

# The role of business in public diplomacy

Michael B. Goodman

Corporate diplomacy

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**C**ontemporary business can be a powerful force for global change. A consensus is building that it is proper, and in some cases preferable, for business to marshal its resources to solve problems on a global stage. Business has a considerable role to play in public diplomacy, which was defined in 1965 by diplomat Edmund Guillion, and later Dean of the Fletcher School of Law and Diplomacy at Tufts University, as dealing with the influence of public attitudes on the forming and carrying out of foreign policy. And it is an activity in international relations beyond traditional political diplomacy that includes actions by governments to "cultivate" public opinion in other countries and to communicate with foreign correspondents. It is also the country to country interaction and intercultural communication of private groups such as businesses.

Substantial agreement now exists that global business can and must act to solve problems that have often been handled by government. In the decades following the end of the cold war, government systematically backed away from issues of economic development, as the "conflicts" at the core of the aftermath of the second world war seemed to evaporate along with the fall of the Soviet Union. However, the economic and social issues that were masked during the ideological conflict of the cold war surfaced, as did the suppressed desires for political and social ambition.

Excesses in the emerging market boom took center stage at the end of the twentieth century and the beginning of the twenty-first. In particular, American businesses were, and are, faced with eroding trust in the wake of global scandals, the perception of globalization as exclusively an American initiative, and a widespread disagreement with US policy abroad, particularly with the military involvement in Iraq.

There is, however, agreement that business can and must act. The role of business is more vital now than ever, as businesses, even small ones, are global in their practices. And as the internet and new forms of digital media make communication instantaneous and ubiquitous, the call to action is even more urgent.

Customers, vendors, and business partners need a firm relationship of trust in this environment. "Formal trust," as I noted in my article (Goodman, 2005), "includes the rule of law, transparency, and publicly evident rules. Informal trust is culturally defined by the values and norms that allow people to communicate and deal with others who share those values."

Business has rediscovered its purpose in this context as global citizen, expanding beyond Nobel Prize-winning economist Milton Friedman's definition more than three decades ago that the purpose of business is to create wealth for its owners, within the rules. The understanding of owners has expanded to include:

- NGOs who are also investors;
- investors who are also employees;
- employees who are also customers;

- consumers who are also local business partners;
- business partners who are also local stakeholders;
- local stakeholders who are also media;
- consumers who are also media; and
- media who are also NGOs.

Now the role of business as citizen reminds us that corporations must behave as good citizens or lose their license to operate. All business, as legendary AT&T executive Arthur W. Page observed more than three-quarters of a century ago, begins with public permission and exists by public approval. And a company's enlightened self-interest will also cause it to contribute to the social good within its own areas of competency at intersection of society's needs and its own interest.

Michael Deaver, Vice Chairman, Edelman Public Relations, in a note about the Edelman Annual Trust Barometer presented in January 2006 at the World Economic Forum Annual Meeting at Davos, Switzerland, said:

Trust is the key objective for global companies today because it underpins corporate reputation and gives them license to operate.

He noted:

To build trust, companies need to localize communications, be transparent, and engage multiple stakeholders continuously as advocates across a broad array of communications channels.

Successful global enterprises, then, align their corporation's operations with fundamental and universal values in four large areas:

1. Human rights.
2. Labor rights.
3. Environmental standards.
4. Anti-corruption and transparency.

The contemporary business environment demands an approach to business that embodies transparency and ethical behavior, respect for stakeholder groups, and a commitment to add economic, social, and environmental value. According to David Grayson, Director of Business in the Community, a group of over 700 top companies in the UK dedicated to improving their positive impact on society, issues that until now have been "soft" for business, such as environment, diversity, and human rights, are now "hard" – hard to ignore, hard to manage, and very hard to control if they go wrong.

And as Baruch Lev and others have observed, more than 50 percent of the market value of a business can be attributed to intangibles. Indeed, institutional investors now make a substantial percentage of their decisions based on the intangibles they see in a corporation. The intangibles that drive corporate value include:

- corporate reputation;
- governance;
- innovation;

**“In the aftermath of recent global natural disasters (the Tsunami in December 2004, hurricanes Katrina and Rita and the Pakistani earthquake in 2005), it was corporations and NGOs that were quickest to act, and their responses drove governments to respond to relieve human suffering.”**

*= worst scenario  
responsibility  
in public objection*

- research and development;
- environmental and social performance;
- brand equity;
- human capital;
- leadership and strategy; and
- product and service quality.

In the aftermath of recent global natural disasters (the Tsunami in December 2004, hurricanes Katrina and Rita and the Pakistan earthquake in 2005), it was corporations and NGOs that were quickest to act, and their responses drove governments to respond to relieve human suffering. Trust in institutions the world over ranks NGOs most trusted, with business second, and governments third, according to the Edelman Annual Trust Barometer 2006.

The intangible risks of not acting as a good corporate citizen and public diplomat can be numerous, and include poor social and environmental performance; an obsession with short-term financial performance; lack of transparency in corporate reporting; lack of stakeholder engagement; and limited risk management of critical issues. Further, the company's reputation can be put at risk by lawsuits (domestic/abroad), negative media coverage, NGO pressure, consumer boycotts, eroding public trust, negative analyst assessment, and market punishment.

Global corporations can adopt guiding governance principles, particularly for countries where the rule of law does not exist, or laws are not enforced, to short circuit poor social and environmental performance. To overcome an obsession with short-term management they can adopt a long-term performance model. To create a culture of accountability, they can adopt a policy of transparency based on a clear communication of their progress, and by aligning with other initiatives such as the Global Reporting Initiative (GRI), whose mission is to develop and disseminate guidelines for voluntary use by organizations to report on the economic, environmental, and social dimensions of their activities, products, and services. The GRI includes representatives from business, accountancy, investment, environmental, human rights, research and labor organizations and is an official collaborating center of the United Nations Environment Program.

Corporations can also build relationships with numerous constituents by engaging in a multi-stakeholder dialogue on key issues to manage and narrow their reputational risk exposure through proactive stands on critical issues. Global companies and their brands touch the lives of more people than government representatives ever could. Businesses have often served a larger role in our society than that of carrying on the activities of commerce. From Marco Polo to Bill Gates, business professionals have acted as diplomats and as a global force for good citizenship.

Business professionals in global companies are more likely to be citizens of the country they are in, as well as representatives of their companies. They then can serve a diplomatic function because of their cultural sensitivity to their own environment as well as the world at large and the global enterprise they work for. The role of business now includes public diplomacy. In a world of instantaneous media coverage, transparency, and intangible value drives, a successful company will welcome this diplomatic challenge.

*citizen/celebrity/diplomacy*

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### Reference

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