Organizational Dynamics, Vol. xxx, No. xxx, pp. xxx–xxx, 2005
ISSN 0090-2616/$ – see frontmatter

doi:10.1016/j.orgdyn.2005.06.008
www.organizational-dynamics.com

Available online at www.sciencedirect.com
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Swiss Executives as Business Diplomats in the New Europe:

Evidence from Swiss Pharmaceutical and Agro-Industrial Global Companies

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SWISS MULTINATIONALS AND BUSINESS DIPLOMACY MANAGEMENT

In an increasingly integrated global economy, Switzerland and Swiss MNCs are facing unique challenges in sustaining their economic success. Both the nation and the MNCs have to be effective in managing the delicate balance between asserting their independence and standards and paying a premium price for remaining independent and loosely affiliated to the European Union (EU) and its markets. Business diplomacy in this context is not only part of the dynamics of doing business in Europe, but also a crucial factor for the sustained success of Swiss MNCs. This article discusses the situation facing Switzerland, which is located in the middle of the European continent. It is surrounded by EU member countries, but at the same time is isolated due to its status as a non-EU member state. Switzerland's relations with the EU have oscillated between confrontation and mutual accommodation, thus requiring many rounds of bilateral negotiations and the creation of an alternative affiliation other than full EU membership.

Economic relations with other non-EU trading partners are equally important for Switzerland. Trade with the EU 15 in 2004 represented 60.2% of Switzerland's exports and 81.7% of imports. However, when comparing total trade between Switzerland and the EU versus Switzerland and the rest of the world markets, one notices an important difference. Trade balance with the EU is largely negative, while all trade balances with non-EU regions are positive. The remaining presence in non-EU markets is hence of great importance to many Swiss MNCs.

One important factor contributing to the sustained success of MNCs' operations in foreign markets is the competent use of business diplomacy. Business diplomacy management (BDM) refers to the ability of MNCs to effectively interact with non-business stakeholders wherever the MNCs have business interests, be they in the form of local production, distribution channels or sales offices. This strategic competence is gaining greater valence due to the triumph of open and participatory societies around the world.

Views of the Swiss global companies surveyed are summarised in terms of the most salient aspects of BDM to their overseas operations and the knowledge areas that needed strengthening. In contrast to conventional wisdom, neither business schools nor diplomatic schools were considered by the companies surveyed as the appropriate forum for acquiring business diplomacy competence.

HISTORICAL CONTEXT – SWITZERLAND'S RELATIONSHIP WITH THE EU

Europe's economic reality is characterized by the dominant position of the European Union, enlarged in 2004 from 15 to 25 member countries, and the minor position of the four European Free Trade Association (EFTA) countries consisting of Iceland, Liechtenstein, Norway and Switzerland. The Swiss economy is the largest of the four EFTA countries.

The EU or previously EEC (European Economic Community) has been seen by successive Swiss governments as a political and economic threat. To respond to the perceived threat posed by the creation of the European Coal and Steel Community (ECSC) in 1951, Switzerland chose to participate in the establishment in 1960 of an alternative grouping of countries – the European Free Trade Association (EFTA) – in partnership with Austria, Denmark, Norway, Portugal, Sweden, and the United Kingdom.

The EEC replaced intergovernmental cooperation in a number of specific areas with a legal system which, through supranational institutions, made it possible to promote common interests while protecting national interests of each member state. The aim of EFTA countries, in contrast, was strictly limited to developing commercial relations among its members at intergovernmental levels. For political reasons related to its traditional foreign policy position of neutrality, Swiss governments have limited their contacts with the rest of the world to trade relations and intergovernmental exchanges.

Subsequent to its creation, EFTA engaged the EEC in trade negotiations and reached a free trade agreement, which was signed in 1972. This made it possible for all EFTA countries, including Switzerland, to remain protected from the discrimination brought about by the establishment of an EEC customs union. But with the subsequent switching of membership by major nations such as the U.K. (1973), Denmark (1973), Portugal (1986), Finland (1995), and Sweden (1995) from EFTA to the EEC, the balance of power between the two country groupings shifted increasingly in favour of the EEC.

Aiming at further deepening of economic integration within the whole European region, Jacques Delors, then president of the EEC, initiated negotiations in 1989 between the EEC and EFTA countries to create an enlarged European economic area (EEA). Subsequent to the negotiations, a referendum was organised in Switzerland in 1992. The Swiss people rejected the EEA agreement by a narrow vote of 50.3% against and 49.7% in favour. The consequence of this vote was that all EEC and EFTA countries joined the EEA, while Switzerland remained outside and isolated.

To avoid the economic downside of being outside of the EEA, Switzerland and the EEC started trade negotiations on a sectoral basis in 1994. These included sectors like research, technical obstacles to trade, public procurement, market access for agricultural products, free movement of individuals, and ground and air transport. Swiss MNCs that had strong interests in these sectors engaged the Swiss government in consultations to make sure that their interests would be safeguarded. At the same time, they proactively set up lobbying offices in Brussels in order to influence the various institutions and actors playing important roles in EU decision making.

The sectoral negotiations were concluded in 1999, and the Swiss people voted in May 2000 on the new sectoral agreement. This time, the results were positive, and the new bilateral agreement took effect on June 1, 2002. The two-year delay in ratifying the bilateral treaty was due to the lengthy and varied processes of treaty ratification by each EU country. In some, ratification was in the hands of the presidency; in others it was a matter of parliamentary approval.

While this ratification process was underway, both sides had already started to explore the possibility of conducting a second round of bilateral negotiations that would focus on additional sectors and issues that were not part of the first bilateral negotiations. Such a second round of bilateral negotiations was indeed undertaken soon after ratification of the first round and consisted of nine additional negotiation dossiers. In early 2004, an agreement was reached, and Switzerland and the EU member countries initialed the second bilateral agreement. Full ratification by all parties involved might take until 2006 or 2007.

It is uncertain whether the enlarged EU (now with 25 member countries) and Switzerland will agree to conduct a third round of bilateral sectoral negotiations. After two bilateral rounds of negotiations, Switzerland is moving closer and closer to the European Union. At some point, full membership might be easier than starting a third round of negotiations. The future will tell what the next step will be in this increasingly closer relation between the EU and Switzerland.

Global companies with their headquarters based in Switzerland are aware of the delicate relationship between Switzerland and the EU. They need to ensure that their Swiss origin will not put them at a disadvantage in market access. After all, the EU market represents one of the largest and most affluent consumer groups in the world. On the other hand, they have to be mindful of the domestic opinion of Swiss citizens regarding closer integration with the EU.

The purpose of this article is to review how leading Swiss MNCs manage conflicting demands put on them by different constituencies in the European as well as in global markets. In particular, this article describes how leading Swiss MNCs deploy business diplomacy in order to manage multistakeholders, including non-business partners at the European and global level. How they build this organizational competence is also discussed. The article closes with recommendations for how MNCs might use business diplomacy management in the New Europe and other markets.

IMPORTANCE OF TRADE WITH EU AND NON-EU MARKETS FOR SWISS MNCS

Switzerland's economy is strongly integrated with the economies of the EU countries. For instance, 60.2% of Swiss exports go to EU countries, and 81.7% of all imports into Switzerland originate from EU countries. However, trade between Switzerland and the EU versus trade with non-EU countries shows a remarkable difference. Switzerland's trade in 2003 with the then 15 EU countries resulted in a deficit of 22.4 billion Swiss francs (CHF). Trade with non-EU trading partners was positive, except for trade with China and Asian transition countries. Overall, Swiss trade statistics show a positive trade balance of 6.8 billion CHF.

While import and export statistics of trade in goods and services show a growing dependence of Switzerland on trade with European Union countries, Swiss MNCs are keen on diversification of revenues and avoidance of being dependent on EU markets alone. This is particularly evident when taking into account the sources of revenue of two highly internationalised sectors of the Swiss economy, the pharmaceutical and agro-industrial sectors surveyed in this study.

The pharmaceutical industry is a significant branch of the Swiss economy. Despite its small size, Switzerland exports the highest volume of pharmaceutical products of any country in the world. More than 90% of the drugs manufactured in Switzerland are destined for export. For instance, all four global companies included in this study reported much higher sales revenues from non-European than European sources (including EU, EFTA and Central and Eastern European countries (CEEC)). In particular, Nestté SA had the highest non-European source of revenue, 2.4 times higher than European revenue sources in 2004.

In order to ensure competitiveness in the EU and non-EU main markets, Swiss MNCs in general, and those in the pharmaceutical and agro-industrial sectors in particular, need to invest considerable funds in Organisation for Economic Cooperation and Development (OECD) countries (EU and non-EU), and in newly industrialised economies such as South Korea, Malaysia, and Singapore, as well as in major developing countries such as China, India, Brazil, and South Africa.

Ensuring success in such distant markets with often very different business practices and cultural preferences requires sustained excellence in terms of setting competitive prices and ensuring high-quality products and services. It also requires guaranteeing excellence in managing a MNC's multiple local environments and local constituencies. While business-to-business relations are crucial to ensure profitability, relations with non-business partners through business diplomacy are needed to ensure a sustainable presence and favourable investment climate for Swiss global companies' subsidiaries in their respective host countries.

BUSINESS DIPLOMACY MANAGEMENT

Over the last decade, civil society organisations have exerted increasing pressure on global companies, especially in the social and ecological spheres. The now accepted Corporate Social Responsibility charter and the UN-initiated Global Compact are just two of the most prominent examples of how companies are trying to manage mounting environmental pressures from non-business stakeholders. In order to succeed as a business and ensure sustainable economic viability of their investments, global enterprises are forced to draw on competencies that will allow them to manage increasing pressures from multiple stakeholders at home and abroad.

Experience has shown that non-business stakeholders can be highly problematic for multinational companies if global companies respond to their challenges and campaigns in an incompetent or inappropriate manner. An example is the court case that large Western pharmaceutical companies started and lost against the South African government in regard to patent infringement issues in treating HIV/AIDS patients with generic drugs (see Exhibit 1). Similarly, Coca-Cola Co.'s mishandling of contaminated coke bottles in Belgium caused a severe backlash by consumer groups in Europe and the loss of millions of dollars of revenue and market position to competitors.

We distinguish business diplomacy from corporate diplomacy. We view the corporate diplomatic function within a multinational company as being to ensure continuation and structural cohesion within its diverse web of headquarters and subsidiaries. In contrast, the business diplomacy function deals with external non-business stakeholders and aims to make the external environment of subsidiaries conducive for business activities and to reduce potential business risks and uncertainties.

Demands from local communities on a global company's corporate conduct can significantly limit the freedom of a MNC's behaviour and actions. Incompetently managed external constituencies and pressure groups could quickly result in millions of dollars of costs (e.g., settling of damage claims), lost business opportunities and market share (e.g., consumer boycotting), and reputational capital. This type of controversy sometimes can be long lasting, as seen in the case of infant baby milk formula and the continued campaign against Nestlé from the 1970s and 1980s.

Very often, large enterprises (such as Bechtel Group Inc., Reynolds American Inc., and Cable & Wireless PLC) hire former ambassadors (as well as former secretaries of state in the U.S.) to promote business contacts and to obtain lucrative contracts. In today's networked global environment, high-level influencing is still needed but is no longer

Exhibit 1 The Power of Civil Society

In April 2001, 39 pharmaceutical companies were forced to withdraw their planned court action against the South African government. In order to safeguard their patents, and their vast profits internationally, the drug compames challenged a paragraph in the 1997 South Africa Medicines Act, which gave the government power to override patent laws when faced with a medical emergency. But Treatment Action Campaign (TAC), a South African NGO, had made a submission to the court for the drug companies to reveal their research funding details. This was to show how much of the research on anti-AIDS drugs was done by universities and publicly financed bodies. Rather than reveal this information, the drug companies withdrew their action. (This action was reported by the Third World Network, 4th August, 2005.)

sufficient. With the interconnectivity made possible thanks to information and communications technology, social groups and other stakeholders are able to closely monitor a global company's conduct and form an additional layer of regulatory function that is informal and borderless. Far from being bystanders, these international NGOs (e.g., Greenpeace, Oxfam, and CARE) and networks (e.g., Trade Justice Network, International Campaign to Ban Landmines, Pesticide Action Network, International Baby Formula Action Network, and the Climate Action Groups) can and do raise international public awareness and assert financial, if not legal, influence on MNCs. Hence, business diplomacy extends beyond the domain of public relations and business contacts to a myriad of external interfaces that could negatively impact the bottom line. Business diplomacy managers need to competently deal, on the one hand, with communities and consumer groups at the grassroots level, and on the other, with international NGOs that have the capacity and resources to lead global actions on public policy issues against MNCs.

Civil society actors are far more diverse and decentralised than nation states or transnational enterprises. Their decentralised nature can pose a multitude of challenges to transnational enterprises. Therefore, it is a much more demanding task to manage the many interfaces with civil society groups (from genetically modified food, to child labour, animal rights, or fair trade issues, to name a few) than to conduct high-level confidential lobbying or public relations. We developed the concept of business diplomacy and define it as follows:

> Business diplomacy pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, government, political parties, media and other representatives of civil societies) and external constituencies. For instance, global companies are expected to abide by multiple sets of national laws and multilateral agreements set down by international organizations such as the World Trade Organization

(WTO) and the International Labour Organization (ILO). On account of a global company, business diplomats negotiate with host country authorities, interface with local and international NGOs in influencing local and global agenda. At the firm level, they will help define business strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, collect and analyse pertinent information emanating from host countries and international communities.

Business diplomacy creates new business opportunities through the skilful use of international treaties and agreements. It also helps create the social capital needed to seize new business opportunities around the world by addressing the host countries' needs. At the same time, business diplomacy helps accumulate contacts and social influence through dialogue with non-business stakeholders and through active involvement in local communities. These interactions could forestall potential confrontations induced by the perceived misuse of technology (in the case of genetically modified food) or such unethical practices as using prison labour or child labour in the Third World for profit.

In large and globally present MNCs, the management of non-business partners is often in the hands of business diplomats, while CEOs interact personally behind the scenes with high-level government officials and heads of United Nations agencies. One of the highest profiled global forums in which CEOs conduct business diplomacy is the annual World Economic Forum in Davos, Switzerland.

The roles and functions of business diplomats are often of a very discreet nature, due to the highly confidential nature of the work. Business diplomacy management often involves high-risk conflicts and/or crises that could negatively affect business or even jeopardize the presence of an MNC in foreign markets.

DIMENSIONS OF BUSINESS DIPLOMACY MANAGEMENT

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.

Similar to their counterparts in the world of political diplomacy, business diplomacy managers need to be competent at international, national, community and firm levels. Overlooking any one of these levels would render their efforts incomplete. At the firm level, business diplomats help define business strategy and policies in specific contexts in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, and collect and analyse pertinent information emanating from host countries and international communities.

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

When dealing with various stakeholder groups, business diplomats are called in to mediate potential or ongoing conflicts, be they of an economic, social, environmental or political nature. More important, business diplomats scan the environment and identify potential conflict areas with stakeholders before implementing a project.

A SURVEY OF BUSINESS DIPLOMACY IN SWISS MNCS

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. To answer some of these questions, we conducted a survey of major Swiss MNCs.

The study was based on a semi-structured interview consisting of a non-intrusive questionnaire, combined with informal inquiry and discussions with staff in charge of business diplomacy management. A total of 20 Swiss MNCs were contacted for the study. Data were gathered from six companies, with responses from four of them being selected for this article.

The MNCs that participated in this study are the largest Swiss global companies in the pharmaceutical and agro-industrial sectors. The three pharmaceutical companies that responded were the dominant market makers in their respective industries, and ranked as the 21st (Novartis Group), 29th (Roche Holding) and 616th (Syngenta AG) largest companies in the world according to the *BusinessWeek Global 1000* in 2004. The fourth company (Nestlé AG) was ranked 25th in the *BusinessWeek Global 1000* and is the world's largest company in the agro-business sector. Three of the four companies also ranked as the top 40 non-financial transnational companies in the world, according to UNCTAD's 2004 World Investment Report.

The interviews were conducted during 2003–2004, and the subsequent data analysis was completed in February 2005. Table 1 below shows the extent of globalisation of the participating companies. All sampled MNCs have subsidiaries or sales offices in a large number of countries.

Gaining a response or access to global companies to research their business diplomacy function was not an easy undertaking, especially not in industries prone to conflicts with NGOs or vulnerable when facing investigative journalism, such as the pharmaceutical and agro-food industries. Sending out questionnaires and hoping for a swift response was as illusionary as expecting that global companies of such sectors would be going out of their way to accommodate a researcher's queries. This study was only possible thanks to perseverance, use of personal credit, and continuous clarifications that the data obtained through the study would not be used against the multinational companies. Some of the company interviews needed several preliminary phone calls to clarify the purpose of the study. For some companies, a personal visit after several

TABLE 1 CHARACTERISTICS OF SWISS COMPANIES SURVEYED

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

Data from 2004 company annual reports.
[a] At the exchange rate on 3/25/2005.
[b] Including sales in Switzerland.
[c] Including sales in Africa and Middle East.
[d] TNC stands for "transnational companies." More information can be found at www.unctad.org/wir.

phone calls was necessary in order to gain and keep the trust of the participating companies. Their prudence is understandable in light of the potential damage any leaks to unfriendly NGOs or journalists could cause.

A further difficulty needing to be addressed was that the business diplomacy management function was not organised by the global companies in the same manner, nor were BDM managers placed in the same positions in their respective hierarchies. Each company surveyed had its BDM function and manager, but the location and even the role and title were very different from one company to another. Therefore, finding the knowledgeable representative within each company was a time-consuming exercise and took initial detective work to locate the respective function that was really responsible for BDM.

PROFESSIONAL BACKGROUNDS OF BUSINESS DIPLOMATS

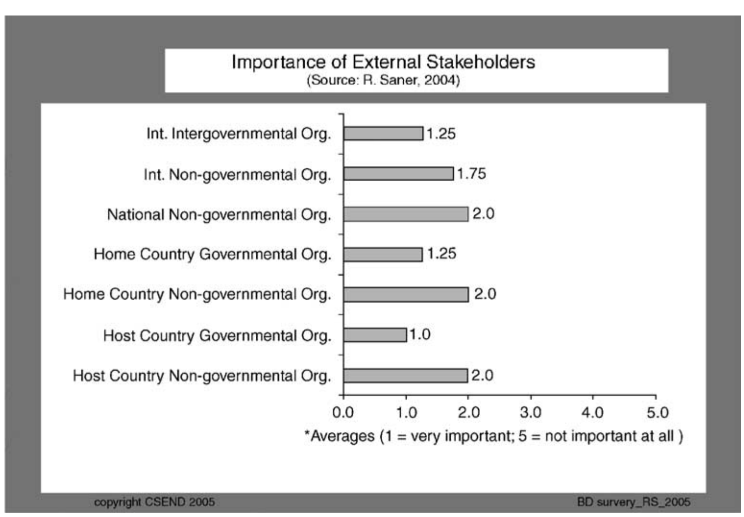
The data gathered confirmed the existence of a business diplomacy management function within the four Swiss MNCs. However there is little consistency in how the Swiss MNCs organised this strategic management function. Three of the four companies surveyed clearly indicated that they had dedicated staff responsible for business diplomacy. The fourth company did not offer any specific response to this question nor deny having staff working in this domain.

The professional backgrounds of these business diplomats presented a mixed picture. The majority had professional roles as public relations consultants (75%), senior government officials (50%), diplomats (50%), and to a lesser extent as former executives (25%) and lawyers (25%). Interestingly, none of the business diplomats had been lobbyists, advertising consultants, or members of courts or parliament.

NON-BUSINESS STAKEHOLDERS

National NGOs, host country NGOs and home country NGOs were identified as the most important external stakeholders that MNCs are facing in today's global business environment, and in today's increasingly

FIGURE 1 IMPORTANCE OF EXTERNAL NON-BUSINESS STAKEHOLDERS



participatory and informed society (see Fig. 1). These findings support the general observation that NGOs have become a force to be reckoned with.

HOW IS THE BUSINESS DIPLOMACY MANAGEMENT FUNCTION ORGANISED?

There was no consistent answer to the question of how the diplomacy management function was organised. Business diplomacy was conducted by different departments or functions within these Swiss MNCs. Managers who were responsible for business diplomacy reported to different departments, depending on the MNCs surveyed. Most of the respondents who themselves were business diplomats stated that they reported to the government affairs department (75%), while others stated they also reported to the legal division, public relations department, production division and others, as shown in Fig. 2. When faced with major crises such as consumer boycotts of company products, damaging publicity campaigns against the company's reputation, suspension of company operations, hostage taking of staff, and industrial sabotage, 75% of the respondents said that the public relations department took the lead function in their MNCs response to such crises.

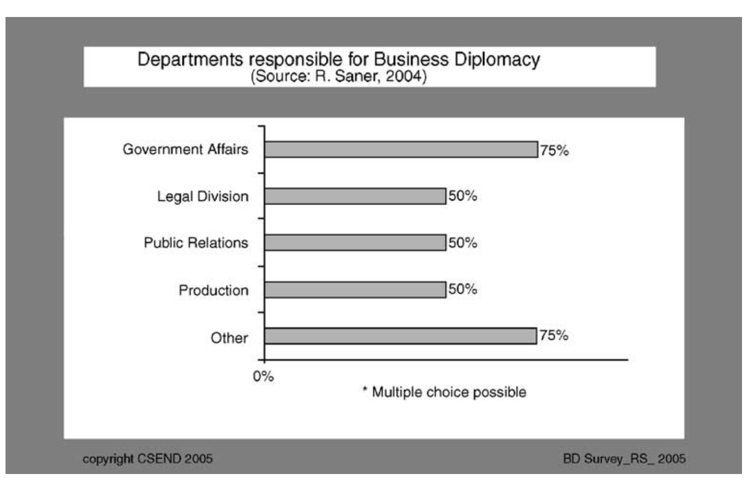
KNOWLEDGE DOMAIN IMPORTANT FOR COMPANY SUCCESS

Regarding the knowledge domains relevant to business diplomacy management and the company's success, all four companies rated ''reporting standards to different stakeholders'' as the most important aspect of BDM knowledge. Other very important areas included:

- the domestic decision-making process in the host countries,
- diplomatic instruments,
- key international business standards,
- mechanisms of international crisis management,
- international NGOs, and
- international law and arbitration.

The least important knowledge area was related to international financial institutions, such as the World Bank, International Monetary Fund (IMF), and regional development banks.

FIGURE 2 DEPARTMENTS RESPONSIBLE FOR BUSINESS DIPLOMACY



KNOWLEDGE NEEDING IMPROVEMENT

When asked about the knowledge domain of business diplomacy, respondents unanimously indicated that the area most in need of strengthening was the management of international crises, as shown in Fig. 3. Next on the list were knowledge of the history and ideological implications of non-Western models of society and business (75%), knowledge of international financial institutions (75%), knowledge of the structure and decision-making processes of supranational organisations (75%), and knowledge of the interplay between economics, politics and culture by region or country (75%).

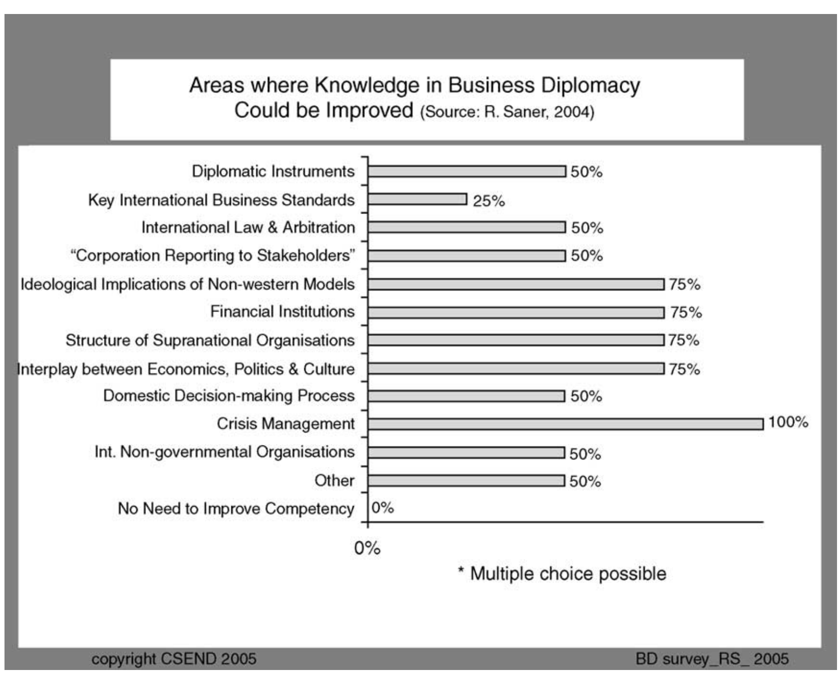
DEVELOPING IN-HOUSE COMPETENCE IN BUSINESS DIPLOMACY

When asked about measures to develop in-house competence in business diplomacy, all four companies identified in-house training as the primary tool. Partnering with MBA schools to build this competence was considered by only one of the firms. Other measures such as partnerships with diplomatic academies, hiring additional former diplomats, and outsourcing were completely ruled out.

GUIDELINES FOR THE USE OF BDM BY MNCS IN THE NEW EUROPE

Business diplomacy management remains crucial for dealing with the entrenched power structure in new member countries from Central and Eastern Europe. Issues such as intellectual property, corruption, perceived equity among expatriate staff and local employees, and theft and security are prevalent across many of these New European countries, inherited from the Soviet era. In contrast, civil society organisations in

FIGURE 3 KNOWLEDGE NEEDING IMPROVEMENT



those countries are less developed due to years of forced political activism and lack of options. Social movements tend to be more political in nature, and do not cause direct damage or crisis to MNCs. In this context, professional BDM can help companies build social networks and maintain good relations with power brokers and potential future leaders.

MNCs have shown that they can be innovative and can operate under adversarial conditions if necessary. Currently, use of BDM in Central and Eastern European countries is less about reacting to angry attacks by local NGOs about product safety, fair trade and good environmental practices. It is more about a company's ability to be proactive and interactive in trying to maintain its good corporate reputation and social capital for now and in the future.

Effective use of BDM can help mitigate negative interactions between multinationals and stakeholders in CEE countries. As proposed by Professor James Post, three possible choices can be envisioned – reactive, proactive, and interactive. MNCs could wait until changes happen and adapt to the changing circumstances. Such action minimises the potential costs of making a mistake. In the meantime, BDM could be used for scanning the environment and for relationship maintenance with stakeholders.

MNCs could also choose to be proactive in an attempt to alter impending changes in business-to-government, and business-to-community/society relations so that organisational performance and policies will not be affected by sudden changes of context, such as happened to Yukos Oil in Russia recently. In that situation, the Russian government imprisoned the CEO in 2004 on fraud and tax evasion charges. In Post's use of the term, ''proactive response choices promote more involvement and activism on the part of the business organisation'' to change business relations with stakeholders.

Between the polarity of reaction and proaction lies the interactive response. An interactive approach to BDM starts with diagnosing the underlying problem that is prompting the change in business-stakeholder relations and then seeks a non-zero sum solution to address the root cause. This alternative approach to BDM might generate potential costs due to organisational performance or policies, but these outcomes could possibly be offset through gains in more effective business-government relations. A good example is the recent investment by Novartis in Brazil in the medical research field and its simultaneous registering of complaints to the Brazilian government on patent infringement on HIV/AIDS medicine (see Exhibit 2).

Other farsighted companies are also working in an interactive manner with their communities to create profits for their companies and to alleviate poverty in poor communities. When the call for corporate social responsibility is on the rise and the influence of multiple stakeholders can be felt in the public domain, business diplomacy should no longer remain as a specialist task but must be owned by middle management and implemented accordingly.

To put BDM into effective use, policy directives from the top are needed. The CEO must:

- Delineate the BDM domain where non-specialists need to be involved on a regular operational basis, while BDM specialists remain in charge of other domains.
- Formalise the link between BDM and the strategic planning function in order to ensure a socio-political-economic perspective in scenario planning exercises.
- Provide resources for continuous environmental scanning and sufficient contact with non-business stakeholders.
- Develop capabilities for analyzing environmental and social issues in order to identify underlying causes of unanticipated results of successful marketing strategies.
- Initiate a broad-based knowledge management system for BDM to capture accumulated learning.
- Approve BDM training for middle managers to assist them in carrying out their roles in this domain.

EXHIBIT 2 BUSINESS DIPLOMACY OF NOVARTIS.

Novartis experienced friction in Brazil when the government infringed on the intellectual property rights of pharmaceutical companies in order to sustain its free HIV/AIDS treatment program. Instead of seeking a potentially lose-lose litigation, Novartis pledged to invest some USD $36.7 million in its Brazilian operations during 2005, and criticized the government's patent infringements. Novartis also indicated that it would participate in various social plans, including a program to expand distribution of pharmaceutical drugs to communities. Efforts were also made by senior Novartis executives to conduct constructive meetings with Brazilian president Lula da Silva in order to resolve the issues. Novartis continued to consolidate its local market presence by expanding its existing Brazilian production facilities.

BDM is part of a corporate response to the external environment when dealing with the international business environment involving vanous stakeholders seeking a non-zero sum solution to underlying conflicts. The tasks of BDM thus include environmental scanning, stakeholder management, and issue management pertaining to non-business counterparts. MNCs need to set appropriate policies and develop organisational competence in this emerging domain.

CONCLUSION

Global companies' increasing local presence in many countries has significantly highlighted their exposure to various local requirements and pressures. They are expected to abide by multiple sets of national laws and a growing number of multilateral agreements negotiated at international organizations such as the World Trade Organization and the International Labour Organization. To negotiate and renegotiate with local authorities and to make compromises and adaptations are some of the tasks to be handled by business diplomats.

At the same time, business diplomats are expected to deal with an increasing number of often very assertive local and international NGOs that set their own local and global agendas and regularly monitor the business conduct of large global companies. Global companies have to remain sensitive to their demands and expectations and intervene at the appropriate moment to prevent potentially damaging confrontations.

We conducted this survey to determine whether business diplomacy management actually exists within Swiss MNCs and to gain insights regarding its functioning, staffing, and use in various business contexts. We asked how these Swiss MNCs developed their BDM competency—whether they looked for partnerships with business schools or diplomatic academies or whether they preferred to strengthen their BDM know-how mostly through in-house training.

Neither business schools nor diplomatic academies were mentioned as potential partners for training in BDM. The companies surveyed clearly indicated a preference for in-house training. This preference possibly reflects the confidential nature of BDM and the global companies' need to limit dissemination of sensitive information to outside organisations and the need to prevent leakage of such information.

In view of the emergence of an ever-enlarging EU, Swiss MNCs have to manage Swiss ''isolation'' due to Switzerland's reluctance to enter the EU as a full member, and the firms' need to be successful market players in the wider economy. The survey findings reported here, while not conclusive, point to an already accumulated body of organisational learning about business diplomacy management within Swiss MNCs.

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For examples of companies working in an interactive manner with their communities to create profits for their companies and to alleviate poverty for poor communities see C. K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (London: Financial Times, Prentice Hall, 2004).

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