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# BUSINESS DIPLOMACY BY MULTINATIONAL CORPORATIONS

Towards a Model based on  
Catholic Social Thought

HUUB RUËL



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Towards a Model based on Catholic  
Social Thought

BY

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INVESTOR IN PEOPLE

*Dedicated to my mother (\*13 June 1930–†29 June 2010)*

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## PREFACE

About 10 years ago, I gradually turned my research focus away from the field of human resource management and technology (e-HRM) to the cross-over between international business and international relations. It was especially the role and actions of multinational corporations (MNCs), bigger and smaller, well-established ones as well as newly emerging ones, in the international arena that triggered me. The relationship between these companies and governments, civil society, local communities and the contribution of MNCs to dealing with the grand challenges such as poverty reduction, sustaining and protecting natural and human resources, peace and stability, human rights protection, that perspective was what I wanted to understand better and to share in publications. I approached these issues first from the concept of commercial diplomacy, the network of international business and government actors to promote and serve national economic interests. This concept was not new to the international relations scholarly community, but it was new to the international business scholarly community. A little later, I started to learn about business and corporate diplomacy, concepts that were introduced to the business and management field by colleagues of mine, such as Raymond Saner, Lichia Yiu and Mikael Sondergaard, whom I got to know and started to collaborate with soon after. I always felt that the concept of business diplomacy was used in a very 'light' way, more as a 'sexy' concept, that it lacked substance. So that was where I entered the academic debate, to give more body to the concept of business diplomacy as an activity of MNCs. I am very thankful for the pleasant collaborations with scholars such as Jan Melissen, Shawn Riordan, Jennifer Kesteleyn, Donna Lee, Tim Wolters, Floris Betlem, Jolanda Knobel and so many others who have helped me in this endeavour. Then more recently, since 2016, I realized that I had stopped progressing in contributing to the business diplomacy scholarly debate. I felt a need to dig deeper if I wanted to be that engaged scholar, that researcher who aims to address issues in international business. The role and purpose of the MNC and the role of key players in MNCs needed to be more critically assessed, beyond the mainstream line of thought in the business and management literature that implicitly or explicitly assumes them to be 'good' and

adheres to the financial performance paradigm. I was searching for theories or lines of thought that could provide moral or normative frameworks.

And then I went into the direction of theology and religious studies and came across Catholic Social Thought (CST) as an intellectual line of thought and a source for morality. I dedicated myself into the study of CST and the scholarly debate on CST and the richness of it. I became so curious and enthusiastic about it that I chose to apply it to the concept of business diplomacy. This book is the result: in fact, a new conceptual work that I am so happy with that I dare to share it with my international academic colleagues. There is room for improvement, but more importantly, it has opened up new avenues for my future work and professional development. And that is what makes me very happy. This book would not have become what it is now without the very constructive and insightful feedback and inputs from Prof. dr. Kees de Groot of Tilburg School of Catholic Theology. Thank you so much for your help and support! And thank you for introducing me to CST.

Life is a learning trajectory, a never-ending road, and the more I study, the more I realize how little I know and will be able to know. I love that. When I told Tanya, my lovely wife and a great scholar herself, about my interest in CST and Catholic theology, she was at first a bit worried.

Theology in today's post-secular Dutch society can sound a bit 'weird' or irrelevant. But when she heard me sharing my discoveries, she gradually became more and more convinced. She saw that I enjoyed it and that I could bring some interesting ideas to her field of academic expertise, human resource management and technology. And our daughters Yulia and Elena, both great professionals and academics, also heard me speaking about my academic line of development so enthusiastically that they became convinced. Tanya, Yulia, Elena, Sebastian, Stefan and Paul, thank you for support and listening to my sometimes vague orations about political theology and other subjects.

The field of theology and religious studies is far from irrelevant, it is 'spot on' so to speak. It can educate students, academics, professionals and business leaders into how Christianity and religion in general interact with society and encourages them to reflect on this interaction and to contribute to the debate. Even in so-called post-secular Western societies, this understanding can contribute significantly to furthering debates on highly topical issues such as global migration, cultural and religious plurality, economic inequality, international solidarity, ecology and economy, secularization and religious extremism, dignified work and labour conditions, and human rights. For me, this book is just a beginning of a new journey.

Huub Ruël  
June 2021

# SUMMARY

MNCs are operating in an increasingly demanding international business arena. This forces them to maintain a ‘licence to operate’ and legitimacy. The COVID-19 pandemic and its aftermath have increased the pressure due to its global societal and economic impact. Over the past two decades, increasing attention has been paid to the concept of business diplomacy, an activity that can be defined in simple terms as businesses starting to do ‘diplomat-like things’. This is becoming more important for international businesses as they deal with an increasingly demanding and dynamic international business arena. However, despite the growing literature on this phenomenon, there is no sound theory-based business diplomacy model that can help to understand MNCs’ relationship-building activities in the global society and provide a normative guide for MNCs on how to conduct business diplomacy successfully.

In order to sustain the arguments that business or corporate diplomacy is an emerging phenomenon and that it is essential for MNCs to be able to deploy it in today’s demanding international arena, I believe that a sound theory-based model is needed. There is only ‘space’ for a concept of business or corporate diplomacy if it is clearly distinguished from existing concepts such as lobbying, corporate political activity and MNC–government relationship, which are implicitly or explicitly about defending the self-interest of the corporation.

In this book, I turn to CST, an intellectual tradition extending back 2000 years that promotes the key principles of human dignity, the common good, solidarity and subsidiarity.

According to CST, the purpose of business is to serve the common good, an attitude that clearly diverges from the dominant shareholder view of business. Outside of the disciplines of religious studies and theology, CST has been used by business ethics scholars. In this book, I start from the assumption that CST can provide a basis for a business diplomacy model. Such a model can contribute to the literature in the sense that it will clearly position and demarcate business diplomacy as a concept. And it can provide a clear, distinctive instrument for MNCs to reflect on their purpose and role in the

global society while at the same time guiding and directing their relationship-building actions with other actors in the global society. The COVID-19 crisis and its aftermath may have a silver lining for MNCs to re-purpose and as a result change the way they operate in the global society.

## INTRODUCTION

Multinational corporations (MNCs) are operating in a demanding international business arena, where they are considered powerful partners in dealing with today's grand challenges as well as a threat to the environment, natural resources, wealth distribution and human rights.

A recent survey among chief executive officers (CEOs) showed that many CEOs say that they are willing to contribute to solve the grand challenges (PwC, 2021). This demanding arena forces MNCs to be more and more concerned about their 'social licence to operate' and legitimacy. This is not that easy given the shareholder-focussed paradigm that is ruling the international business arena. Activist shareholders such as hedge funds 'hunt' MNCs to focus on financial performance only and therefore force CEOs to be short-term results focussed predominantly. An example of this was what happened to Danone, a big French international agri-food corporation. Danone's CEO chose a strategy that would balance between shareholder value and sustainability. However, hedge funds bought themselves a few percentages of Danone's stock and via that way forced the CEO to change the strategic course of the company and to create more value for shareholders. In the end, Danone's CEO was forced to step down. Short-term capitalism won over long-term sustainable and more conscious capitalism. A result of the predominantly Anglo-American shareholder model of corporate governance, which assumes that maximizing the financial wealth of shareholders is the purpose of business (Cremers, 2017; Smith & Rönnegard, 2016).

In this demanding international arena where MNCs are being pressured, MNCs themselves actively try to influence, pressure and collaborate with foreign governments, NGOs and interest groups and deploy different types of methods and approaches such as lobbying, corporate political activity, corporate communication and corporate and business diplomacy (Kolk, 2016;

Saner, Yiu, & Søndergaard, 2000). The COVID-19 pandemic and its aftermath have increased the pressure due to its global societal and economic impact.

Some MNCs benefit, for example, social media companies, but many have had to lay off people and cut costs and, as a result, are challenged to think about the societal consequences of their actions.

Over the past two decades, increasing attention has been paid to the concept of business diplomacy, an activity that can be defined in simple terms as businesses starting to do ‘diplomat-like things’ (Kesteleyn, Riordan, & Ruël, 2014). Others have used a similar concept, such as corporate diplomacy (e.g. Bolewski, 2018, 2019, 2021; Westermann-Behaylo, Rehbein, & Fort, 2015). Whatever label is employed, it is becoming more important for international businesses to deal with a demanding and dynamic international business arena. However, despite the growing literature on this phenomenon (e.g. Henisz, 2017; Kesteleyn et al., 2014; London, 1999; Ruël & Wolters, 2016; Ruël, Wolters, & Loohuis, 2013; Saner et al., 2000; Steger, 2003; Westermann-Behaylo et al., 2015), there is no sound theory-based business or corporate diplomacy model. A number of scholars apply a rather instrumental perspective to business or corporate diplomacy (e.g. Saner et al., 2000), in which business diplomacy is needed to safeguard the corporate reputation. Other scholars (e.g. Henisz, 2017; Steger, 2003) link business diplomacy to stakeholder management and stakeholder engagement. A third group of scholars position business or corporate diplomacy as connected with the role of the corporation as a societal actor (London, 1999; Ruël, 2013; Westermann-Behaylo et al., 2015).

In order to sustain the argument that business or corporate diplomacy is an emerging phenomenon and that it is essential for MNCs to be able to deploy it in today’s demanding international arena, I believe that a sound theory-based model is needed. A systematic review of the literature on business diplomacy (Wolters, 2012) revealed that there is only ‘space’ for a concept of business or corporate diplomacy if it is clearly distinguished from existing concepts such as lobbying, corporate political activity and MNC–government relationship, which are implicitly or explicitly about defending the self-interest of the corporation.

In this book, I turn to Catholic Social Thought (CST), a school of thought originating from the Judeo-Christian sources (Thora, The Old Testament, The New Testament) but which developed as an intellectual tradition extending back 2000 years with the key principles of human dignity, the common good, solidarity and subsidiarity. According to CST, the purpose of business is to serve the common good. Outside of the disciplines of religious studies and

theology, CST has been used by business ethics scholars and to some extent by social economists and law scholars. In this book, I start from the assumption that CST can provide a basis for a business diplomacy model. Such a model can contribute to the literature in the sense that it will clearly position and demarcate business diplomacy as a concept. It also provides a clear, distinctive instrument for MNCs to reflect on their purpose and role in the global society while at the same time guiding and directing their relationship-building actions with other actors in the global society.

The aim of this book is to develop a conceptual model for business diplomacy based on CST. With this model, I will contribute to the existing scholarly debate and knowledge development on business diplomacy by demarcating business diplomacy more clearly from concepts that may be used interchangeably by scholars and practitioners. Furthermore, I wish to contribute to practice by turning this conceptual model into an assessment tool that businesses, business leaders or those in corporate advisory roles can use to critically review their corporate behaviour and the corporates' interactions with the external business environment. With this as a starting point, business diplomacy activities can be implemented and shaped in such a way that it will help the corporation.

This book will show that business diplomacy, if applied in the right and genuine way, will help businesses to operate smoothly in the international dynamic business arena. However, more important is that if large international corporations work in line with the model, they will genuinely contribute to sustain a peaceful, prosperous and sustainable global society where all human beings can flourish.

To build my argument and to arrive at the model that I introduce, I will work along the following questions:

- (1) What is the role of MNCs in today's international business arena?
- (2) What is the current state of the art of the literature on business diplomacy?
- (3) What are the core principles of CST?
- (4) What is CST's view on the role of business in society?
- (5) How can this view be used for a model of business diplomacy based on CST?

Following these questions means that this book is structured as follows. The next chapter focusses on the role and position of MNCs in today's

dynamic international business arena. After that, the book continues with a review of the literature on business diplomacy. Then it turns to CST in chapter four, after which chapter five connects CST and business diplomacy and turns them into a model and a set of five key questions that can help to assess MNCs' way of conducting business diplomacy from a CST perspective. In that chapter, I also demonstrate how these key questions, which I call the CST-based business diplomacy assessment tool (CST-BDAT), can be applied to business cases. As an example, I use Facebook's fake news and disinformation scandal in 2016. In the final chapter, I reflect and discuss the conclusions on the work presented in this book.

## MULTINATIONAL CORPORATIONS IN A DYNAMIC INTERNATIONAL BUSINESS ARENA

In today's post COVID-19 global economy and globalized society, multinational corporations (MNCs) are still powerful actors. Their number has grown rapidly over the past decades from 7,000 in 1970 to 38,000 in 2000 and to an estimated 100,000 in 2021. The aftermath of the COVID-19 pandemic crisis appears to regain economic growth after a severe slowdown in 2019 and 2020 in many countries. Two interesting phenomena have emerged in this respect. The first is the fast-growing number of MNCs from recently emerged economies such as China. For example, there are 23 Chinese MNCs in the top 100 of the Fortune 500 in 2019, about one-fourth of the biggest firms in the world. The second interesting phenomenon is the fast-growing, basically tech-driven firms such as Google, Facebook, Amazon, Alibaba, Airbnb, Uber and the like. Despite the fact that most top-100 MNCs can still be found in industries such as energy, food and construction and infrastructure, MNCs in telecommunications and technology-enabled or tech-driven MNCs have relatively quickly moved up the ranks and are now among the top 20 biggest global MNCs.

To make the role of MNCs even more impressive, there are more than 230,000 foreign affiliates of MNCs, and altogether they produce an estimated one-third of the global output (OECD, 2018). MNCs are key players in the global top 100 and responsible for more than one-third of the business-funded research and development spending worldwide (Giroud & Ivarsson, 2020). Another aspect worth mentioning in this regard is that state-owned MNCs (SO-MNCs) are among the 'big players' mentioned. There are about 1500

SO-MNCs, and many of them are in the hands of governments of advanced economies (read European governments).

MNCs are keen on entering new markets for market share growth and access to natural resources, technology, knowledge and financial and legal facilities. Over the past decades, governments around the world were lobbied by MNCs for market access and expansion under the assumption that they would bring employment, investments and new knowledge and technologies (OECD, 2018). But governments also compete with each other via favourable tax schemes and business-friendly policies to attract MNCs to invest in their countries (OECD, 2018). This practice may end due to a one-tax level agreement among a number of countries such as the United States and countries in Europe.

Due to their size, MNCs are considered crucial partners in dealing with global challenges such as climate change, environmental damage, income inequality, poverty and human rights. Governments and non-governmental organizations (NGOs) started to acknowledge during the past two decades that these challenges, also called grand challenges, cannot be dealt with by government policies and NGOs alone. Grand challenges as defined by the US Office of Science and Technology (2014) are 'ambitious but achievable objectives that harness science, technology and innovation to solve important national or global problems and that have the potential to capture the public's imagination' (US Office of Science and Technology Policy, 2014). These grand challenges typically transcend geographic, economic and societal borders and are therefore multinational by nature (Buckley, Doh, & Benischke, 2017). As Buckley and colleagues continue, 'such challenges can include topics that would traditionally be considered part of the international business research domain, such as the anti-globalization sentiment and its impact on MNC strategy, location and operations, as well as broader issues such as climate change, poverty, migration, terrorism, and infectious disease' (Buckley et al., 2017, p. 1045). Governments, business and civil society collaboration aims to deal with the grand challenges via public-private partnerships and other types of multisector and multiparty collaborations (Gazley & Brudney, 2007; Hardy, Lawrence, & Phillips, 2006; Loza, 2004).

However, MNCs have also been criticized by NGOs, interest groups, societal actors, politicians and governments around the world for tax evasion, excessive CEO pay, environmental damage and natural resources exploitation, poor labour conditions and modern slavery and child labour (Giuliani, 2018; Kolk, 2016; Sinkovics & Archie-Acheampong, 2019; Solas, 2019). International hotel corporations, for example, have been criticized for facilitating human trafficking. Or banks and other types of investors that are accused of

and even convicted of whitewashing and facilitating money laundering, for example, the Dutch bank ING.

Institutional investors such as pension funds or sovereign wealth funds are criticized for investing in countries ruled by military juntas and oppressive governments or leaders. The cases of Myanmar or Syria are exemplary. Or multinational corporations such as Google, Facebook, Alibaba, Huawei, Apple and Yandex, they seem to take every opportunity that the law leaves them to take advantage of consumers, users of their services and their personal data. They seem not to have their own 'moral compass' that sets limitations for them on how to deal with this that their law does not 'cover'.

And these cases do have implications for and touch upon international relations, or better said, they touch the 'nerve' of competing, diverging value systems between nations and societies. Governments of Russia and China do not mind that their home-country corporations invest in North Korea or Myanmar, whereas governments of many European countries condemn or even forbid corporate investments in both these countries. Values, stemming from a combination of Ancient Greece philosophy with Judeo-Christian philosophy and values that went through an enlightenment process of more than a 100 years, resulted in a belief in freedom of the person and in democracy, a core role for the concept of human dignity which became a central concept in the development of the Universal Declaration of Human Rights. They are the antagonists of values in autocracies that dominate Chinese and Russian politics. These values have a different conception of the human being, of human dignity and as a result of the idea of human rights.

Besides this, the 'high-profile cases of corporate crime and corruption', as Solas (2019) calls them, in the early 2000s in combination with the bailouts of big banks by governments in 2007/2008 have led to a higher public sensitivity and awareness about misconduct by business and increased the pressure for businesses to become more accountable and socially responsible (Solas, 2019). And more recently, international businesses in some cases seem not to have any limitations when it comes to influencing even the public opinion. For example, Huawei, a large Chinese tech multinational, is accused of using digital trolls to generate positive news or to counter negative publicity even if based on thorough independent journalistic work.

Or Danone, a large French food multinational that turned its strategy toward becoming a business with a social purpose, was hunted by hedge funds. They bought about 3% of Danone's shares to gain that much influence that the hedge funds could force the CEO and chair of the board out of office.

In conclusion, in today's demanding international business arena, MNCs are considered as powerful partners as well as a threat. But they are operating

in this context and in order to maintain a 'licence to operate' and legitimacy, they try to influence and collaborate with foreign governments, NGOs and interest groups and deploy different types of methods and approaches such as lobbying, corporate political activity, corporate communication and corporate and business diplomacy (Kolk, 2016; Ruël & Wolters, 2016; Ruël, Wolters, & Loohuis, 2013; Saner, Yiu, & Søndergaard, 2000). This takes me to the next chapter, in which I review the literature on corporate and business diplomacy.