

# **Business diplomacy in multinational corporations: An exploratory qualitative study**



## **Master thesis project Business Administration**

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## Foreword

This master thesis was not completed on my own. During the research process, several people were involved. Without these people it would not have been possible to successfully complete this project. I would like to express my gratitude to the people who have contributed to the completion of this project.

First, I want to express my gratitude to Dr. H.J.M. Ruël, not only for giving me the opportunity to work on this business diplomacy project, but also for this wise advices, critical comments, positive discussions and positive attitude during the research process. His tireless commitment, knowledge and expertise have contributed substantially to the completion of this project.

I also want to thank Floris Betlem for the good cooperation in the first stages of the project. Together we conducted an extensive literature review which has led to the creation of a theoretical model for business diplomacy. I am particularly grateful for his presence and commitment during the interviews with the corporations.

I also want to express my gratitude to R.P.A. Loohuis (MBA) for the valuable advices and new insights that he provided during the green-light appointment.

Furthermore, I want to thank all interview respondents of the corporations for their participation in this project.

Tim Wolters

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## Summary

This exploratory qualitative study examines how multinational corporations (MNCs) conduct business diplomacy in practice. Based on our extensive literature review, we developed the following working definition of business diplomacy:

*“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”.*

Several researchers have emphasized the importance of business diplomacy in nowadays complex business environment. In order to survive, MNCs need the ability to manage complex interactions with governments and at the same time they should be sensitive to the wishes and demands of the increasing number of local and international NGOs. Although the relevance of business diplomacy is evident, it is not clear how MNCs actually conduct business diplomacy. This research contributes to scientific literature by reducing this knowledge gap. The following central research question was formulated:

*“How is business diplomacy enacted by and embedded in the organization of MNCs?”*

By the in-depth measuring of six dimensions of business diplomacy (intensity, policy clarity, broadness, responsibility, means deployment and resource availability), a complete picture of how business diplomacy is enacted by and embedded in the organization of MNCs could be created. By using single semi-structured interviews in eight Dutch MNCs, the six business diplomacy dimensions were measured.

Our research findings suggest that in seven out of eight MNCs, business diplomacy is executed intensively. Three of those MNCs lean for a certain part on the home government in establishing and sustaining positive relationships with foreign government representatives. None of the eight MNCs applies a clear and organizational wide business diplomacy policy. Instead, general business diplomacy guidelines exist in five MNCs. In the other three MNCs, business diplomacy is carried by the business values and principles. The research findings also suggest that in none of the eight MNCs, all employees are involved in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. Yet, all MNC respondents indicated that all employees need to consider themselves as representatives of the organization when they are in contact with external stakeholders. In all eight MNCs the responsibility for business diplomacy is largely decentralized to the foreign subsidiaries. Although the foreign subsidiaries have freedom in adapting business diplomacy to the specific institutional characteristics of their local business market, the general business diplomacy guidelines and business codes of conduct need to be adhered. All eight MNCs deploy a wide range of business diplomacy means: direct stakeholder dialogues, events, forums, meetings, industry associations, social projects and social partnerships. The research findings furthermore suggest that in all eight MNCs time and financial resources are available for business diplomacy. Although in none of the MNCs specific business diplomacy training programs exist, general training programs are available that teach employees how to deal with the external stakeholders of the business.

The research findings of this study suggest that industry specific factors determine the degree of business diplomacy intensity in MNCs. It has been found that Philips, Wolters Kluwer and Randstad execute business diplomacy intensively since these MNCs operate in industries in which the business is strongly influenced by governmental policies (rules and regulations). It was also found that Royal Dutch Shell and Financial Services Industries conduct business diplomacy intensively since these MNCs are active in sensitive industries in which the business operations directly affect populations.

The research findings of this study also suggest that the institutional setting of a country affects the intensity, policy clarity and responsibility of business diplomacy. It seems that companies operating in countries in which the institutional development is weak, will recognize the importance of business diplomacy better and hence execute it more intensively. All MNC respondents indicated that a universal business diplomacy policy will not suffice since the execution of business diplomacy depends on the country concerned and its institutional situation. The respondents agreed that business diplomacy should be adapted to the institutional setting of the respective country. The respondents emphatically indicated that precisely for that reason, the responsibility for business diplomacy is largely decentralized to the foreign subsidiaries.

Furthermore, the findings of this research are compared with the study results of a colleague student (Betlem, 2012) who conducted research into the determinants of business diplomacy. The studies show significant similarities in the research findings relating to the intensity, broadness, means deployment, responsibility and resource availability of business diplomacy.

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## 1. Introduction

The globalization of markets has enormous effects on how multinational corporations (MNCs) are organized nowadays. Figures of the United Nations Conference on Trade and Development show that foreign Direct Investments (FDI's) have risen in the last 30 years (UNCTAD, 2011). Saner and Yiu (2005) argued that MNCs face various local pressures and requirements as they increase their presence in multiple countries. MNCs are exposed to different national laws and multilateral agreements, negotiated by the International Labour Organization, the World Trade Organization, and other international organizations. To survive, MNCs will need the ability to manage complex interactions with governments and non-governmental organizations (NGOs). Governments have power over the opportunities which are important for a MNCs survival (Hillman et al., 1999). Firms that will have access to these opportunities will enjoy competitive advantage (Schuler et al., 2002). Therefore, companies need a 'license to operate'. Overall, this can be explained by the term legitimacy. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574).

Business diplomacy is of major importance in nowadays complex business environment (Saner & Yiu, 2005; Saner et al., 2000). Business diplomats should negotiate, renegotiate and make compromises with local authorities, and at the same time they should be sensitive to the wishes and demands of the increasing number of local and international NGOs that monitor global companies in conducting business (Saner & Yiu, 2005). Working conditions, environmental standards and employment practices should all be taken into account to prevent conflicts that can destroy the MNCs reputation (Saner et al., 2000). To manage all these complexities MNCs can no longer maintain an arm's length of commercial diplomacy. "Instead, global companies need to seriously build up their own diplomatic competency" (Saner et al., 2005, p. 83). Ordeix-Rigo and Duarte (2009) argued that by engaging in business diplomacy, corporations can increase their power and legitimacy. Corporations that are involved in business diplomacy decide to satisfy a social public demand, rather than only a market demand.

Business Diplomacy is a part within the field of international business management which is yet relatively under-explored. Since many subjects are still to be explored, there is a great need for quantitative and qualitative research in this field. Conducting research in this topic can contribute to the existing literature and might trigger other author's to explore the field of business diplomacy more.

This research is structured as follows. The remaining part of this chapter is concerned with the development of an adequate working definition of business diplomacy. Chapter 2 includes a structured literature review and the research direction. The research methodology that is applied in this study is presented in chapter 3. Chapter 4 presents the research findings, and the conclusion, discussion, research limitations and future research directions are covered in chapter 5.

The extensive literature review, as presented in chapter 2, is written in cooperation with another International Management student who also conducts research into business diplomacy. This empirical study is then continued individually, in a qualitative research direction whereas the colleague student (Betlem, 2012) conducts a quantitative business diplomacy study.

The central research question in this study is: *“How is business diplomacy enacted by and embedded in the organization of MNCs?”*

## 1.1 Definition and framework

This section concerns the development of an adequate and delineated working definition of business diplomacy. For this purpose, the concept business diplomacy and all its related concepts have been taken into account in section 1.1.1. The working definition is presented in section 1.1.2, as well as the theoretical framework that explains how other concepts are related to business diplomacy. This section is based on the structured literature review, presented in chapter 2.

### 1.1.1 Definitions

In (international) management literature the keyword Business Diplomacy is not widely recognized. To date, only a limited number of researchers have applied the term business diplomacy in their research articles.

According to Saner et al. (2000) “Business diplomacy management 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”(p. 85). The term ‘Business Diplomacy’ is also explained by Saner and Yiu (2005): “Business diplomacy 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” (p. 302). According to London (1999), business diplomacy is a method of cooperating with people in an effective way to get things done. The researcher mentioned that business diplomacy uses tact and understanding to build up relationships and trust. The author states: “Business diplomacy is most important when there are disagreements, interpersonal conflicts, and a lot at stake” (p. 171).

Business diplomacy has a lot of related concepts. In order to develop an adequate working definition, it is important to examine how these different concepts are related to business diplomacy. By developing a complete and delineated working definition of ‘business diplomacy’, the focus of this research project will be clarified. For this purpose, the related concepts of business diplomacy are discussed below.

#### **Corporate Diplomacy**

In the scientific literature, the related term ‘corporate diplomacy’ is used to describe the same concept and can therefore be considered as a synonym for business diplomacy. Corporate diplomacy is described as “a process to develop corporation’s power and legitimacy” (Ordeix-Rigo & Duarte, 2009, p. 561). In this light, a corporation is seen as a member within a network of stakeholders.

#### **Corporate Political Activity (CPA)**

Hillman et al. (2004) argued that corporate political activities (such as: lobbying, campaign contributions, operating a government relations office, trade political committees, etc.) are aimed at getting access to politicians in order to influence policymaking processes in favour of the firm. Indeed, Hansen and Mitchell (2000) argued that the dimensions of CPA are used to secure potential sales and to modify or fence off costly regulations. According to Hillman et al. (2004), CPA practices



are expanding as commerce goes increasingly across borders, which in turn entail more political institutions and actors.

### **Corporate Political Strategy (CPS)**

Corporate political strategies are also aimed at influencing public policy makers in order to shape a favourable business environment for the firm (Baron, 1997; Hillman, 2003; Hillman et al., 1999; Keim & Baysinger, 1988).

### **Strategic political management (SPM)**

“Strategic political management refers to the set of strategic actions that are planned and enacted by firms for purposes of maximizing economic returns from the political environment” (Oliver & Holzinger, 2008, p. 3). For this reason, strategic political management is seen as a synonym for corporate political activity (CPA) and corporate political strategy (CPS).

### **MNC global governance**

“An indication that MNCs increasingly accept broader stakeholder obligation is the current emphasis many of them place on developing or renewing their public commitment to the broad domain of corporate social responsibility (CSR)” (Detomasi, 2007, p. 223). The researcher argues that the social commitments of MNCs go further than simply meeting legal requirements in jurisdictions. This exercise in stakeholder commitment improves the competitive advantage of MNCs; it reduces their political, media and social risk, provides them better insight into local markets and improves the workforce quality. Muldoon (2005) described the importance of the terms ‘corporate citizenship’ and ‘corporate social responsibility’ (CSR). The success of a company depends for a significant part on its capability to commit to a variety of stakeholders on social and environmental concerns (Muldoon, 2005). There is a growing interest in NGOs due to their increasing number and growth (Kourula and Laasonen (2010).

### **MNC-host Government Relations**

Literature regarding this keyword entails many sides of relationship building. Luo (2001) introduces four building blocks which will improve the cooperative relationships between MNCs and governments; resource commitment, personal relations, political accommodation, and organizational credibility. MNC-host government relations are critical for a MNCs potential to grow and expand internationally since host governments influence parameters of production, management, investment and localization (Boddewyn & Brewer, 1994)

### **1.1.2 Framework: Working definition of business diplomacy**

We think that the aforementioned definitions of business diplomacy are rather unclear, too broad, or too narrow. To focus our research better, it is necessary to develop a clear and delineated working definition of business diplomacy. For this purpose, several elements are derived from existing definitions, identified in the literature review. These elements constitute the cornerstones for our working definition of business diplomacy; the purpose is to create and sustain legitimacy, the focus is on foreign business environments, it involves building and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. This leads to the following working definition:

*“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". This can help businesses to create opportunities.

As was already mentioned, in this project corporate diplomacy is seen as a synonym for business diplomacy; both concepts describe the same business process and associated elements. As was indicated in the definition overview, the keywords CPA, CPS and SPM describe the same concept and thus can also be seen as synonyms. CPA, CPS and SPM are focused on influencing public policy makers (in the home country, and increasingly in foreign countries) in favour of the firm. On the contrary, business diplomacy is concerned with the creation of long-term, positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) in order to create legitimacy in a foreign business environment. Lobbying, which in Europe stands for "any proactive political strategy" (Hillman & Hitt, 1999, p. 834), is an essential element of CPA and serves here as a mechanism for influencing public policy outcomes. Lobbying has a short-term, specific purpose and therefore falls outside the definition of business diplomacy in this project. Also corporate political activities, such as campaign contributions for the purpose of influencing home government officials, are not part of business diplomacy.

The mentioned differences are shown in figure 1 which displays how the other concepts relate to business diplomacy. Business diplomacy and CPA overlap in that they are both focused on influencing parties in the organization's external environment. The keywords MNC-government relations and MNC global governance can be seen as important elements of business diplomacy. In order to gain legitimacy and create business opportunities around the world, it is necessary for a MNC to build upon positive relationships with multiple host government representatives and non-governmental stakeholders (economic and non-economic), such as NGOs. There is a growing importance in committing to and negotiating with a variety of stakeholders (such as NGOs) on social and environmental matters in the international business environment (Kourula & Laasonen (2010).

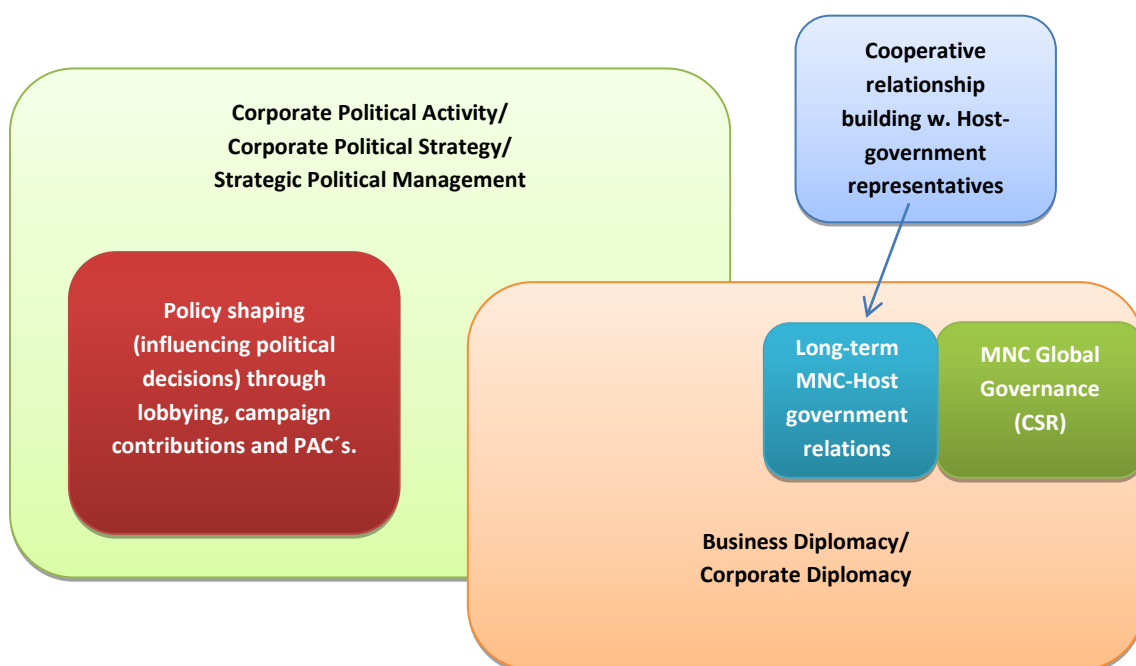


Figure 1: Theoretical framework business diplomacy

## 2. Structured literature review and research direction

This section includes a structured literature review and the research direction. Section 2.1 describes how various scientific studies were identified. Attention was paid to the theoretical perspectives, the methodological approaches and the levels of analysis the researchers used. This can be found in sections 2.2, 2.3 and 2.4 respectively. The articles were also reviewed for their important topics, findings and consequences. After having reviewed each article, various important research findings and topics were identified. Subsequently, these findings were summarized in a structured way (section 3.5). In section 2.6, a theoretical model concerning the antecedents, dimensions and outcomes of business diplomacy is presented. Section 2.7 covers the research direction.

### 2.1 Identification of studies

To identify scientific literature regarding business diplomacy and related topics, only Web of Science (WoS) was used as search engine. Web of Science uses a database with only ISI (International Statistical Institute) journals with a high impact level. The impact level is a measurement about the frequency which the average article in a journal has been cited in a particular year or period. It covers all relevant scientific journals in the field of international business/management for a wide spectrum of business diplomacy. As search terms, we've used 'business diplomacy' and the six related terms, mentioned in the previous section (see table 1). WoS checked the database for the presence of the keywords in the title, abstract, or in the text of the articles. After receiving several outputs by web of science, the relevant articles were selected by reading the abstracts and research findings. Subsequently a cross-reference check was made for each article that was selected.

Keywords (derived from literature)	Number of selected articles.	Articles through cross-reference check
<b>Business Diplomacy</b>	<b>4</b>	<b>-</b>
<b>Corporate Diplomacy</b>	<b>1</b>	<b>-</b>
<b>Corporate Political Activity</b>	<b>7</b>	<b>5</b>
<b>Corporate Political Strategy</b>	<b>7</b>	<b>-</b>
<b>MNC Global Governance</b>	<b>4</b>	<b>-</b>
<b>MNC Government Relation</b>	<b>3</b>	<b>1</b>
<b>Strategic Political Management</b>	<b>1</b>	<b>1</b>

Table 1: Identification of scientific literature

In total, 34 articles were selected of which 64.7% were published after 2000 (see figure 2). This suggests the growing relevance and interest in business diplomacy and political activities of businesses. Most of these articles (30 of the 34) were published in business and management journals. The other remaining articles were published in political and human relations journals.

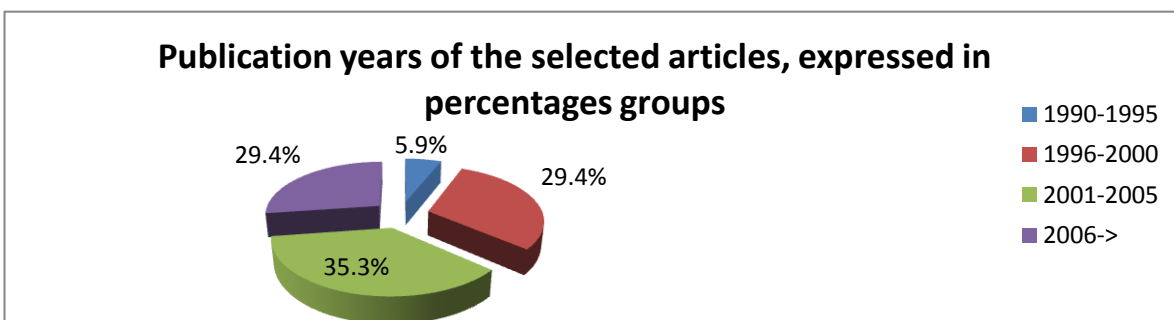


Figure 2: Publication years of the selected articles, expressed in percentages groups

## 2.2 Theoretical perspective

A wide range of theories and conceptualizations have been used in the selected articles. Of the 34 selected articles, 20 studies rested on theoretical bases. In these articles, the researchers use these theories as a basis for studying business diplomacy and related concepts in different ways. In some articles, multiple theories are used at the same time.

Predominantly, in one third of the articles that rested on theoretical bases, the resource-based view was used by the researchers. In the article of Rizopoulos and Sergakis (2010) the resource-based view is used to determine a MNCs position in the home-country policy network which, in turn, determines its political strategy in host countries. Other examples of how the resource based view is used are: to determine whether firms use different political tactics simultaneously (Schuler et al., 2002), and to underpin the importance of corporate political activities (Oliver & Holzinger, 2008). In approximately one fourth of the articles, the institutional theory was applied. In the article of Hillman and Wan (2005), this theory is used to explain that the institutional norms within an environment determine for a large extent the political strategies of MNE's subsidiaries that are active in these environments. In Richter (2011) the institutional theory is linked to the concepts of corporate social responsibility. Researchers that used the resource-based view as theoretical basis, have used the institutional theory in their study in some cases as well. This combination can be observed in the article of Hillman et al. (2004) which contains a literature review and a research agenda for corporate political activity. In addition to these theories, other theories were applied. For example, in the article of London (1999), the concept of principled leadership is combined with business diplomacy: the researcher argues that the application of business diplomacy is a way to make the strategy of principled leadership practical. In the article of Saner and Yiu (2005), the concept of corporate social responsibility is used to explain the importance of business diplomacy. In Bonardi et al. (2005), the political economy theory is used to describe the attractiveness of political markets. Furthermore, the stakeholder view (Ordeix-Rigo & Duarte, 2009), cooptation theory (Windsor, 2007), public choice theory (Lord, 2000), the policy network perspective (Dahan et al., 2006), the cooperative view (Luo, 2001) and the collective action theory (Schuler, 1996) were used as theoretical bases by the researchers for studying business diplomacy and related concepts.

## 2.3 Methodological approaches

Several types of methodological approaches have been used in the articles; literature reviews, multiple case studies, surveys and other quantitative data collection methods (internet and databases). In almost one out of two articles (16 out of 34), a literature review approach was used as methodological guidance. A total of seven articles used a literature review in order to design a model or framework (Bonardi et al., 2005; Detomasi, 2007; Hillman et al., 2004; Moon & Lado, 2000; Ramamurti, 2001; Rizopoulos & Sergakis, 2010; Windsor, 2007). Other articles have discussed previously published papers in the fields of CPA, CPS and MNC-host government relations.

Surveys are, after literature reviews, the most common approach (8 out of 34). The population, sample size and subject differ between the surveys. The surveys were focused on emerging economies and developed economies. For example, Luo (2006) conducted research into how Chinese MNCs manage political and social forces in a foreign emerging market. Other researchers have conducted surveys in developed countries. For example, Hillman and Wan (2005) surveyed United States MNC subsidiaries in Europe. The data of the surveys were used for analysing different hypotheses (derived from literature) but mainly to establish determinants or finding relations in the

approach and effectiveness of political strategies. For example, Hillman (2003) conducts research into the determinants of political strategy approach, participation level, and strategy. Also Schuler (1996) investigated which internal and external firm factors have an impact on the political strategy choice.

The third most used methodological approach is the multiple case study (6 out of 34). In four of these articles, semi-structured interviews are used as data collection method. For including companies in the research sample, researchers have used all kinds of databases and websites (such as Unctad). Saner and Yiu (2005), for example, conducted semi-structured interviews within large Swiss global companies as Nestlé, Novartis Group, Roche Holding and Syngenta AG, of which three of the four companies are ranked as the top 40 non-financial transnational companies in the world. Richter (2011) used six criteria in order to select companies. Two from these criteria were; companies that are operating in more than 100 countries and with more than 50,000 employees.

For the remaining four articles, other methodological approaches than literature reviews, surveys and case studies have been used. For example, Schuler et al. (2002) made use of information provided by the US government for the purpose of conducting a multivariate analysis in order to investigate whether firms use multiple tactics of political strategies.

## 2.4 Levels of analysis

In the selected articles, the researchers have used different levels of analysis. In this section, the micro-macro dichotomy will be used to describe which levels of analysis are used by the researchers in their studies.

Most of the studies (18 out of 34) addressed an analysis on macro level. These studies had a more general focus for inquiry. Bonardi et al. (2005), for instance, identified the conditions that make a political market attractive for MNCs. Another example of a macro-level analysis is the study of Hillman et al. (2004) in which the researchers provide a model of antecedents, types and outcomes of corporate political activity, or the article of London (1999) in which the researcher stresses the importance of business diplomacy and provides recommendations for how to integrate this concept in the business culture of the MNC. Other articles addressed an analysis on micro-level (10 out of 34). These studies had a more in-depth focus instead of those that concerned macro-level analyses. For example, in the article of Hillman et al. (1999), the researchers focus purely on one specific aspect of corporate political activity; personal service, and investigated its effect on organizational performance. Finally, some of the selected articles in this literature review had a micro- and macro-level focus simultaneously. Saner and Yiu (2005) stressed the importance of business diplomacy and give recommendations of how to structure it in the organization, which suggests a macro-level analysis. However, in another section of their study, they conduct empirical research to the organization of business diplomacy in 4 Swiss firms. The reason that Swiss firms are taken as their sample is because they are not EU-members, but still have to trade with EU-members. This suggests that the researchers use a micro-level analysis as well, because this section involves a very specific, in-depth case study. Also Saner et al. (2000) have used a double level of analysis; on the one hand the researchers explain generally why MNCs should nowadays have an integrated business diplomacy function (macro), and on the other hand, they describe very specifically what knowledge, experience and skills business diplomacy managers should possess (micro).

## 2.5 Topics and findings

In this section, the most important topics, findings and consequences in the selection of articles are structured. First, general findings concerning political activity are addressed, followed by more specific findings regarding business diplomacy.

### 2.5.1 Political Activity

“Firms may enter political markets to seek new or to maintain existing policies that affect their current business operations or future opportunities” (Bonardi et al., 2005, p. 397). The political market is seen as a collection of individual markets and its exchange is characterized by the interaction between demanders and suppliers (Hillman & Hitt, 1999). Each different public policy concern has its own set of demanders and suppliers with its own competitive dynamics (Bonardi et al., 2005). Hillman and Keim (1995) present a rendering of the demanders and suppliers of public policy. Parts of the demand side are individual voters, interest groups, firms, political parties, and occasionally other governments, either foreign or sub-national. All of these actors have different demands for public policy. Suppliers of public policy can include prime ministers, presidents and their staffs, elected members of parliaments, legislatures and their staffs, members of the judiciary, and any number of appointed elected, or career bureaucrats who staff government agencies.

#### 2.5.1.1 Importance

The fact that governments can have considerable impact on firms, serves as a signal for firms to stay informed about policies, government regulations, and public policy issues (Hillman et al., 1999). Interaction with public policy suppliers and demanders is important. Public policies are the outcomes of a process in which new issues are put on the agenda continuously. Without overseeing this process, businesses would not be aware of changes regarding regulation and legislation (Hillman et al., 1999).

Having competences in political activity, corporations have better knowledge and cognitive maps about nonmarket environments, better bargaining and non-bargaining skills, and more direct access to decision and opinion makers (Porac & Thomas, 1990). From the perspective of the resource-based view; in order to have a sustainable competitive advantage as a corporation, these political competencies need to be non-imitable and non-substitutable. The political competences are needed because governments, when being sovereign, do have the control of legitimate power, and companies that operate internationally need approval to enter and operate in a host country. Firms therefore need a license to operate (Miles & Cameron, 1982). The political behaviour of international organisations can be a source of efficiency, market power and legitimacy. Legitimacy facilitates the gaining of economic resources in additional value, gives access to policy makers, gives influence in policy making, reduces the opposition of other stakeholders, and is therefore a political resource which international organisations want to secure. Sovereign governments present obstacles, but also serve as incentives for cost efficiency and/or market effectiveness strategies of companies. Political competencies are also important in dealing with various NGOs (Boddewyn & Brewer, 1994).

The research of Shaffer and Hillman (2000) provides empirical evidence of the importance of political activity. The researchers found that CPA has a positive effect on firm performance. Performance measures that were used by the researchers were profit margin, load factors, and changes in market share. The institution-based view is seen as the third leg of the strategic management field by Peng et al. (2009). Since institutional factors are important for the understanding of how firms obtain



competitive advantage, political activities of firms in how they manage and influence political entities, should be an important factor in determining firm performance (Baron, 1997).

### **2.5.1.2 Factors influencing MNCs to become political active**

The decision for firms to engage in corporate political activity is often described as an investment decision (Lux et al., 2011). Firms assign resources to political activities when they expect to generate better returns. According to Baron (1995); Mitchell et al. (1997), CPA is attractive when the benefits from obtaining beneficial policy outweigh the costs. “The government can be best viewed as a competitive tool to create the environment most favourable to a firm’s competitive efforts” (Hillman & Hitt, 1999, p. 826). Several researchers (Lux et al., 2011; Hillman et al., 2004) conducted research to whether firm-, industry- or institutional-level factors influence firms to become political active.

#### **Firm level antecedents**

‘Firm size’ is a factor that provides an indication about the firm’s ability to become politically involved (Hillman et al., 2004; Schuler, 1996; Schuler & Rehbein, 1997). Hillman and Hitt (1999) explain that firms with greater financial and intangible resources are more likely to engage in CPA alone and, on the other hand, smaller companies are more forced to work collectively with others. The size of a company represents different values of organizational power such as economic and political power. That firm size is indeed an influencing factor in becoming politically active as a firm, is empirically shown by Lux et al. (2011) who tested that the largest driver of CPA is firm-size. Firm size can be tested through; revenue and or the number of employees (Lux et al., 2011). Schuler (1996) identifies ‘market share’ as another factor that influences corporations to become active in CPA. The researcher argues that firms with a large market share often employ many employees and many assets, which enables them to engage CPA. Another firm-level antecedent of CPA is ‘resource dependency’ (Schuler, 1996). This variable refers to the extent to which a corporation depends on governmental resources. Governments sometimes have control over resources that are critical for firms (Hillman & Hitt, 1999). Securing and maintaining these resources is critical for firms, and thus it becomes necessary to become politically involved (Keim & Baysinger, 1988). Another important factor that influences firms to become politically active is ‘organizational slack’ (Schuler, 1996). “Organizational slack is that cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment” (Bourgeois, 1981, p.30). There are several ways to determine organizational slack. For example through firm’s debt-to-equity, current assets-to-current liabilities, and free cash flows (Hillman et al., 2004). Firms with a relative high level of organizational slack will be more likely become political active since they possess the necessary financial recourses. This relation was demonstrated empirically in the study of Mezner and Nigh (1995). Also ‘business diversification level’ is recognized as an antecedent of CPA (Hillman, 2003; Lux et al., 2011; Schuler, 1996). The researchers argue that the greater the diversification level of the firm, the more likely they will use a relational CPA approach. CPA should be integrated with the corporate strategy (Aggarwal, 2001; Baron, 1995). “Firms that pursue conglomerate diversification strategies come into contact with a greater number and diversity of society” (Lux et al., 2011, p.230). Because these diverse firms are exposed to greater social pressures, firms with diversification strategies are more likely to be politically active. ‘Foreign ownership’ is mentioned as an antecedent by Hansen and Mitchell (2000). The researchers argue that foreign-owned firms are less likely to use certain activities of CPA, such as PACs and Congressional hearings. ‘Firm age’ is also mentioned to be related to CPA. ‘Age of the firm’ has often be seen as a proxy of

‘visibility of the firm’ (Hansen & Mitchell, 2000). Also is argued that firm age indicates ‘experience’ and ‘credibility’ (Hillman, 2003; Hillman & Hitt, 1999). According to Hart (2001), young firms have larger PACs than older firms.

### **Industry level variables**

Industry level variables also affect CPA. Industry-level variables, such as ‘industry concentration’, affect the ability to organize political action (Hillman et al., 2004). Firms can obtain certain advantages when working together with other firms in influencing public policy outcomes (Olson, 1965). In concentrated industries, it is easier for firms to organize cooperation in this field, and firms are more likely to influence legislators (Schuler et al., 2002). Many researchers (Grier et al., 1991; Schuler et al., 2002) argue that there is a positive relationship between industry concentration and CPA. Dominating firms in a highly concentrated industry will receive a higher net return on their political investment (Olson, 1965). However, according to Grier et al. (1991), there is little evidence of a relationship between industry concentration and CPA. ‘International competition’ is recognized as another industry-level antecedent of CPA. When international competition is high, governments create entry barriers for foreign MNCs in order to protect domestic firms (Lux et al., 2011). When firms are affected by foreign-owned competition, they will try to increase entry barriers and/or tariffs through CPA. However, in the study, Lux et al. (2011) found a negative relationship between international competition and CPA. The ‘relative size of a firm within an industry’ also determines CPA. Schuler (1996) argues that relatively small firms free ride on the political efforts of larger companies in the industry. This would suggest a positive relationship between firm size and CPA. Another important CPA antecedent is ‘economic opportunities’ (Lux et al., 2011). The researchers propose that economic opportunities in a market are negatively related to CPA. When firms access rapidly growing markets, they will focus their efforts on economic returns rather than on political activities. However, in their study Lux et al. (2011) found no relationship between economic opportunities and CPA.

### **Institutional level variables**

Also institutional variables influence the extent to which MNCs engage in CPA. Researchers have focused mainly on how institutional differences across countries drive political action (Blumentritt, 2003). Lux et al. (2011) conducted a research in which they examined the influence of six institutional variable on CPA. The institutional variables included: Politician incumbency, ideology, political competition, government regulation, government sales and government dependency. Research showed that all variables were positively related to CPA. With regard to politician incumbency, firms should evaluate a politician’s ability to deliver demanded policies (Lux et al. (2011). Evans (1988) argues that the ability of politicians to deliver demanded policies is part of their ability to get legislation passed. The researcher argues that incumbent politicians are often perceived as political opportunities since they have a greater chance of winning the elections than first-time candidates. Lux et al. (2011) therefore suggest that political incumbency is positively related to CPA. Ideology, also positively related to CPA, concerns whether politicians are willing to provide desired policies. According to Lux et al. (2011), political competition refers to the number of parties that are interested in and competing for a policy. “Because politicians are less likely to supply policy when competing demands exists, firms are likely to engage in CPA whenever other competing firms or special interest groups seek policy that will negatively affect the firm’s business activities” (Lux et al., 2011, p. 227). Governmental regulation regarding economic activities can also be seen as an



antecedent of CPA. Lux et al. (2011) suggested that when these regulations constrain operations and are costly for firms, they are more likely to engage in CPA. With regard to government sales, firms that conduct sizeable business with governments are more likely to engage in relationships through CPA (Boies, 1989). Lux et al. (2011) mentioned that politicians depend on firms as resources (e.g. votes and campaign contributions). Firms, in turn, want to exploit these government dependencies, and are more likely to engage in CPA.

Bonardi et al. (2005) argued that a firm's decision to become politically active depends also on the 'attractiveness of the political market'. An aspect of the attractiveness of the political market is the degree of competition. However, there is no consensus about the relation between degree of competition and a firm's decision to engage in CPA. Relatively current studies reported a negative relationship (Kim, 2008), whereas older studies reported positive relations (Schuler, 1996). Bonardi et al. (2005) argue that when the demand- and supply-side attributes of a political market make it attractive, firms will be more likely to engage in political activities. The researchers argued that firms will be leading in political activities when the supply side is attractive while the demand side is unattractive; when it is the other way around they will not be the first to enter the political market and thus become followers. The attractiveness of the demand-side is measured with three characteristics: (1) election or non-election issues (Firms are expected to have a relative advantage in shaping decisions on non-election issues, because of the reduced rivalry among the demanders), (2) the attractiveness of the political market (political markets wherein benefits of policy issues are concentrated and costs are spread, are attractive for MNCs that promote these issues) and (3) whether the issue is new or concerns an existing policy (political markets are more attractive for firms when defending existing regulations or policies) (Bonardi et al., 2005). The attractiveness of the supply side is measured with two characteristics: bureaucrats and elected officials. "When there is high rivalry between bureaucratic suppliers and no one agency has full regulatory power, this reduces the likelihood of changing the policy status quo and makes a political market less attractive for demanders like firms" (Bonardi et al., 2005, p. 405). When competition is high during elections of officials, each representative will be extra responsive to the needs of firms in order to collect votes; the attractiveness is high.

According to Lux et al. (2011), firms with a higher level of CPA will reap better firm performance. In the research, the researchers showed that CPA is positively related to performance measures such as returns on investment, returns on assets and government-derived revenues.

#### **2.5.1.3 Political strategy choices**

Firms appear to make political strategy choices based on internal (firm) characteristics and external characteristics (Hillman, 2003; Schuler, 1996). According to Rehbein and Schuler (1999), internal firm characteristics significantly influence the firm's political strategy. A political strategy, which is part of non-market strategies, is intended to influence governmental decisions that affect the firm's operations (Baron, 1997). A political strategy might help firms to gain access to a political market and influence local regulation in favour of the firm (Hillman et al., 1999). The study of Zardkoohi (1985) shows that the more a firm is affected by regulators, the more it will try to influence policy makers. The political strategy adopted by an organization should be aligned with the external environment and the internal capabilities of the firm (Galbraith & Kazanjian, 1986).

## **Approach**

According to Hillman et al. (2004) there are two different types of CPA: proactive and reactive. This distinction is an element of the classification of Blumentritt (2003) who describes the terms buffering and bridging. Buffering behaviour concerns the proactive political actions of corporations, which involves informing policy makers about the effects of legislation on firms and trying to influence these regulations. Methods include lobbying and campaign contributions. Bridging behaviour is a reactive approach, which includes activities as exceeding compliance levels of regulation, and following the development of regulation in order to have compliance ready when approved. A reactive political approach is not sufficient for firms that want to influence regulation in their favour (Hillman & Hitt, 1999). In order to achieve these objectives firms must be proactive (Keim, 1981).

As approaches towards political strategy, Hillman and Hitt (1999) distinguish between a transactional and a relational approach. In a transactional approach, firms wait for a new public policy to develop before creating a political strategy. It is an approach in which the strategy is responsive to specific, relevant issues. A transactional approach is not often used, because firms tend to pursue long term political strategies instead of issue based strategies (Hillman & Hitt, 1999). For a long term strategy the relational approach is more appropriate. A relational approach tends to build long-term relationships with governments. Firms can use these ties to influence policy making in their favour. (Hillman & Hitt, 1999). The use of a relational approach is growing for both domestic and multinational firms. Hillman and Hitt (1999) argued that this is emphasized by the increased importance of a firm's governmental relationship.

Whether a firm decides to adopt a relational or a transactional approach depends on several variables (Hillman and Hitt (1999), for instance the extent to which firms are affected by the government policies. The researchers propose that firms with a high level of government policy dependency are more likely to use a relational approach. Another variable is the product diversification level of the corporation. The researchers propose that firms with more diversified products, are more likely to adopt a relational approach towards political strategy since these firms are often concerned with multiple policy domains (corresponding to diverse business units and product markets). Firms whose products are more standardized, are more likely to use a transactional approach towards political strategy, because they are often concerned with limited policy domains. The researchers propose that the degree of corporatism/pluralism in the country, in which firms are operating, also influences the approach towards political strategy. In corporatist countries, firms are more likely to use the relation approach, while the transactional approach is more preferred in pluralist countries. Hillman (2003) argues that the number and tenure of employees working in a firm also determines the adopted approach towards political strategy. Firms with higher credibility and a larger employee basis will adopt a relational approach, because relationships with political actors might develop faster when firms have a large number of experienced employees.

## **Participation level**

Olson (1965), a political scientist, delimits two participation levels that can be applied by a firm that is active in the public policy arena: individual action and collective action. Individual action refers to private efforts of individual companies to affect public policy. Hillman et al. (1999); Olson (1965); Schuler (1996) describe the collective action theory as collective activities that may be beneficial for multiple firms. The collective action theory focuses on the collective goods of political actions, which

can be categorized as collective or selective benefits (Olson, 1965). In collective action theory, the collective benefits merit multiple actors, also those firms that haven't participated in the political efforts to shape a policy. These benefits could exist for example out of; quotas, standard settings, and trade barriers (Hillman et al., 1999). Selective benefits accrue only for those firms that participated in the policy shaping. Schuler (1996) argued that politically passive firms can free ride on the efforts of political active firms and merit the benefits of favorable policy outcomes.

Hillman and Hitt (1999) propose several influencing factors that determine whether firms participate individually or collective. The researchers proposed that firms with good recourses, which also include intangible recourses, are more likely to influence public policy outcomes individually. Firms that lack these recourses are more likely to use collective participation. According to Hillman and Hitt (1999), the degree of corporatism/pluralism in a country plays a role in the firm's choice between individual and collective participation. In general, corporatist nations promote positive-sum policies in the constituency, and not specifically for the interest of one group (Hillman & Keim, 1995). Therefore firms in pluralist countries are more likely to use individual participation, whereas firms in corporatist countries are more likely to participate collective in the public policy arena. Hillman (2003) recognized a significant and positive correlation between approach and participation level of political strategy. The researcher argued that firms adopting a relational approach are more likely to participate collectively in the public policy arena. According to Schuler (1996), market share is another important determinant. Firms with a high level of market share are more politically active than smaller firms, which are more likely to engage in free-riding behaviour.

### **Political Strategies**

Next to approach and participation level, Hillman and Hitt (1999) also mention several types of political strategies as a third dimension. These three dimensions represent the sequence of firm decisions when formulating a political strategy. The researchers distinguish between the information strategy, the financial incentive strategy, and the constituency building strategy. Firms can use multiple strategies simultaneously; using a certain strategy does not preclude the use of another strategy. Firms that apply the information strategy try to influence political decision makers by providing information (Hillman & Hitt, 1999). This can be done by means of lobbying, supplying position papers or technical reports. This offers the opportunity to create information asymmetries between the firm and public policy makers. Public policy makers need information for measuring public opinions and voting behaviour concerning particular policies. In the financial incentive strategy, firms use financial incentives to influence political decisions. For this purpose, firms use financial incentives such as contributions to political parties. In the United States, campaign contributions are often used. In the constituency building strategy, firms try to influence decision makers indirectly through constituent support. This includes a firm's efforts to become politically active on public policy issues in which both the firm and multiple corporate stakeholders share strong mutual interests (Baysinger et al., 1985; Lord, 2000). The information strategy and financial incentive strategy aim to influence public decision makers directly, whereas firms that apply a constituency-building strategy attempt to influence public policies indirectly, by raising the support of individual voters, citizens and NGOs (Baysinger et al., 1985; Hillman & Wan, 2005).

According to Hillman and Hitt (1999) the strategy that a firm adopts depends on the political strategy approach. If a firm has a transactional approach, the life cycle stage of the particular policy issue becomes relevant. The first two stages of the life cycle of Ryan et al. (1987) include public opinion

formation and public policy formulation respectively. In the first stage public opinions regarding the policy issue are developing. In this stage, a firm can use a constituency building strategy to communicate and shape opinions with the public in order to influence public policy makers. In the public policy formulation stage, in which policies or regulations are introduced, firms can oppose or support the new issue through the information or financial strategy. Firms with a relational approach adopt a political strategy, based on their own firm-specific recourses. Information must be perceived as credible, in order for a firm to influence political decision makers (Boddewyn & Brewer, 1994). A firm's credibility determines the success of political its political actions. Hillman and Hitt (1999) propose that firms with higher credibility levels adopt either an information strategy, or a constituency building strategy. A constituency building strategy is easier to use in firms with a large number of employees. (Boddewyn & Brewer, 1994; Hillman, 2003). A firm can decide to educate its employees to become politically active and impact the political arena. The Information strategy is correlated with the financial-incentive strategy. US firms are most likely to combine these two strategies (Hillman, 2003; Schuler et al., 2002). Information strategy and constituency building are negative correlated which could be explained by the difference in perception (Hillman, 2003). The extent of corporatism in a country is positively related to the use of a relational approach towards political activity, and thus towards using a constituency building strategy. The Information strategy will be used more when firms are larger and use methods such as lobbying, testifying, and so on (Hillman, 2003). Strategies that accentuate effective constituency-building determinations are likely to be more successful than strategies that rely on financial strategies (Lord, 2000).

Oliver and Holzinger (2008) developed a classification of political strategies. The researchers examined the strategies that firms undertake to create or maintain value in political environments, and the dynamic capabilities that contribute to their effectiveness. Four firm-level strategies were proposed; proactive, defensive, anticipatory, and reactive. The researchers argued that the firm-specific assets and competences determine which strategy will be adopted. In the reactive political strategy firms try to protect or increase their strategic assets actively by aligning their internal processes efficiently and effectively with the public policy demands. In the anticipatory political strategy firms live up to the public policies by combining and reconfiguring internal and external resources, in order to improve their external scanning and timely knowledge ability. This strategy is used when firms try to gain first-mover advantages. In the defensive political strategy, firms try to influence the political environment by discouraging policies that are not favourable for the organizations (e.g. by means of lobbying). In the proactive political strategy firms try to shape the fundamental nature of how public policies are defined or developed (Oliver & Holzinger, 2008).

MNC Subsidiaries are directly affected by host country's political environments, because they are exposed to multiple sources of sovereign authority (Sundaram & Black, 1992). Blumentritt and Nigh (2002) state: "the coordination of political activities among MNC subsidiaries, is influenced by characteristics of the individual subsidiaries and their host country environments" (p. 61). The researchers argued that MNC subsidiaries attempt to have a unified and consistent approach towards environmental actors. However, there are factors that force MNC subsidiaries to deviate from standard procedures in order to interact with political actors (Blumentritt & Nigh, 2002). The researchers argued that structures and procedures of governments often differ substantial between countries, in which MNC subsidiaries are active. Second, they argued that MNC subsidiaries face various types of political policy issues (Brewer, 1992), and third, the recourses of a subsidiary and the strategic role it plays has impact on the political strategy decisions. A MNC, together with its

subsidiaries, needs to respond to political contingencies of the host-countries, along with their own imperatives. Blumentritt and Nigh (2002) empirically showed that subsidiaries integrate their political activities with partners, based on the influence of inter-subsidiary strategic factors and on host country environments. Also Hillman and Wan (2005) argued that the foreign subsidiaries of a MNC have their own strategic patterns, specifically to a certain domain. In their study, Hillman and Wan (2005) conduct research to the determinants of political strategies of MNC subsidiaries. The focus of the study was to examine the dual institutional factors; MNC subsidiaries need to conform to external legitimacy forces in the host country, and the internal legitimacy forces of the parent firm. Hillman and Wan (2005) used the political strategy taxonomy of Hillman and Hitt (1999). Research findings revealed that legitimacy forces such as the tenure in a country, subsidiary size, the degree of corporatism in the host country, and the parent's level of diversification, influence the political strategy of MNC subsidiaries. For example, the researchers concluded that "in pluralist countries, the information and financial incentive strategies were used more often, whereas in corporatist countries MNE subsidiaries used constituency building more often" (Hillman & Wan, 2005, p.336).

### **Activities**

Firms adopt multiple political activities for influencing legislative decisions (Schuler et al., 2002). Political activity committees (PACs), campaign contributions, constituency building, executive lobbying, use of professional lobbyists, and advocacy advertising were mentioned as political activities of MNCs by Lord (2000). Direct influence activities involve; lobbying, campaign financing, and illegal corruption (whether occurring as bribery or extortion). Indirect influence activities involve; grassroots mobilization, nongovernmental stakeholder management, and media relations (Windsor, 2007). Firms practice several types of political behaviour simultaneously for achieving favourable policy outcomes (Mahon, 1993). PAC's and campaign contributions are mentioned as typical activities often used in the United States (Keim & Zeithaml, 1986). Lobbying is described as an instrumental activity in which information, regarding a firm's policy preferences, is transferred to public policymakers (Hansen & Mitchell, 2000). Lord (2000) describes lobbying as an activity that can be conducted by external professional lobbyist or internal lobbyists. The aim of lobbying is to obtain exclusive benefits as a firm, such as regulatory relief or government contracts. Hansen and Mitchell (2000) argued that lobbying is the most common political activity for firms. Lord (2000) mentioned that constituency building is ranked as the most effective activity, according to congressional respondents. Also Baysinger (1984); Keim and Baysinger (1988) support the notion that corporate constituency building is a highly effective activity of creating political influence. Lord (2000) measured that PAC contributions and advocacy advertising are the least influential activities of CPA. Hart (2001) concluded that firm age has no relation with the formation of PACs, although young firms are more likely to have larger PACs than older firms. Schuler et al. (2002) argued that for gaining access to political markets, firms often combine campaign funding with lobbying. In the analysis of the empirical findings, the researchers showed that large firms were more likely to combine lobbying activities and PAC's. Firms that operate in industries where political involvement is high, are also more likely to become political involved. Schuler (1996) argued that firms in concentrated industries are more likely to engage in lobbying and campaign contributions than those in fragmented industries.

#### **2.5.1.4 Policy networks**

According to Rizopoulos and Sergakis (2010), the political influence of MNCs also depends on the possibility to get involved in policy networks. According to Dahan et al. (2006) the current literature

is too much focused on dyadic MNC-government relations, as it should be more focused on policy networks. Policy networks refer to the interactions of different interest groups in public decision-making and their collective actions (Rhodes & Marsh, 1992). Such a network “stresses the exchange processes between organizations and the complexity of ties binding major stakeholders (firms, bureaucrats and politicians) by resource interdependencies” (Rizopoulos & Sergakis, 2010, p. 251). Firm-specific assets (e.g. employment, technological knowledge, and financial power), enables MNCs to have influence on public policies that are aligned with their operational objectives. Resource exchange relationships must be developed between all the actors within a policy network. MNCs must possess valuable resources that other actors seek (Dahan et al., 2006). The perception of MNCs and their strategic goals are created in reference to the policy networks in which they are involved (Rizopoulos & Sergakis, 2010).

There are two different types of policy networks; open and close networks (Schaap & van Twist, 1997). A closed policy networks exists out of a dense relationship between a small number of actors (public or private), who share the same interests, preferences, values and ideologies. A closed policy network is characterized by cohesion, centralization, convergence, exclusivity, and constitutes an institutional environment. It is suitable for building-up a dominant position inside a specific issue-area (Rizopoulos & Sergakis, 2010). An open policy networks exists out of weak ties among many participants with well-balanced bargaining power and little interdependence. It is characterized by low centralization, density and cohesion. The interconnectivity is lacking and interactions are based on consultations and exchanges of information.

Rizopoulos and Sergakis (2010) argued that the type of policy network and a firm’s position in the network (which is determined by the firm’s resources) determines the political leverage. When firms have significant valuable resources in a closed policy networks, they will have greater influence on the political actions. Strong support from home governments could arise when firms have dominant positions in closed home policy networks, or if firms have the capacity to constitute alliances with stakeholders in open networks. MNCs have a dominant positions when they provide the resources on which public decision-makers depend (Dahan et al., 2006). A dominant position in a home country enables expansion to international markets.

Dahan et al. (2006) note, besides policy networks, also the use of epistemic communities. In epistemic communities the focus lies on production and distribution of usable knowledge, which is used as the main resource provided to policy decision-makers. Activities of epistemic communities are writing export reports, commissioning scientific studies, setting-up debates and publishing documents among officials and the media (Dahan et al., 2006).

### **2.5.2 Business diplomacy**

According to Muldoon (2005), survival in today’s complex business environment does not solely depends on MNCs competitiveness and efficiency. Additional factors that determine long-term organizational success are managing dynamic and complex interactions with multilateral institutions, governments and social movements. The researcher argues that MNCs should build upon long-term relationships with multiple stakeholders, thereby implementing cooperative strategies that address environmental and social concerns. Muldoon (2005) recognizes the corporate public affairs function as the diplomatic machinery that coordinates a firm’s representation in the global system. The researcher states that “The corporate public affairs profession has evolved over the last decade or so

from its traditional role as an internal 'PR' agency focusing primarily on corporate communications and media relations to a multifaceted and strategic corporate function that encompasses public policy and issues management, government and investor relations, corporate philanthropy and community relations, business ethics, corporate social responsibility and citizenship, and crisis management" (Muldoon, 2005, p. 354). Saner et al. (2000) characterize business diplomacy management as the process of creating legitimacy and power with host-governments and other non-business stakeholders in order to create business opportunities.

### 2.5.2.1 Importance

According to Saner et al. (2000), the actual situation that MNCs face is complex; global companies need to manage rapid changing political economic business environments, thereby dealing with multiple stakeholders such as hosts-governments and NGOs. These difficulties, faced by MNCs, have three causes. First of all, the public has more access to information regarding corporate governance. Their opinion and voice has a strong influence and cannot be ignored by MNCs. Second, emerging markets such as India and Brazil have many difficulties that MNCs should take into account, such as cultural aspects and governmental rules. The third cause refers to the emergence of all kinds of NGOs and communities. Working conditions, environmental standards and employment practices should all be taken into account to prevent conflicts that can destroy the MNCs reputation (Saner et al., 2000). To manage all these complexities MNCs will need to develop diplomatic knowhow. Only a few MNCs recognized the importance of business diplomacy. Instead of training their managers in business diplomacy, most MNCs hire political diplomats and rely on their experience in managing complex relationships with host-governments. MNCs need to anticipate stakeholder conflicts, communicate with non-business pressure and interest associations, influence host-government decision-making and maintain constructive relations with external constituencies. Therefore, MNCs cannot rely on advisors, but should develop their own business diplomacy competences. Know-how regarding business diplomacy should be shared through the company by global managers. "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" (Saner et al., 2000, p. 90). The function of such a business diplomacy office is scanning the business environment, interacting with multiple stakeholders and engaging in diplomatic missions, under supervision of the CEO.

Saner and Yiu (2005), stressed the importance of business diplomacy management in nowadays business environment. The researchers argued that MNCs increase their presence in many countries, and thereby face various local pressures and requirements. They are exposed to different national laws and multilateral agreements, negotiated by the International Labour Organization, the World Trade Organization, and other international organizations. Business diplomats should negotiate, renegotiate and make compromises with local authorities (Saner & Yiu, 2005). Business diplomats should also be sensitive to the demands and expectations of the increasing number of international and local NGOs that monitor global companies in conducting business. The researchers mentioned that it is not clear how MNCs around the world organize and structure business diplomacy. In their research, Saner and Yiu (2005) investigate how four major Swiss MNCs develop their business diplomacy competency. Argued is that Swiss MNCs need to manage multiple business and non-business stakeholders in Europe for which Business diplomacy is a crucial factor for successfully doing business in Europe. Results showed that the organization of the business diplomacy function in the

Swiss MNCs was very divergent. Dependently on the MNC, the business diplomacy function was conducted by different departments. Also the diplomacy managers reported to a wide variety of departments; government affairs, public relations, product division, legal division, etc. Respondents of these Swiss firms indicated that the knowledge base of business diplomacy should be strengthened, especially in the field on international crisis and ideological implications of Non-Western models of business. All four Swiss MNCs stressed that in-house training was the best tool for the development of an in-house business diplomacy competence. Another tool, mentioned to a lesser extent, was partnering with MBA schools. Tools such as hiring former diplomats, partnering with diplomatic academies and outsourcing weren't mentioned at all. All respondents recognized the value of the function; it helps developing social networks and building upon good relationships with local authorities, and it can enlighten negative interactions with all stakeholders involved.

London (1999) combines business diplomacy with the theory of principled leadership. The researcher argues that business diplomacy and principled leadership (the application of mutual respect, doing good, honesty and fairness in business values) are reciprocally supportive management styles. They are mutually supportive in establishing and improving working relationships and valuable in negotiating deals, resolving emotional conflicts and making important decisions. One of the non-Western concepts on which principled leadership is built upon is Kyosei. Kyosei involves fair and honest leadership. "Firms that practice Kyosei care about the interests of all stakeholders, including employees, suppliers, customers, and the local community, across professions, nationalities, and political regimes" (London, 1999, p. 172). These corporations operate in a diplomatic way.

Ordeix-Rigo and Duarte (2009) mentioned the move from a shareholder model to a stakeholder view of firms. These researchers emphasize that it is important for modern corporations to respond to the expectations of various stakeholders in order to obtain a 'license to operate'. This can be realized by engaging in corporate diplomacy (a synonym for business diplomacy). In this article, corporate diplomacy is seen as a process towards a state of engagement with publics. Corporate diplomacy entails that a corporation actively participates in society which adds new dimensions to their role of creating wealth, quality products or services, and employment. By means of engaging in corporate diplomacy, corporations can increase their power and legitimacy. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Corporations involved in corporate diplomacy decide to satisfy a social public demand, rather than complementing solely to a market demand (Ordeix-Rigo & Duarte, 2009).

London (1999) provides recommendations for making business diplomacy more effective. First of all, diplomacy should be integrated in the organizational culture. Management should ensure that a diplomatic style of operation is applied, as opposed to an aggressive closed-door style. Second, leaders within the organization should show the value and relevance of business diplomacy to others in the process: to peers, subordinates, customers, etc. Third, it is important that diplomatic managers take time to look back and reconsider the functioning of the diplomatic process. As a fourth and fifth recommendation, the researcher states that diplomatic managers should learn from their mistakes and that diplomacy should become the natural way of life for the organization. Sixth, crisis should be managed carefully in a diplomatic way; don't overuse power, widen the community of those concerned and keep objectives restricted (London, 1999). Saner and Yiu (2005) argued that in order



to make business diplomacy effective, the CEO should provide policy directives. According to the researchers, the CEO should: delineate the business diplomacy domain in which non-specialists are involved on an operational basis and specialists are in charge of the other domains; shape a link between business diplomacy management and strategic planning to create a socio-political-economic view in exercises regarding scenario planning; provide the necessary resources to maintain relationships with non-business stakeholders and to scan the business environment continuously; develop competencies for analysing environmental and social issues; initiate a knowledge system for business diplomacy management to capture cumulative learning; provide business diplomacy training to middle managers.

#### **2.5.2.2 MNC-host government relations**

MNC-host government relations are critical for MNCs potential to grow and expand internationally since host governments influence parameters of production, management, investment and localization (Boddewyn & Brewer, 1994). Luo (2006) distinguishes two dimensions that describe how MNC-host government relations are managed; assertiveness and cooperativeness. Assertiveness describes the extent to which an MNC approaches a host government on own initiative, uses bargaining power to influence the host government, gains negotiation control, and does not avoid conflicts with the host government. Cooperativeness, on the other hand, describes the extent to which an MNC complementarily works together with a host government and develops an environment for business growth. Cooperativeness and assertiveness should not be seen as opposite ends, but rather as political dimensions that coexist (Luo, 2006).

Dunning (1998) emphasizes the incremental shift from a conflictual-adversarial (assertiveness) nature towards a cooperative-complementary nature of MNC-host government relationships. The conflictual view assumes that MNC-host government relations are bargaining games in which each party exploits its balance of power (Fagre & Wells Jr, 1982). According to Boddewyn (1988) MNCs bargaining power was dependent on firm-specific resources and ownership advantages; while a government's bargaining power was dependent on location-specific advantages and market access control. The bargaining power of a MNC decreased over time as it had uncovered its assets in the host country and thus the host government became more independent (Vachani, 1995).

Moon and Lado (2000) criticized existing literature on bargaining power relationships between MNCs and host governments. Many studies relied on the bargaining power framework in analysing this relationship (Doz et al., 1981; Fagre & Wells Jr, 1982). According to this framework MNCs that have greater bargaining power will probably receive more favourable outcomes in negotiations. Also the choices of sources and outcomes of bargaining power have been motivated by the idiosyncrasies of researchers, instead of being grounded in a consistent theoretical framework (Moon & Lado, 2000). They emphasize the need for a comprehensive theory that thoroughly specifies the relations between antecedent, intervening and outcome variables regarding the bargaining power relationship between the MNC and host-government. Moon and Lado (2000) provide an integrative theoretical model of MNC-host government bargaining power which is based on the resource-based view. In this model firm-specific resources (e.g. technological knowhow and managerial resources) are represented as determinants of MNCs bargaining power with respect to a host government. In turn, bargaining power is propounded to generate economic rents. The researchers describe economic rents as returns attributable to firm-specific resources that are hard-to-copy. Additionally, Moon and

Lado (2000) propose that the relationship between bargaining power and firm-specific resources is moderated by industry-specific factors (e.g. industry concentration) and country-specific factors (e.g. cultural distance and level of economic development).

Ramamurti (2001) also criticized the existing literature regarding the bargaining power relationships between MNCs and host governments. Criticized for example is the bargaining power model of Fagre and Wells Jr (1982). Developing countries possess mechanisms for screening the entries and regulating operations of MNCs. It is in this context that existing models assume that the bargaining process is a static two-party negotiation between the MNC and the host government (Fagre and Wells Jr (1982); Gomes-Casseres (1990). Ramamurti (2001) emphasizes that this traditional model of bargaining in MNC-host developing country relations has become outdated. These relationships are understood better as the outcome of a two-tier bargaining process. Tier-1 refers to the bargaining process between host developing countries and home countries. This process can take place on a bilateral level, or throughout multilateral institutions such as the World Bank, the WTO and the IMF. Tier-2 refers to the original bargaining process between MNCs and host governments. According to the researcher, this two-tier model creates added value for MNCs since home governments connect them with host governments through Tier-1. Ramamurti (2001) argues that bargaining in Tier-1 produces macro principles on FDI which, in turn, influence the micro negotiations in Tier-2. The degree of FDI liberalization that results from bargaining in Tier-1 varies across home-host country matches and industries.

According to Luo (2001) the cooperative view towards MNC-host government relations differ in six aspects from the conflictual (assertiveness) view. First, the cooperative view is built upon resource sharing. In today's complex world economy, MNCs and host governments depend on each other's resources, because their resources are often supplementary and their interests congruent, this cooperation can result in synergies (Dunning, 1998). Second, the conflictual view is mainly focused at the entry stage of MNC-host government relations; while the cooperative view is also concerned with the after-entry stage (Luo, 2001). The MNCs on-going involvement is increasingly crucial to the host country (e.g. input localization, R&D and re-investment). According to the researcher, MNCs host country operations increasingly depend on industrial, technological and educational infrastructures which are built by the host government. Furthermore, host governments can also function as customers, partners or suppliers of MNCs. It is for these reasons that both host governments and MNCs are motivated to engage in reciprocal cooperation. Third, the conflictual view associates MNC-host government relations with governmental intervention; while the cooperative view regards it as the strength of an MNCs relationships with foreign authorities (Luo, 2001). By engaging in cooperative relationships, the MNC can benefit from several institutional supports. Fourth, in contrast to the conflictual view, the cooperative view recognizes the importance of networking with host government officials. Networking with local officials, which leads to institutional support, can help MNCs circumvent bureaucratic rules, balance market uncertainty in underdeveloped legal systems and facilitate information exchange (Luo, 2001). Fifth, the conflictual view sees MNC-host government relations from a bargaining perspective; while the cooperative view sees these relationships from a legitimacy perspective. Organizational legitimacy and adaption are determinants that will initiate cooperative relationships between MNCs and host governments (Luo, 2001). Finally, the conflictual view focuses on ownership shares and treatment changes as outcomes of MNC-host government relations. According to Vachani (1995) this view is mainly focused on the

share of foreign ownership that is retained by the MNC over a certain period of time. The cooperative view, however, focuses on a firm's operational and financial performances as outcomes of MNC-host government relations (Luo, 2001). The researcher argued that due to the on-going reduction of entry barriers, accompanied by increasing competition, the strategic focus of MNCs has shifted from entry to operations. Hence, evaluating operational and financial effects of MNC-host government relations have become crucial in any outcome-analysis regarding these relations. Luo (2001) proposes four building blocks for improving a MNCs cooperative relationship with host governments; political accommodation, resource complementarity, organizational credibility and personal relations. Political accommodation covers a MNCs ability to be responsive to governmental and social needs (e.g. pollution control, education, hospital facilities, etc.). The researcher argued that without this accommodation, the MNC is running the risk of being stereotyped as 'exploiter' by the local society or government. Resource complementarity refers to the extent to which a MNCs contributed assets fit the governmental pursuit for national economy development (Luo, 2001). The third building block, organizational credibility, considers MNCs trustworthiness as observed by local officials and the public. The researcher argues that this credibility is important for MNCs to establish and maintain long-term cooperative relationships with host governments. Luo (2001) emphasizes that MNCs can also use personal relations with major officials to improve their relations with governmental authorities. A party's trustworthiness helps to improve corporate image and credibility. In the research, Luo (2001) conducted an empirical analysis of 131 MNCs in China and found evidence that all four building blocks were significantly associated with MNC-host government relations.

### ***2.5.2.3 Corporate Social Responsibility (CSR)***

Globalization has reshaped CPA among levels below and above national governments (Windsor, 2007). Windsor argued that business is affected by international policy regimes, supranational NGOs, subnational communities and supranational quasigovernmental institutions. MNCs are nowadays exposed to a variety of non-market institutions, corruption policies and stakeholder demands for CSR. Also Teegen et al. (2004) argues that the global political-economic environment has changed dramatically due to the rise of organized civil society and NGOs. "NGOs are private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights" (Teegen et al., 2004, p. 466). NGOs advocate in several ways: holding conferences, conducting research, staging citizen tribunals, by lobbying, serving as advisory experts and representatives for decision making, monitoring actions of others, promoting codes of conduct, setting agenda's, organizing boycotts, and distributing information to constituencies (Hudson, 2002). Teegen et al. (2004) stressed that in this era, characterized by increasing globalization, International Business researchers should respond more effectively to the challenges owing to the emergence of social movements and NGOs. The researchers mentioned that the main schools of IB theories (e.g. the MNC-host government bargaining model, or the institutional perspective on MNCs) should be adjusted to better account for these increasingly meaningful new actors. NGOs do influence governments and MNCs in national and global contexts substantially. NGOs, on their turn, are also influenced by the global political-economic environment, which creates a dynamic co-evolutionary phenomenon. According to Teegen et al. (2004) collaborations among NGOs and corporations emerged as new organizational vehicles to supply social services like environmental protection and poverty alleviation.

According to Richter (2011) there are seven categories of institutional entrepreneurs in the CSR field that influence corporate behaviour and its environmental and social impact. The first category concerns civil society actors that try to impact corporate behaviour by setting the CSR agenda of firms (Arevalo & Fallon, 2008). Most prevalent are activist movements, in most cases NGOs whose purpose is to institutionalize CSR (Den Hond & De Bakker, 2007). The second category includes the local, national and international media, which can inform and educate the public with new issues such as labour rights violations or environmental pollution (Stadler, 2004). According to Scammell (2000) the internet has been a powerful tool for shaping public opinions in the CSR field. The third category in Richter's (2011) classification concerns national and supranational governments. They are equipped with substantial power to influence corporate behaviour through governmental action and legislation (Matten & Moon, 2008). The fourth category of institutional entrepreneurs covers the new discursive arena's (e.g. the UN Global Compact or the Global Reporting Initiative) that have emerged to develop guidelines and standards for MNCs (Ruggie, 2004). Ethical investment is identified as the fifth category in Richter's (2011) classification. In recent years, the traditional investment dogma has been replaced by ethical investments, emphasizing responsible supply chain management, transparency in corporate governance codes, ethical business practices and appropriate profit utilization (Petersen & Vredenburg, 2009). During the 1980's, in a reaction to the shareholder value dogma, new types of investment funds emerged that added environmental and social performance to their selection criteria. These investment funds underlined the importance of non-financial criteria in assessing firm value. As the sixth category, Richter (2011) argues that large customers and suppliers have the ability to influence corporate behaviour. These institutional entrepreneurs are, among others, concerned with product quality and safety which directly affects financial performance (Berman et al., 1999) and use their bargaining power to pressurize their clients to institutionalize ethical corporate practices (Richter, 2011). The seventh category concerns consumer activism, which increasingly influences consumer buying decisions (Klein et al., 2004). Consumer organizations create awareness in the field of responsible buying, which means that consumers should consider the way products are produced and sold.

According to Windsor (2007), MNCs aim to maximize both sustainable competitive advantage and corporate reputation for wealth creation through deployment and assignment of scarce resources across multiple jurisdictions. The corporation attempts to implement an integrated strategic management approach (Baron, 1995). Windsor (2007) sets out four key dimensions of this integrated strategy; market, political, corruption and responsibility. The market dimension concerns the relationships with economic stakeholders and competitors. The other three dimensions, which represent non-market strategies, deal directly or indirectly with non-economic stakeholders, economic stakeholders and competitors. The political dimension addresses the relationships with governments and governmental relevant stakeholders. It judges whether these relationships are ethical and legal, with stakeholders, competitors, international institutions, NGOs and governments. The corruption dimension concerns how to react and what attitude to adopt as a firm, when there are bribery or extortion opportunities. The researcher mentions that an anticorruption attitude affects MNCs reputation. Indeed, Luo (2006) describes that MNCs that preserve legitimacy, move away from political corruption. With regard to responsibility, Windsor (2007) describes that global CSR involves an anticorruption attitude, and includes normative boundaries in corporate political activities. "CSR strategy deals with non-market resource commitments expected by or voluntarily provided to societies and stakeholders" (Windsor, 2007, p. 265). These four integrated strategy

dimensions occur at multiple levels, and in multiple countries. Schuler and Cording (2006) argue that each strategy dimension eventually affects both sustainable competitive advantage and corporate reputation.

Also Detomasi (2007) emphasized that globalization has enlarged the economic power of MNCs, calling for greater CSR from these corporations. The researcher introduces Global Public Policy Networks (GPPN) as a mechanism through which corporations can positively impact CSR. This model relies on the individual strengths of governments, NGOs and MNCs in creating behavioural standards in areas such as working conditions, environmental standards and labour rights.

The policy inputs from several actors (national governments, Activists and NGO groups, and MNCs) represent the first level of the GPPN. Each actor has a clear interest in joining these networks. "For MNCs, GPPN provide a mechanism for dialog and for input into the CSR expectations that they will be expected to fulfil" (Detomasi, 2007, p. 328). These networks will provide each individual MNC with an understanding in what they can and cannot expect to achieve in the field of CSR. The researcher argues that GPPN allows national governments a middle road between the relaxation of regulatory control for encouraging FDI and aggressively adhering such as control to the point of damaging economic development. GPPN can create common CSR standards across countries and industries which can provide states and corporations with more transparency and clarity. As a result of participating in GPPN, activist and NGO groups can acquire a strengthened position in influencing long-term corporate planning. This group of actors can generate a long-term effect by working together with corporations to create higher environmental and labour standards.

The second level of the mechanism includes all GPPN activities themselves (Detomasi, 2007). GPPN creates a forum for dialogue and discussion in which various actors can participate, it functions as a storage place of information, and it acts as a body of reference and dispute resolution.

The third level of the model concerns the policy outputs of GPPN. Detomasi (2007) mentioned that the first policy outcome is standard setting in expectations around areas such as wage, labour and environmental conditions. The second outcome concerns enforcement mechanisms for transgressors, which can range from group sanctioning to outright expulsion from the network.

According to the researcher, a third policy outcome of GPPN can be seen as an on-going evaluation of its effectiveness in global governance. In this respect, GPPN identify areas in which current performance is inadequate and respond to new governance challenges. "GPPN offer one potential framework for overcoming the weakness in the current system of global governance" (Detomasi, 2007, p. 332).

## 2.6 Theoretical Model

Based on the structured literature review and our own expectations, a theoretical model concerning business diplomacy is proposed in this section (see figure 3). This theoretical model attempts to give an overall picture of business diplomacy by including its antecedents, dimensions and outcomes.

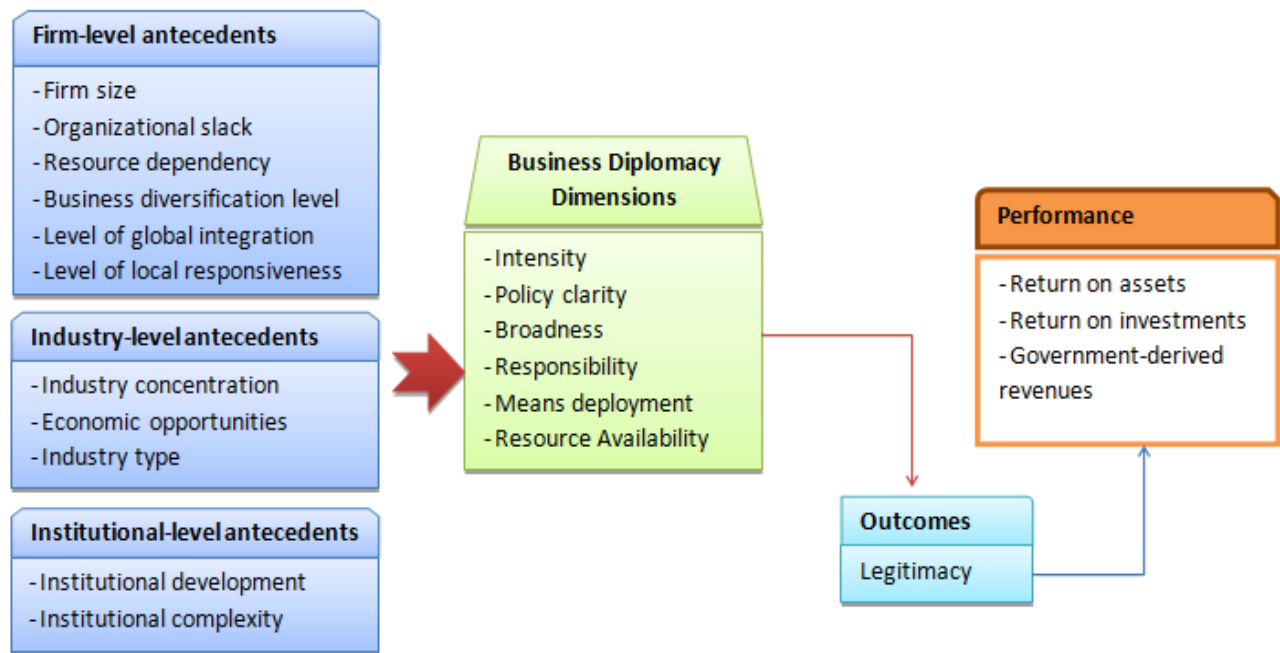


Figure 3: Theoretical model business diplomacy

### Dimensions

The theoretical model distinguishes between six dimensions of business diplomacy; intensity, policy clarity, broadness, responsibility, means deployment and resource availability. By measuring these six dimensions, a complete picture of how business diplomacy is enacted by and embedded in the organization of MNCs can be created.

Business diplomacy intensity reflects the extent to which a company actively establishes and sustains positive relationships with foreign government representatives and non-governmental stakeholders. This dimension indicates how intensively the company executes business diplomacy. The second dimension, policy clarity, reflects the extent to which a MNC has a clear and organization wide policy on how to establish and sustain these relationships. This dimension indicates whether there are formal/written rules for business diplomacy, or whether informal/unwritten guidelines exist. Business diplomacy broadness reflects the extent to which establishing and sustaining these relationships is done by every company representative. This dimension also indicates whether employees consider themselves as representatives of the organization when they are in contact with foreign government representatives and non-governmental stakeholders. As described in the literature review, London (1999) provides recommendations for making business diplomacy more effective in organizations. The researcher inter alia suggests that managers should apply a diplomatic style of operation and that leaders should show the value of business diplomacy to peers, subordinates, customers, etc. Business diplomacy responsibility reflects the extent to which the company's responsibility for establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders lies on headquarter level or within the foreign subsidiaries, or whether they are both partly responsible. This dimension indicates whether business diplomacy is set by the headquarters for the whole organization (centralized), a framework of guidelines is set by the headquarters in which a foreign subsidiary has some degree of freedom to decide upon, or whether subsidiary executives are free to decide upon how to execute business diplomacy (decentralized). The fifth dimension, means deployment reflects the extent to

which the company deploys a diversity of means for establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. It indicates which means, methods and channels (e.g. social meetings, public forums, seminars, local government debates, media channels, ethics, sponsor activities, etc.) are used by the firm for business diplomacy. Input for this dimension is derived from the scientific work of Luo (2001), included in the literature review. The researcher proposes four building blocks for improving a MNC's cooperative relationships with host governments: political accommodation, resource complementarity, organizational credibility and personal relations. Business diplomacy resource availability reflects the extent to which the company uses multiple firm resources (e.g. financial, time, knowledge) for establishing and sustaining these relationships. Input for this dimension is partly derived from the work of Saner and Yiu (2005), included in the literature review. The researchers provide recommendations of how the CEO should be involved in providing all kinds of policy directives (e.g. a knowledge system for cumulative learning, business diplomacy training for middle managers, etc.) in order to make business diplomacy more effective.

### **Antecedents**

There is a lack of research towards the antecedents of business diplomacy specifically; it is not exactly clear what determines the enactment and embeddedness of business diplomacy in MNCs. However, several researchers (Bonardi et al., 2005; Hillman et al., 2004; Lux et al., 2011; Schuler & Rehbein, 1997) conducted research to firm-level, industry-level and institutional-level antecedents of CPA. Most antecedents of business diplomacy, which are presented in the theoretical model, are based on findings in the CPA field. The theoretical framework that inter alia describes how CPA is related to business diplomacy, can help explain why certain antecedents of CPA can also be applied to business diplomacy, and thus are included in the theoretical model. Although business diplomacy is focused on creating long-term relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) to create legitimacy in a foreign business environment and CPA is aimed at influencing public policy makers (in the home country, and increasingly in foreign countries) in favour of the firm, both are focused on influencing parties in the organization's external environment.

As firm-level antecedents of business diplomacy, firm size (Hillman & Hitt, 1999; Hillman et al., 2004; Schuler, 1996; Schuler & Rehbein, 1997), organizational slack (Schuler, 1996), resource dependency on the host government (Schuler, 1996) and the business diversification level of the firm (Hillman, 2003; Lux et al., 2011; Schuler, 1996) are derived from the CPA literature. We expect that these antecedents influence business diplomacy in the same way as described in the literature review, in CPA context. Firm size; bigger firms have more resources to engage in business diplomacy alone, whereas smaller firms are more likely to work collectively. Organizational slack; firms with a relative high level of organizational slack are more likely to engage in business diplomacy, since they possess the financial resources. Resource dependency; the greater the extent to which a firm depends on host government resources, the more likely the firm will engage in business diplomacy. Business diversification level; firms that pursue diversification strategies are exposed to a greater number and variety of social pressures, and hence are more likely to engage in business diplomacy. For these reasons, we expect that the enactment and embeddedness of business diplomacy will be characterized with a higher intensity, a sharper defined policy, higher broadness, more decentralized responsibility, a higher deployment of means, and a higher availability of resources as companies are larger, have a relative high level of organizational slack, depend more on host government resources

and pursue diversification strategies. Furthermore, global integration and local responsiveness are included as firm-level antecedents in the model. The enactment and embeddedness of business diplomacy might depend on the type of MNC. In their article, Bartlett and Ghoshal (1989), propose a typology of multinational firms in which the level of global integration and local responsiveness determines whether a firm is typified as international, multinational, global or transnational. We expect that local responsive firms enact and embed business diplomacy in a different way than centrally integrated firms. Below is described how we expect the enactment and embeddedness of business diplomacy are characterized for each type of MNC in the typology of Bartlett and Ghoshal (1989).

*International firm (scores low on both global integration and local responsiveness)*

International firms are characterized as domestic corporations with foreign appendages (Bartlett & Ghoshal, 1989). These firms have an opportunistic approach towards FDIs. These firms have no priority for building upon long-term positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic). For these reasons we expect that these firms have no policies or guidelines for business diplomacy, and are not intensively active in seeking contacts and building these relationships. The extent to which all employees engage in business diplomacy is low, and since international firms are operating from their home country (headquarters), there are no subsidiaries with a differentiated business diplomacy function. For international firms, creating and sustaining legitimacy in foreign business environments has a much lower priority than taking advantages of economic opportunities that arise. For these reasons, we also expect a low deployment of means and a low availability of resources for business diplomacy.

*Multinational firm (scores high on local responsiveness, low on global integration)*

Multinational firms have an increased realization of the importance of international markets (Bartlett & Ghoshal, 1989). As opposed to a clearly defined organizational wide policy, we expect that multinational firms have developed some ground policies and informal guidelines for business diplomacy, since these firms attempt to be locally responsive to the specific needs and demands of each individual business market. Since corporate image and reputation are perceived as important, the multinational firm intensively seeks contacts and builds positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) in each local business market. For these reasons, we expect that the extent to which all employees engage in business diplomacy is high, and that the responsibility is decentralized. Each foreign subsidiary is free to adapt business diplomacy to the specific characteristics of its local business market. Furthermore, we expect a high deployment of means and a high availability of resources for business diplomacy.

*Global firm (scores high on global integration, low on local responsiveness)*

According to Bartlett & Ghoshal (1989), global firms have a growing concern about international competition. This type of firm drives for cost competitiveness by means of product standardization and organizational centralization. We expect that this firm realizes the importance of establishing and sustaining positive relationships with foreign stakeholders, but doesn't perceive local business markets as different in terms of specific stakeholder expectations and demands. We expect that a strict formal policy for business diplomacy is set from headquarter level, and standardized for all foreign subsidiaries. For these reasons, the enactment and embeddedness of business diplomacy are



characterized with a low intensity, low broadness, a centralized responsibility, a moderate deployment of means, and a moderate availability of resources.

*Transnational firm (scores high on both global integration and local responsiveness)*

According to Bartlett & Ghoshal (1989), transnational firms need to respond to global competition and specific host country pressures simultaneously. We expect that this firm recognizes specific stakeholders expectations and demands in each local business market, suggesting a decentralized business diplomacy responsibility in which subsidiary executives intensively seek contacts and build relationships with foreign stakeholders in each local business market. Next to local responsiveness, this type of firm also drives for global efficiency, suggesting a centralized business diplomacy responsibility in which a strict and clear business diplomacy policy is set from a headquarter level, standardized for all subsidiaries in all local markets. For all these reasons, we expect a combination enactment and embeddedness of business diplomacy; for example the use of regional headquarters. Headquarters can allow its regional headquarters to include elements of differentiation in their approach towards business diplomacy for dealing with the specific characteristics in that local region (e.g. Asia). Subsequently, each regional headquarter will set a clear business diplomacy policy for all its subsidiaries. In that case the responsibility for business diplomacy is partly decentralized. In this combination approach, we furthermore expect that business diplomacy is characterised with a moderate to high intensity, policy clarity, broadness, means deployment, and resource availability.

As industry-level antecedents of business diplomacy, industry concentration (Hillman et al., 2004; Olson, 1965; Schuler et al., 2002), and economic opportunities (Lux et al. (2011) are derived from the CPA literature. In CPA context, firms are more likely to engage in political activity when industry concentration is high, since it is easier for firms to organize cooperation in this field and are more likely to influence public policy outcomes (Olson, 1965). For business diplomacy, we also expect a positive relationship with industry concentration in the markets in which the firm operates, since the firm has a greater need to distinguish itself from its local competitors in order to create legitimacy in a foreign business environment. Economic opportunities; when firms enter rapid growing markets in which economic opportunities exist, the firm is less likely to engage in business diplomacy since it will focus more on economic returns. Furthermore, we expect that the type of industry in which the firm is active influences the commitment to business diplomacy. Especially firms that engage in business operations that directly affect the population are expected to engage in business diplomacy to safeguard corporate image and reputation. In their article, Saner et al. (2000) give some examples of a firm in the oil industry. Environmental disasters and air pollution, resulting from oil spills, have led to massive deterioration of the living conditions of a local population group. This firm lacked the diplomatic skills in dealing with a population directly affected by its business operations. As a consequence, many NGOs openly accused the firm (Saner et al., 2000). For these reasons, we expect that the enactment and embeddedness of business diplomacy will be characterized with a higher intensity, a sharper defined policy, higher broadness, more decentralized responsibility, a higher deployment of means, and a higher availability of resources when companies operate in industries with higher concentration levels, where economic opportunities are relatively lower and in which business operations affect populations more directly.

Chan, Isobe and Makino (2008) recognized that, depending on the institutional setting, companies will act differently in different countries. Kostecki and Naray (2007) also mentioned that the institutional characteristics of a host country determine a commercial diplomat's activities. When the

institutional structure of a country is characterized by instability and vulnerability, a company can be scared off (Tsui-Auch & Möllering, 2008). The company runs the risk of incurring losses due to institutional insecurity. Institutional development, the first institutional-level variable, indicates a country's openness towards international trade. North (1991) mentioned that companies rely heavily on personal networks in host countries in which the institutional infrastructure is weak. We therefore expect that companies operating in countries in which the institutional development is weak, will recognize the importance of business diplomacy better. They consider establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) as essential for creating business opportunities. Institutional complexity, the second institutional-level variable, indicates the extent to which the decision powers in a country are dispersed. According to Mahoney and Baumgartner (2008), diplomats have to address more layers of governance when decision powers are dispersed and there are many levels of decision-making. We expect that companies operating in countries in which the institutional complexity is high, will recognize the importance of business diplomacy better since they have to establish and maintain relationships with many parties on many levels in order to create business opportunities. Especially if the institutional system of a country reflects a classic corporatist structure, the company will be able to collaborate with decision-makers (Mahoney & Gartner, 2008). When the institutional complexity is low and the decision power is held by one single party, we expect that companies regard business diplomacy as less important since they will focus on one determining party. For these reasons, we expect that as companies operate more in countries in which the institutional development is weak and institutional complexity is high, the enactment and embeddedness of business diplomacy will be characterized with a higher intensity, a sharper defined policy, higher broadness, more decentralized responsibility, a higher deployment of means, and a higher availability of resources.

### **Outcomes**

Ordeix-Rigo and Duarte (2009) argue that by engaging in corporate diplomacy, corporations can increase their power and legitimacy. Hillman et al. (1999) suggest that interacting with governments can provide MNCs with more influence over legislative and regulatory processes. Hillman and Wan (2005) mention that without legitimacy, MNCs won't be able to influence public policy outcomes. Given these insights of multiple researchers, it can be argued that legitimacy, as direct outcome of business diplomacy, creates business opportunities for MNCs. Firms that have access to these opportunities will enjoy competitive advantages (Schuler et al., 2002). Lux et al. (2011) mention that CPA leads to better firm performance; higher return on investment, return on assets and government-derived revenues. Although this falls outside our research scope, we expect that business diplomacy eventually leads to better firm performance as well. In the theoretical model is shown that business diplomacy leads to legitimacy and, in turn, to better firm performance.

## **2.7 Research direction**

As described in the literature review, Saner et al. (2000) recognized that in nowadays complex and rapid changing business environment, MNCs cannot rely solely on advisors anymore, but should instead develop their own business diplomacy function. Also Saner and Yiu (2005) argue that MNCs increase their presence in many countries, and are thereby exposed to different national laws and multilateral agreements, negotiated by a wide variety of international organizations. Also the increasing number of international and local NGOs that monitor global companies in conducting

business, stresses the importance of business diplomacy. Furthermore, in identifying scientific literature regarding business diplomacy and related concepts, it seemed that 64.7% of the articles were published after 2000. This suggests a growing relevance and interest in business diplomacy and related concepts.

Saner and Yiu (2005) state: “While the need for business diplomacy is evident, it is less clear how MNCs actually conduct business diplomacy around the world and how they develop this core competence”. “It is also unclear how this function is actually structured within MNCs” (p. 304). In order to reduce this knowledge gap, the researchers investigated how this business diplomacy competency is developed in four Swiss MNCs. Still, there is a great need for qualitative research to further reduce this knowledge gap.

The theoretical model, proposed in previous section, does not serve directly as a research model, but instead it functions as a guidance in this research. This qualitative exploratory research is not focused on the antecedents and outcomes of business diplomacy, but on how it is actually enacted by and embedded in the organization of MNCs. By measuring the six dimensions of business diplomacy (intensity, policy clarity, broadness, responsibility, means deployment and resource availability), a complete picture of how business diplomacy is enacted by and embedded in the organization of MNCs can be created.

As was already mentioned in the introduction, the central research question is: *“How is business diplomacy enacted by and embedded in the organization of MNCs?”*

### 3. Methods

This chapter describes the research methodology that is applied to collect the data in order to answer the research question of this inquiry. First, the research sample will be discussed in section 3.1. The applied research method that was used for the data collection, the data collection process, and the data analysis process will be outlined in sections 3.2 till 3.4 respectively.

#### 3.1 Research sample

Based on Lux et al. (2011) who argued that firm size is an influencing factor in becoming politically active as a firm, we expect that large MNCs are more likely to conduct business diplomacy than small MNCs. For the purpose of this study, we have therefore decided to include large MNCs in our research sample. This type of sampling is called purposive or judgmental sampling: “A type of nonprobability sampling in which the units to be observed are selected on the basis of the researcher’s judgment about which ones will be the most useful or representative” (Babbie, 2007, p. 193).

The intention was that these MNCs were going to be visited in order to conduct interviews. Given the short time frame for this research, we decided to select Dutch MNCs only. The applied selection criteria were that the Headquarters should be located in the Netherlands, and that the MNC is internationally active. There is consciously chosen to disregard investment companies. The main activity of an investment company is holding the assets of other companies merely for investment purposes. For this reason it is not useful to include these companies in this study into business diplomacy.

For the selection of MNCs, the Forbes Global 2000 list (<http://www.forbes.com/global2000>) was used. The Forbes Global 2000 is composed and ranked on the basis of sales, profit, assets and market value. Companies that are part of this list can therefore be considered as large enterprises. Of the 24 Dutch MNCs that were included in this list, 20 MNCs met the selection criteria and were included in the research sample (on the 15<sup>th</sup> of May, 2012).

In order to enlarge the research sample, the AEX index (Amsterdam Exchange Index) and the AMX index (Amsterdam Midcap Index) were used (<http://www.beursnet.nl>). This AEX index is composed of the 25 Dutch companies with the largest market capitalization on the exchange. The AMX index is composed of the following 25 (rank 26-50) Dutch companies with the largest market capitalization on the exchange. From these indexes, 14 MNCs met the selection criteria and were not already listed in the Forbes Global 2000. These MNCs were added to the research sample (on the 25<sup>th</sup> of May, 2012).

In total, the research sample consisted out of 34 MNCs. Through invitation letters, each MNC was approached to participate in an interview regarding business diplomacy. In the invitation letter was asked for an interview with the CEO, or with the highest responsible manager (e.g. head Government Affairs) for this function in the organization. The invitation letter can be found in Appendix 1. As a reminder of the invitation, the MNCs that had not yet responded after one week, were phoned and emailed.

Eventually, the following companies were prepared to cooperate in the investigation (table 2).

MNC	Industry	Location Headquarters	Active in countries	Corporate Employees
Royal Vopak N.V.	Marine Transportation	Rotterdam	31	3,921
Wolters Kluwer N.V.	Publishing, information services	Alphen aan den Rijn	45	18,237
Royal Dutch Shell PLC	Oil and gas	The Hague	80	90,000
Royal DSM N.V.	Chemicals	Sittard	49	22,224
Randstad Holding N.V.	Professional Services	Diemen	42	28,700
Royal Philips Electronics N.V.	Electronics	Eindhoven	120	125,241
Royal KPN N.V.	Telecommunications	The Hague	3	30,941
Financial Services Industries	Financial Services	***	***	***

**Table 2: MNCs participating in this research**

The data in the table are derived from the corporate websites of the MNCs, the Forbes website, and are obtained from the correspondents during the interviews. The last-mentioned MNC has expressed the wish to remain anonymous in the research report. For that reason, we have named this MNC ‘Financial Services Industries’, and omitted further data from the table.

### 3.2 Research method and instrument

This study attempts to get an in-depth understanding of how business diplomacy is enacted by and embedded in the organization of MNCs. The exploratory nature of this study requires a qualitative research method. This type of research offers researchers the possibility to observe the phenomenon under study comprehensively and to create a more complete and deeper understanding of it (Babbie, 2007).

According to DiCicco-Bloom and Crabtree (2006), interviews are among the best known strategies for the collection of qualitative data. According to the researchers, the aim of using any type of interview is to learn about the interviewee. The type of interview that is appropriate depends on the research question and the researchers’ disciplinary perspective. The researchers argue that when a research involves testing an in advanced determined hypothesis, a very structured format of interviewing can be used. In that case, the interview questions and analyzes can be standardized. However, when a research involves the exploration of perceptions and meanings in order to develop hypotheses, a more qualitative form of interviewing is required. “The purpose of the qualitative research interview is to contribute to a body of knowledge that is conceptual and theoretical and is based on the meanings that life experiences hold for the interviewees” (DiCicco-Bloom & Crabtree, 2006, p. 314).

As DiCicco-Bloom and Crabtree (2006) mentioned that the person that is being interviewed should not be seen as an information conduit, but instead more as a participant in meaning making. The researchers mentioned that semi-structured interviews are the most common type of interview method used in benefit of qualitative inquiries. Saner and Yiu (2005) also used semi-structured interviews in their research into how Swiss MNCs develop their business diplomacy competency.

Semi-structured interviews are mostly scheduled in advance. The questions in these interviews are organized around a collection of in advance determined open-questions. During these interviews, other questions can appear from the conversation between the investigator and the key informants (DiCicco-Bloom & Crabtree, 2006).

For these reasons, we have decided to conduct semi-structured interviews in the eight MNCs. The flexibility of a semi-structured interview makes it possible to obtain deeper and more comprehensive answers from the respondents. This research method is therefore highly suitable for the exploring and in-depth measuring of the six dimensions of business diplomacy (intensity, policy clarity, broadness, responsibility, means deployment and resource availability).

Babbie (2007) mentioned: “Unlike a survey, a qualitative interview is an interaction between an interviewer and a respondent in which the interviewer has a general plan of inquiry, including the topics to be covered, but not a set of questions that must be asked with particular words and in a particular order” (p. 318). Indeed we did not use a standardized set of questions, but covered the business diplomacy dimensions in a more open and qualitative way. For each dimension, a number of open questions were put on paper. These open questions measured the business diplomacy dimensions in a nuanced, in-depth way. The interview protocol (questionnaire) can be found in Appendix 2.

### 3.3 The interviews

Seven of the eight interviews took place at the Headquarters of the MNCs. The interview with Wolters Kluwer took place by telephone at the University of Twente. The respondents and dates of the interviews are specified in table 3.

MNC	Respondents	Date
Royal Vopak N.V.	- Global Director Communications & Investor Relations - Manager Public Affairs	12 <sup>th</sup> of July, 2012
Wolters Kluwer N.V.	- Vice President Corporate Communications	18 <sup>th</sup> of June, 2012
Royal Dutch Shell PLC	- Head Government Relations (the Netherlands)	11 <sup>th</sup> of July, 2012
Royal DSM N.V.	- President DSM (the Netherlands) - Director Communications	10 <sup>th</sup> of July, 2012
Randstad Holding N.V.	- Managing director Group Social & Public Affairs	5 <sup>th</sup> of July, 2012
Royal Philips Electronics N.V.	- Global Head of Public & Government Affairs	9 <sup>th</sup> of July, 2012
Royal KPN N.V.	- Director Public Affairs & Regulations - Director Strategy	26 <sup>th</sup> of July, 2012
Financial Services Industries	- ***	18 <sup>th</sup> of July, 2012

Table 3: MNC respondents and dates of the interviews

On the dates as listed in the table, the MNCs were visited in order to conduct the interviews.

Prior to each interview, an introductory round took place. In this phase, the content and purpose of the research were explained to the respondents. Here, we clearly indicated that the name of the

organization could be anonymized in the research report, if this was desired. The respondents were also asked to provide a description of their position in the company. This gave us already an early picture of how these persons and their functions were related to business diplomacy.

At the beginning of each interview, the respondents were asked to give a definition of business diplomacy. By including this question in the interviews, it became clear how familiar these companies are with the concept. Before we started measuring the business diplomacy dimensions, we wanted to make sure that we talked about the same concept. Therefore, we introduced and explained our definition of business diplomacy. In this way, the respondents were better able to provide focused and accurate answers to the upcoming questions. This has improved the validity of the study; it has helped us to measure what we intended to measure (Babbie, 2007).

Not all questions that are included in the questionnaire (Appendix 2) were asked literally to the respondents. The questionnaire functioned as a guidance during the interviews. In several interviews it was necessary to deviate from certain questions. Also, there was often deviated from the sequence of the questions. When necessary, we explained and elucidated certain questions in order to improve the exhaustiveness and appropriateness of the data. After all, the objective was to obtain an in-depth understanding of the six business diplomacy dimensions in these eight MNCs. We continued with asking in-depth and detailed questions until we had a clear picture of each dimension. Each interview proceeded differently.

Since qualitative research is less standardized than quantitative research, it is difficult to measure the reliability of the research findings (Babbie, 2007; Sandelowski, 1986). "In contrast to quantitative research which aims for repeatability of measured and consistent responses, qualitative research emphasizes the uniqueness of human situations and the importance of experiences that are not necessarily accessible to validation through the sense" (Sandelowski, 1986, p. 996). Indeed, it is almost impossible to repeat this research into business diplomacy in order to check whether it yields the same results. Sandelowski (1986) argued that reliability can be referred to as the stability, replicability, consistency and repeatability in qualitative studies. Guba and Lincoln (1981) propose that the appropriate measure of consistency in qualitative research is 'auditability'. In their book, the authors suggest that a research is considered auditable when the reader can understand and follow the research' decision path. In order to increase the consistency (reliability) of our research findings, we made sure that the actions and procedures taken in this study were consistent and auditable. Prior to each interview, we asked the respondents for permission to record the interviews using a tape recorder. This was allowed during all interviews. We have also made notes during the interviews. Using the notes and recordings, the interviews were transcribed and carefully documented.

After the interviews, we expressed our gratitude to the respondents for their contribution to the research. We also informed the respondents about the further course of the research. We promised the respondents that the interview transcripts would be sent back within two weeks and requested them to read the transcripts, correct inaccuracies, and complement when necessary. We explained that the confirmed transcripts of all MNCs were going to be used to create an in-depth picture of how business diplomacy is enacted by and embedded in the organization of MNCs. Thereby, we indicated that certain parts of these transcripts could be used as quotes in the research report.

### 3.4 Data analysis

Ruona (2005) argues that data preparation, which involves getting the data into an easily working form, precedes the analysis of qualitative data. This process of data preparation involves the transcription of interviews. As was mentioned previously, the tape recordings were used to transcribe the interviews. The transcripts were practically literal representations of the interviews as they had taken place. Ensuring clean data in this way, contributes to the reliability and quality of the research findings.

The process of data analysis consists of data reduction, data display, conclusion drawing and verification (Miles & Huberman, 1994).

#### **Data reduction**

Data reduction cannot be seen separate from data analysis, instead it is an important part of it (Miles & Huberman, 1994). This analytic process of data reduction organizes, sorts, sharpens and focuses the data in order to successfully draw conclusions. In this process, we decided which data fragments to select for further analysis. Data fragments that were considered irrelevant for this research, were filtered from the interviews transcripts. In this process, the remaining data have not been restructured. The transcripts were left intact as literal presentations of the interviews as much as possible; structured by question and answer.

Sandelowski (1986) argued that a measurement instrument can be labeled as valid when it measured what it intended to measure. The truth value of a qualitative research can be measured by the 'credibility' of the work rather than internal validity, which would be the case in quantitative research projects (Guba & Lincoln, 1981). These researchers argue that in order to ensure credibility, these qualitative interview data should be taken to the original source from which they were derived and ask people whether they consider the results credible. In accordance, Sandelowski (1986) considers data credible when it contains precise descriptions of the experiences of individuals and that the interviewees that have these experiences would recognize these descriptions as their own. In order to examine the credibility of our data, the interview transcripts (after data reduction) were sent back to the MNC respondents. As was mentioned previously, the respondents were requested to read, correct and supplement the transcripts. After two weeks, the transcripts were confirmed and returned by the respondents. The interview data reflected the interviewees' own experiences and hence it had truth value. This has strengthened the credibility of the research findings.

#### **Data display**

A display is an organized collection of information that makes the drawing of conclusions possible; they can improve people's understanding of what is happening (Miles & Huberman, 1994). In this research, extended texts are used to display our data. So far, the eight interview transcripts were structured by question and answer, in the sequence of how the interviews had taken place. In this process, the data of all interview transcripts were subdivided into seven categories; the six business diplomacy dimensions and an additional category 'Business diplomacy as defined by MNCs'. All data fragments that were related to a particular category, were allocated to this category. By displaying the data in this manner, a clear and comprehensive picture of each business diplomacy dimension could be formed. The category 'Business diplomacy means deployment' was further elaborated by including CSR information from the corporate websites. Through this process of data display, the



data were better organized. As a result, we were better able to understand the data and draw substantiated conclusions.

### **Conclusion drawing and verification**

From the beginning of the data collection, we started to develop an understanding of the data; some patterns, regularities and explanations could already be noted. Preliminary conclusions were vague in the beginning, but became increasingly clear and explicit as the data collection process progressed. By reducing and displaying the collected data in an appropriate manner, substantiated conclusions about how business diplomacy is enacted by and embedded in the organization of these MNCs could be drawn.

As the analysis proceeds, it is important to verify conclusions (Miles & Huberman, 1994). The researchers stress the importance of continuously checking the data when conclusions are questionable. Indeed, we continuously returned back to the original interview data when conclusions were questionable or exceptional. In this way, we ensured credibility in our research findings (Appleton, 1995).

## 4. Research findings

This chapter presents the findings of the interviews conducted with the eight MNCs. The chapter is structured as follows. First is described how these MNCs define business diplomacy (section 4.1). Subsequently the findings regarding the business diplomacy intensity, policy clarity, broadness, responsibility, means deployment and resource availability within the MNCs are presented in sections 4.2 till 4.7 respectively.

### 4.1 Business diplomacy as defined by MNCs

In none of the eight MNCs there is a business diplomacy function or department. Instead, functions and departments like Public Affairs, Corporate Communications, Public Relations, Government Relations and Government Affairs are concerned with activities regarding business diplomacy. For example, within DSM the two departments Public Affairs and Corporate Communications together focus on establishing and sustaining positive relationships with governments and non-governmental stakeholders.

Although in none of the eight MNCs the term business diplomacy is actually used, all MNCs had associations and were able to describe and define the concept. There is great consistency in how seven out of eight MNCs defined business diplomacy. The respondents of Vopak, Royal Dutch Shell, Wolters Kluwer, Philips, Financial Services Industries, Randstad and DSM all described business diplomacy as the maintaining of positive relationships with all stakeholders of the company, (such as governments, customers, unions, employees, NGOs, Universities, suppliers, etc.) in order to create a good corporate image and reputation in all business markets. These respondents all agreed that business diplomacy in this context helps in creating business opportunities. Especially the Vopak respondents had an extensive view and definition of business diplomacy:

*“Business diplomacy is the bridging of the gap between the core business activities and having an understanding of the political social elements in all places within which the multinational company operates. The more global you get as a firm, the more important it is to tighten the relationships with governments and non-governmental stakeholders. Business diplomacy, at its best, safeguards corporate image and reputation.”*

Also the Randstad respondent stated:

*“Within Randstad business diplomacy is regarded as the simultaneous promotion of interests of all stakeholders. In order to signify these interests, it is necessary to maintain relationships with all stakeholders in the business environment”.*

The Philips respondents endorsed this and stated:

*“In order to create legitimacy, Philips should not exclusively cooperate with governments, but with all stakeholders in all societies in which it operates.”*

The aforementioned MNCs perceive business diplomacy as an activity that is aimed at the long term, namely the creation and sustaining of legitimacy in all foreign business environments which eventually leads to business opportunities. However, only the KPN respondents perceived business diplomacy as a short-term focused activity. The KPN respondents described business diplomacy as

the entering into contacts with various stakeholder groups, aimed at achieving a specific goal. The KPN respondents stated:

*“When KPN starts a project in a certain country, we take into account the interests of the local government, the telecommunication regulators and non-governmental stakeholders. Usually, at that moment, KPN enters in contact with these stakeholders to reach a specific goal.”*

## 4.2 Business diplomacy intensity

Although all eight MNCs understand the general importance of business diplomacy, there are differences in the way and the extent to which these companies actually seek contacts and build positive relationships with foreign government representatives and non-governmental stakeholders.

The interview data revealed that business diplomacy is executed intensively within Vopak, Randstad, Wolters Kluwer and Philips. According to the Vopak respondents it is very important to identify and know all stakeholders of the business, know their wishes and demands and act upon this in order to create legitimacy. Vopak cooperates and maintains positive relationships with all kinds of international and local bodies and organizations. The same applies for Philips which operates on a playground where governments play a significant role. The respondent stated:

*“For a large proportion of the turnover, our company depends on governments in the field of public lighting and health care. Hence Philips is also active in establishing and sustaining positive relationships with foreign governments and non-governmental stakeholders.”*

Since the business of Wolters Kluwer and Randstad is largely determined by laws and regulations, it is necessary for these MNCs to cooperate and maintain positive relationships with foreign government representatives and non-governmental stakeholders. The Wolters Kluwer respondent stated:

*“Wolters Kluwer is active in the area of professional information for accountants, tax specialists, jurists and medics. Our business is largely determined by laws and regulations in that our products need to be adapted to the specific policy plans of governments. Establishing and sustaining positive relationships with foreign governments and other surrounding organizations is therefore something that is done on daily basis.”*

The interview data also revealed that business diplomacy is executed intensively within DSM, Royal Dutch Shell and Financial Services Industries, but that these MNCs lean for a certain part on the home government in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. The DSM respondents explained that DSM is a multinational that tries, from a scientific basis, to respond to complex global issues in the area of health, nutrition and material. The respondents argued that since these issues are so complicated, DSM needs a lot of divergent stakeholders to cooperate with; governments, NGOs, Universities, etc. Although the regional directors of DSM in the Netherlands, the United States, China, India, Japan and Russia directly maintain relationships with foreign government representatives and non-governmental stakeholders, the company also leans on a Dutch ambassador network. In each country in which DSM operates, there are lines with the local Dutch embassy through which local government representatives can be reached. The DSM respondents stated:

*“By maintaining a positive relationship with the home government, an entrance to the public world can be created. Within DSM we think that it is much easier to influence foreign governments via the*

*Dutch government. Imagine for instance that a conflict arises in Russia. In that case DSM can create an entrance to the Russian Minister via The Hague. It is almost impossible to reach this Minister directly."*

Within Financial Services Industries and Royal Dutch Shell relationships with foreign government representatives and non-governmental stakeholders are also partially maintained directly and partially through the Dutch Ministry of Foreign Affairs. The Royal Dutch Shell respondent argued that large projects, for example in the United States, Kazakhstan or Russia, are always linked to governments and other stakeholders, such as NGOs. The Royal Dutch Shell respondent mentioned that leaning on the home government also serves for the installation of insurance for the company. The respondent stated:

*"When the company invests in a country in which the Western business values are handled to a lesser extent, it is wise to establish a government-to-government relationship to fall back on. In this way the relationship between Royal Dutch Shell and the country concerned will be more stable."*

The interview data furthermore showed that KPN executes business diplomacy less intensively than the other seven MNCs. KPN is a government-regulated business. Governments have a major impact on the proceedings and results of KPN. Therefore KPN has contacts with foreign telecommunication regulators and government representatives. However, usually these contacts are maintained at a specific time to reach a specific goal. KPN is focused on the business and to a lesser extent on establishing and sustaining long-term relationships with foreign governments and surrounding organizations. Although KPN operates internationally, the company is mainly concentrated in three countries; the Netherlands, Belgium and Germany. The KPN respondents stated:

*"Business diplomacy is executed within KPN, but not intensive and very limited. This is also reflected in the Public Affairs department in which only a few persons are active; 2 persons in the Netherlands, one in Germany and a halve person in Belgium. Since the company operates in an European context, and is a major player in the Dutch market only, business diplomacy is probably less necessary and thus less intensive than in MNCs that operate worldwide."*

### 4.3 Business diplomacy policy clarity

The interviews revealed that none of the eight MNCs applies a clear and organization wide business diplomacy policy. There are no clearly written formal rules on how to establish and sustain positive relationships with foreign government representatives and non-governmental stakeholders. For example, the Financial Services Industries respondent stated:

*"As a general policy we try to bring out the facts about our company as clear as possible and provide feedback to policymakers on what impact future regulations will have on the sector and Financial Services Industries in particular". "But there is no formally written policy on how positive relationships with these external parties need to be maintained."*

All respondents agreed that the execution of business diplomacy will depend on the country and its institutional situation and that, therefore, a universal formal business diplomacy policy will not suffice. The Royal Dutch Shell respondent mentioned that in addition to the institutional setting and current situation in a country, also regional issues play an important role in determining how positive relationships are established and maintained with foreign governments and other stakeholders. Also

the Wolters Kluwer and DSM respondents pointed out that the manner in which these relationships are maintained will vary by country and region. The DSM respondents explained that this inter alia depends on the role of the local government in the respective country. As an example, the DSM respondents stated:

*“In China, it is very common that the establishment of joint ventures is done with public enterprises. Doing business directly with the Chinese government is necessary here. In China, the contacts with the Chinese authorities are indispensable in the MNCs’ daily operations. In the United States, this government interference in business activities is much less present. In the United States there are, for example, more rules and regulations in the field of sustainability. In this context, the role of the Chinese government is completely different than that of the United States government. Business diplomacy should be adapted to the institutional setting of a country.”*

Although no clear and organization wide business diplomacy policy is applied, the respondents of Randstad, Vopak, Philips, DSM and Royal Dutch Shell pointed out that guidelines exist on how to establish and maintain positive relationships with governments and other stakeholders of the business. Within Randstad an annual international Public Affairs meeting takes place with all Public Affairs agents of all subsidiaries worldwide. In this meeting a Public Affairs agenda is developed in which stakeholders and objectives are defined. On the basis of this agenda, policy coordination for Public Affairs takes place from which general guidelines arise on how to establish and sustain positive relationships with the stakeholders of the business. Another example is Vopak in which the general framework of Public Affairs is outlined from a high corporate perspective. The Vopak respondents stated:

*“On the one side there is a general (corporate) policy in how we deal with foreign policymakers and non-governmental stakeholders, and on the other side local terminal managers have to deal with the same issues on a local level. The challenge is to make this framework applicable to everybody in the company, what it entails, and then to make sure that people in the terminals, in all locations or in divisional headquarters, are capable in dealing with Public Affairs matters. This is a relatively new process that Vopak is currently working on.”*

Also Philips is working towards a general business diplomacy framework. A new business diplomacy model is under development in which previously acquired experiences in the field of establishing and sustaining positive relationships with foreign governments and other stakeholders are stored. Within this context the general business diplomacy guidelines are determined by the input from the various countries in which Philips operates.

The respondents of Wolters Kluwer, Financial Services Industries and KPN indicated that business diplomacy is carried by the business values and business principles. For example, within Financial Services Industries there is a general code of conduct that prescribes all employees to comply with the rules, to be transparent and to behave in everything that they do. The Financial Services Industries respondent stated:

*“These codes of conduct are of a general nature and are also applicable when employees interact with foreign government representatives and other stakeholders.”*

#### 4.4 Business diplomacy broadness

The interviews have shown that in none of the eight MNCs all employees are involved in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. For example, within Wolters Kluwer oftentimes only the people at management level or employees with a Public Affairs-like role directly maintain contacts with foreign governments and other stakeholders. The KPN respondents also recognized establishing and sustaining such relationships as an activity on high management level. The KPN respondents mentioned that the Chairman of the Executive Board regularly meets with the mayor of Düsseldorf to discuss issues regarding E-Plus, but that the average production manager within KPN is mainly focused on the business and its clients. The Philips respondent also indicated that the extent to which business diplomacy is conducted by every company employee is low and stated:

*“In every country in which Philips operates, specialized functionaries are active in establishing and sustaining positive relationships with local government representatives and non-governmental stakeholders. For example, in the Netherlands Philips has a department that focuses on the relationships with the Dutch government. These specialized functionaries within this department are familiar with the ways and procedures in The Hague and the provinces.”*

Yet, all respondent of all eight MNCs indicated that all employees within the organization need to consider themselves as representatives of the organization when they are in contact with stakeholders of the business. For example, the Vopak respondents stated:

*“We cannot expect that all employees behave as business diplomats, but all employees see themselves as representatives of the organization when they are in contact with external stakeholders of the company.”*

Also the DSM respondents stated:

*“All our factories worldwide should behave as good corporate citizens in the societies in which they operate. The factory workers should take into account the interests of the local residents while performing their daily work.”*

All eight MNCs have set general business codes of conduct in order to ensure that every company employee behaves itself as a representative of the organization. The respondents of all eight MNCs argued that all company employees, regardless of the function, in all subsidiaries worldwide need to comply with these codes of conduct while carrying out their daily tasks. These codes of conduct have a general nature and have no direct link with business diplomacy. Within Royal Dutch Shell, for example, the business principles inter alia prescribe that laws and regulations need to be adhered in all countries in which it operates, and that bribery is prohibited at all times. The Vopak respondents argued that it is very important to include codes of conduct that prescribe how to behave as an employee when using social media. The respondents stated:

*“The internet and social media have blurred the borders to communicate. When there is a crisis, it is always dangerous when employees use Twitter and bring out sensitive information. You have to be very careful with it. Everything that can be expressed through social media can affect the reputation of the company.”*

According to the respondent of Royal Dutch Shell, committing corruption becomes more tempting as employees have more contact with government representatives in their function. The business principles within Royal Dutch Shell are therefore even more emphasized for these employees. Also the Wolters Kluwer respondent stated:

*“In addition to the general codes of conduct that apply to every company employee, supplementary codes are set for employees that hold a Communication- or Public Affairs-like position since these people maintain contacts with governments and other stakeholders on a regular basis. We want these employees to act as professional spokespersons on behalf of the company with the media, in professional organizations and with governments.”*

#### **4.5 Business diplomacy responsibility**

The interviews revealed that in none of the eight MNCs the responsibility for establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders lies on headquarter level. Instead the data showed that in all MNCs the responsibility for business diplomacy largely lies within the foreign subsidiaries. All MNC respondents agreed that business diplomacy should be adapted to the institutional situation of the respective country. The MNC respondents argued that the local employees in foreign subsidiaries have the best insight in the institutional context in which they operate and should therefore have a certain degree of freedom in adapting business diplomacy to the specific characteristics of their local business market. For example, the Vopak respondents stated:

*“Vopak operates 84 terminals in 31 different countries, all with different stakeholders. The approach towards business diplomacy varies between countries. These variations in approach can be explained by the institutional differences between countries. Culture, in particular affects the approach towards business diplomacy. The local people on the ground have a better understanding what local rules and protocols to adhere in order to establish and sustain positive relationships with all stakeholders in the country.”*

Also the Wolters Kluwer respondent stated:

*“The local people have the best understanding of how certain issues need to be addressed. In China things work differently than in the United States. Therefore the manner in which business diplomacy is executed varies by country and situation. For example, the local team in Wolters Kluwer China needs to have the freedom to adjust business diplomacy to the Chinese business market.”*

Within Vopak, Royal Dutch Shell, Randstad, Philips and DSM guidelines for business diplomacy are set from headquarter level. The respondents of these MNCs explained that the foreign subsidiaries are free to decide upon how to establish and sustain positive relationships with local government representatives and other stakeholders, but that these business diplomacy guidelines and the general codes of conduct which apply to all employees, must be adhered. For example, the Vopak respondents stated:

*“It can be said that the approach and organization of business diplomacy is set on headquarter level and disseminated to all local terminals. All terminal managers act in line with the general guidelines and codes of conduct set by headquarters. But at a certain point local terminal managers have to deal with the specific issues (e.g. rules and regulations) locally and adapt business diplomacy to the*



*specific characteristics of their local market. If certain issues affect the global brand of Vopak (e.g. if the WTO is involved), it will be dealt with from a corporate level. In that case, the director Communication & Investor Relations and the manager Public Affairs becomes involved."*

Philips is represented in 120 countries. On a high corporate level, Philips has a global network in which relationships are maintained with representatives of the largest countries. In this network knowledge and experiences are exchanged, best-practices are shown, new activities are introduced and certain matters are coordinated. From this network general business diplomacy guidelines originate. The respondent stated:

*"Although general business diplomacy guidelines exist, maintaining positive relationships with foreign government representatives and other stakeholders is not considered as an activity on headquarter level within Philips. The responsibility for the actual execution of business diplomacy lies within the foreign subsidiaries, with the local country managers. For example, an Philips office in Washington deals with the United States government."*

In both Randstad and DSM annual meetings take place in which general business diplomacy guidelines are determined and disseminated to all foreign subsidiaries. Yet, the respondents of both MNCs indicated that the foreign subsidiaries have a high degree of freedom in adapting business diplomacy to the specific characteristics of their local business environment. The DSM respondents stated:

*"Although themes and guidelines arise from these meetings (with Corporate Public Affairs, Corporate Communications and the regional directors of the United States, China, India, Japan and Russia), the responsibility for business diplomacy lies for a significant part within the foreign businesses themselves. For example, DSM Dyneema is a local business that has the United States government as one of its largest customers. This foreign subsidiary has its own Communications department and focuses heavily on the maintaining of contacts with United States government representatives and other stakeholders."*

Within Royal Dutch Shell, the responsibility for the maintenance of contacts with foreign government representatives and non-governmental stakeholders largely lies with the local Country Chairs in the foreign subsidiaries. From headquarters and regional headquarters, business diplomacy guidelines are set for the Country Chairs. The respondent explained that the tightness of these guidelines and the extent to which a Country Chair is free to give substance to business diplomacy, depends on the current situation of the respective country and existing regional matters. Through dialogues between headquarters and the Country Chairs, is viewed and discussed what changes these regional issues entail for the execution of business diplomacy in a certain business market. The respondent stated:

*"The intensity and frequency of the dialogues between the Country Chair and headquarters may vary by country; these dialogues can take place once a week, but also once a month. This depends on the institutional setting and situation of a country. For example, when there are political struggles in a certain country, the Country Chair gets guidance from headquarters more frequently."*

Within Financial Services Industries, Wolters Kluwer and KPN there are no guidelines for business diplomacy. The respondents of these MNCs emphasized that business diplomacy is carried by the business values and business principles; although foreign subsidiaries are free to decide upon how to



establish and maintain stakeholder contacts in their local business market, the general business codes of conduct need to be adhered at all times. For example, the respondent of Financial Services Industries stated:

*“There are countries where other customs apply than in the Netherlands. A foreign subsidiary is not allowed to adapt itself to customs that do not fit within the business codes of conduct of Financial Services Industries. In an Asian country, I once experienced that we could not win certain things in court as a company, because we were not prepared to pay bribes to the judge. In that case a tension field arises between the written codes of conduct and the local customs. In this respect, Financial Services Industries does not adapt to local customs.”*

#### **4.6 Business diplomacy means deployment**

The interviews have shown that all eight MNCs deploy a wide variety of means, methods and channels for establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic). The MNC respondents gave a wide range of examples of direct stakeholder dialogues, events, forums, meetings, industry associations, social projects and social partnerships that are used as means for business diplomacy.

All MNC respondents indicated that the entering into direct stakeholder dialogues can serve as an important mean for business diplomacy. For example, Royal Dutch Shell wants to carry out a clear message to all its stakeholders. Through stakeholder dialogues, Royal Dutch Shell clearly explains and clarifies its project plans. The respondents stated:

*“A good example is the project in Alaska. Besides the support of the United States government that we have for this project, we also talk with stakeholders in other countries where interest can be expected. Before the start of this project, Royal Dutch Shell has made appointments with a number of NGOs, newspapers, television stations, government officials and scientists. In these arrangements with the whole range of stakeholders, we have explained very clearly what our intentions and plans are for this project. For example, we clearly showed NGOs the way in which an attempt was made to minimize the negative effects on the environment. In this way, Royal Dutch Shell shows that everything possible is done in this area.”*

In these dialogues, Royal Dutch Shell also tries to uncover how different stakeholder groups look upon a particular project. From this can be deduced to what extent the story is complete, what dilemmas exist for certain stakeholders and in which way this should be anticipated. In this way, Royal Dutch Shell tries to establish and sustain positive relationships with all its stakeholders.

As another example, Vopak maintains contacts every year with a wide range of stakeholders (NGOs, sustainability organizations and ministries) in all countries in which it operates. On the corporate website (<http://www.Vopak.com>) is stated:

*“Besides maintaining direct contacts with these stakeholders, Vopak undertakes various surveys throughout the year. The aim of these sustainability surveys as well as employee and customer satisfaction surveys is to verify the implementation of the suggestions, comments and recommendations Vopak has received at operational and policy levels.”*

According to the Philips respondent, there are strict rules regarding these business diplomacy means. The respondent stated:

*“For example, it is no longer easy to invite government representatives for a football match. There are numerous organizations that want to prevent such matters, because they fear that governments may be influenced and corporations may be favored. Therefore, Philips makes purely business oriented appointments with stakeholders.”*

The respondent of Wolters Kluwer argued that through events, positive relationships with foreign government representatives and other non-governmental stakeholders can be established and sustained. Every year Wolters Kluwer is active in a number of fairs. The respondent mentioned that every year Wolters Kluwer is active at the annual Frankfurt Book Fair, one of the largest fairs in the world in the field of intellectual property rights. The respondents stated:

*“On these fairs, publishers buy each other’s property rights and large educational institutions (e.g. Universities) figure out which series of professional information will be prescribed to their students and purchased for their libraries. Government officials from several countries are present as well. Wolters Kluwer uses this opportunity to establish and sustain positive relationships with these stakeholders.”*

Also the respondents of Philips and KPN indicated that events are used as a mean for business diplomacy. Each year, KPN organizes a number of corporate events. An example of this is the event “Het nieuwe werken en leven (The new working and living)”. The KPN respondents stated:

*“At these events, many people are invited to think and talk about new developments in the field of healthcare and energy consumption. KPN uses these events to create new contacts and networks with various stakeholders. These events take place mainly in the Netherlands, but also in foreign business markets. For example, the subsidiary in Germany, E-Plus, organizes these events in Dusseldorf.”*

According to the Vopak respondents, forums and meetings can also function as tools for business diplomacy. Vopak wants to be recognized within the energy sector via participating in several key conferences in the energy arena. The respondents stated:

*“This year Vopak attended the international energy forum in Kuwait, giving our views on the role of NOCs (national oil companies) and IOCs (international oil companies). We have also expanded our diplomacy to attendance to World Economic Forum meetings. These opportunities are keen on developing business diplomatic ties; meeting with key ministers and key energy industry associates.”*

According to the Randstad respondent, being part of an industry association can also serve as a mean for business diplomacy. Randstad is active in industry associations on a national, European (Eurociett) and international level (Ciett). The strategy is to ensure that these associations exist in every country in which Randstad operates. The MNC is deeply convinced that through these associations, it is easier to reach governments and other surrounding stakeholders. The respondent also argued that by being part of a strong association in a particular country, the opinions of Randstad will be better honored by the local government.

Furthermore, all MNC respondents provided examples of social project and social partnerships as means for building and sustaining legitimacy in foreign business markets. For example, Wolters

Kluwer encourages initiatives that are aimed at enhancing the quality of life in all communities in which it operates. The respondent mentioned that free access to medical databases is provided to a number of African Hospitals. In this manner, the quality of healthcare in these countries can be improved. Another example of this social involvement is the supporting of a number of social projects by KPN. The respondents stated:

*“KPN regards Corporate Social Responsibility as an important part for creating legitimacy. We support a number of social projects in the Netherlands, Germany and Belgium. An example of one of these projects in Germany is that E-Plus is a partner of the foundation ‘Digitale Chancen’, an initiative of the German Ministry of Economic Affairs. This foundation has developed a program that helps people to link up with the digitization of society. This program is particularly aimed at young people, the elderly and immigrants.”*

Royal Dutch Shell helps to meet the world’s growing energy needs in economically, environmentally, and socially responsible ways. The Shell-Eco marathon is a social project that challenges students from around the world to develop and build energy-efficient vehicles. This project sparks debate about the energy future and inspires students to push the boundaries of fuel efficiency.

The DSM respondents mentioned that besides cooperation’s with governments and knowledge institutes, a partnership has been set up with Greenpeace in the field of sustainable development. When somewhere in the world a disaster occurs, Financial Services Industries works together with a number of partners to provide short-term emergency assistance and long-term recovery assistance. Philips tries to make healthcare accessible for communities that lack access to medical care. In 2009, a program in collaboration with the Chinese Red Cross has been launched to train 300 village doctors. Another example is the global partnership between Randstad and VSO (Voluntary Service Overseas). The respondent stated:

*“VSO is one of the largest developments organizations that provides structural support to developing countries. VSO are specialists in recruiting and placing volunteers with professional qualifications from around the world to live and work in developing countries. In addition to a financial contribution, Randstad helps VSO with expanding its recruitment of volunteers. This collaborations fits well with the social responsibility that we as Randstad stand for.”*

#### **4.7 Business diplomacy resource availability**

All MNC respondents have indicated that time and financial resources are available in the organization for establishing and sustaining positive relationships with foreign government representatives and other non-governmental stakeholders. This is also reflected by the wide variety of means that all MNCs deploy for business diplomacy. For example, the Royal Dutch Shell respondent mentioned that a lot of time and money are spent on the intensively managing of all stakeholders of the business. Also the respondents of Wolters Kluwer stated:

*“Wolters Kluwer spends time and money on establishing and maintaining relationships with foreign governments and other stakeholders. Each year appointments with various governments are made, fairs are organized, various countries are visited and meetings are held with various stakeholder groups.”*

The Randstad respondent argued that since the business is largely determined by laws and regulations, a lot is invested in business diplomacy. As an example, the respondent stated:

*“In the Netherlands, four people operate within the department International Public affairs and are concerned with matters regarding business diplomacy. In the other countries in which we operate, approximately fifty people are occupied with these matters, sometimes in combination with other functions.”*

For DSM, the level of investment in business diplomacy cannot be expressed by the size of the Public Affairs department. The respondents stated:

*“Within DSM the number of people that work within the Public Affairs department and that are full-time engaged with business diplomacy is limited. Yet, there are many people that are part-time focused on business diplomacy. Even the local DSM businesses are active in the managing of stakeholders in their local environment. This external orientation is reflected in the content of the work of DSM. Consider for instance the many partnerships that DSM has set up with governments, knowledge institutes and NGOs for the performance of the daily operations.”*

Phillips considers business diplomacy as an essential component of the general business operations. The amount of time and money spent on business diplomacy depends on the institutional context of a country. The respondent explained that in countries in which the obtaining of licenses proceeds slowly and laborious, more time and attention is paid to maintaining contacts with local authorities than in countries in which these matters run faster and smoother.

The respondents of Vopak, Financial Services Industries, DSM and Philips mentioned that the CEO is intensively involved in business diplomacy. The Vopak respondents stated:

*“The CEO and the Executive Board of Vopak spend a significant amount of time to business diplomacy, around fifty percent.”*

The respondent of Financial Services Industries indicated that since the outbreak of the financial crisis in 2008, business diplomacy has become more important for financial institutions. The respondent stated:

*“The managing of the perception of Financial Services Industries has moved up the agenda since the outbreak of the financial crisis in 2008. The critical attitude of society towards our industry, has put greater pressure on the maintaining of positive relationships with external stakeholders. The CEO of Financial Services Industries devotes considerable attention to the communication with the outside world.”*

Also within KPN, time and financial resources are available for business diplomacy. However, the respondents pointed out that these resources are particularly used for the creation of social projects for the societies in which KPN operates, and to a lesser extent for the maintaining of positive relationships with foreign governments.

With respect to knowledge resources, the interviews have revealed that in none of the eight MNCs specific business diplomacy training programs are available. However, there are general training

programs that teach employees how to act in line with the business values and principles, and how to deal with the external stakeholders of the business.

The respondents of Vopak, Financial Services Industries, Randstad, Wolters Kluwer, KPN and DSM mentioned that by means of training programs the business codes of conduct are taught to all employees. Within Financial Services Industries, each employee receives E-training. The respondents mentioned that once in a while all employees have to do a casus test in which a number of business situations need to be assessed properly. Randstad applies an Induction Program in this context. The respondents stated:

*“Employees should know how to behave when they are in contact with stakeholders that are connected to his or her business. Therefore, each new employee that we hire, in the Netherlands or in any other country, will receive an Induction Program in which the business values of Randstad are explained. In this manner, every employee within Randstad is aware and up to date of the codes of conduct.”*

In addition, the respondents of Wolters Kluwer, Vopak, Royal Dutch Shell, DSM, Randstad, Philips and Financial Services Industries have indicated that general stakeholder management training programs are available in the organization. For example, the DSM respondents stated:

*“Within DSM there are no specific training programs for Public Affairs. However, there is a training Stakeholders Management on the DSM Business Academy. Also cultural training programs are provided to employees that hold an international position in the organization.”*

Also the Randstad respondents stated:

*“Every employee within Randstad receives training in simultaneous advocacy, focused on the stakeholder group where they have to deal with in the business.”*

Philips is currently working on a cumulative learning system for business diplomacy. The respondent explained that this database management system keeps track of what business diplomacy actions are taken, what the results of these actions are, and what lessons can be learned from these actions. Also Vopak recognizes the importance of learning from previous business diplomacy experiences. The respondents stated:

*“It is important to make use of specific qualities of local employees. For example, an employee that has experience in dealing with local issues in South Africa can bring this knowhow over to other employees”.*

## 5. Conclusion, discussion, limitations and recommendations

In this chapter, the final conclusions of this research are drawn in section 5.1. The implications of the research findings are discussed in section 5.2, the research limitation in section 5.3 and recommendations for future research directions in section 5.4.

### 5.1 Conclusion

In order to explore how MNCs actually conduct business diplomacy around the world, the following research question was formulated:

*“How is business diplomacy enacted by and embedded in the organization MNCs?”*

By using single semi-structured interviews in eight Dutch MNCs, the six business diplomacy dimensions (intensity, policy clarity, broadness, responsibility, means deployment and resource availability) were measured. These six dimensions were measured in order to create a complete picture of how business diplomacy is enacted by and embedded in the organization of MNCs.

It seems that our definition of business diplomacy, as presented in the theoretical framework, is confirmed by seven out of eight MNCs. The cornerstones of our definition (the purpose is to create and sustain legitimacy, the focus is on foreign business environments, it involves building and sustaining positive relationships with foreign government representatives and non-governmental stakeholders) were recognizable in the extensive views and definitions that were specified by these MNCs. Noticeable is that the line between business diplomacy and lobbying is somewhat thin in the definitions that were provided by the MNCs.

In seven out of eight MNCs, business diplomacy is executed intensively. Three of those MNCs lean for a certain part on the home government in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. None of the eight MNCs applies a clear and organizational wide business diplomacy policy. The respondents of five MNCs indicated that general business diplomacy guidelines exist. The respondents of the other three MNCs pointed out that business diplomacy is carried by the business values and principles. The interview data also showed that in none of the eight MNCs all employees are involved in establishing and sustaining positive relationships with foreign stakeholders. Yet, all MNC respondents emphasized that all employees need to consider themselves as representatives of the organization when they are in contact with stakeholders of the business. In all eight MNCs the responsibility for business diplomacy is largely decentralized to the foreign subsidiaries. The data showed that the foreign subsidiaries are free to decide upon how to establish and sustain positive relationships with local stakeholders (adapted to the institutional situation of the respective country), but that the business diplomacy guidelines (in five MNCs) and business codes of conduct (in all MNCs) need to be adhered. All MNCs deploy a wide variety of business diplomacy means; direct stakeholder dialogues, events, forums, meetings, industry associations, social projects and social partnerships. The interview data furthermore revealed that in all MNCs time and financial resources are available for business diplomacy. With respect to knowledge resources, in none of the MNCs specific business diplomacy training programs are available. However, in these MNCs general training programs are available that teach employees how to deal with the external stakeholders of the business, and how to act in line with the business values and principles.

## 5.2 Discussion

As was mentioned earlier, our definition of business diplomacy is widely supported by seven out of eight MNCs. This means that our definition has a high external validity and can therefore be used as a basis for further research into business diplomacy.

Still, the concepts business diplomacy and CPA are fairly often used interchangeably. This was particularly evident in the examples of business diplomacy means that were provided by the MNCs. For example, the Randstad respondent emphasized that by being active in Industry associations on a national, European and International level, it is easier to reach foreign governments and other surrounding stakeholders. As confirmed by the theoretical framework, being part of industry associations can be considered as a mean for business diplomacy as far as these stakeholders are reached for the creation of long-term positive relationships. The respondent also argued that through these associations, the opinions of Randstad will be better honored by foreign governments. This suggests that industry associations are also used as an instrument for lobbying. This implies that in practice certain means for business diplomacy and CPA are close to together.

The interview data have shown that Royal Dutch Shell, Financial Services Industries and DSM lean for a certain part on the home government in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. However, these MNCs also use the home government as a channel to influence foreign governments and related stakeholders on certain matters. For example, the DSM respondents have argued that it is much easier to influence foreign governments via the Dutch government. Activities as such can be considered as lobbying, which falls outside our definition of business diplomacy. The leaning on the home government can be considered as a mean for business diplomacy, in so far that it is deployed for the establishing and sustaining of positive relationships with foreign stakeholders. For the part wherein it is used for lobbying purposes, leaning on the home government cannot be considered as a mean for business diplomacy, but rather as a mean for CPA.

Is the industry-type in which a MNC operates a determining factor for the intensity in which business diplomacy is performed? In the interviews, several MNC respondents have indicated that industry-specific factors determine the degree of business diplomacy intensity. As described in the research findings, Philips, Wolters Kluwer and Randstad execute business diplomacy intensively since these MNCs operate in industries in which the business is strongly influenced by government policies (rules and regulations). These research results confirm earlier findings in the work of Hillman and Hitt (1999) who claimed that firms with a high level of government policy dependency are more likely to build upon long-term relationships with governments.

Royal Dutch Shell is active in the oil business. According to Saner et al. (2000), business operations in the oil industry directly affect populations. Especially firms that operate in such sensitive industries, business diplomacy can no longer be ignored. Indeed, the Royal Dutch Shell respondent argued that since large oil projects are always linked to foreign government and other stakeholders (such as NGOs), business diplomacy is executed intensively. This is reflected by the many resources that Royal Dutch Shell deploys for the intensive management of all stakeholders. The respondent of Financial Services Industries has indicated that since the outbreak of the financial crisis in 2008, society has a critical attitude towards the financial services industry. Since these industry developments, the

maintaining of positive relationships with external stakeholders has moved up the agenda within Financial Services Industries.

Is the number of countries in which a MNC operates another determining factor for the intensity in which business diplomacy is performed? The interview data revealed that KPN executes business diplomacy less intensively than the other seven MNCs. In contrast to the other seven MNCs that operate worldwide, KPN is concentrated in three countries only: the Netherlands, Germany and Belgium. The respondents explained that since KPN operates in an European context and is a major player in the Dutch business market only, business diplomacy is less necessary and probably less intensive than in MNCs that operate worldwide.

Perhaps the institutional settings of the countries in which KPN operates can also help explain the lower intensity in which business diplomacy is executed. As Chan, Isobe and Makino (2008) recognized, companies will act differently in different countries, depending on the institutional setting. North (1991) emphasized that companies rely heavily on personal networks in host countries in which the institutional infrastructure is weak. This would suggest that companies operating in countries in which the institutional development is weak, will recognize the importance of business diplomacy better. KPN operates in three Western European countries in which the institutional development is strong. This may partly explain why KPN executes business diplomacy less intensively than, for example, Royal Dutch Shell that operates in countries in which Western business values are handled to a lesser extent and where the institutional setting is weak.

The interview data revealed that these institutional factors also affect the policy clarity and responsibility of business diplomacy in MNCs. All MNC respondents emphatically indicated that a universal formal business diplomacy policy will not suffice since the execution of business diplomacy depends on the country concerned and its institutional situation. They agreed that business diplomacy should be adapted to the institutional situation of the respective country. The respondents indicated that precisely for that reason, the responsibility for business diplomacy is largely decentralized to the foreign subsidiaries. They explained that the local subsidiary employees have the best insight in the institutional context in which they operate. These research findings are in line with the work of Blumentritt and Ningh (2002). The researchers argued that governmental structures and procedures often differ substantially between countries, and that therefore MNC subsidiaries are forced to deviate from standard procedures in order to interact with political actors.

As mentioned in the introduction, business diplomacy is a part within the field of international business management which is yet relatively under-explored. In their studies, London (1999), Saner et al. (2000), Saner and Yiu (2005), Ordeix-Rigo and Duarte (2009), and Muldoon (2005) already emphasized the relevance of business diplomacy in today's business environment. Our research has shown that the MNC respondents also recognized the increasing value and necessity of business diplomacy. Therewith, the respondents laid the connection between business diplomacy and the creation of legitimacy (safeguarding corporate image and reputation). In this respect, it can be stated that our study confirms previously conducted research on the importance of business diplomacy.

The need for research on how MNCs actually conduct business diplomacy in practice was already identified by Saner and Yiu (2005). In an attempt to reduce this knowledge gap, the researchers investigated how four Swiss MNCs develop their business diplomacy competency. Our research has contributed to scientific literature by further reducing this knowledge gap. By the in-depth measuring



of six dimensions, a complete and extensive picture of how business diplomacy is actually enacted by and embedded in the organization of MNCs is created. Each dimension on itself has contributed to this research by providing new insights in this topic.

As was mentioned in the introduction, Betlem (2012) also conducted research into business diplomacy. This study is focused on the determinants of the approach and organization of business diplomacy. For that purpose, Betlem (2012) surveyed fifty MNC subsidiaries in Asia, of which the headquarters were located mainly in Western Europe and the United States. Since the colleague student has measured the same six business diplomacy dimensions (in a quantitative manner), a number of study results could relatively easily be compared with our research findings.

The studies show significant similarities in the research findings relating to the intensity, broadness, means deployment, responsibility and resource availability of business diplomacy. In accordance with our research, Betlem (2012) concluded that firms recognize the importance of business diplomacy and are moderately high active in the establishment and sustainment of relationships with foreign stakeholders. Both studies show that firms deploy a wide variety of business diplomacy means and also that firms perceive business diplomacy as an activity on high management level. The research results of Betlem (2012) have indicated that the MNC subsidiaries have considerable freedom to decide how to conduct business diplomacy, but that there is a clear involvement from headquarters as well. This involvement of headquarters can also be observed in our research, in that general business diplomacy guidelines are set for the foreign subsidiaries. Furthermore, both studies have revealed that financial and time resources are available in firms for business diplomacy. As in our research, Betlem (2012) also recognized that business diplomacy training programs are hardly available. However, contradicting results can be observed for the dimension business diplomacy policy clarity. Our research has revealed that none of the eight MNCs applies a organizational wide business diplomacy policy, whereas the study of Betlem (2012) suggests that firms have a moderately high business diplomacy policy clarity. As was mentioned previously, our research findings suggest that MNCs which are operating in sensitive industries (e.g. the oil or financial services industries) tend to execute business diplomacy extra intensive. In the study of Betlem (2012) this relationship was also detected, although not statistically significant ( $\alpha=.10$ ,  $p=.093$ ).

The research results of the studies show great similarities. This suggests that our research findings are valid and consistent.

Remarkably was that all MNC respondents in our research recognized the growing relevance of business diplomacy in today's complex and rapid changing business environment. Logically, it can be expected that this realization will lead to further developments of the business diplomacy function in MNCs. Indeed, this is demonstrated by Vopak and Philips. As was discussed in the research findings, Vopak is currently working on the improvement of the business diplomacy process. Also Philips is working towards a new business diplomacy model in which previously acquired experiences in the field of establishing and sustaining positive relationships with foreign governments and other stakeholders are stored. It is therefore all the more interesting to examine how MNCs develop their business diplomacy function. Perhaps a seventh dimension 'business diplomacy development' can be added in future research on this topic.

### 5.3 Research limitations

According to Babbie (2007), reliability is a weakness of qualitative research. This type of research is less standardized than quantitative research (Babbie, 2007; Sandelowski, 1986). Since there are no standardized procedures and instruments included, it is difficult to repeat this study and assess the reliability of the research findings (Babbie, 2007). In order to increase the reliability of the research findings, we made sure that the actions and procedures taken in this study were consistent and auditable. As was mentioned in the methods section, the interviews were taped, transcribed and carefully documented.

“Qualitative field research seems to provide measures with greater validity than do survey and experimental measures, which are often criticized as superficial and not valid” (Babbie, 2007, p. 327). Nevertheless, it is possible that this study has a number of limitations when it comes to the validity of the research findings.

Within this study the researcher collected the data by interviewing the MNC respondents. The background, prior understandings and personal experiences of the researcher have an impact on how the data is interpreted. There is a danger that the research findings are in some way subjective (Creswell, 2008). In this study, such danger existed particularly in the data analysis; data reduction, data display, conclusion drawing and verification. As was mentioned in the methods section, the truth value of a qualitative research can be measured by the ‘credibility’ of the work rather than internal validity (Guba & Lincoln, 1981). In order to strengthen the credibility of the interview data, the transcripts were sent back to the MNC respondents. The transcripts were read, corrected and complemented by the respondents. This has strengthened the credibility of the research findings.

Also the personal backgrounds of the MNC respondents may have had an impact on how the interview questions were perceived and answered. It is also possible that the presence of the researcher has caused the respondents to provide desirable answers. It is important to focus on these issues since they can lead to biased research findings. In order to reduce these threats, the interview questions were further explained and elucidated to the respondents.

Another limitation is that we included our working definition of business diplomacy in the invitation letters that were sent to the MNCs. As was mentioned in the methods section, the respondents were asked to give a definition of business diplomacy at the beginning of the interviews. It is possible that the respondents were better able to define business diplomacy since they have read the invitation letters. This might have led to biased research findings.

The value of this exploratory research lies in the in-depth understanding of how business diplomacy is enacted by and embedded in the organization of MNCs. A shortcoming of this type of research is that it is often impossible to generalize the findings to other settings and situations. Yet, we think that there is no direct reason to consider the findings of this study non-generalizable. Although the research sample is limited to the Netherlands, we think that the findings can be generalized to large MNCs in other countries. Regardless of the country in which the head office is located, all MNCs have an international focus and need to set international standard to facilitate trade. In that sense, we think that the large Dutch MNCs in our research sample are comparable with large MNCs in other countries.

## 5.4 Future research directions

The literature review has shown that business diplomacy is a relatively under-explored topic. Most studies have focused on the importance of business diplomacy. Since there is hardly any research on how MNCs conduct business diplomacy in practice, more qualitative research is required. Additional studies in this context should be conducted in other MNCs. This will provide new insights into how MNCs conduct business diplomacy in practice. In addition, more attention should be paid to how firms develop their business diplomacy function. New acquired insights and understandings can then contribute to the improvement of business diplomacy in organizations.

Alongside qualitative research, also more quantitative research on business diplomacy is required. Hardly any research has been conducted on the antecedents and outcomes of business diplomacy. The literature review has shown that this is done comprehensively for CPA (Bonardi et al., 2005; Hillman et al., 2004; Lux et al., 2011; Schuler & Rehbein, 1997). Betlem (2012) already investigated whether these antecedents of CPA also apply to business diplomacy. Still, more empirical research into the antecedents and outcomes of business diplomacy is required. The MNC respondents in this study indicated that the execution of business diplomacy will depend on the country concerned and its institutional setting. The research findings also suggest that the industry-type in which an MNC operates is decisive for the degree of business diplomacy intensity. In order to verify whether these relationships really exist, further quantitative examination is necessary.

What can also be examined is whether there are different types of business diplomacy. There are differences in how MNCs conduct business diplomacy since it is not a one-size-fits-all phenomenon. As was explained in the theoretical model, we expect that the MNC's level of global integration and local responsiveness influences the enactment and embeddedness of business diplomacy. Bartlett and Ghoshal (1989) propose a typology of MNCs in which the level of global integration and local responsiveness determines whether a firm is typified as international, multinational, global or transnational. In the theoretical model, we proposed a typology for business diplomacy by using the theory of Bartlett and Ghoshal (1989). Based on our own expectations, we explained how the enactment and embeddedness of business diplomacy will be characterized for each type of MNC in the typology of Bartlett and Ghoshal (1989). Empirical research is required to check these expectations. By developing and investigating such a typology, an increased understanding of how MNCs conduct business diplomacy can be acquired.

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## Appendix 1: Invitation letter

### University of Twente

(name MNC)

Attn. (name CEO)

(Address)

(Postal code and city)

#### Faculty Management en Bestuur

##### From

Dr. H.J.M. Ruel

(telephone number)

(email address)

##### Department

Business Administration/International Management

##### Subject

Research business diplomacy

Dear (name CEO),

As a research team for the University of Twente, we conduct a large international research to Business Diplomacy within multinational corporations.

In our definition, 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”.

A specific part of the research is aimed in particular at the approach and organization of Business Diplomacy within the largest multinational corporations. (Name MNC) belongs to this group and for this reason we would like to have an interview with you, or with the highest responsible manager (e.g. the head of government affairs) for this function in your organization.

An interview should preferably take place in the month June and would take one hour approximately. The name of your organization can be anonymized in the research report, if desired.

The aim is to complete the research mid-October and present the findings during a Business Diplomacy seminar at institute Clingendael at the end of November 2012.

We hope that you are willing to take part in this research. We look forward to your reaction.

Yours sincerely,



Huub J.M. Ruël (research leader)

Tim Wolters

Floris Betlem

(Email address)

(Telephone number)

(Mobile number)

## Appendix 2: Interview Protocol

Interview protocol (name MNC) – Interview (date/time)

Introduction: (About the research towards business diplomacy)

Proposal round:

What is **business diplomacy** according to you?

Our definition of business diplomacy is: *“Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and other economic and non-economic stakeholders with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment”.*

1. Business diplomacy **intensity**: (the extent to which a company actively seeks contacts and builds relationships with foreign government representatives and non-governmental stakeholders).

- To what extent is business diplomacy executed/how important is it? Examples...

- Who is responsible for business diplomacy?

2. Business diplomacy **policy (-clarity)** (the extent to which a company has a clear and organisation wide policy on how to establish and sustain relationships (for legitimacy reasons) with foreign government representatives and non-governmental stakeholders).

- Does (name MNC) have a business diplomacy policy/strategy?

- If so, what does this look like?

- If not, is there something like an unwritten/informal business diplomacy approach?

- How obvious clear (and familiar) is this approach by the management team?

- How obvious and clear (and familiar) is this approach by other employees?

3. Business diplomacy **broadness**: (the extent to which establishing and sustaining relationships with foreign government representatives and non-governmental stakeholders is done by every company representative (e.g. employees).

- To what extent is business diplomacy something of the whole organization/all employees?

- To what extent do employees consider themselves as representatives of the organization when they are in contact with foreign government representatives and non-governmental stakeholders?

4. Business diplomacy **responsibility** (centralized/decentralized). (The extent to which the company responsibility for establishing and sustaining relationships with Foreign government representatives and non-governmental stakeholders lies with the headquarter or with the subsidiary).

- To what extent lies the responsibility for establishing and sustaining relationships with foreign government representatives and non-governmental stakeholders at headquarters?
- To what extent are business diplomacy guidelines set by headquarters for the whole organization?
- To what extent are subsidiary executives charged to act in line with the business diplomacy guidelines set by headquarters, or to what extent are subsidiary executives allowed/free to decide upon how to enact business diplomacy (adapted to that specific local environment)?
- What does this look like? (organizational chart)
- Does the enactment of business diplomacy differ per country in which (name MNC) operates?
- To what extent can these variations in enactment be explained by the institutional differences between countries?
- Can you give an example?

5. Business diplomacy **means deployment** (the extent to which the company deploys a diversity of means for establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders).

- Which means, methods and canals are used by (name MNC) to establish and sustain relationships with foreign government representatives and non-governmental stakeholders? (e.g. social meeting (dinners), formal occasions (public forums, seminars, local government debates), the usage of media channels (television, papers) in order to promote corporate image, a CSR policy (health, ethics, environmental-policy), sponsor activities, etc.

6. Business diplomacy **resource availability** (the extent to which the company uses firm resources (e.g. financial, time, knowledge) for establishing and sustaining positive relationships with Foreign government representatives and non-governmental stakeholders)

- Which and to what extent are financial/time/knowledge resources available within the organization to establish and sustain relationships with foreign government representatives and non-governmental stakeholders? (e.g. financial resources, training, cumulative learning system, incentives, time)