakeholder groups, business diplomats are called in to mediate potential

or on-going conflicts of an economic, social, environmental, or political nature. More importantly, business diplomats scan the environment and identify potential conflict areas with the stakeholders before implementing a project. As one top IBM manager told a reporter, "IBM has to be concerned with the competitiveness and well-being of any country or region that is a major source of IBM revenue."[30]

Characteristics of Business Diplomacy Managers

To successfully master business diplomacy, global managers have to add to the already high level of behavioral complexity[31] of global management another layer of competencies that allows them to deal with external actors like host governments and nonbusiness stakeholders. This means knowing how to handle diverse business cultures as well as various public administrative cultures of different countries. Thus, a diplomatically aware global manager can be compared to a messenger sent by a transnational company to different environments worldwide to solve complex political issues involving stakeholders outside the company's sphere of control.

International Business Acumen

We can assume that business diplomacy managers have proven track records in international business to which they add diplomatic competencies. They have learned to successfully manage the people and tasks of a multinational company in different countries and have demonstrated mastery of intercultural awareness.[32] They know how to minimize failures,[33] and overcome the inevitable role conflict, role ambiguity, and role overload[34] typical of international assignments. They have learned to manage the inevitable stress and cultural fatigue resulting from cross-cultural differences. On a more subtle level, business diplomacy managers know from personal experience that strategic choices in international conflicts and relations can be impaired if one is not aware of one's own cognitive processes.[35]

Career **Development History** *and Maturity*

In order to successfully perform as a business diplomacy manager, a global manager of a multinational company has to reach a high level of maturity, both professionally and personally.[36] A business diplomacy manager's biography might include at least ten years of experience within a multinational company. During this time the manager has had a minimum of three to four job rotations to different business units, such as positions at headquarters or at a large subsidiary as head of corporate HR management, business development, mergers and acquisitions, international marketing, or corporate communications and information. Such a manager is probably age 40 to 50, or a little younger, depending on the number of professional experiences and successful deals with external pressure groups in different countries.

Knowledge of International Relations and *Diplomacy*

A business diplomacy manager should have acquired competencies in the world of bilateral and multilateral diplomacy and international relations. Particularly important would be first-hand knowledge and experience in the functioning of such intergovernmental bodies as the WTO, the ILO, the humanitarian agencies of the UN and related organizations, the OECD, the United Nations Secretariat and General Assembly, and the Bretton Woods institutions (World Bank, International Monetary Fund, and related regional banks). The business diplomacy manager needs to have in-depth understanding of how the central governments, key ministries, and departments of leading countries function. These countries include the United States, leading EU member countries, Japan, and leading developing countries, such as China, India, Brazil, and South Africa. The EU Commission and its related organizations must also be understood.

Multicultural Mindset

To complement a knowledge and mastery of international diplomacy, a business diplomacy manager should also understand and appreciate the logic, ideological precepts, and related intellectual underpinnings of governance systems that differ from the dominant form of Western capitalism. After all, many of the conflicts a multinational company must solve are in countries with very different legal, cultural, political, and economic systems.

Many developing countries and a large group of continental European and developed Asian countries do not necessarily believe in the supremacy of neo-liberal capitalism. They consistently reject the Anglo-Saxon lifestyle preferences and behavior that have increasingly become the dominant corporate culture of most global companies, whether of U.S. or non-U.S. origin. A business diplomacy manager should be able to converse with opinion leaders

and politicians who represent diametrically opposing religious, political, and cultural systems.

Political Skills: *Mastering Political* **Negotiations** *and Handling Media*

Business diplomacy managers should know how to defend the interests of their multinational company in private and official discussions, and in negotiations with foreign opinion leaders and government officials. They need to effectively manage interactions with the media, with other communication channels such as conferences, and with NGOs and pressure groups that might be hostile to the activities of the multinational company. A case in point is Nike, which faced boycotts in the U.S. in recent years because of accusations of exploitive child labor practices in developing countries. Furthermore, because decision making at the UN or other international bodies has its own rhythm and procedures, traditional business practices could be fatal. Most of these organizations proceed in circular logic using indirect means of influencing, an approach often despised by Western managers as "unprofessional, untrustworthy and a waste of time."[37]

Role Versatility and **Tolerance** *for Ambiguity*

As business diplomacy managers, global managers have to manage several levels of loyalties-to the CEO, different board members, their own staff, customers, suppliers, host government, home country government, and local and headquarters labor union representatives. They have to be boundary spanners, advocates, initiators, mediators, interpreters, and negotiators in a multitude of cultural settings.

Mastering *Analytic* Tools

A business diplomacy manager will also need to master various analytic tools in order to anticipate the potential impact of investment in different countries. These tools include stakeholder analysis, the balanced scorecard technique, stakeholder mapping, and scenario planning. The manager needs to put forward viable alternatives to possible stakeholder demands and to look for economically sound collaborative solutions. This is essential because social activism is spreading and IT provides nonbusiness stakeholders inexpensive and far-reaching ways to organize and to exert pressures on global companies. Business diplomacy managers must also be reminded of Satow's

definition of diplomacy as "the application of intelligence and tact."

How Political Diplomats are Trained

Diplomacy and diplomatic training has always emphasized the importance of intercultural competence, conflict resolution ability, and a nonsectarian outlook on life. Young diplomats are expected to be socially well groomed even before starting a career in diplomacy. In order to qualify for the diplomatic service, candidates of most OECD countries are expected to speak several languages, have completed university-level education, be skillful in human interactions, know how to observe etiquette abroad, and be able to express themselves appropriately through written and oral communication. This expectation presupposes a high level of social skills and intelligence that is further honed through consistent and high-quality mentoring by future superiors. Aristocratic and upperclass families were and often still are over-represented in the diplomatic services, since they have the social, educational, and financial resources that can facilitate easier and earlier acquisition of social and analytical abilities, and the sophistication of worldliness.

Over the last 20 years, however, most Western developed governments have tried to have more democratic foreign services. Rapid technological change, economic adjustments, and globalization have resulted in pressure for continued learning and upgrading of diplomatic skills. Even the best-prepared young diplomats soon reach their limits of knowledge and need further training.[38] Most ministries of foreign affairs offer their own in-house training programs or send their diplomats to specialized schools for further training.[39] These training programs vary in length from a few months to two years, in intensity from full-time to part-time, and in levels from introductory to advanced. However, they all share the components of language skills, social and diplomatic skills, and knowledge specific to the diplomatic profession, including diplomatic history and international relations, law, economics, politics, international organizations, and foreign policies. Advanced courses usually cover international negotiations, management, current issues, global problems and economics, and specific trade issues.[40]

Classroom training[41] is often complemented by in-service training activities, such as in Switzerland. Important to success in the diplomatic service are on-the-job learning and skillful mentoring. Repeated postings abroad and good supervision give a young diplomat a sense of *Fingerspitzenge-*

fiihl[42] and a well-rounded *Weltbild.*[43] To be a good diplomat means being able to be a specialist and a generalist at the same time.[44]

To manage the paradoxes, ambiguities, and contradictions of diplomacy, the political diplomat needs to know how to cope with cognitive complexity, in terms of both structure and processing. Early in their careers, diplomats are implicitly challenged to stretch their intellectual and cognitive boundaries and to learn to master complexity along with all other aspects of their job requirements. Without a mastery of cross-cultural complexity, political diplomats become vulnerable to culture shock and prone to burnout.[45]

Developing Competence in Business Diplomacy Management

Organization

The demands put on global companies by a multitude of foreign interest and pressure groups mean they can no longer rely solely on borrowed former diplomats. Instead, firms must develop diplomatic know-how from within and help their own global managers acquire competence as business diplomacy managers. Despite the trend toward downsizing and outsourcing, business diplomacy management should be an integral part of the core function of global companies. Business diplomacy provides a feedback loop from the external environment and nonbusiness actors to the global companies and back to the environment. Placing the business diplomacy management function close to other core business functions guarantees its high value-added contribution to a global company's international business operations.

Human *Capital*

Global managers, like political diplomats, need to be groomed to master both the cognitive and behavioral complexities required for the role of business diplomat. They need to acquire adequate knowledge in international politics and be competent in international business. At the same time, they should be able to master the multiple cross-cultural interfaces-at internal and external boundaries, at different hierarchical levels, and within different national cultures and subcultures. To appropriately play their political roles internally and externally and engage in mutually satisfactory multicultural interactions, global managers need to be trained in the several fields of business diplomacy listed in Table 1.

The key features of business diplomacy management are not fully covered by business schools or schools of diplomacy. These features are:

- History of international relations and diplomacy (actors, rules, process of diplomacy, difference between traditional and post-cold war modern diplomacy); global security questions (terrorism, drugs, environment, nuclear safety, disarmament); and political analyses of key countries and regional groupings.
- Roles and functioning (legal and political) of intergovernmental organizations such as the UN family institutions (particularly WTO, WIPO, IMF), the European Union, and the various trading blocks (ASEAN, NAFTA, EEA), and understanding their impact on international business.
- Basic knowledge of key national legal systems (public law, constitutional law, administrative law, private law, and criminal law), international law and principles of treaty making (soft and hard law); legislation by international organizations (particularly as they affect international business); humanitarian law and human rights; international arbitration, mediation, and judicial settlements.
- Evolution of the world economy, especially from colonial to pre- and postindustrial periods; understanding world development as seen through different ideological lenses depending on country, political system, religion, and socioeconomic status.
- Understanding and influencing the decision-making process at supranational organizations such as the United Nations, the European Union, NAFTA, and ASEAN.
- Ability to be a gracious host to a wide variety of interlocutors from all parts of the world and all strata of society, and appreciation of culture, including all forms of art of western and non-western societies.
- Cross-cultural awareness regarding norms and values governing decision making and conflict resolution processes of other countries.
- Understanding the management of international crises and the role of diplomacy in solving them (e.g., terrorism, war, environmental pollution).
- Skills in representing one's own company and country of origin at international gatherings and official meetings, getting respect while at the same time respecting other delegates' personalities and dealing with media and informal pressure groups.
- Strategy, tactics, and procedures of negotiations at bilateral, multilateral, and multi-institutional levels as well as appropriate negotiation behav-

Table 1
Traditional Education vs. Key Competencies of Business Diplomacy Management [46]

Business School Education	Education at Diplomatic Academies	Competencies of Business Diplomacy Management
General management	History of diplomacy	• Knowledge of diplomatic instruments • Capacities in influencing the diplomatic process
Strategic management	Treaty making	• Knowledge of key international business-related legal standards • Capacities in influencing standard setting at key international organizations (WTO, ILO, UNEP, WIPO, OECD)
Managerial accounting	International law	• Knowledge of the functioning of international law and arbitration • Knowledge of the impact of "Corporate Reporting to Stakeholders"
Financial management	International economics	• Knowledge of the history and logic of non-U.S. economic theories and practices • Knowledge of the influence of international financial institutions (IMF, WB, Paris Club, London Club, U.S. FRB, BIS)
Human resource management	International and supranational organizations	• Knowledge of the structure and decision-making process of supranational organizations (UN, EU, NAFTA, ASEAN) • Capacity to influence these supranational organizations through direct or indirect means
Marketing	Regional and country studies	• Knowledge of the interplay between economics, politics, and culture by region or country • Capacity to promote a proactive perspective in the region regarding business diplomacy
International management	Theory of international relations and contemporary history	• Knowledge of the decision-making process of key countries (domestic and foreign) • Capacity in conducting political risk analysis regarding key stakeholders of the investment project
Operations management	Managing delegations, embassies, and consulates	• Knowledge of the mechanisms of international crisis management and corresponding role of diplomacy and government • Capacity to intervene on behalf of the company
Information management	Interaction with media	• Mastering public speaking and media (keynote speeches, TV interviews, press conferences) • Managing a business diplomacy information system that supports strategic planning regarding stakeholder management
Organizational behavior and change	Negotiation skills (bilateral, multilateral, plurilateral)	• Managing and influencing international negotiations (bilateral, multilateral, plurilateral)
Quantitative methods	Diplomatic behavior and protocol Contemporary history	• Mastering diplomatic practices and protocol • Mastering analytic tools, e.g., stakeholder analysis, scorecard on stakeholder satisfaction, scenario planning

for in multiple and multicultural settings and the art of coalition building.

- Understanding and mastering the use of diplomatic instruments, protocol, etiquette, and practice.

Implementing Business Diplomacy Management at the Firm Level

Diplomatic know-how at the firm level has to be a strategic core competence, as defined by Hamel and Prahalad.[47] A core competence represents the sum of learning across individual skill sets and individual organizational units. Thus a core competence is very unlikely to reside in its entirety in a single individual or small team.

Diplomatic know-how should hence be a company-wide responsibility shared by top management and the respective heads of business units. In order to realize this core competence, global companies should create a business diplomacy management function consisting of a business diplomacy office, similar to the public affairs office but expanded to include diplomatic functions and placed under direct supervision of the CEO. The office would consist of:

- Specially trained business diplomacy managers supported by foreign service officers.
- Business diplomacy liaisons in key subsidiaries, directly reporting to the top manager of the subsidiary and to headquarters.
- A business diplomacy management information system containing information pertaining to business diplomacy, including the profiles of active nonbusiness stakeholders at the global level and in potential areas of conflict.
- A formalized link with the strategic planning function of the company in order to develop a business-related sociopolitical perspective involving stakeholder analysis, managing hostile stakeholders, and stakeholder satisfaction audit.
- A mandate to strengthen the overall organizational capacity in business diplomacy management.

Positioning the business diplomacy office under the direct supervision of the CEO should facilitate the gatekeeping function of this new unit. Its function is to scan the environment, interact with nonbusiness stakeholders, and engage in diplomatic missions under close direction of the CEO. Linking the new office to liaisons in the different subsidiaries should also guarantee that headquarters and subsidiaries closely cooperate in this sensitive field of operation. Further strengthening the

values and ethics linked to business diplomacy could be expected from CEOs who take an active interest in this strategically important function

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Positioning the business diplomacy office under the direct supervision of the CEO should facilitate the gatekeeping function of this new unit.

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and support the operations of the office through appropriate rewards and sanctions and internal communication campaigns.

New Competencies, New Roles

Globalization offers business opportunities to companies around the world. However, growing internationalization has become increasingly complex. Managing effectively the interface between multiple business units and their respective host-country governments requires business competencies that go well beyond the basic skills range of today's transnational manager.

What is needed is the development of a new competency- business diplomacy management- and a new organizational role-business diplomacy manager. Global managers need to be competent in business diplomacy, and successfully represent the wider interests of a global company to international organizations, non-governmental organizations, communities, the media, and multiple host governments.

Business diplomacy managers, in contrast to lobbying firms and public affairs functions, offer a better synergy of business interests, corporate values, and the management interface with external constituencies and lobbying groups. Business diplomacy managers straddle both worlds of business and diplomacy making a global company more proactive and less prone to crises. The synergy between business and diplomacy requires the full attention of global companies today.

Global companies can better implement their global strategies and preserve their reputational capital by ensuring an adequate supply of diplomatic know-how. This could be done through in-house training and development and through setting up a business diplomacy management office under the direct supervision of the CEO. In addition, close links to the heads of business units and the heads of a global company's many foreign subsidiaries need to be established. An interactive business diplomacy information system also needs to be installed to build up an internal knowl-

edge base. Lastly, to ensure a more proactive stance in handling nonbusiness stakeholders, working relations should also be set up to coordinate dialogues between the business diplomacy management office and the strategic planning unit of global companies.

Acknowledgments

Endnotes

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[41] Four main approaches to diplomatic training can be distinguished, namely, diplomatic academies (e.g., Latin-American Diplomatic Institutes); schools of foreign service (e.g., the State Department's Foreign Service Institute, Georgetown School of Foreign Service); institutes of international affairs (e.g., The Netherlands Institute of International Relations, Clingendael), and international training organizations (e.g., United Nations Institute for Training and Research-UNITAR). Altogether, there are about 60 diplomatic training centers in the world. Meerts, P. 1991. A short guide *to diplomatic* training. Clingendael Institute, listed 40 institutes. Since then, various training institutes have been founded around the world. These training institutes provide training exclusively to the foreign services. University programs are not included.

The currently used diplomatic training programs vary from pre-employment to post-employment training. The former model is used, for example, by the Austrian Diplomatic Academy in Vienna[91], while the latter is applied by the Spanish Escuela Diplomatica in Madrid and by the In-Service Training Institute of the German Ministry of Foreign Affairs in Bonn.

[42] "Fingerspitzengefuhl" means being perceptive to environmental cues, (literally, feeling, or touching with the tip of one's fingers).

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[46] The categories listed under the first two headings represent traditional domain areas of each field of specialized education, Business School Education and Education of Diplomatic Academies. Some domain statements overlap across the table, others are unrelated to the other domain area. The competencies listed under the third heading, Business Diplomacy Management, should be seen as a separate and new domain area. Some of these business diplomacy management competencies show some common roots with either one or both of the previous two fields of education and some competencies are being taught at either one of the traditional schools of education. However, even where common roots can be inferred, most of the actual competencies are rarely taught with a specific application for global companies.

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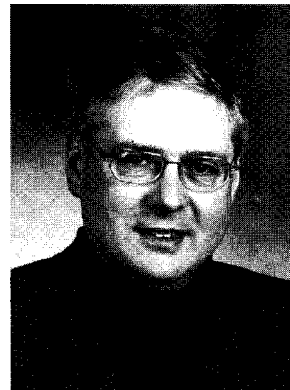
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