1 Introduction and Overview

1.1 YES, YOU CAN GET AWAY WITH IT

On 21 September 2001, an explosion rocked the Total Fina Elf plant in Toulouse, leaving 30 dead, approximately 2,500 injured, and destroying many properties in the surrounding neighbourhood – it had all the ingredients of an accident to be mentioned in the same breath as Seveso, Bhopal, Schweizerhalle . . . In addition, some of the merged company's predecessors were embroiled in high-profile corruption trials and investigations.

However, some 10 days earlier the tragedy at the World Trade Center in New York had occurred and public attention was directed elsewhere. At the beginning, Total Fina Elf played the "terrorist card", managing to keep matters low-key, setting up an emergency fund for the victims, meeting with the French environment minister to outline "the foundations of the safety issues concerning industrial facilities and their coexistence in highly-urbanized areas".

The company's critics claimed this to be a "smoke screen", a cover-up by the French elite to ensure that public attention would soon turn away. Although the official report stated that it was due to a number of factors, one seasoned safety executive maintained, "the explosion was due to a flaw in the safety design of the process. And, based on previous experience, you do not survive for long in our competitive industry if your environmental and safety processes are not state-of-the-art. They determine your productivity." So justice may come via a different route, because public punishment in a market economy is an effective way of correcting corporate inefficiency.

Box 1-1 The long battle on PVC

Since the mid-1980s, ''chlorine chemistry'' has come under intense scrutiny from environmentalists and public authorities. However, although approximately 60% of the chemical industry deals with chlorine at one stage in the value creation process, many end products do not contain chlorine at all. This, coupled with the increased safety standards achieved on chemical sites (especially those based in Europe following the so-called ''Seveso Guidelines''), plus industry's own actions under the Responsible Care Programme, has encouraged environmentalists to turn their attention to the ''outlets'' where products containing chlorine are entering the environment. These products are certain agro-chemicals (the most well-known being DDT) or chemicals for wood preservation (for example, Unidan) and PVC – the most important of all. PVC absorbs by volume two-thirds of the chlorine used. In the course of time, most of the toxic chlorinated compounds (most of them chlorinated hydrocarbons), bio-accumulative and persistent, have been banned, restricted in use or voluntarily phased out by the chemical industry and therefore no longer offer environmentalists an interesting campaign.

This was not the case with PVC, however. Due to its importance, the chemical industry (and in a show of solidarity from even those companies that did not produce PVC) stood its ground. A protracted war evolved, a real dogfight, and, more often than not, industry lost. PVC is no longer used in most packaging materials, but the important construction industry holds its ground (window frames, roofing systems) because it is so hard to find viable alternatives to PVC; for example, wood is environmentally questionable due to its need to be treated with preserving chemicals every other year and environmentalists hesitate to recommend aluminium as an alternative. In some countries, the chemical industry was forced into organizing expensive collecting and recycling measures, narrowing the economic advantage over substitutes to avoid the ever-present accusation that, otherwise, dioxins are generated (for example, in waste incinerators). Those who like a sophisticated debate will point out that there are approximately 240 different kinds of dioxin with a wide range of chemical properties, but, of course, for the public dioxin is simply an ugly poison.

Anti-chlorine activists began to link the PVC debate to another debate, one which was difficult for them to handle: endocrine disrupters and oestrogen mimicking. This debate concerned a wide range of chemicals (amongst which, of course, chlorinated compounds were prominent) that influence the functions of the body because they behave like oestrogen produced by the human body.

The controversial scientific debate has not yet produced clear evidence as to whether accusations of a rise in the incidence of cancer or reduced reproduction capabilities (low sperm count, for example) are plausible or not. (It would, of course, be easier to become involved in the debate if we knew whether man was more like monkeys or rodents in his reaction to these chemicals.) Yet, because the sources are so varied and the effects not visually obvious (it would be difficult to prove that a man's impotency has been caused by a particular chemical), the campaigns have not led very far.

So, the next step was to look for a link between PVC and endocrine interrupters. This was easy: phthalates, used to give PVC special features and particularly to make it soft. Most adults do not consume PVC products though, so it is difficult to establish a path to link phthalates in PVC to any effects on the human body. However, there are exceptions: babies and small children. As soon as Greenpeace discovered that teething rings made from soft PVC had a greater share of phthalates than normal, a European-wide campaign was launched.

There were no standards for measuring the exposure of babies biting their teething rings to phthalates, and the European Union (EU) refused to impose a ban due to a lack of scientific evidence. Although questionable, numerous EU countries nonetheless imposed a national ban. Toy-makers too, for example LEGO, were concerned about negative publicity and substituted PVC in their toys for small children. In the event, a standard protocol was put in place and things have now calmed down. However, PVC has lost another market application – perhaps small, but nevertheless a stepping stone towards the next battle: PVC use in medical products, where an especially high amount of softeners are used.

Although the industry dismissed Greenpeace's latest ''anti-PVC fusillade'' as being ''rife with many tell-tale features of junk science: fear, specious logic and misleading information'', market leader Baxter preferred to play it safe. The company announced that it was researching alternatives to PVC, which is used among other things in the manufacture of intravenous blood bags.

Other companies were less lucky: Talisman Energy, the largest Canadian independent oil producer, published a comprehensive report with the help of experts in business ethics and social auditing, to evaluate its progress in human and employee rights, community involvement, its record in environmental protection and so on. PricewaterhouseCoopers verified the report – to no avail. Critics remained unmoved and pressed ahead in the attempt to force Talisman out of a Sudan oil production joint venture with state-owned oil companies from China, Malaysia and Sudan.

Unfortunately, a civil war has been raging since 1956 in Sudan, mainly the Muslim north against the non-Muslim south, and the Khartoum government has allegedly been a host to Bin Laden. After a series of hearings in the US Congress and being pitched against Amnesty International, church clerics and academics, eventually Talisman decided that the toll was too high and withdrew from Sudan.

Talisman's surrender added to the long list of victims who have suffered from public pressure, been haunted by the media, defeated by environmental organizations, and finally pushed down the slippery slope that can lead to commercial turmoil. The list includes Nike, Coca-Cola, McDonald's, General Electric, Mitsubishi, Ford, Pfizer, Shell, BP and prominently Exxon – but also includes less famous names such as New Zealand Milk, Animex SA (a meat packer conglomerate), and Birkel (noodles) – to name but a few.

Some attempts have been made by companies to avoid potential trouble. For example, when Lufthansa negotiated an agreement with Pro Wildlife on the handling of wild animals, restricting among other things the transport of endangered species. But even having Green credentials does not always help: when Ford donated money to the US conservation group, the National Audubon Society, it was confronted with boycott threats from cattle ranchers in the Midwest who regarded this conservation organization specifically as a threat to their business, because the Society tried to impose restrictions on intensive cattle-grazing, subsidized by the low rent of federal land.

So, yes, there is the possibility that as a manager you may have to face public pressure or attacks from non-market forces like non-governmental organizations (NGOs) such as Friends of the Earth or Amnesty International (see Chapter 3). What makes every manager increasingly nervous is the uncertainty as to who will be the target and the increasing probability that the threat can come from every corner of the global world.

It is not understood when, why and how you might be hit, nor how one could prevent it. What has changed is the business environment; it now covers everything, not just markets, and includes government agencies and activist movements and everything is conducted in the full glare of the media.

Political advice for salvation abounds. For example, the European Commission (EC), published a green paper, "Corporate Social Responsibility"; the Organization for Economic Cooperation and Development (OECD) and national governments, political parties, all kinds of associations and – last but not least – academics are joining in. There is an overwhelming trend to follow the new "trinity" of social, ecological and economic criteria, advising corporations that "Sustainable Development" should be your goal; be nice to your stakeholders and eternal prosperity is just around the corner . . . (I admit this description is somewhat oversimplified – but only a little . . .) In Appendix I interested readers will find a more elaborate discussion.

If life in management was that easy, probably more would follow this wealth of advice, but "socially-responsible companies" are a small minority. Always the same names crop up: the Body Shop, Levi Strauss jeans and various co-operatives; and sometimes companies such as Shell, Otto, Novo Nordisk, or Unilever are mentioned as role models – as are family- or founder-owned businesses. Even state-owned companies are monopolies have been known to jump on the bandwagon, as have consultancies of all kinds. However, the vast bulk of mainstream companies are out of the loop (which does not help prevent them from being hit by activists or aggressive regulators) and it is not only Exxon that demonstrates that a company can be continuously successful by swimming against the tide.

1.2 WHAT CORPORATE DIPLOMACY IS ALL ABOUT

This book takes a different approach: first, let us agree that corporations are, above all, economic entities. In the centuries-long evolution and differentiation of societal institutions, corporations were not charged with the task of care for the common good, but rather for customers – that is, those willing to pay a price for the products and services on offer. In this role, then, the corporations are, hopefully, not wasting resources but adding more economic value through their activities.

So markets are dominant for companies. Secondly, however, companies are intertwined with surrounding society in several ways. For example, governments influence business in many dimensions – from the definition and enforcement of the legal infrastructure, without which no market could function, to specific regulations – and employees and customers are not only economic agents, but play multiple roles as parents, citizens, lobbyists and so on. In addition, a large part of the population work in public services or the not-for-profit sector (sometimes up to one-third of the workforce, depending on the country concerned and organization of government services). Economic goals are only one facet of what people often wish to achieve. And, as we see later (in Chapter 3), some individuals have dedicated their lives to fighting what they see as the evil consequences of corporate dominance.

Whether companies like it or not, they cannot avoid (and mostly not afford) dealing with interests, institutions, ideas and rules that are ouside the market domain. In this book, I use the expression "non-market" for such a business environment. And, as explained in Chapters 2 and 3, globalization makes this relevant part of the business much more fragmented, partly hostile, unpredictable, opportunistic, demanding, notably media-driven, and more diffuse than it used to be in the "good old days" of industrial feudalism.

The *Oxford English Dictionary* explains diplomacy as "art of, skill in dealing with people so that business is done smoothly". Therefore, "Corporate Diplomacy" is an attempt to manage systematically and professionally the business environment in such a way as to ensure that "business is done smoothly" – basically with an unquestioned "licence to operate" and an interaction that leads to mutual adaptation between corporations and society (in a sense a co-evolution). This does not exclude – on the contrary – free expression and conflicts of interest and values, different priorities and disagreements about facts. After all, this is the core of a democratic society. But the companies who engage in "Corporate Diplomacy" understand what the issues are and respond both reasonably and professionally, even to adverse activists, and use the expressions "activist" or "pressure group" – important parts of the pluralistic society as they are – without any negative connotations.

The central theme of *Corporate Diplomacy* focuses therefore on the question of how companies can understand this diffuse business environment. Can companies meet the social and ecological expectations of society without sacrificing their mission – which is to generate a profit by satisfying market demands? If so, how? What are the strategic implications and organizational consequences? What if the expectations are conflicting, unreasonable or contrary to most (if not all) advice? I do not want to convince anybody about a normative concept, or even lure companies into specific decisions. The strategy for *Corporate Diplomacy* is highly contextual, industry- and company-specific. All I can (and want to) do is create more transparency, transfer insight, document experience and provide some hopefully useful tools for executives, so that they can better manage the job in hand. After the stockmarket crash this seems to be more necessary than during the bubble.

1.3 A SUMMARY OF THE RESEARCH FINDINGS

Beyond the buzzword: what's new about globalization?

In Chapter 2, I have tried to explain what's really new about globalization, arguing that it is a "changed change", its impact similar to the Industrial Revolution of some 200 years ago. This can be seen if one looks at the characteristics of globalization. I have listed six below.

- "Eroding boundaries" in every dimension: economics, society, politics, culture, etc. Of these, the economic impact is the most visible and most heatedly debated. Previously, boundaries between states or within society defined identities, allowed protection from the "evil outside" and limited impacts (for example, on national monetary policy). Today's world is more fluid, volatile, densely interactive and speedy.
- Higher mobility is a factor, notably capital and information, leaving behind less mobile workers.
- A move from hierarchy to "heterarchy", which means a mutual, horizontal interdependence (even if this is asymmetric: exercising power has higher costs than in the traditional hierarchy).
- Erosion of legitimacy, because responsibilities can no longer be defined in this complex world: national governments, for example, cannot be held accountable for economic well-being, but are the only institutions frustrated voters can turn to.
- Past–future asymmetry: many more "breakpoints" than linear progression of any development, which discounts experience as a guidance for decisions.
- Allocation of more responsibilities to each individual – to the point of overburdening – than was the case in previous, more "structured" and immobile societies. This offers freedom and opportunities, but also creates uncertainty, ambivalence and even anxiety.

These new conditions have far-reaching implications for states, regions, organizations and the individual. And for companies too, who must have an understanding of the changed business environment they now have to deal with. Multinational companies have increased their power to a degree not seen since the early days of capitalism because they can adapt more easily to the new conditions, being both driver and driven at the same time. Competition is everywhere, and new competitors are coming from all sides, technology and economic dynamics uprooting even entrenched market positions. But, when compared with other organizations and institutions, such companies appear to "rule the world" – and for some people this is accompanied by an expectation of their being the "problem-solver", beyond their commercial mission.

But now the "honeymoon" of globalization is over. A powerful alliance is fighting back against what it calls the "neo-liberal world order", which has created in its view only a few winners (for example, investment bankers), many losers (for example, workers and Third World peoples) and set a vicious "race-to-the-bottom" in motion – using low-paid labour and destroying the environment, social standards and national cultures in the process. Although this might seem to be a caricature of the measurable facts, perception is reality. A lot will depend, for future development, on how companies manage the new task of "corporate diplomacy". This requires an understanding of the players in the "global village".

The players in the global village

Chapter 3 looks at the players that companies need to understand if they are to successfully manage their business environment. This understanding includes their own role in the process.

First, after years of declining importance due to globalization, the state is back. National security after 11 September 2001 is now a top priority. Security can only be delivered by governments. This does not only mean by the use of police or military force, but also by taking more control of technology and financial flow. As can be seen in the US, it also means more government interaction in trying to jump-start the economy and intervene in specific sectors (airlines, steel, agriculture, etc.). In times of war, domestic consensus is more important than market efficiency.

But the leading role the US has taken (unavoidably, because the Europeans are so weak) in the war against terror and rogue governments is aggravating many who are opposed to globalization: they see the cultural and economic hegemony of the US shaping the world. They resent mass-consumer ideals, represented by McDonald's and Coca-Cola. Sometimes this makes life more difficult for US companies abroad.

Beyond this more spectacular multinational development, nation states have fought against their own decline by forming "strategic alliances" (no mergers or acquisitions!). The European Union is probably the most advanced of these alliances. Governments pool their resources to solve specific problems that they cannot tackle on a national level: from global safety standards in shipping to cross-border waste management policies (Germany, for example, has signed more than 380 international treaties of this kind, which are now national laws). So, while it would be premature to write off the nation states, the EU is the only dominant player of the last decades to come onto the global political stage. Even the US is tied in a heterarchy relationship: without allies, it can achieve little and then only at a much higher cost.

Multinationals cannot expect to have an easy life, as the myth of a "footloose" enterprise – that is, one that always relocates with ease to the most convenient place in the world – suggests. The reality is that they require an in-depth understanding of the wide variety of market and non-market conditions they are faced with – not an easy job in organizations with high job rotation, a shift of power to "vertical" product lines following a global logic, and many outsourcing and alliance partners. But any mistake or failure they make, even in a remote area, can have dramatic repercussions in today's global goldfish bowl.

Responsible for this are, not least, the many NGOs. They encompass a wide range of causes and traditions: from millennium-old organizations such as the Catholic Church, to special purpose initiatives – literally nothing is uncovered (there are some 70 different NGOs for an issue such as "sustainable tea"!).

While some NGOs fight multinational corporations with dedication, skill and professionalism, others are ready to co-operate with business to further their cause. Even contradictory interests (for example, a vegetarian and a cattle rancher) may join together to protest, possibly connected by the Internet. And they have their victories: from an anti-trade-liberalization majority in the US Congress to the sinking of the planned World Trade Organization (WTO) agreement on Multilateral Agreements on Investment (MAI).

Other NGOs are at work in the less developed part of the world for humanitarian reasons, or serve as a substitute for government. This fluid, extremely fragmented scene is hard for corporations to monitor – and is therefore an area of many, mostly unpleasant, surprises. So, globalization has significantly changed the business environment in which companies have to operate.

Terrorism and organized crime have used the same infrastructure for globalization as have companies: easy travel, telecommunications, open financial markets, etc. It is no small wonder that they have prospered. Up to a couple of years ago, organized crime as terrorism was only a local issue, occurring in the less developed spots of the world, where multinational companies had to routinely deal with kidnappings for ransom, blackmail and widespread corruption.

In most cases, the companies themselves were left alone to handle matters; this may have meant giving up the market or failing to resource exploitation. Local government was either unable to help or was part of the mafia-like structure itself, so that support or intervention from the home country government to the host country government was of little use. But over the years money-laundering, especially from drugs trafficking or prostitution, penetrated the legal economy as mafia-controlled companies expanded into new markets, prompting OECD nations to react, albeit often half-heartedly. The US government, for example, did not sign the United Nations Convention for the Suppression of Financing Terrorism, because Wall Street objected – although it was pretty clear that the securities industry was a "weak spot" (as the US General Accounting Office put it).

However, global "goldfish bowl transparency" and actions by NGOs (for example, "Transparency International") have had the effect of making corporations steer clear of close relations with corrupt dictators or rogue business partners. Countries such as Myanmar (Burma) found it hard to encourage premier league oil companies to invest in their oil industry, despite attractive tax conditions. And 11 September 2001 marked the beginning of a dramatically changed political landscape. Most nations made new commitments and established restrictions designed to fight corruption, money-laundering and illegal trade with new vigour, as an indispensable precondition for fighting global terrorism. But there is a price tag: the preconditions for globalization and the eroding of boundaries are now re-established to some extent, impeding the free flow of information and technology as the restrictions take effect.

An important role, which global companies must understand and appreciate, is that played by the media. Today's media is dominated by global conglomerates, which fight 24 hours a day and seven days a week for the attention of readers/viewers/listeners, and for the advertising revenues thereby generated. The media is not so successful at telling people what to think, but rather what to think about, in effect establishing the agenda of the day. And, of course, good news is never going to make major headlines – harassing mighty companies is a far better story, especially if the issue can be visualized (for example, smashed windows at McDonald's). NGOs have become extremely skilful at playing by the rules of this game and its never-ending hunger for "breaking news".

Managing outside pressure: where do we stand today?

In Chapter 4 we look at the empirical evidence on how companies have so far managed their business environment and the pressures with which they are confronted. One can learn more from failures than from straightforward success stories. Therefore the "classic" case of Monsanto and its "fight for hearts and shopping aisles" in the battle surrounding genetically modified organisms (GMOs) is used as a "template" to establish a pattern of typical mistakes in such confrontations:

- Monsanto did not understand the "real" issue (as it was perceived by the public and the media) – that is, the public's concerns regarding food safety, following a series of high-profile controversies and scandals. Instead, Monsanto's arguments were mainly scientifically-based. The company did not realize that the benefits of its innovation were on the producer side, with no advantage for the consumer who would be the one ultimately shouldering the "residual" (unknown) risk (such a risk/benefit ratio has been a sure recipe for disaster on many other occasions).

- Underestimating the adversary, not only misunderstanding how media-savvy the Greenpeace-led hunt was, but also how easily protesters could block permission at national level. By trying to overwhelm them with arguments that GMOs were "unavoidable", no different from non-GMO seed, and could not to be labelled as such for the consumer, Monsanto fuelled resistance further.
- Monsanto reacted too little and too late. This was demonstrated by failing to build European alliances first (choosing instead to bring in the US government, which made the mistake of setting up a David-vs.-Goliath conflict with the protesters) and giving in to pressure (for example, on the labelling issue), when everybody else had already jumped on the bandwagon.

In addition to these key points, the confrontation revealed (but did not create) the risk of a business model that put "all eggs into one basket". And yet this pattern can be seen time and again.

Underestimating the importance of stakeholders never pays off. But research for this book reveals that companies take a position somewhere in between – they see the emerging pressure, but it is not reflected in their priority list. It is not that companies pay no heed to the players in their business environment, they just display the "economic principle" in its minimum version – do something, but not too much; appear responsive, but not soft; be proactive, but only a little . . .

Depending on the amount of pressure and a company's attitude, shaped by culture, recent experience, dependence on stakeholders, etc., four distinct clusters of generic strategies can be observed (and illustrated by cases).

- The "nice guy" (often in fast-moving, branded consumer goods) who invests in sponsoring, or positive public relations, and tries to avoid all risks or negative experiences which could upset customers.
- The "good citizen" (often in risk-exposed industries like energy, chemicals or car manufacturing) who demonstrates responsible behaviour through comprehensive reporting, life cycle assessments, public dialogue (even with adversaries), trying to convince the public and politicians alike that risk is being managed.
- The "lonely fighter" (probably not a position of choice, but rather one into which a company is pushed or has cornered itself – for example, as has happened in the nuclear and tobacco industries) who cannot build alliances, but circles wagons, rallies supporters, and defends himself vigorously.
- The "stealth bomber" (often heavily subsidized industries such as agri-industry, coal, etc.) who shies away from the limelight – because he always has to hide something, but does not want to change.

In addition, the research reviewed the "transmission belts" through which activists or protest groups exert pressure on companies to induce change (just having a bad image is not reason enough to change – as long as it does not hurt the bottom line). Direct action has somewhat gone out of fashion, but lobbying regulators and governments has definitely increased. There is a growing influence on capital markets – and very effectively one involving customers. Organizing a boycott is a powerful threat, but it only works under certain preconditions: the base line here is really unacceptable corporate behaviour has upset people – but the boycott should not mean consumers having to make too many sacrifices.

For companies with a household name brand, especially those whose brands promise more than quality – a better lifestyle, carefree fun or positive attitudes – the exposure to risk is higher. The more successful marketeers become in establishing a positive well-known brand, the more vulnerable the company will be to any (perceived) mismatch of brand promise and actual behaviour.

The lives of executives become even more complicated when the claims made by stakeholders (or even shareholders) contradict each other – as is often the case – or if potential adversaries or stakeholders are not identified in the fast-moving, complex business environment. But the way out is clear: do not target stakeholders, but rather look at issues and the characteristics of an issue. This calls for an "Early Awareness System".

Detecting and preventing trouble ahead

As with every management system, an early awareness system needs processes and an information technology (IT) infrastructure. But this is the easy part. The real challenge relates to a company's attitude – its ability for open-mindedness, its inclination to observe and not be blindfolded by its own prejudices, filters or biases towards what it would like to see or hear.

A couple of simple tools (for example, the diffusion curve and cross-impact analysis) are presented. An outline of some of the general characteristics of an early awareness system, used to capture any weak signals that indicate an approaching issue for the company, are explained. Nobody can monitor the thousands of issues that are "cooking" out there, but companies should endeavour to capture them once they start to take off.

As most issues do not come out of the blue, but can be detected through weak signals emitted, companies can then rigorously test the relevance of an issue. Can this lead to a confrontation? How strong is our position? Based on observation of more than 120 conflicts between corporations and society (or segments of society), the research for this book came up with (and tested) the following checklist:

1 Are the arguments against the issue plausible?
2 Does the issue evoke emotion? Is it understandable – visual, touching – by the public?

3. Is the issue media-friendly?
4. Are there connections to other issues concerning the company or other companies?
5. How strong is the activist group?
6. How isolated is the company?
7. How far have the dynamics of the crisis already evolved?
8. How easy is the solution?

The use of the checklist is intuitively plausible (as can be seen from the explanation and the test case), but by no means sufficient: one has to put oneself into the shoes of the other side, too. Activist groups do not choose their campaigns at random – this would by far exceed their resources and diffuse their activities. Based on the research, the checklist from the "other side" could be as follows:

1. The campaign has a clear aim or goal.
2. The issue is easily understood by the general public.
3. The issue has high symbolic value.
4. The issue has the potential to damage the image of the company.
5. The opponent is strong enough (no "underdog" effect).
6. The issue can be "packaged" in a campaign in which the public can get involved.
7. There are solutions that are confrontational, not gradual (political concepts, management concepts, product or process concepts that are competitive in price and quality).
8. There is perhaps a dramatic element in the campaign that will engage media interest.

Only once managers work open-mindedly through both these checklists will it become clear what risks lie ahead, what could be the dynamics and how managers should best prepare. When a company decides to see the battle through, it must be aware of the "why's" and "how's". Far too often, companies embark on wars, only to find themselves shortly afterwards in a difficult retreat (mostly leading to a disorderly rout). The art lies not in starting a war, but in ending it successfully.

Making corporate diplomacy happen

The most important action for any executive responsible in one way or other for managing the non-market environment is to build a company-specific, robust business case. It is only when companies have economic reasons that they will embark on an integrated strategy that comprises all three dimensions of Sustainable Development and an interactive approach to stakeholder dialogue.

General statistics or nice success stories in the media are not sufficient: the business case has to be industry- and company-specific, and look at the economic incentives (or disincentives). However, this does not mean (similar to other strategic decisions) that everything has to be quantified into detailed numbers (but as always some compelling figures do help). The main economic benefits can normally be detected through better risk management, both in the short and long term, a better understanding about newly-emerging business opportunities, and employee motivation. Risk management involves both political and regulatory impacts, as well as direct economic consequences – for example, on the brand itself or even declining demand through consumer boycotts. An early awareness system normally helps in all circumstances.

However, there are some obstacles to overcome – as in any change programme: the mindset and values of top management might blind them as, too, might a science-driven, inward-looking corporate culture. Regulatory barriers or the need to drive issues through the whole value creation process, getting the buy-in from suppliers and customers, could also be obstacles.

But pioneers also face a "first-mover disadvantage". When they move into uncharted territory they may have to deal with additional up-front investments in terms of acquiring knowledge and developing tools, processes, etc. Followers can easily profit from these efforts.

These costs have to be compensated by higher incentives. To overcome internal resistance, a "power promoter" – in an ideal case the chief executive officer (CEO) – is also needed to support the "professional promoter" in the implementation of the strategy. Six requirements can be defined here:

1. The attention and support of top management is an absolute must.
2. Even if companies do not develop a comprehensive strategy, but settle for a "case-by-case" approach (due for low incentives or risk exposure), an early awareness system (in a minimum version) is needed.
3. To get "your voice heard in the flood of information", clearly-defined target groups, with tailored messages, are essential.
4. The company has to speak globally, with one voice – not a trivial task, given the many different business environments and product markets in which global companies operate (not to mention internal politics). But this, together with the presence of a credible spokesperson (with operational credentials) is essential – keeping in mind the realistic assumption that a global company cannot be "everybody's darling".
5. Given today's global "goldfish bowl transparency", the possibility that the public will have to ask for confidential business information is normally pretty low. One just has to accept that emission data or working conditions in developing countries are no longer regarded as legitimate corporate secrets in today's "show me" world.
6. "Structure follows strategy" is a wise motto here, too. And any organization for managing the non-business environment has to be in line with the overall corporate organization: the more integrated the management of the issues, the better.

In endeavouring to build alliances (for example, to create an industry standard), industry associations are normally a mixed blessing. They serve predominantly as a "rearguard" due to the high consensus needed, which makes it easy to block any innovation. And it is always easier to organize (immediate) losers of structural change than it is to organize (future or potential) winners. This defensive attitude costs industry a good deal of credibility. Therefore, it is pretty clear that lobbying efforts will also come under greater scrutiny by NGOs, which will test whether a corporation "walks the talk" or misuses its power and its privileged access to decision-makers.

More progressive companies therefore have three options: to ignore the industry association and its message altogether; to split the association so that it becomes paralyzed and cannot do harm; or to push the association into an alliance, in the event that industry standards are needed.

Luckily, a number of initiatives have been created (for example, the WBCSD), which can serve as a platform for exchange of experience and benchmarking, joint research or common standards for reporting. In addition, there is now a small but growing segment of the capital market that wants to promote "corporate social responsibility" by investing in companies that perform well in all three dimensions: economic, ecological and social. A whole rating industry is growing up around this, and law-makers are pushing pension funds to reveal the social and ecological criteria of their investment policies.

Although this is a book on crisis prevention, some principled advice is provided as to what to do and how to behave when something has gone very wrong in some part of the world (and remember Murphy's Law: what can go wrong, will go wrong). It boils down to the ability to see a crisis in human terms, and to see the values that have been – unintentionally – violated. It is better to say "We apologize" in time, than to be sorry to have missed the slot were it could calm down a crisis.

Corporate communication on a global scale

The difference between previous communication strategies and today's global requirements can be summed up in the following points:

- Erosion of local roots. In today's mobile world, with job rotation and commuting, there has to be a deliberate communication effort to establish earlier what has happened, and to ensure stable local interactions.
- Erosion of political importance. This has led to higher expectations for corporate behaviour, which has resulted in the appearance of "celebrity CEOs" and convenience promises: if a CEO shakes up an industry with multi-billion euro deals, why can he or she not save an indigenous tribe from a corrupt government?
- A new type of regulation, based on voluntary, negotiated agreement and a code of conduct; this also increases expectations for good corporate behaviour.
- The global "agenda" of nations and the different rules (from political correctness in the US to Japanese taboos) have to be recognized in order to get the corporate message across. Again, clear target groups and a thorough content are needed to cut through the usual "noise" level.

The target groups are first and foremost customers (especially where there are strong brands), who want to see a company in line with their own values, transparent, credible and tolerant. Other target groups will include: financial analysts, who always need a "story" to tell to the investors; those who need to be convinced by senior executives at "road shows" that the strategy will deliver in all aspects ("no surprises and only good news" is their expectation); people in the administrative/political environment and the regulatory community, who need scientific data and hard facts for their work, which can only be delivered by corporations; and last but not least all the players in the global village with their diverse interests, which shape the lens through which they view companies (for example, for a bird protection society, the most important corporate aspect could be that birds get caught in refinery smoke stacks and die).

As far as the content of the relevant issues is concerned, the ingredients and indicators for credibility are as follows:

- The involvement and commitment of top management, who "walk the talk".
- An understandable and practical vision and strategy (not expecting to save the world, but to do the utmost within the framework of the business case).
- The policy formulated to implement the strategy (for example, by environmental management systems and third-party verification).
- The transparency of performance indicators and results achieved over time, covering not only the industrial, but also the developing, world.
- Going beyond the obvious (for example, climate change) and "politically correct", and addressing emerging issues, dilemmas or challenges with which the business is confronted.

"Suits" and "Sandals": balancing conflict and co-operation

Business and NGOs and activist groups have one thing in common: they are all "single issue" organizations (as opposed to political organizations). Yet they follow very different agendas: "making money by satisfying market demand" on the one hand and "promoting the chosen issue to satisfy members and donators" on the other. Despite the "partnership" rhetoric, expect more tension and conflict than harmony in the relationship. (In my estimate: in approximately 25% of all relevant issues, NGOs will run and try to win a campaign; in approximately 50% we can expect a confrontational debate, pitching lobbyists from each side against each other; and approximately 20% will have a more constructive, problem-solving-oriented dialogue; finally, in less than 5% of issues, co-operation is tried). Nobody is to blame: free expression and organization of interests is the core of any democratic society, and innovation comes out of conflict or dissatisfaction – not out of harmony.

Therefore, any company should have reason to establish stakeholder dialogue or even try co-operation. One has to realize that there are different games with different rules, by players with different agendas –

but when it works, the outcome is more than that resulting from "business as usual".

Depending on the commitment of business and NGOs, four options exist:

1 Opportunistic, *ad hoc* coalition on specific issues (for example, the EU regulation on clean fuel, where the auto industry and environmentalists teamed up to beat the oil industry).
2 Lending credibility (for example, allowing the use of the NGO logo to support environmentally-friendly products without a recognized brand).
3 Teaming up with outsiders to harass the industry mainstream (a preferred and successful Greenpeace strategy).
4 Joint problem-solving by the two partners as in the example of the Marine Stewardship Council (MSC).

Given the options, one has to be careful to map the territory, not along the for-or-against-me model, but much more looking at the interests certain groups pursue, and the cross-pressures they are under (for example, workers may support a factory extension for reasons of job security, but are uneasy with the increased traffic in their street). The key to this is: Don't try to convince an adversary, convince the audience instead.

Based on this analysis, the preconditions for co-operation become clear (as can be seen from the MSC):

- Shared and important interest, with a win–win potential.
- Top management involvement and entrepreneurial implementers.
- Managing a balance between pushing forward and involving many stakeholders to build consensus.
- Isolating the project from other conflicts (for example, by a separate organization).
- Instead of being perfect, a readiness to experiment and pick the "low-hanging fruits" is needed first.

But you can also enjoy a confrontation (as Exxon is demonstrating). Confrontation can sharpen your (internal) corporate identity, your sense of mission (for example, "prudent science" vs. the "stampede of public opinion") and pride in your own achievements and excellence. You only have to have an outstanding performance record, harmony with some important stakeholders (in Exxon's case: the current US Administration) and a more centralized, culturally more homogenous organization than most global companies have today.

Learning from three reference examples

For this study three companies were selected with an outstanding track record in managing their broader business environment over the last five years: ABB, DaimlerChrysler and Shell.

History was key in the analysis of ABB, indicating the process of going step-by-step from modest beginnings to becoming a frontrunner. Continuity of priorities, especially through a succession of CEOs, matters – as does an openness to be challenged by emerging issues, integrating everything into the business, learning continuously from experience and mistakes, testing building blocks, and never resting on one's laurels.

With DaimlerChrysler (DC) the focus is on the processes needed to comprehensively manage the business environment and anything that may affect the brand. The efficient design of global processes, and their back-up with a tailored IT infrastructure, is as important as its "fit" with the organizational structure and its alignment with corporate strategy.

Shell is a telling example of the range of issues a global company is confronted with (at the time of the research there were over 120, all of which could "flare up" at any time). However, there are strategic "make-it-or-break-it-issues" (in the long run probably climate change and the move to renewables are the most prominent), issues with high public attention (for example, Nigeria and biodiversity, which breaks down to local conflict) and local issues (for example, protest by

Right-wing religious groups in the USA about sales of girlie magazines at Shell stations). How to build a business case for dealing with these issues and how to monitor them are decisive questions to be addressed.

But all these three examples indicate that nothing prevents a business from being commercially successful while at the same time operating a global "Corporate Diplomacy" strategy.