

# Multinational Companies and the Management of Corporate Diplomacy

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*This article examines the influence of multinational (MNC) and transnational (TNC) activity over the corporate and business diplomacy practice, according to the industry type, the development extent of each corporation, and the degree of corporate power decentralization. The methodology used in the research papers analyzed included literature review, case studies and qualitative data collection based on interviews with managers from the international corporate environment. Research shows that in practice, there is a confusion in regard with significance of business and corporate diplomacy expressions and their activities extent. This view is also shared by literature, since the association of the terms diplomacy and corporate activities would have more meaning into a philanthropic context, compared to international business. By studying the different managerial actions of multinational and transnational corporations, results show that business diplomacy characterizes with a higher degree the TNC activity, while multinational diplomats perform actions specific to corporate diplomacy.*

**Keywords:** business diplomacy, corporate diplomacy, international management

**JEL Classification:** F23

## 1. Foreword

The research aims for proving that beyond corporate general activities, instruments like corporate and business diplomacy can differentiate these institutions on the markets and create shared value. We started with a general review of the existing literature in regard with corporate activities extent and their derivatives on the international markets. As a very contemporary attitude, the corporate international management makes a strong difference in terms of managerial actions, when referring to internal and international stakeholders. Considered to be at first nothing but another name for corporate communication with external stakeholders, corporate and business diplomacy represent corporate managers' actions that only intersect if referring to a single corporation, acting across the international markets.

Research will show that there is a clear distinction business and corporate diplomacy wise when referring to multinational and translational corporate activities. While multinational corporate managers deal mostly with (inter)national governments and NGO representatives aiming for creating shared value for stakeholders, transnational corporations are focused more on creating positive relationships and legitimacy.

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## **2. General Aspects and Derivatives for MNC Diplomacy**

The root cause that created the opportunity for corporates to expand and expose themselves to a wide range of geopolitical, commercial and non-commercial risks was the globalization of markets that started in 1980. The contraction of domestic markets in the West derived into an economic and financial crisis that gave companies activities two choices: either stay nationally and mostly fail into business or go internationally and undertake risks as subjects to other nations' domestic rules and regulations.

But not only companies that went internationally with their activities were spare-parts of the economic crisis implosion; another important component that developed aside to the early stages of corporate communication forms, seen under national and international perspectives, is the national extra-territorial legislation with a commercial component. The international governance picks a subtle side and takes under control the international commercial sphere, by framing global rule sets and expose companies to international institutions static behavior.

The XXI<sup>st</sup> century corporate international competition for achieving interest from external stakeholders results in a real in business value for each of the involved business cases. Yet, managers have different mindsets, differing fundamentally according to their geographic and historic background, but also economic understanding and experience, aspirations and the competitive landscape they are developing their career. The tool for bridging across the distance between corporate managers and stakeholders is corporate communication, an instrument that resides in applying the same core values and policies unitarily to all the stakeholders, despite political or business environment they develop actions through.

Literature shows that despite globalization, companies are still facing numerous obstacles when doing business within international markets (Ruel, 2015); it also showed that corporate diplomacy (according to the company's specific industry and international context) is relevant when managing with the external stakeholders.

The principle of the practice of corporate diplomacy is the concept of shared value; according to [1] Michael Porter and Mark Kramer (2011), if creating economic value for the society, corporations need to address its needs and challenges, by achieving economic success.

At the core of the corporate diplomacy definition stay the corporate interest in interacting with two groups of actors: state and non-state representatives. But the components of a corporations acting in a multi-state environment and its interactions includes two different views: first, the interaction of the headquarters with state representatives like Ministries, Embassies and other core structures; but on another side, it is important to bring into light a very important aspect: a corporation that acts internationally must carry its daily activities through a number of Branches, that act like singular business units and report indicators to the headquarters, in regard with the actions performed.

Corporate diplomacy management helps corporate international activities in two simultaneous directions – manifest competence in managing stakeholders both nationally, within the home country, but also abroad (Saner et al., 2000).

## **3. An Inner Perspective of Corporate Structure and Communication**

For most of the corporate representatives, the expression corporate diplomacy is nothing but a philanthropic image of their daily activities in relation with others. Even though the expression is not very popular, there is a certain degree of associating corporate diplomacy actions with the external business units and not with the headquarters, since all they are practicing is Management, while the external communication in regard with the company's interests in terms of reputation engagement (Henisz, 2017) is just Marketing.

If taking into consideration the headquarters of a MNC it will be easy to see that the entire business attitude is in a direct correlation with the economic views and perspectives, but also cultural and geographical drivers of its location. Whether European, Asian or American business, it is commonly for the last decade for the headquarters to disintegrate and dissolve the management attitude; the solution that was adopted is creating headquarters offices in different locations around the Globe, all with different functions but under the same coordination. In short, if we all imagined a corporate headquarters to act similarly with the core Institutions of a State actor, in the same geographical area, under the same roof or similarly, like Ministries developing actions in the Capital of a country, in the same buildings sometimes, it does not reflect the situation of a corporation departments and functions.

All the managers have a knowledge and attitude baggage that characterize their actions and business performance, and that brings that tint of personal management style for their actions. When talking about creating a new headquarter business unit in a different location, along with the best practices there is the process

of implementation that is composed of different projects, all resulting in the main function of the newly created office. Whether it is marketing, logistics, sales, finance or other function that the new office will undertake, the projects will always come with a general manager and one or more specialists with driving powers. The corporate mantra will be implemented by these individuals that will perform actions according to their baggage of experience and management style. Although these actions seem to only refer to internal aspects, the process of their existence in the given geographical and political environment also implies external stakeholder who must be shown and proven the corporate attitude, deriving from the public corporate mission and vision statements.

According to this theory, a corporate headquarter does not necessarily undertake its activities within the borders of a country from one of the continents. As a second conclusion, management style within a corporation's main offices may vary in terms of behaviors and attitudes, due to the different educational backgrounds of its managers. There will be added a third and last conclusion which places a corporate headquarter under different managerial jurisdictions, which are differently controlled, and which sometimes do not communicate with another due to the different activities spectrum; which means that inter-departmental communication within a corporation is possible, but not always presumed.

Along with the activity of the headquarters offices, a large corporation usually develops actions by externalizing product or service performing activities to a number of branches. A plant, usually led by single person who is undertaking the function of a Plant Manager, is responsible for performing actions and fulfill the corporate performance policies. Corporate diplomacy at this level is an activity that is mainly undertaken by the plant managers and the management team, along with some of the existing departments, like HR, Marketing and or Sales, if not externalized.

In a strong dependence of the corporation's size and activity profile, there is a range of stakeholders that will have to be seen to whom the corporation will have to interact, yet transmitting the same corporate values and attitude, despite the political, cultural, geographical environment they are addressing to. When addressing the need for creating shared value, corporations do not see only benefits alone, but benefits relative to cost (Porter et. al., 2011).

At this level, the management team shares corporate goals and performs activities with at least two stakeholder categories, acting at two different levels: national and international. Corporate diplomacy seen from an internal perspective with regard to the national stakeholders brings into the business game different industries and sector representatives; at first we have the local authorities, seen as derivatives of the national Public Institutions (the City Hall, Schools and Universities, Defense local authorities and not only) that on a side, can grant permissions to a Corporate Branch to function according to the national law; on the other side there are representatives of institutions that may develop strong collaboration relations, like schools and/or Universities, by providing students with trainings, school programs and internships in relation with the Corporation. At this level, the contracts and communication are being undertaken from the corporate side not from all the Departments, but it may involve HR, Sales or Marketing.

If reaching to its real meaning, at this point the corporate representatives would corporate diplomacy actions if getting within their actions beyond the corporations' walls and going public and perform actions, by really meeting beneficiaries they address their actions to, on a regular basis. From a national level, Corporations are also performing corporate diplomacy actions when closing business contracts with local suppliers; in this case, there will be an interference with actions that subscribe to green diplomacy, considering as a central point cost saving and environment sustainability.

When a Corporate Plant develops actions in relation with international stakeholders, the communications flow does not show any different peculiarities. A peculiarity is the amount of national legal boundaries and cultures to whom the corporate representatives must interact. At first sight, corporate representatives that perform actions in this regard are only managers that got training and experience in developing the corporate mindset; but as a reality, these relations are mainly being developed by specialists from various departments that keep contact not only with their homologous but even representatives higher in the stakeholder's hierarchies. Corporate diplomacy actions in relation with one's national institutional representatives will be more difficult to be achieved. Seen from this perspective, multinational companies often lack a strategic management of relationship with external stakeholders (Henisz, 2017); when using corporate subsidies for outsourcing, once they penetrated the economy and gained a certain amount of business and economic stability, corporate managers goals do not include gaining trust within the society they perform.

There is a third sector that even if existing, is not very much considering into the decision-making process of corporations; NGO Sector, with components from national, international or transnational representative units is separated by a considerable gap from corporate activity. Most of the corporations, both

as headquarters or separate Plant representatives do not consider that listening from this category of stakeholders, could increase their effectiveness.

If performing an analysis in regard with these corporate types of actions and behaviors, a general conclusion is being reached: going from headquarters to a corporate subsidy, and narrowing its interactions from international to national, corporate diplomacy represents the mutual benefits between national stakeholders and corporation representatives, seen as not only pecuniary but also under the form of public interaction and corporate representatives active involvement in developing local economic environment, by having corporate managers and representatives physical attending events and undertake actions beyond the Plant's doors.

#### **4. Elements of Corporate Diplomacy**

Seen in the literature as a business approach and a set of corporate management practice for gaining influence (Bolewski, 2017), corporate diplomacy characterizes diverse cultural and economic environments, by coping with economic and political crises and driving governments to see corporations as global governance representatives – corporate behavioral statecraft. Surrounded by an indefinite number of national perspectives, corporate diplomacy is referred in the literature under pages of opinions and case studies, without offering an applicable perspective for all the economic environments the corporations act within. Withold Henisz (2017) shares a new view of corporate diplomacy and splits it into six steps for corporations' managers to follow, in order to create both shareholders and stakeholder's engagement, at any of the levels described within the previous chapter of this paperwork. The first valued element is integration of national and international shareholder data, not only at the management levels (both headquarters of Corporate Plants), but also within specialists' teams that actively interact with the external representatives. Corporate view in terms of both economic and social indicators does not at this point value the team-member escalation of information, both horizontally and vertically.

Team members and also managers must prove into this process interpersonal skills and make a real informational transition, both inward and outward, from partners and stakeholders to corporate representatives. By following the feedback they received, corporate diplomats apply their executive leadership by learning to adapt to the society they perform business with, and also develop strategical communication in order to promote corporate openness and maintain reputation towards the society's' needs. The result of these actions will be a collective mindset towards the organization, the corporation through its managers aims for building trust and diminishing the gap between stakeholder groups and the corporate activities that surround them.

Corporate diplomacy values cross-sector partnerships, openness towards the society, management active involvement and fulfill a positive perception towards the external society needs. The six elements of corporate diplomacy are specific to any corporation operating across international markets, being multinational or transnational. For this reason, since the two categories interact, we add the six elements as also being characteristic for business diplomacy, a concept that at a first glance is a synonym of corporate diplomacy, and which will further be described.

#### **5. Corporate Management between MNC and TNC**

International companies are organizations that develop business in at least two markets across the Globe. They are beneficiary of law recognition in their member countries, but not treated as a resident business on the territory they are located in. By integrating national economies within the current activities and favoring production internationalization, the International Corporations are different in business structure, investment and services and/or products they offer. Two of these categories are the Transnational Companies (TNA) and the Multinational Companies (MNC). Since not all TNC are MNC companies, by the extent of their activities it results the fact that TNC are in fact a type of MNC corporations.

According to the United Nations Commission on Transnational Corporations a TNC are companies that control production or service facilities outside the country in which they are based (Wallace, 2002). The same Commission makes a significant difference for the MNC activities, that despite the fact of having investments in different countries, they do not have coordinated product offerings in each country, being more focused on adapting their products/services for each local market they are active in.

This article stressed very much over the role of corporate headquarters for the Corporate Subsidies activities, whether belonging to multinational or transnational. It would be important to know which departments may be incorporated within the central functions, and which are necessary for local business development. According to the industry and the corporations' dimensions, the business functions may be either

centralized and/or coordinated, reason for which there is a question raising: according to the degree of decentralization of corporate business functions, corporate diplomacy will raise or narrow down its extent and quality?

*Table 1. Business functions specific for MNC and TNC*

<b>Business Function</b>	<b>Degree of centralization MNC Branches</b>	<b>Degree of centralization TNC Subsidiaries</b>
<b>A. Central Functions</b>		
Central Management	Centralized	Centralized
Research & Development	Centralized	Coordinated
Marketing	Centralized	Coordinated
Central Purchasing	Centralized	½ Centralized
Logistics	Centralized	½ Centralized
Engineering	Centralized	Coordinated
Costing	Centralized	Coordinated
Sales	Centralized	½ Centralized
<b>B. Subsidiaries Functions</b>		
Production	½ Centralized	Coordinated
Quality	½ Centralized	Coordinated
Engineering	½ Centralized	Coordinated
Materials Packaging & Logistics	½ Centralized	Coordinated
Maintenance	Coordinated	Coordinated
Continuous Improvement	Coordinated	Coordinated
Finance	½ Centralized	Coordinated
Human Resources	½ Centralized	Coordinated
Strategic Management	Coordinated	Coordinated

Source: authors' own illustration

TNC have coordinated product offerings in each country they activate in; having a non-centralized facilities activity, they are able to create and maintain a greater degree of responsiveness towards the society they interact and develop business with. Corporate diplomacy in the case of both MNC and TNC has a high degree of influence from the mixture of national and foreign stockholders and their active implication within the general management system.

MNC activities vary according to the degree of control required, due to the number of foreign operations implied by the industry they belong to. It is important to state that the situation presented above is only specific to MNC, opposed to transnational companies. The difference consists in the fact that MNC have headquarters that act like a single company, with a centralized management system that opposes a number of barriers in the decision-making process across different Plants. Very similar, TNC are different due to the lack in existence of a centralized management system, subsidies being replaced with independent companies that are much more able to gain interest in the local markets, due to the fact that their management systems are different and act individually.

The analysis shows that corporate diplomacy actions wise, TNC corporations due to the coordinated product offerings for each country, need to perform more actions and to take into consideration more the necessities and societal needs, opposed to MNC that can only externalize some of the functions they need to national/local suppliers. But from a managerial perspective, a MNC can offer more prospects to the national three sectors representatives, due to the centralized functions and the headquarters influence over the branches activities. MNC has more developed abilities in building outward relationships on an international level for the national representatives, NGOs, Ministries, Universities or local goods and/or service suppliers. They also promote the home-country culture and traditions, while the nationals do not take very much the liberty of creating a customary and cultural infusion for the corporation.

TNC on the other side, due to the nature of the management and the relative independency of each subsidy, have a predominant inward mindset, while capturing societal needs and developing business opportunities. This type of corporate activity must show a greater degree of responsiveness towards the local markets.

To answer the previous question, whether MNC or TNC (de)centralization of corporate business functions, will raise or narrow down the extent and quality of the actions and practice of corporate diplomacy, based on our analysis, it seems that MNC corporate diplomacy has more impact over national societies; the reason is the functions centralization which limit the Branches interaction with the society, by definition. To

compensate, Plants Management is performing actions in order to increase the visibility of the corporation and the importance of the Plants' existence in the area. NGO collaborations where corporate managers involve actively within projects and go live within the crowds, Universities or schools campaigns with study visits and open seminars, fundraisings and other type of activities are just some examples where MNC corporate diplomacy prevails. Despite the greater degree of responsiveness, TNC management teams do not show a comparable portfolio of subsidy activities that would benefit not only the society, but would also increase the Corporations visibility. The nature of their activities within a national territory gives increases the brand(s) visibility, despite the Corporations'; for this case, managers do not show a high interest in promoting societal campaigns and become active within the local representatives.

## **6. Business and Corporate Diplomacy between MNC Branches and the TNC Subsidiaries**

This research addresses the necessity of making a distinction at first between the specificity of corporate diplomacy in the case of MNC and TNC, by subtracting business diplomacy actions. The result will show a behavioral pattern for both MNC and TNC, corporate diplomacy prevailing within the roles and actions of MNC. At its core, corporate diplomacy is a *kyosei* practice (Kearns, 1995), meaning that it takes into consideration the interest of corporate stakeholders, from all the sectors and specific to all the locations it develops business in. Compared with the state-to-state interactions, corporate diplomacy promotes the general good for the employees, consumers, customers, suppliers and the local community. At the corporate level, *kyosei* is nothing but a commitment of a corporation to promote this concept; the instruments used are corporate and business actions, promoted by corporate and business diplomats, by encouraging a healthy competition on the markets.

Business diplomacy involves peacemaking creation, by creating strong relationships between representatives of different countries, mostly by indirect communication channels, with the purpose of managing contentious issues (Behaylo, 2015). Within a similar context, corporate diplomats' actions bring into light formal initiatives of communication between members of different nations, by encouraging interaction and facilitating if not creating official communication lines. This opinion is also shared by Mari Sako (2016) who negates the idea of transforming corporate diplomats into politicians but involving corporations into the decision-making governmental fora. This creates the expectation for business leaders to be acting like corporate diplomats – a new organizational role within the XXI<sup>st</sup> century economy (On Mon, 2016).

In a broad sense, corporate diplomacy has the purpose of managing external stakeholders, but if narrowed down (Sondergaard, 2014) the purpose of corporate diplomacy is to manage the internal stakeholders. Pursuing these activities, business diplomacy aims for establishing and sustaining relationships among foreign governmental and non-governmental representatives. By following the literature views over the activities of corporate and business diplomacy extent, it would seem that both are synonyms, by describing the same business and addressing the same elements. While corporate diplomatic actions are influencing both, the national and international policymakers they interact with, business diplomats create legitimacy within the international markets, by creating positive relationships with national and international governmental representatives, but also NGOs.

No differentiation has been made between MNC and TNC corporate and business activities. Since transnational corporations are in fact multinational companies with a certain degree of managerial independence in regard with the subsidy's activities, it means that also business and corporate diplomats would have different business orientations, backgrounds, and will react differently under the cultural pressure of nations they develop business within.

Previously the research showed a predominance of corporate diplomacy practice from the MNC compared with the TNC, which develop business by answering societal needs. If taking into consideration the literature views towards business and corporate diplomacy, in the context of MNC and TNC exclusive activities, this research shows the fact that business diplomacy is predominant for the transnational corporate diplomats activities, being mostly preoccupied for improving corporate image among governments and NGO representatives, since this type of corporate actions are inclined towards fulfilling national societal needs. Since MNC do not have coordinated product offerings, fact that provides corporate managers with a lack of managerial independence compared with their transnational homologues, they are more likely to practice activities specific for corporate diplomacy, focusing for creating economic value – societal value, by interacting predominantly with international markets actors and creating industry clusters.

**Figure 1.** Business and Corporate Diplomacy as TNC and MNC management activities



Source: author's illustrations

## 7. Final Remarks

Throughout the article we have identified numerous topics that will be subject for additional research. Studies that are linking corporate national and international practices with diplomacy are still being initiated and might need further development.

This research concludes that in our perspective, despite the fact that corporate and business diplomacy have manifest actions related to, in some cases, the same stakeholders, they follow two different actions sets. If by definitions, we split the corporate activities – multinational and transnational – and bring into light the corporate and business diplomacy specific actions, research shows the fact that management style and focus changes. In the case of MNC, headquarters influence over the branches creates a specific pattern for corporate diplomacy; the research concludes the fact that the creation and evolution of corporate diplomacy spreads across the multinational corporate managers in relation with external state and non-state stakeholders. From here derives the theory according to which corporate diplomacy actions are widely specific for multinational corporate managers.

Transnational companies, as deriving from MNC only with a more decentralized management system, reaches the attention of most of the national subsidiaries residencies; research shows the fact that TNC managers develop actions with an increased business diplomacy specificity. At the end, transnational decision-making drives the business diplomacy actions into light, which is why this research concludes that business diplomacy mainly develops across TNC industries and practiced mostly by transnational corporate diplomats. We still do not know exactly where the business and corporate diplomats' actions interfere, but if analyzing the corporate legitimacy seen as an international institution changing, then corporate and business diplomacy are the instruments to analyze that change.

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