

# **Swiss Executives as Business Diplomats in the New Europe:**

## **New research results of leading Swiss Pharmaceutical and Agro-industrial Global Companies**

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## **ABSTRACT**

In an increasing 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 its independence and standards and paying a minimum price. Business diplomacy in this context is not only part of the dynamics in doing business but also a crucial factor for the sustained success of the Swiss MNCs.

This paper discusses the situation facing Switzerland for being in the middle of the European continent surrounded by EU member countries but at the same time being 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 alliance.

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 import. 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. Remaining presence in non-EU markets is hence of great importance of many of the Swiss MNCs.

One important factor contributing to sustained success of MNCs' operation in foreign markets is its competent use of Business Diplomacy (BDM). Business Diplomacy Management pertains to the ability of MNCs to effectively interact with non-business stakeholders wherever the MNCs have business interests be it in 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.

This paper builds on previous research on BDM and offers new insights into the use of BDM by the leading Swiss pharmaceutical and agro-industrial companies whose total sales revenues from non-European markets clearly outperform sales revenues of a large margin from European and home market combined. The survey findings reported here support the proposition that BDM constitutes one of the core competences of MNCs in managing their global business, especially when the business domains of MNCs are prevalent and closely link to the basic wellbeing of local citizens, such as pharmaceutical and food processing industries.

Views of the Swiss global companies surveyed are summarised, in terms of the most salient aspect of BDM to their overseas operations and the knowledge areas needed strengthening. In contrast to the conventional wisdom, both business schools and diplomatic schools were not considered as the proper forum for acquiring the business diplomacy competence.

## **HISTORICAL CONTEXT OF SWISS MULTINATIONALS - SWITZERLAND'S RELATION WITH THE EU**

Europe's economic reality is characterized by the dominant position of the European Union (EU), recently enlarged from 15 to 25 member countries, and a minor position of the 4 European Free Trade Association (EFTA) countries consisting of Iceland, Liechtenstein, Norway and Switzerland today. The Swiss economy is the largest of the four EFTA countries.

The EU or previously EC (European Economic Communities) has always been seen by successive Swiss governments as a political and economic threat.<sup>1</sup> In its search for ways to respond to the perceived threat posed by the creation of the European Coal and Steel Community (ECSC) in 1951 and the European Economic Community (EEC) in 1971 by France, Germany, Italy and the three Benelux States, Switzerland chose to participate in the establishment of an alternative grouping of countries - the European Free Trade Association (EFTA) - in partnership with Austria, Denmark, Norway, Portugal, Sweden and the United Kingdom in 1960<sup>2</sup>.

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

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<sup>1</sup> The subsequent section builds largely on R. Saner, "The Expert Negotiator, 2<sup>nd</sup> edition, 2004, Martinus Nijhoff Publishers, The Hague, pp 118-121 and on "The Europe of regions", 1995, Georg Editeur, Geneva.

<sup>2</sup> EFTA Secretariat, EFTA Model Yearbook, 2005, <http://secretariat.efta.int/Web/EFTAAtAGlance/EFTAModelYearbook>, accessed 22/03/2005

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 neutrality, Swiss governments have traditionally limited its contacts with the rest of the world to trade relations and intergovernmental exchanges.

Subsequent to its creation, EFTA engaged the EC in trade negotiations and reached a free trade agreement, which was signed between EFTA and the EC countries 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 UK (1973), Denmark (1973), Portugal (1986), Finland (1995) and Sweden (1995) from EFTA to the EEC, the balance of power between the two 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 conclusion of 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.

In order to avoid the economic downside of being outside of the EEA, Switzerland and the EEC started trade negotiations on a sectoral basis in 1994 including sectors like research, technical obstacle to trade, public procurement, market access for agricultural products, free movement of individuals and ground and air transport.

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 as of June 1<sup>st</sup> 2002. The reason for the two-year delay in ratifying the bilateral treaty was due to the lengthy and varied processes of treaty ratification by the different EU countries. In some EU countries, ratification was in the hands of the presidency; in others it was a matter of parliamentary approval.

While this ratification process was under way, both sides already started to explore the possibility of conducting a second round of bilateral negotiations, which 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 initialled the second bilateral agreement. The 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 will be the next step in this increasingly closer relation between the EU and Switzerland.

Global companies with their headquarters based in Switzerland have to be mindful of the delicate relationship between Switzerland and the EU. They need to ensure that their Swiss-origin will not put them in disadvantage in terms of market access. After all the EU market represents one of the largest and most affluent consumer groups in the world.

## IMPORTANCE OF TRADE WITH EU AND NON EU MARKETS FOR SWISS MULTINATIONAL COMPANIES

Switzerland's economy is strongly integrated with the economies of the EU countries. For instance, 60.2 percent of Swiss exports go to EU countries and 81.7 percent of all imports into Switzerland originate from EU countries (2003 statistics, see Table 1).

**Table 1: Foreign Trade of Switzerland (2003)<sup>3,4</sup>**

Regions/ Groupings	Exports		Imports		Trade Balance (in Million CHF)
	Value of Exports (in Million CHF)	Percentage of Total Swiss Exports	Value of Imports (in Million CHF)	Percentage of Total Swiss Imports	
<b>1. Industrial Countries</b>	<b>100 838.2</b>	<b>77.2</b>	<b>110 205.5</b>	<b>89.0</b>	<b>-9 367.3</b>
EU (15)	78 721.5	60.2	101 134.8	81.7	-22 413.3
EFTA (9)	527.8	0.4	289.2	0.2	238.6
Non-European Industrial Countries	21 588.9	16.5	8 781.5	7.1	12 807.4
USA	13 843.6	10.6	5 418.2	4.4	8 425.4
Canada	1 417.5	1.1	485.8	0.4	931.7
Japan	5 138.7	3.9	2 644.1	2.1	2 494.6
Australia	1 039.4	0.8	136.4	0.1	903.0
<b>2. Transitional Economies</b>	<b>8 615.9</b>	<b>6.6</b>	<b>5 636.2</b>	<b>4.6</b>	<b>2 979.7</b>
CEECs	3 523.7	2.7	2 453.6	2.0	1 070.1
Poland	1 122.0	0.9	499.0	0.4	623.0
Czech	1 032.0	0.8	876.4	0.7	155.6
Hungary	846.4	0.6	706.1	0.6	140.3
CIS	1 439.4	1.1	334.3	0.3	1 105.1
S.E. Europe	1 268.9	1.0	449.5	0.4	819.4
Asian T.C	2 383.9	1.6	2 398.8	1.9	-14.9
China	2 369.7	1.8	2 395.9	1.9	-26.2
<b>3. Newly</b>	<b>12 510.7</b>	<b>9.6</b>	<b>3 847.8</b>	<b>3.1</b>	<b>8 662.9</b>

<sup>3</sup> Not including trade in precious metals, jewellery, and art objects.

<sup>4</sup> Source: Swiss National Bank, seco-DPWW, 29. Jan. 2004

<b>Industrialised Countries</b>					
Asian NICs (Thailand, S'pore, HK, TW, S. Korea)	7 886.4	6.0	2 515.8	2.0	5 370.6
Latin America	2 455.9	1.9	767.1	0.6	1 688.8
Others (Turkey, S. Africa)	2 168.4	1.7	564.9	0.5	1 603.5
<b>4. Developing Countries (Oil Exporters)</b>	<b>3 945.6</b>	<b>3.0</b>	<b>1 806.0</b>	<b>1.5</b>	<b>2 139.6</b>
OPEC	3 673.3	2.8	1 746.8	1.4	1 926.5
<b>5. Developing Countries (Non-Oil Exporters)</b>	<b>4 751.0</b>	<b>3.6</b>	<b>2 282.2</b>	<b>1.8</b>	<b>2 468.8</b>
<b>TOTAL</b>	<b>130 661.5</b>	<b>100.0</b>	<b>123 777.8</b>	<b>100.0</b>	<b>6 883.7</b>

On the other hand, trade between Switzerland and the EU (15) versus trade with non-EU countries showed a remarkable difference. Switzerland's trade with EU (15) countries in 2003 resulted in a deficit of 22.4 Billion CHF while trade with non-EU trading partners were positive except for trade with China and Asian transition countries. Overall, the Swiss trade statistics show a positive trade balance of 6.8 Billion CHF.

While the 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 on 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 namely pharmaceutical<sup>5</sup> and agro-industrial sectors surveyed in this study.

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<sup>5</sup> The pharmaceutical industry is a significant branch of the Swiss economy. Despite its small size, Switzerland is the country that exports the highest volume of pharmaceutical products worldwide. More than 90% of the drugs manufactured in Switzerland are destined for export.



For instance, comparing sales revenues, all four global companies sampled in this study (BusinessWeek Global 1000 companies) reported much higher revenues from non-European versus European sources (here including EU, EFTA and CEEC countries) with one agro-industrial company showing the highest non-European source of revenue namely 2.4 times higher than European sources in 2004.

In order to ensure competitiveness in the EU and non-EU main markets, Swiss MNCs in general and those of the pharmaceutical and agro-industrial sectors need to invest considerable amounts of funds in OECD countries (EU and non-EU), newly industrialised economies (NIEs) as well as in major developing countries (DCs) such as China, India, Brazil and South Africa.

Ensuring success in such far distant markets with often very different business practices and cultural preferences requires sustained excellence in terms of setting competitive prices, ensuring high quality products and services but also in guaranteeing excellence in managing the 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 is crucial to ensure sustainable presence and positive investment climate in the host countries of the Swiss global companies subsidiaries.

## **BUSINESS DIPLOMACY MANAGEMENT**

Coupled with the global economic integration, similar process has taken hold in the social and ecological sphere and exerting pressure on companies. The now accepted "Corporate Social Responsibility" charter and "Global Compact" are just two of the many examples of such influence from the non-business stakeholders. In order to succeed as a business and ensure

sustainable economic viability of their investments, transnational enterprises must draw on competencies, which will allow them to manage multiple stakeholders at home and abroad.

Faced with these challenges, global companies need to acquire greater diplomatic capacities and competencies in handling both the internal stakeholders and the external non-business stakeholders. Experiences have shown that the latter could be highly problematic for multinational companies if it is badly or incompetently handled. The case in point is the court case, which large Western pharmaceutical companies started and lost against the South African government in regard to patent infringement issues in the context of treating AIDS patients with generic drugs. Or the mishandling of Coke Cola regarding its contaminated coke bottles in Belgium which caused severe backlash of consumer groups in Europe and loss of million dollars of revenue and market position to the competitors.

The diplomatic function within a Multinational Company's goal is to ensure continuation and structural cohesion within its diverse web of headquarter and subsidiaries companies. This function could be divided into two, namely, that of Corporate Diplomacy and of Business Diplomacy. In contrast to the concept of corporate diplomacy<sup>6</sup>, business diplomacy deals with the external stakeholders, but not with the internal frictions due to cultural diversity<sup>7</sup>. Business diplomacy aims to make the external environment of its subsidiaries conducive for business activities.

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<sup>6</sup> *Corporate Diplomacy* consists of two organizational roles considered to be critical for the successful coordination of a multinational company, namely "that of a country business unit manager who *should be able to function in two cultures: the culture of the business unit, and the corporate culture that is usually heavily affected by the nationality of the global corporation*"; and that of a corporate diplomat who as a home country or other national who is *impregnated with the corporate culture, multilingual, from various occupational backgrounds, and experienced in living and functioning in various foreign cultures.*

<sup>7</sup> An example of cross-country divergence of business practice are the sources leading to labour turnover which vary considerably between countries, see for example: Raymond Saner, Lichia Yiu (1993), "Coping with Labour Turnover in Taiwanese Companies", *The American Asian Review*, Vol. XI, No. 1, Spring 1993, pp. 162-195.

Demands from the local communities on corporate conduct (present, past and future) could significantly limit the range of freedom of corporate behaviour. 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 reputation capital.

Traditionally, big enterprises hire former ambassadors or state secretaries (in the USA) to promote business contacts and to obtain lucrative contracts. However, business diplomacy in today's networked business environment extends beyond the domain of public relations and business contacts. It deals with on the one hand the communities and consumer groups at the grassroots level, and on the other with the international community. Civil society actors are far more fragmented than the states or other transnational enterprises. Nevertheless, civil society organisations can cause a multitude of challenges to transnational enterprises. Therefore it is much more demanding in managing the multitude interfaces with the civil society groups. Business Diplomacy could hence be defined 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

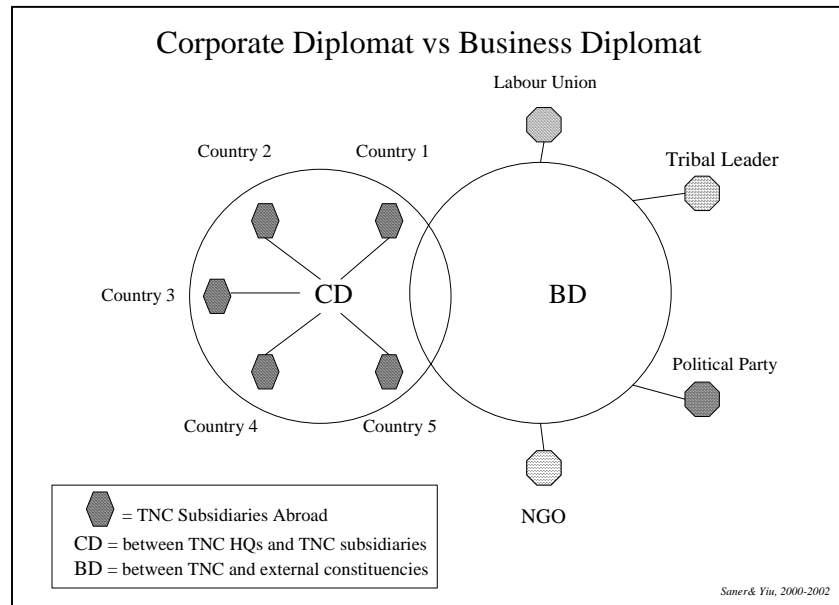
strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, collect and analyse pertinent information emanating from host countries and international communities” (*italic added*).<sup>8</sup>

Business diplomacy creates new business opportunities through the skilful use of international treaties and agreements. It also creates the necessary social capital in order to seize new business opportunities around the world by addressing the need of the hosting countries’ needs. At the same time, business diplomacy helps to accumulate contacts and social influence through dialogue with non-business stakeholders and through active involvement in the communities. In large and globally present MNCs, the management of non-business partners is in the hands of business diplomats while CEO often interact personally with high level government officials and heads of UN agencies. One of the highest profiled fora for CEOs to conduct business diplomacy is the annual World Economic Forum in Davos.

The role of business diplomat and function are often of very discrete nature due to the highly confidential nature of their work, which often involves high-risk conflicts and/or crises, which could negatively affect business or even jeopardize the presence of a MNC in foreign markets. Figure 1 illustrates the contrasting functions between *Corporate Diplomat* and *Business Diplomat* regarding their diplomatic space (R.Saner & L.Yiu, 2003).

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<sup>8</sup> Raymond Saner, Lichia Yiu, Mikael Sondergaard, (2000), “Business diplomacy management: a core competency for global companies”, *Academy of Management Executive*, Vol. 14, No.1, pp 80-92



**Figure 1: The distinction between Corporate Diplomat and Business Diplomat**

## **DIMENSIONS OF BUSINESS DIPLOMACY MANAGEMENT**

Business diplomacy management is about:

- 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
- Using multiple international fora 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.

It was hypothesised that at the firm level, the business diplomats 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.

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

When dealing with stakeholder groups, business diplomats are called in to mediate potential or on-going conflicts, may they be of economic, social, environmental or political nature. More importantly, business diplomats will scan the environment and identify potential conflict areas with the stakeholders before implement a project.

While the need for business diplomacy is evident,<sup>9</sup> 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 the MNCs. A survey of major Swiss MNCs was carried out in order to answer some of these questions.

## **METHODOLOGY AND SAMPLE SIZE OF STUDY**

Method used for this study was based on a semi-structured interview consisting of a non-intrusive questionnaire (see annexe) combined with informal inquiry and discussions with staff in charge of BDM. However, 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 and media such as the

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<sup>9</sup> Cases examples illustrating this need were given in the article of Raymond Saner, Lichia Yiu, Mikael Sondergaard, (2000).

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 purpose of the study but also intentions of the researcher. For some companies, a personal visit after several 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 journalist could cause.

A further difficulty, which needed to be addressed during the study, was the fact that the BDM function is not organised by the global companies in the same manner nor are BDM managers placed in the same positions in their respective hierarchy. Each company surveyed had its BDM function and manager but the location and even the role title were very different from one company to the other. Therefore finding the knowledgeable representative within each company was a time consuming exercise. It took some initial detective work to locate the respective function which was really in charge and responsible for BDM.

A total number of 20 Swiss MNCs was contacted for this study. Data were gathered from six companies. Four of the responses were useable for this report representing a 5% response rate.

The MNCs, which participated in this study, are the biggest Swiss global companies of pharmaceutical and agro-industrial sectors. The three pharmaceutical companies responded were the dominant market makers in their respective industry and ranked 21<sup>st</sup> (Company B), 29<sup>th</sup>

(Company A) and 616<sup>th</sup> (Company C) largest companies of the world by the BusinessWeek Global 1000 in 2004. The fourth company (Company D) was ranked 25<sup>th</sup> in the BusinessWeek Global 1000 and the biggest company in the agro-business sector. The sampling did not include other sectors such as e.g. the banks and financial sector since few of the Swiss banks are in fact really global players.

The interviews were conducted during the time span of 2003-2004 and the subsequent data analysis was completed in February 2005. Table 2 below shows the extent of globalisation of the participating companies. All are represented in a large number of countries, are of a medium to large size.

**Table 2: Characteristics of Swiss Companies Surveyed**  
(Data from 2004 company annual reports)

COMPANY	Total Annual Sales (in billions) <sup>a)</sup>	Number of Employees Worldwide	Number of Countries Present	Sales Revenue Originated from Europe <sup>b)</sup> (in billions)	Sales Revenue Originated from Outside Europe (in billions)
A	USD 26.5 (CHF 31.273)	65 000	150	USD 9.998 (CHF 11.998)	USD 16.062 CHF 19.275)
B	USD 28 247	81 392	140	USD 10.289	USD 17.958
C	USD 7.269	19 000	90	USD 2.892 <sup>c)</sup>	USD 4.377
D	USD 73.974 (CHF 88,769)	253 000	87	USD 23.802 (CHF 28.563)	USD 50.172 (CHF 60.206)

<sup>a)</sup> At exchange rate of 1USD = 1.2 CHF, <sup>b)</sup> Including sales in Switzerland, <sup>c)</sup> Including sales in Africa and Middle East

## RESULTS OF STUDY

The data gathered confirmed the existence of business diplomacy management function within the Swiss MNCs. However there is little consistency in how these Swiss MNCs organised this function. Business diplomacy management is staffed by higher individuals with diverse background with work experiences in influencing public opinion and power holders. More detailed findings are reported below.

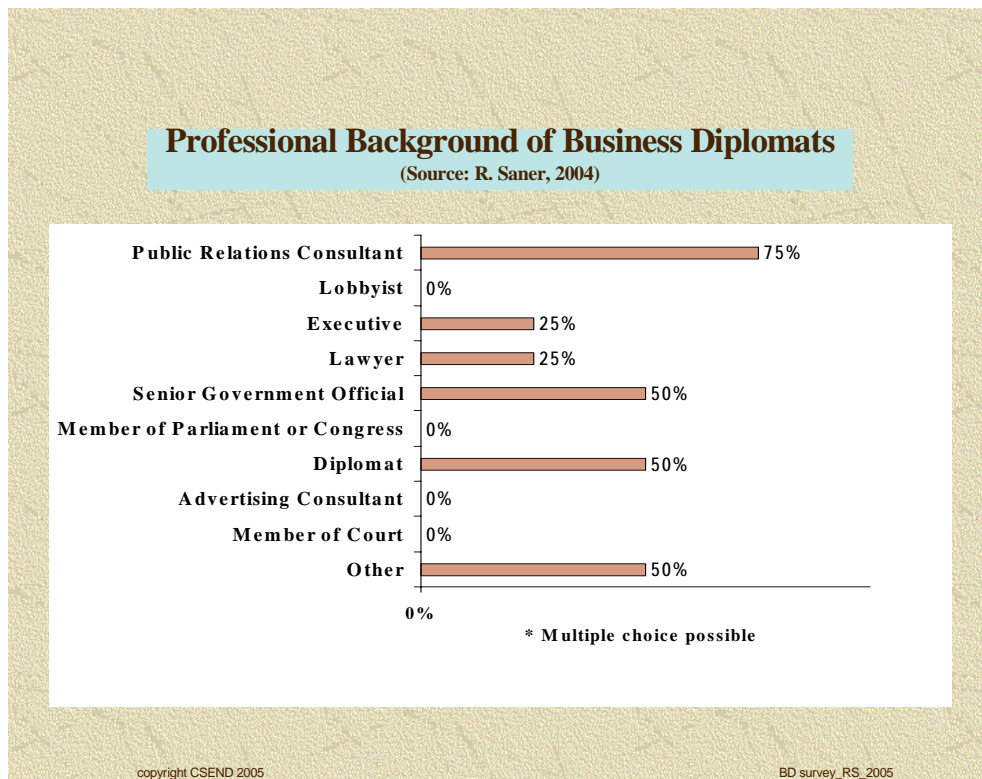


Have MNCs allocated specific resources in dealing with business diplomacy related issues? What professional background these business diplomats have?

Three out of four companies surveyed clearly indicated that they have dedicated staff responsible for business diplomacy while the fourth company did not offer any specific response to this question nor denied having staff working in this domain. It is inferred as a more distributed approach to BDM and shared between different corporate departments.

Professional background of these business diplomats consisted of 75% of public relations consultants, senior government officials (50%), diplomats (50%), executives (25%), and lawyers (25%). It was interesting to note, none of the business diplomats were lobbyists, advertising consultants, members of court or parliament (see Figure2).

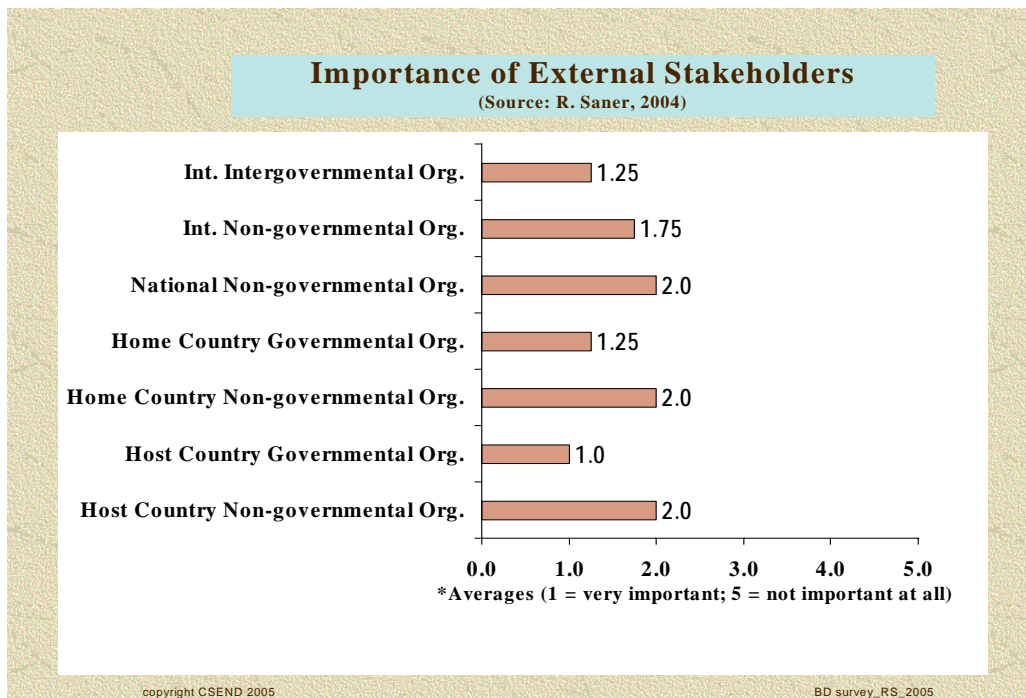
**Figure 2: Professional Background of Business Diplomats**



In dealing with non-business stakeholders, which groups are most important to the business results?

Of the non-business stakeholders that MNCs have to deal with, national NGOs, host country NGOs, and home country NGOs are identified as the most important external stakeholders that MNCs are facing in today's business environment and more participatory and informed global society (see Figure3).

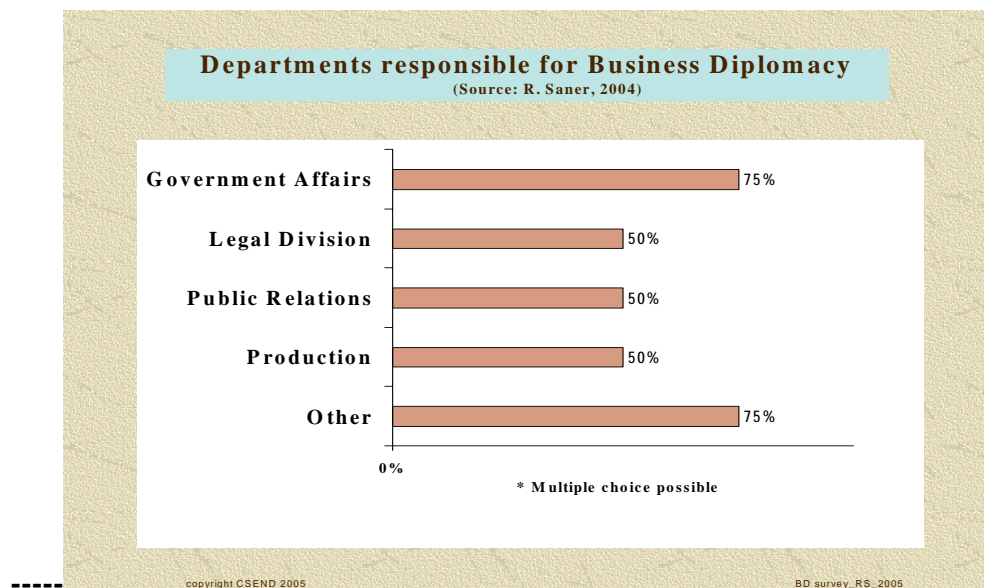
**Figure 3: Ranking of Importance**



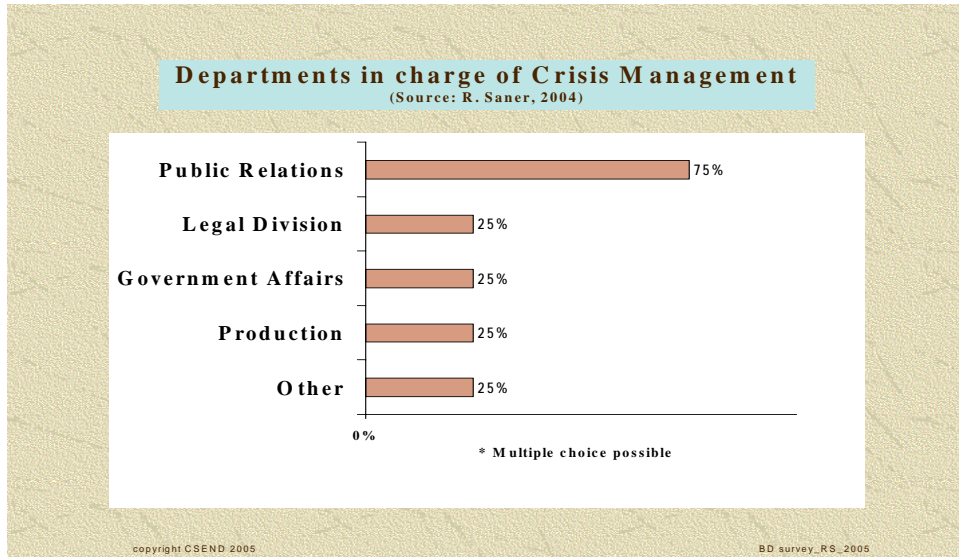
How is the business diplomacy management function organised?

There was no consistent answer to this question. Business diplomacy was conducted by different departments or functions within different MNCs. Managers who were responsible for the business diplomacy reported to different departments depending on which global companies

they worked for. The most common practice was reporting to the Government Affairs department (75%), while the companies studied mentioned also that business diplomats also report to the Legal Division, Public Relations Department, Production Division and others (see Figure 4). When dealing with crisis management such as consumer boycott of company products, damaging publicity campaign against the company's reputation, suspension of company operation, hostage taking of staff, industrial sabotage, 75% of the responses said that the Public Relations Department handled the crisis situation (see Figure 5).



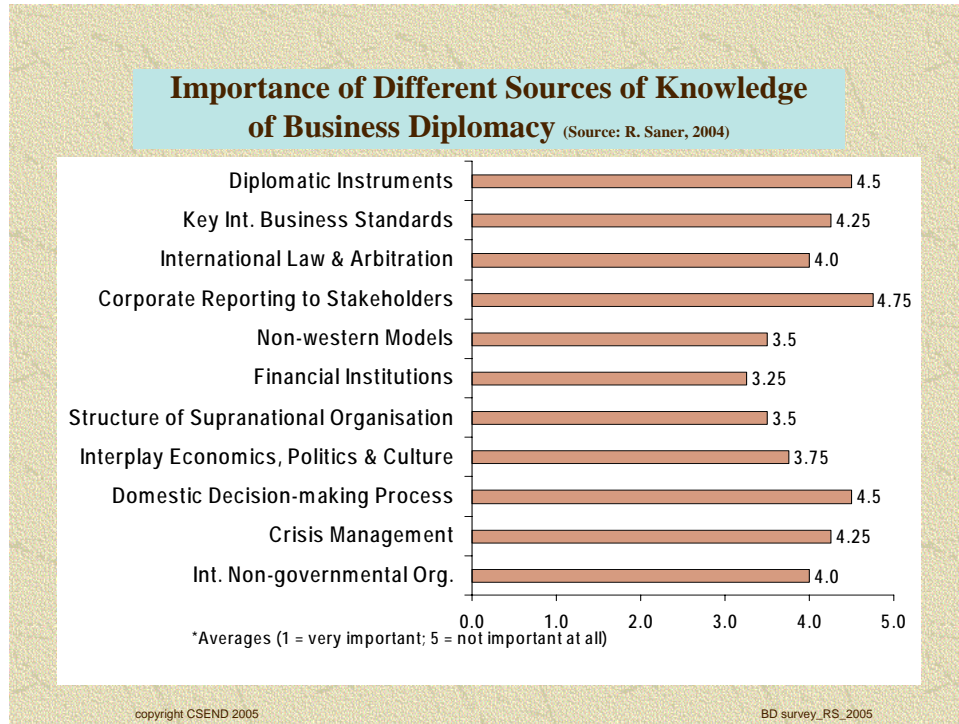
**Figure 4: Departments responsible for Business Diplomacy**



**Figure 5: Departments in Charge of International Crisis Management**

What knowledge domain(s) were most important for the company's success?

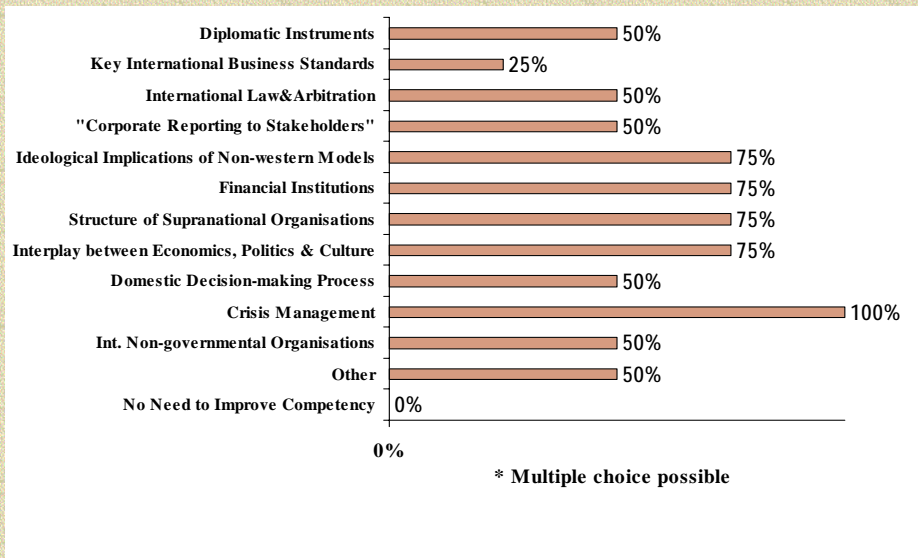
The most important areas of knowledge concerning BDM to the company's success in order of importance were, 1) the impact of corporate reporting to stakeholders, 2) the domestic decisionmaking process, 3) knowledge of international business standards and 4) knowledge of mechanisms of international crisis management. Relatively speaking, the least important knowledge area was the knowledge related to the international financial institutions, such as the World Bank, IMF, and regional development banks.



When asked about the most needed knowledge regarding business diplomacy, respondents unanimously indicated that areas of knowledge in business diplomacy in need of most improvement is managing international crisis (100%). Next on the list were a) knowledge of the history and ideological implications of non-western models of society and business (75%), b) knowledge of international financial institutions (75%), c) knowledge of the structure and decision making process of supranational organisations (75%), and d) knowledge of the interplay between economics, politics and culture by region/country (75%). None of the companies sampled mentioned there is no need for improvement (see Figure 6).

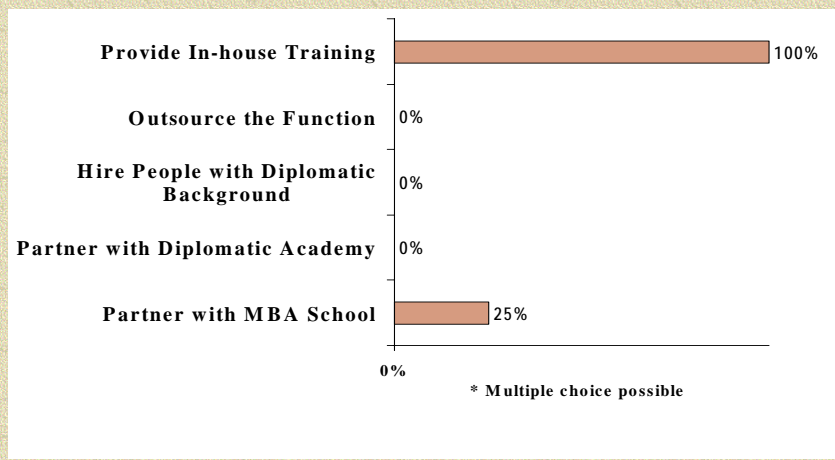
**Figure 6: Knowledge Needing Improvement**

### Areas where Knowledge in Business Diplomacy Could be Improved (Source: R. Saner, 2004)



When asked about measures to develop in-house competence in business diplomacy, all of the companies sampled identified in-house training as the primary tool. Partnering with MBA school to build up this competence was considered only by 25% of the samples as an option, while other measures such as partnership with diplomatic academy, hiring additional former diplomats, and outsourcing were completely ruled out (see Figure 7).

### Measures to Generate Business Diplomacy Know-how (Source: R. Saner, 2004)



## **Figure 7: Measures in Strengthening I-house Cpetency in Business Diplomacy**

All of the companies within the Swiss Sample mentioned that they belong to some special interest groups.

## **CONCLUSION**

Global companies' drive toward greater local presence has significantly expanded the MNC's exposure to local conditions. The 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). To negotiate and re-negotiate with local authorities and to make compromises and adaptations are some of the tasks to be handled through business diplomacy (Saner, Sondergaard & Yiu, 2000). Also, not to be underestimated is the growing assertiveness of the local and international NGO's in setting local and global agenda and in regularly monitoring the business conduct of the large global companies. Global companies have to remain sensitive to their demands and expectations and intervene at the appropriate moment to dissipate potentially damaging confrontations.

A questionnaire survey was conducted to find physical evidence that business diplomacy management actually existed within Swiss MNCs and to gain insights regarding its structure, human resources and needed knowledge areas. Questions were also asked concerning existing mechanisms in developing this competence in house and whether partnership with either business schools or diplomatic academies as preferred solution.

Four world leading Swiss MNCs provided full answers to the research questions. Their answers supported the hypothesis that MNCs have equipped themselves with business diplomacy management capacities and with dedicated human resources to carry out this responsibility.

Business diplomats of the sampled Swiss MNCs were of varied professional backgrounds ranging from public relations consultants, to senior government officials, diplomats and retired executives. They reported to different departments representing non-uniformed organisational structures for this function.

Evidence also showed that the onset of participatory societies with vocal social actors had impacted the business diplomacy. Some of the most important non-business stakeholders were both national and home country NGOs, followed by the international NGOs. In contrast, the host country government organisations were perceived as less important to the success of business. The required knowledge for business diplomacy reflected the same emphasis on corporate reporting to stakeholders, diplomatic instruments, key international business standards, domestic business decision making process and international NGOs.

For sources of knowledge and capacity building, neither the business schools nor the diplomatic academies were named as partners in strengthening the business diplomacy management competence of the MNCs studied. Instead, these companies choose to conduct in-house training for this purpose. It could be inferred that most of the business schools have not take up business diplomacy management as a subject matter of research and teaching, nor for the diplomatic academies. This represented a potential new subject matter for the academic communities to focus on and contribute to the better managing of multiple interdependencies in a global economic system.

In view of the emergence of an ever enlarging EU, Swiss MNCs have to live with the relative Swiss isolation and increasingly vocal domestic forces against Swiss integration with this historical development. Business diplomacy will have to be managed with a more systematic approach in order to avoid potential conflicts in this new European environment.



Similarly, business diplomacy will have to be deployed in order not to lose the already achieved economic gains in the larger CEES countries. The survey findings reported here, even though not conclusive, but pointed to the already accumulated organisational learning within Swiss MNCs and point to the need for future similar studies.

### **Selected bibliography**

A more detailed description of our initial research on Business Diplomacy Management can be found in R. Saner, M. Sondergaard and L. Yiu's *Business Diplomacy Management: A Core Competence for Global Companies*, Academy of Management Executive, Feb. 2000, vol. 14(1):80-92. For recent publications on

For more recent publications on multi-stakeholder economic diplomacy see R. Saner & L. Yiu International Economic Diplomacy: Mutations in Post-Modern Times, Discussion Paper Nr. 84, January 2003, Netherlands Institute of International Relations "Clingendael", The Hague.

An example of MNC's of the petroleum industries using various BDM strategies and tactics in Latin America is described and analysed by Titus Moser in his article titled *MNCs and Sustainable Business Practice: The Case of the Columbian and Peruvian Petroleum Industries*, World Development, Vol. 29, No.2, pp 291-309, 2001, Pergamon Press.

Applying the BDM questionnaire developed by DiplomacyDialogue/CSEND to German MNCs, Jan Patrick Schnell research showed similarities and differences between the Swiss and German MNC's organisational of BDM (see Jan-Patrick Schnell, *Folgen globaler wirtschaftlicher Präsenz für die Politikgestaltung international operierender Unternehmen*, Diplomarbeit (unpublished), 2003, University of Constance, Germany.

Related the Herbert Quandt Foundation undertook work, which organised a symposium on the political influencing and role of MNCs in August 2004. Different representatives of mostly German MNCs debated BDM. Their speeches together with introductory comments were published as *Jesuits des States? "Aussenpolitik" durch Unternehmen und NGOs*, August 2004, Bad Homburg, Germany.

A well researched contribution on the nexus MNCs-NGOs-Governments and their often conflictual interactions was written by Michel Doucin, former Secretary General of the Haut Conseil de la cooperation Internationale of the French government, in *Guide de la liberté associative du monde*, La Documentation Française, 2000, Paris.

For more in-depth analysis of the possible tensions and conflicts of interest between NGOs and industry representatives of the forestry sector see Brian Hocking, *The Woods and the Trees: Catalytic Diplomacy and Canada's Trials as a "Forestry Superpower"*, Environmental Politics, Vol. 5, No.3, Autumn 1996, pp 448-475, Frank Cass Publ, London.



**SURVEY QUESTIONNAIRE / SWISS MULTINATIONAL  
COMPANIES  
BUSINESS DIPLOMACY MANAGEMENT (BDM)**

*Please answer the following questions. Where you feel you have no personal knowledge, please feel free to leave the question blank.*

**Company Information**

1. How many people are employed by your company?

- 101-500    501-1'000    1'001-5'000    5'001-10'000    10'001-15'000  
 15'001 or more

2. In which country is your company headquartered? \_\_\_\_\_

3. How many employees work in the country where your headquarters is located?

- 101-500    501-1'000    1'001-5'000    5'001-10'000    10'001-15'000  
 15'001 or more

4. How many employees work in countries other than where your headquarters is located?

- 101-500    501-1'000    1'001-5'000    5'001-10'000    10'001-15'000  
 15'001 or more

5. Number of countries in which your company operates.

- 1-5    6-10    11-15    15-30    31 or more

6. In which region(s) does your company have employees? *(Please check all that apply).*

- North America    South and Central America    North Africa    South Africa  
 Western Europe    Eastern & Central Europe    Middle East    Asia    Other

## Business Diplomacy Management

Using the scale below, please rate how important each of the following external counterparts to your company.

1 = Very Important, 2 = Important, 3 = Somewhat Important, 4 = Of little importance, 5 = Not at all important

7. \_\_\_\_ International Intergovernmental Organisations, e.g., WB, WTO, WIPO, ILO, UNFCCC, ITU, WHO, EU, etc.
8. \_\_\_\_ International Non-governmental Organisations, e.g., WWF, Oxfam, Greenpeace etc.
9. \_\_\_\_ National Non-governmental Organisations, e.g., Trade Unions, Consumer Groups etc.
10. \_\_\_\_ Host Country Governmental Organisations
11. \_\_\_\_ Host Country Non-governmental Organisations
12. \_\_\_\_ Home Country Governmental Organisations
13. \_\_\_\_ Home Country Non-governmental Organisations
14. \_\_\_\_ Other \_\_\_\_\_
15. \_\_\_\_ None of the Above
16. Is your company a member of any special public interest groups dealing with issues such as child labour, natureconservation, etc.?  Yes  No (Please skip to #18)

17. Which ones?

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18. Does your company have managers or experts who deal with business diplomacy (for definition please refer to the cover letter)?  Yes  No (Please skip to #24)
19. Do these managers or experts...  cover the whole Business Diplomacy function  
 partially cover the Business Diplomacy function
20. If your answer is "partially cover", what is not covered? \_\_\_\_\_

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21. Into which organization do these managers or experts report?

- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Public Relations   | <input type="checkbox"/> Legal Division | <input type="checkbox"/> Department in Charge or Production |
| <input type="checkbox"/> Government Affairs | <input type="checkbox"/> Other _____    |   |

22. Are they employed Full time or Part time?

- Full time       Part time.

23. What prior professional positions have they held? Please check all that apply:

- Public Relations Consultant       Diplomat       Lobbyist       Advertising Consultant  
 Lawyer       Executive       Senior Government Official       Member of court  
 Member of parliament or congress       Other \_\_\_\_\_

24. Which department or organization has primary responsibility for managing international crisis situations affecting your company (e.g., consumer boycott of company products, damaging publicity campaign against the company's reputation, suspension of company operation, hostage taking of staff, industrial sabotage)?

- Public Relations       Legal Division       Department in Charge or Production  
 Government Affairs       Other \_\_\_\_\_  
How do you handle such crises?
- 
- 
- 

25. How does your company monitor its corporate reputation in the countries in which it operates (seen from both a business and social responsiveness point of view)? *Please check all that apply.*

- Media (TV, newspaper)       Internal Reporting System       Internal Public Relations Department  
 Outside Consultancy       External Public Relations Firm       Internet (Websites, Forums, Chat Rooms)  
 other       firm does not monitor its corporate reputation

26. How does your company analyse the socio-political and environmental developments in the geographic areas

in which your company is active? *Please check all that apply.*

- Media (TV, newspaper)       Internal Reporting System       Internal Public Relations Department  
 Public Relations Firm       Outside Consultancy       Internet (Websites, Forums, Chat Rooms)  
 other       firm does not analyse these developments

27. Does your company try to influence the development of international governance and regulatory policy which might impact its business on a global level?      Yes      No

If yes, how?

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If not, why not?

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Please rate how important each of the following knowledge areas is to your company's success.

5 = Extremely important, 4 = Very important, 3 = Important, 2= Unimportant, 1 = Not at all important

- 28. \_\_\_\_ Knowledge of diplomatic instruments (e.g., trade agreements, consular treaties, taxation treaties)
- 29. \_\_\_\_ Knowledge of key international business standards (e.g., labour, environment, trade)
- 30. \_\_\_\_ Knowledge about the functioning of international law & arbitration
- 31. \_\_\_\_ Knowledge of the impact of "Corporate Reporting to Stakeholders"
- 32. \_\_\_\_ Knowledge of the history & ideological implications of non-western models of society and business
- 33. \_\_\_\_ Knowledge of the international financial institutions (e.g., IMF, WB, Paris Club, London Club, US FRB, BIS)
- 34. \_\_\_\_ Knowledge of the structure and decision making process of supranational organizations (e.g., UN, EU, NAFTA, ASEAN)
- 35. \_\_\_\_ Knowledge of the interplay between economics, politics & culture by region/country
- 36. \_\_\_\_ Knowledge of the domestic decision-making processes of key host country governments
- 37. \_\_\_\_ Knowledge of the mechanisms of international crisis management including the role of diplomacy and government
- 38. \_\_\_\_ Knowledge of international non-governmental organisations (NGOs)
- 39. \_\_\_\_ Other: \_\_\_\_\_

40. In what areas do you believe there is an opportunity to improve your company's in-house competencies in dealing with business diplomacy? *Please check all that apply.*

- 40a. \_\_\_\_ Knowledge of diplomatic instruments (e.g., trade agreements, consular treaties, taxation treaties)
- 40b. \_\_\_\_ Knowledge of key international business standards (e.g., labour, environment, trade)
- 40c. \_\_\_\_ Knowledge about the functioning of international law & arbitration

- 40d. \_\_\_\_ Knowledge of the impact of "Corporate Reporting to Stakeholders"
- 40e. \_\_\_\_ Knowledge of the history & ideological implications of non-western models of society and business
- 40f. \_\_\_\_ Knowledge of the international financial institutions (e.g., IMF, WB, Paris Club, London Club, US FRB, BIS)
- 40g. \_\_\_\_ Knowledge of the structure and decision making process of supranational organizations (e.g., UN, EU, NAFTA, ASEAN)
- 40h. \_\_\_\_ Knowledge of the interplay between economics, politics & culture by region/country
- 40i. \_\_\_\_ Knowledge of the domestic decision-making processes of key host country governments
- 40j. \_\_\_\_ Knowledge of the mechanisms of international crisis management including the role of diplomacy and government
- 40k. \_\_\_\_ Knowledge of international non-governmental organisations (NGOs)
- 40l. \_\_\_\_ Other: \_\_\_\_\_
- 40m. \_\_\_\_ No need to improve their competencies

41. How do you plan to improve your company's in-house competency in Business Diplomacy?

Partner with MBA school to provide training

Partner with Diplomatic Academy to provide training

Hire additional people with diplomacy background

Provide in-house training

Outsource this function to external consultancy

Other

\_\_\_\_\_

Thank you for your time in filling out this survey

For further questions or information, please contact us at:

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I would like to receive a copy of the survey findings.

**Please contact me at:**

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