Corporate diplomats: global managers of 21st century

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Abstract: This paper explores the concept of corporate diplomacy and corporate foreign policy. Traditionally diplomacy is strictly related to the role of negotiating and advising the State in its foreign relations. I argue that the globalization changed the face of multinational companies. Today they are so big and complex that they are almost States. They cannot just focus in their traditional attributions related to the market. In other words, modern corporations need a corporate foreign policy in order to coordinate its market objectives with its objectives in relation to governments and the organized society. In order to deal with its new challenges multinational companies need a new kind of employee, the corporate diplomat, able to deal with market, government and societal objectives of this new corporation.

Keywords: corporate diplomacy, global managers, corporate foreign policy, multinational companies.

Introduction

The globalization imposes several challenges for organizations operating in a global scale. Multinational companies (MNCs) must answer not only to increasingly difficult market challenges but also to different pressures coming from its stakeholders.

This is a conceptual paper that explores the idea of a corporate diplomacy. Traditionally diplomacy is strictly related to the role of negotiating and advising the State in its foreign relations. Nevertheless, as I argue, in order to deal with its new challenges MNCs need a new kind of employee, the corporate diplomat, able to deal with market, government and societal objectives of the company.

To explore the need of this new professional I first discuss the growing importance of MNCs in the world economy. I show that only in the last 30 years or so the corporations really began to occupy a central role in the world production and employment. Then, I present the political power of modern companies through the concepts of soft and structural power.

Having discussed the characteristics of the modern organization I argue that

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they need to develop a corporate foreign policy (CFP) in order to coordinate its market objectives in relation to its different stakeholders. I also review the literature on global executives and recognize the several terms and meanings referring to the professional operating in the global environment. I indicate that the corporate diplomat refers to an individual that does not only recognize traditional market challenges but also relate it to governments and the civil society without putting on risk a company’s profitability.

I conclude that an extensive agenda of research is needed to further understand the relation between the dimensions of the CFP. What are the competencies of the corporate diplomat and what can be developed at the universities, among other questions.

The increasing importance of MNCs in the world economy

The concepts of State, sovereignty and territory have always been central in the study of international politics (BIERSTEKER in CARLSNAES, RISSE and SIMMONS, 2006). Nevertheless, as Josselin and Wallece (2001) notes, “only the most determined ‘Realist’, however, would now deny that the balance between States and non States has shifted, over the past 30-40 years”.

The debate over the importance of the MNCs in relation to the States is result of the changing nature of these organizations over the years. Historically we can consider the West India Companies as the first major global corporation over the 17th century. Its operations extended from Japan, through India up to Brazil. In spite of its tremendous economic and political power this company was a very special and isolated case.

As a matter of fact the modern history of MNCs can be traced back to the beginning of the 19th century. It was in the 1820s that the European transport network began to improve with the implementation of a railway system. With low barriers for the capital flow the direct investment began to flourish. With this environment the first companies with multinational characteristics emerged, especially in the sectors of financial services, transports and natural resources. The industrial revolution made England the natural home for these companies due the developed production of textiles, cow, steel and iron (Jones, 2004).

Towards the end of the 19th century, when the Dow Jones index was created (1896), most of the 30 companies that composed the index were commodity producers such as the American Sugar Company and the American Rubber Company. Among the first top North American MNCs only General Electric still exists¹.

With the expansion of the consumism after the Second World War the MNCs really became big companies and the central organization of production and employment in the national economies. The business administration courses began to be popular at the universities and also the MBAs emerged as a practical tool to improve the decision-making processes in increasingly complex organizations.

It was only in 1960 that the term MNCs appeared after a conference at the Carnegie Mellon University done by David Lilienthal. He referred to the

companies that have their home in one country but operate and live under the law of other countries as well (KOBRIN in RUGMAN and BREWER, 2001).

The expansion of the companies in the 1960s and 1970s gave place to a first wave of international business and international relations literature. Vernon (1969) and Kindleberger (1971) were among the first to capture the tension between the State as the main economic unit of production and the MNCs.

Keohane and Nye (2001) also regarded the companies as important actors with their own interest. Their influence could not anymore be reduced to one country and only be submitted to a country interest. Furthermore, the idea of transnational actors (KEOHANE and NYE, 1971) already demonstrated at that time that the States could not be seen as isolated actors.

Nevertheless, in spite of their growing size and importance from the 1960s up to the 1980s their relative size (revenues) in relation to the national economies and its organizational logic (very centralized at the headquarters) did not justify the development of any specific policy to deal with several governments at the same time. At this time these corporations were just companies based in one home country with several subsidiaries.

As Ohmae (1990) notes, towards the beginning of the 1990s the MNCs became truly global corporations that are stateless and independent of their national origin. Corporate planning also began to be conceived globally rather than in national terms. For him, the global company was the natural response to a borderless world economy characterized by homogenous consumer tastes.

According to the World Investment Report 2008 (UNCTAD, 2007) there is a growing importance of the MNCs in the global economy. In 1992 there were about 35,000 MNCs with 150,000 foreign affiliates worldwide. In 2007 the figure of MNCs grew to 79,000 with about 790,000 foreign affiliates. These companies employ more than 82 million people (against 24 million in 1990). Moreover, the value added of the foreign affiliates worldwide represented an estimated 11% of the global GDP. UNCTAD estimates that the total sales of the MNCs amounted to US$ 31 trillion in 2007 representing an increase of 21% over 2006.

This trend is justified by UNCTAD (2002) due to:

Policy liberalization – In 2001, 208 changes in laws in 71 countries were more favorable to foreign direct investment. Furthermore, 97 countries negotiated 158 bilateral trade treaties rising.

Technological change – High investment costs drives the companies towards internationalization. At the same time communication and transport costs are dropping decreeing “the death of distance”.

Growing competition – These two factors combined is resulting in increasing competition in a global scale which is resulting in new kind of associations and new forms of productions.

In the last years the MNCs are answering to rapid global changes increasing their internationalization not only as a competitive imperative but also looking for new business opportunities. The international business environment is not only favorable to gains of scale but also to the development of knowledge about new needs driving the innovative efforts to new products and services.
Levitt (1983) in the beginning of the 1980s already called attention to the impact of the globalization in the business. For him the technology leads to a company able to operate with the same products everywhere in the world. More recently Ghemawat (2007) states that corporate strategies must be developed in a semi-globalized world were the integration levels are growing steadily but are far from complete integration. Therefore, he suggests that although globalization has a major impact in business they must be aware to cultural, administrative, geographical and economic differences.

For Vance e Paik (2006) the real challenge for MNCs is to establish systems that can accommodate both globalization and localization. On other words, to create systems centralized enough for global integration and coordination and decentralized enough to give local responses.

Despite the development of corporations power Gilpin (2001:21) states that the international economic relations still State centric. They are still the main actors in any multilateral negotiation process and still able, one way or another, to regulate the action of these companies. Pauly and Reich (1997) also observe that in spite of the globalization the MNCs are still very different due to the ideological tradition of their home countries.

Nevertheless, Rosecrance (1999:43) notes that there is an increasing virtualization of both states and companies. The virtual states are those concentrated in very specialized services, centralizing the headquarters of the companies but outsourcing the production outside of the country. At the same time the virtual corporation is a company that concentrates the design, marketing and finances at the headquarters but leaves the production to other companies.

The corporations that invest in other countries have a Janus Face since to some extent they are an expansion of foreign states interests. Yet they also have to respond to the policies and market conditions of the host country. MNCs are subject to influence by host governments (through regulation or economic policy) which in turn affects its global profitability. On the other hand, the company invests abroad because they believe in the success of the host country’s economy. Therefore, it also contributes for the local prosperity (ROSECRANCE, 1999: 44).

This Janus Face is very complex since, in the end, the corporations need the juridical order built by the States. They do not have any interest in weakening the States since the institutional instability is not convenient for them. A business environment where the contracts are not legally binding or, even worse, where the companies can be ripped off certainly is not the best place to invest for most of the companies. In other words, a lack of legal coercion mechanisms imply in a long term uncertainty about the business perenity.

The modern corporation cannot be seen as just a national company with several branches in other countries (GILPIN, 1987). Many MNCs, not only from the USA, are really increasingly complex transnational organizations and one of the main focuses of the international business literature (HILL, 2003; LEVITT, 1983; OHMAE, 1989 and VERNON, 1986)
Corporate foreign policy and corporate diplomacy

The Westphalian order established the State by separating what is inside of a country from what is outside. From a classic international law perspective a State is defined by the following qualifications: a) a permanent population; b) a defined territory; c) government; and d) capacity to enter into relations with other States (SHAW, 1991: 138). Inside a State there is a hierarchy since the government is the single authority to its population and its defined territory. In the international system only States can recognize other States. As independent units these States must establish policies to deal with other States.

Wilhemy (1988) defines foreign policy as a set of political activities in which one State defines its interests in relation to another while Russel (1990) consider it as the particular area of public policy with three dimensions: diplomatic/political; military and economic.

At the same time diplomacy can be seen as the essential institution for the conduct of inter-State relations (JONSSON in CARLSNAES, RISSE and SIMMONS, 2006) or the peaceful conduct of relations amongst political entities (HAMILTON and LANGHORNE, 1998) and also as the instrument of foreign policy for the establishment of peaceful contacts between the governments of different States (MAGALHAES, 1988).

It is very clear that foreign policy and diplomacy are concepts exclusively applied to States relations. Nevertheless, do non-State actors such as the MNCs have the need and the ability to conduct a foreign policy and diplomatic relations?

I argue that the MNCs today:

a) Have a multinational logic of organization. Their teams are multinational and the investment decision is multinational as well.

b) Have an increasing economic importance as the locus of production and employment.

c) Are complex organizations due their multinationalization after the globalization process.

d) Are organizations that globally define policies to deal with buyers and sellers.

e) Have to deal with local regulatory contexts as well as with regulations defined in intergovernmental contexts.

f) Must adapt to a growing public scrutiny due to the increasing power of the borderless press.

g) Must deal with the demands of different stakeholders including many non-governmental organizations (NGOs).

Today MNCs are so big and complex that they are almost States. They cannot just focus in their traditional attributions related to the market. On other words, modern corporations need a corporate foreign policy (CFP) in order to coordinate its market objectives with its objectives in relation to governments and the organized society. I define a corporate foreign policy as a multinational strategy to deal with all global corporate stakeholders.

Of course, as I noted before, MNCs will always be dependent to the
institutional infrastructure built by the States. In other words, corporations will not suppress states but their activities today are complex enough to demand specific policies to coordinate their traditional market objectives with their relation with other stakeholders. The corporate foreign policy has the following dimensions (Sarfati, 2007):

**Market Dimension** – Identification of global market factors that affect the value chain.

**Government Dimension** – Identification of how governments affect the value chain.

**Society Dimension** – Identification of how the organized society affects the value chain.

**Information Dimension** – Definition of global communication strategies in relation to market, government and society dimensions.

The establishment of a CFP is fundamental since every dimension affects the corporate value chain. For Porter (1998) firms create value for their buyers though performing its primary and support activities. Strategy guides the way a firm performs individual activities and organizes its entire value chain. The firm’s value chain can be seen in the following figure:

**Figure 1: Porter’s Value Chain**

![Porter’s Value Chain](image)

Source: Porter (1998, 41)

The value chain is organized in the following activities:

**Primary Activities**

1. **Inbound Logistics** – involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.

2. **Operations** – are all the activities required to transform inputs into outputs (products and services).
3. Outbound Logistics – include all the activities required to collect, store, and distribute the output.

4. Marketing and Sales – activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.

5. Service – includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

Support Activities

1. Procurement – is the acquisition of inputs, or resources, for the firm.

2. Human Resource management – consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.

3. Technological Development – pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm’s transformation of inputs into outputs.

4. Infrastructure – serves the company’s needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

At the same time that modern corporations needs a CFP they also need a corporate diplomacy to develop and implement CFP’s strategies. I define a corporate diplomat as all employees of a MNC charged of any aspect of international business strategy and implementation, relations to governments as well as relations with the organized civil society.

Therefore, the corporate diplomacy is all employees dealing with any foreign stakeholder. For example, if a British logistic manager working for a French multinational company goes to Colombia to solve a cargo problem with a local partner he goes in a corporate diplomatic mission since he is in charge to solve all the implications of the problem not only in business terms but also in relation to other stakeholders involved in the case such as business officials, syndicates, etc. In the same way, an expatriate is another example of a corporate diplomat.

He moves to a foreign country to work for its corporation. In a way he is dealing with a complex environment of different cultural, political, economic, social and legal aspects and he must do the best out of it in order to get the best results for its company.

Another example of corporate diplomacy was the role of the MNCs in the United States, Europe and Japan in order to establish an international intellectual property regime trough the negotiations of the Uruguay Round of the Gatt (General Agreement on Tariffs and Trade). Key individuals from pharmaceutical and technological companies managed to transnationally lobby the governments of developed countries that at the Gatt’s negotiations pushed developing countries to accept a strong intellectual property regime.

In order to deal with its new challenges MNCs need a new kind of employee, able to deal with market, government and societal objectives of the corporation.

Therefore, a corporate diplomat must:

a) Help the company to build a corporate strategy able to coordinate market objectives with government and societal objectives.
b) Develop strong relations with governments (local, foreign and in intergovernmental forums such as the WTO).

c) Develop and maintain relationship with social channels important for the development of social responsible global corporate strategy.

d) Develop foreign clients and suppliers. Analysis of current and potential global and local competitors.

e) Establish corporate communication policies especially in relation to governments and local civil societies.

f) Negotiate in the name of the company with international buyers/suppliers, governments and civil society.

**What makes a corporate diplomat different?**

Is there any difference between the traditional global executive and the corporate diplomat? The literature is multifaceted in how to call the professional operating in a global environment. Examples are global manager (DALTON *et al.* 2002; RHINESMITH, 1992 and STANEK, 2000); international manager (AYMAN, KRECKER and MASZTAL, 1994), transnational manager (BARLETT and GHOSHAL, 1991) and, of course, corporate diplomat (WATKINS, EDWARDS and THAKRAR, 2001).

Global manager is the most frequent term to designate the global executive. Ayman, Krecker and Masztal (1994) indicate that global manager is the executive that has a sense of unity across multiple borders. Brake *et al.* (1995) define the global manager as the professional that has the ability to understand global trends and how they affect the business, governments and patterns of competition. For McCall and Hollenbeck (2002) the global manager operates across multiple borders, cultural, business, country and other kinds of borders. Dalton *et al.* (2002) define the global manager as someone that works across interactive dimensions of distance, national borders and cultural expectations.

For Forster (2000) international manager is simply the executive that has an international assignment no matter how long it is. Ayman, Krecker e Masztal (1994) refer to the international manager as the executive that does business transactions between different countries.

Barlett and Ghoshal (1991) note that the transnational organizations are disperse, interdependent and specialized. Since there are multiple contributions from the national units knowledge is developed and shared globally; the transnational manager recognizes the variations of demands and opportunities in each country. Therefore, the transnational manager is able to create different innovations taking into consideration the differences between the countries. At the same time, he is able to share knowledge and resources with several units globally.

Watkins, Edwards and Thakrar (2001) define a corporate diplomat as the corporations’ employees dedicated to play the global game of influence. The influence game refers to their political interests.

The corporate diplomat has a more complex task than the other designations of global executives since he has the duty of coordinating market objectives together with corporation’s objectives in relation to governments and the global civil society. In other words, the corporate diplomat must possess political skills and abilities way beyond of the classic global executive.
Accordingly to Lane et al. (2006) there is no question that the complexity creates the need of new people to work in the organizations affected by the globalization. The acquisition and retention of talents became fundamental in the ability to operate globally. Consequently, corporate diplomats must be developed in the beginning of their careers. It is crucial to develop executives that understand the complexities of operating in different countries and cultures maintaining the interests of the corporation in perspective.

The corporate diplomacy demands knowledge, skills and a global mindset to deal with a challenging global environment. Knowledge is related to the capacity to understand the interests of the company and the interests of other stakeholders (CALIGIURI and DI SANTO, 2001). This means knowledge of macrofactors such as politics, economics, culture, economics, etc. and microfactors such as the structure of the business, civil society and government network, etc. Skills are the “doing side”, the corporate diplomacy must be able to manage complexity, to adapt, to lead global teams, to deal with uncertainty and to learn from personal and organizational mistakes (RHINESMITH, 1992; ULRICH, BROCKBANK and YEUNG, 1989). Finally, a global mindset is a personal trait, a cosmopolitan mind together with a strategic understanding of the complexity associated with the globalization (RHINESMITH, 1992; VERTOVEC and COHEN, 2002 and LEVY et al. 2007)

As an example of a corporate diplomat, Fabio Rua is International Relations Manager of CVRD, one of the largest mining companies in the world. The company had a large project at the Moatize mines, in Mozambique. He had to deal with complex negotiations with the government as well as with the local community since the mining project required the relocation of families and cemeteries that were extremely sacred for them (Sarfati, 2007).

Conclusions – The need of an extensive agenda for research

MNCs are increasingly powerful organizations but they are faced with also increasingly complex challenges. More than ever the corporations have to deal with different stakeholders and at the same time they have to face competition in a global scale.

New challenges require new policies and a new development of human resources. This opens several questions that need to be further explored. How to develop strategic policies that improve corporations’ market position and at the same time improve their relation with governments and the civil society? How to integrate the new civil society demands in the process of development of new product and services? Not all companies are affected in the same way in relation to governments and civil society. Some sectors are more sensible to stakeholders’ pressures than others. An extensive study of dimensional (CFP) sensibility among strategic sectors in several countries is needed in order to improve the strategic capabilities of the modern corporation.

On the human resources side a broader empirical agenda on corporate diplomat’s competencies must be developed. It is also clear that neither the traditional undergraduate business administration student nor the international relations students are crafted to a corporate diplomat position. The first lacks a global knowledge of international politics, multicultural negotiation among other
competencies while the later should at least develop further business competencies. Therefore, if the universities wish to prepare their students for the new corporations challenges, a new curricula should be developed, but first we should understand what competencies the universities are helping to develop, to benchmark which are having success and then suggest curricula improvements in what is lacking.

References


147


