

# **Business Diplomacy Management As A Key Role In The Sustainable Development And Stakeholder Management In The Multinational Corporations: Daimlerchrysler Case**

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## **Abstract**

In the last two decades a dramatic shifts within the business community have been occurred. Globalization has offered business opportunities to companies around the world and has led to the development of a multitude of standards that govern business behavior. It is no longer sufficient to know the business and legal conditions of a multinational companies' headquarters country and some of the countries where it operates foreign subsidiaries. Multilateral and intergovernmental organizations are increasingly defining industry standards that become mandatory for multinational companies. Non-Governmental Organisations (NGOs), operate at multiple levels ranging from national civil society issues like environmental protection to observation and investigation of possible human rights violations of multinational companies or foreign states. They often operate at national, regional and transnational levels focusing on economic, social and political issues. In addition, growing internationalization has become increasingly complex, civil society organizations have exerted increasing pressure on MNCs, especially the concept of sustainable development has expanded to include the simultaneous consideration of economic growth, environmental protection and social equity. Thus, in response to these kind of shifts, many have made a commitment to apply the principles of sustainable development to their activities. To meet and to handle these commitments, MNCs have required a multitude of policies and new business competencies. One important factor contributing to the sustained success of MNCs' operations in foreign markets in the competent use of business diplomacy. Business Diplomacy Management (BDM) refers to the ability of MNCs to effectively interact with non-business stakeholders wherever the MNCs have business interests, be they in the form of local production, distribution channels or sales offices.

This paper aims to describe a framework for business diplomacy competencies of MNCs based on their sustainable development goals. One in-depth case study about business diplomacy is examined. With DaimlerChrysler (DC) case, it was aimed to conceive how the importance of business diplomacy for multinational corporations, what the successful business diplomacy tasks and behaviors for their sustainable development. As a consequence it was assessed the implications on these companies and their managers.

**Keywords:** Sustainable Development, Multinational Corporations, Business Diplomacy Management, Stakeholder Management, Case Analysis, DaimlerChrysler.

## 1. INTRODUCTION

It is hard to manage an organization in today's turbulent world. Practically everyday, we learn of a new technology, social dilemma or environmental problem. Business worry about the proliferations and the effects of globalization. Governments struggle to maintain services while addressing the needs of an increasingly diverse and growing population amid an anti-tax culture. Unless you want to be buffeted by each change, you need a framework for making sense of what is happening in the world so that you can foresee changes and take action before they happen. (Hitchcock and Willard, 2006:3) In other words, society is pressuring business for a broader and longer-term engagement than maximizing near term profitability, with these pressures occurring in both developed and emerging markets. As a result, managers of multinational companies (MNCs) and their subsidiaries are realizing a need for increased corporate responsibility. Firms are being subjected to two tests: do their actions enhance long-term profitability and do they serve the public good—broadly defined to include the political, social, legal and physical environments. MNCs operate in a complex environment characterized by countries at various and varying development levels. This environment poses challenges of making appropriate responses to both current and future stakeholder expectations (Chen et al., 2009:317) and to requirements of sustainable development.

Especially over the past two decades the concept of sustainable development has expanded to include the simultaneous consideration of economic growth, environmental protection and social equity in business planning and decision-making. Many multinational corporations based in the United States and Europe engage in managing external pressures (Amann et al., 2007:33) corporate citizenship programs (Rondinielli and Berry, 2000:70) and corporate social responsibility (Dyllick and Hockerts, 2002:130) to promote sustainable development. Sustaining operations in these areas requires that MNCs recognize changing role expectations and adapt accordingly.

To meet and to handle these increased commitments and responsibilities, MNCs have required a multitude of policies and new business competencies. One important factor contributing to the sustained success of MNCs' operation in foreign markets lies in the competent use of business diplomacy.

In this study, firstly we will present a brief explaining regarding multinational corporations, sustainable development, stakeholder management and business diplomacy concepts and their relationships with multinational corporations; secondly we will describe these topics/concepts in more detail, through illustrative case study on DaimlerChrysler and lastly we will conclude with implications for researchers and practitioners.

### **1.1. Multinational Corporations**

Although the modern multinational corporation (MNC) has its roots in the East and West Indies traders of the mercantilist era, the term “multinational corporation” first appeared in 1960 when Lilienthal used it to refer to such corporations .... which have their home in one country but which operate and live under the laws of other countries as well’. Two major features are associated with MNCs; first, their activities involve more than one nation; and second, they are responsible for most foreign direct investment ( Abdul-Gafaru, 2009: 52).

The period 1970-2012 saw an enormous growth of activity by multinational corporations. While only 7000 MNCs existed in 1970 (Abdul-Gafaru, 2009:53); there were roughly 40,000 MNCs in the world by 1990 (Rangel, 2007:7); there were as many as 63,000 parent firms with around 690,000 foreign affiliates by the year 2000 (UNCDAT, 2000:37).

A popular way of understanding how much impact and influence such corporations have is to rank countries by Gross Domestic Product along with corporations using gross sales. In such a ranking, in 1999, General Motors, (gross sales of \$176.6 billion), Walmart (gross sales of \$166.8 billion) Exxon Mobil (gross sales of \$163.9 billion), Ford Motor (gross sales of \$162.6 billion) and DaimlerChrysler (gross sales of \$160 billion) ranked 38-42 on the list, above such countries as Hong Kong (number 43 at \$158.2 billion), Portugal (number 44 at \$151.4 billion) and Greece (number 45 at \$149.2 billion) (Rangel, 2007:8).

Historically, MNCs have fulfilled multiple roles in the markets where they operate. These roles have been associated with positive outcomes, including technology transfer, job creation, increased wage standards, improved infrastructure, reduced corruption, and the provision of investment capital. However, they have also been subject to criticism (whether correct or not), such as whether investment occurs to access pollution havens or to benefit from less regulation (Chen et al., 2009:318-319).

### **1.2. Sustainable Development**

The basic idea behind the concept of sustainable development (SD) has been around for centuries. It appeared in German forestry in the 17th century not only as idea but even as legal constraint to logging; the rule was to cut trees at a rate which enabled forests to renew themselves over time, i.e. to utilize timber in a responsible and sustainable way (Steurer et al., 2005:264). The major discussing initiating sustainable development is found in the report of the World Commission on Environment and Development (WCED). The Commission’s 1987 report, often referred to as the Brundtland Commission Report, defined “sustainable

development” as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED,1987:8). In its broadest sense, this normative abstraction has been widely accepted and endorsed by thousands of governmental, corporate, and other organizations worldwide (Gladwin, Kennely and Krause, 1995:876).

Since the time of the Commission report, scores of alternative definitions of sustainable development, sustainable economies and sustainable societies have been proposed. Table 1, presents an abbreviated gallery of some of the more detailed and leading conceptions in recent years.

<ul style="list-style-type: none"> <li>●To maximize simultaneously the biological system goals (genetic diversity, resilience, biological productivity), economic system goals (satisfaction of basic needs, enhancement of equity, increasing useful goods and services), and social system goals (cultural diversity, institutional sustainability, social justice, participation) (Barbier, 1987: 103).</li> </ul>
<ul style="list-style-type: none"> <li>●A Sustainable society is one that can persist over generations, one that is far-seeing enough, flexible enough, and wise enough not to undermine either its physical or its social systems of support (Meadows, Meadows and Randers, 1992:209).</li> </ul>
<ul style="list-style-type: none"> <li>●Living well within the limits of nature (Hitchcock and Willard, 2006:8).</li> </ul>
<ul style="list-style-type: none"> <li>●Sustainable development refers to social, economic, and environmental development that meets the needs of current society without compromising or limiting future development and growth (Cantor, 2011:5).</li> </ul>

Table 1: Representantative Conceptions of Sustainable Development.

Today, sustainable development is a well-known societal guiding model that asks for the integration of economic, social and environmental issues in all societal spheres and levels in the short- and long-term (Steurer et al., 2005:264). Businesses have long referred to this as the ‘triple bottom line’. Instead of trading these realms off against one another (jobs or the environment; economic growth or environmental health; development or habitat), sustainability aims to optimize all three (Hitchcock and Willard, 2006:8).

These three realms are intimately intertwined. Without a healthy economy, unemployment is high, leading to a host of social problems; and without a healthy economy, governments don’t have the revenues to handle these increased social ills. Without a healthy environment, we deplete the resources upon which our economy depends and contribute to human illness (Hitchcock and Willard, 2006:9).

### 1.3.Multinational Corporations and Sustainable Development

The role of multinational corporations (MNCs) in sustainable development has probably been one of the most controversial debates among scholars. The environment has been at the

centre of the controversy. On the one hand, environmentalists are generally pessimistic about the contributions of MNCs to the protection of the natural environment, particularly in host developing countries.

In sharp contrast to the above assessment, neoliberal economists contend that MNCs are perhaps the most significant catalysts for sustainable development because they typically possess newer and cleaner technology, and have better management practices that can be transferred to their subsidiaries in the developing world. Thus, rather than “pollution halos” in developing countries through the export of modern technologies (Abdul-Gafaru, 2009: 50-51).

#### **1.4. Stakeholders Management**

Various scholars have contributed to the development of stakeholder theory over the last decades (Freeman, 1984: 21). The term “stakeholder” first formally appeared with reference to business in a 1963 internal memorandum at the Stanford Research Institute. Researchers at the Institute postulated that instead of an exclusive focus on shareholders, corporations were also responsible for a wider range of entities or interest groups ‘without whose support the corporation would cease to exist (Freeman, 1998:602).

Freeman popularized the ‘stakeholder’ concept in a groundbreaking book in 1984; *Strategic Management: A Stakeholder Approach*, and consolidated a strategic approach to stakeholder management. Freeman (1984) defined a stakeholder more broadly as “Any group or individual who can affect by the achievement of the firm’s objectives” (p.25). Since then, an energetic academic debate has arisen around stakeholder theory. This theory focused on managerial decision-making and based on several complementary premises that include following (Jones et al., 1999:207):

Corporations have relationships with many constituent groups that affect and are affected by its decisions.

Those relationships affect corporate processes and outcomes.

The interest of all (legitimate) stakeholders have intrinsic value and no set of interests is assumed to dominate the others.

#### **1.5. Multinational Corporations and Stakeholder Management**

Stakeholder theory without differentiating between market development levels, emphasizes difficulties MNCs have adapting to expectations of different stakeholder groups. However, the potential for inconsistencies and conflicts between stakeholder expectations regarding MNCs may be stronger within lesser economic development levels, where stakeholder groups may compete for prioritization in local economic development –creating difficulties for managers assessing their local roles (Chen, Newbury and Park, 2009:319).

Today multinational corporations face a wide range of different demands from their stakeholders. Steger examined the business case for incorporating social and environmental issues into business strategies and operation. Based on personal interviews with 300 managers (plus 100 external stakeholders) and 1100 analysed self-completion questionnaires in nine industries (oil and gas, food and beverage, pharmaceutical, etc.) he concluded that issues' significance to companies did not result from a few make it break it issues but from their sheer number and variety. He managed to cluster 350 responses into 225 distinct categories of social, environmental and economic challenges (Steger, 2004:5). In addition in an other study, Clement (2005) identifies five important lessons from the stakeholder model for today's leaders of MNCs. These five lessons may be summarized as follows (p. 256):

Corporations are facing increasing pressures to respond to their stakeholders.

Corporations have a legal basis for responding to a wide range of stakeholders.

Corporations are being led by executives no longer guided by the principles of their professions.

Corporations respond to powerful stakeholders with legitimate, urgent claims.

Corporations can improve the bottom line by responding to stakeholder concerns.

### **1.6. Business Diplomacy Management**

Nowadays, civil society organisations have exerted increasing pressure on MNCs, especially in the social and ecological spheres. The now accepted Corporate Social Responsibility charter and the UN-initiated Global Compact are just two of the most prominent examples of how companies are trying to manage mounting environmental pressures from non-business stakeholders (Saner and Yiu, 2005:301).

Demands from local communities on a global company's corporate conduct can significantly limit the freedom of a MNC's behavior and actions. Incompetently managed external constituencies and pressure groups could quickly result in millions of dollars of costs, lost business opportunities and market share (e.g., consumer boycotting), and reputational capital (Saner and Yiu, 2005:301). Thus managing a multitude of business and nonbusiness stakeholders at the international level requires diplomatic skills-calls business diplomacy management- to safeguard a MNC's reputational capital and to seize business opportunities embedded in nonbusiness environments (Saner et al., 2000:83). In this context, business diplomacy pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, government, political parties, media and other representatives of civil societies) and external constituencies (Saner and Yiu, 2005:303).

The goals of business diplomacy management; influencing economic and social actors to create and seize new new business opportunities, working with rule-making international bodies whose decisions affect international business, forestalling potential conflicts with stakeholders and minimizing political risks, using multiple international forums and media

channels to safeguard corporate image and reputation (Saner and Yiu, 2005: 303; Saner et al., 2000:85).

Business diplomacy management has got four dimensions. In other word, business diplomacy managers need to be competent at international, national, community and firm levels. At the firm level, they help define business strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, and collect and analyze pertinent information emanating from host countries and international communities. Internationally, competent business diplomats lobby with finesse, are gracious hosts, and know how to comply with protocol according to local customs and practices. They are able to develop local connections and relationships and conflictual interfaces. When dealing with stakeholder groups, business diplomats are called in to mediate potential or on-going conflicts of an economic, social, environmental, or political nature. More importantly, business diplomats scan the environment and identify potential conflict areas with the stakeholders before implementing a project (Saner et al., 2000:85-86).

A corporation's ability to obtain a license to operate by matching the expectations of numerous stakeholders has become one of the most important assets for corporations, especially in a world post Enron and other corporate scandals that promised to ruin the trust in corporations. The legitimacy of the contemporary corporation as an institution within society its social charter, or license to operate depends on its ability to meet the expectations of an increasingly numerous and diverse array of constituents (Saner et al., 2000:83; Post et al., 2002:9). Some of the domains of these competencies could express as follows; knowledge of international relations and diplomacy, multicultural sensitivity, political skills as mastering political negotiations, oration and handling of media and mastering analytic tools (Saner and Yiu, 2003: 28).

Business diplomacy management (BDM) is part of a corporate response to the external environment when dealing with the international business environment involving various stakeholders seeking a non-zero sum solution to underlying conflicts. The tasks of BDM thus contain environmental scanning, stakeholder management and issue management pertaining to on-business counterparts (Saner and Yiu, 2005: 309).

### **1.7. Case Study: DaimlerChrysler**

One important factor contributing to sustainable development success of MNCs operations in foreign markets is the competent use of business diplomacy. Business diplomacy management (BDM) refers to the ability of MNCs to effectively interact with non-business stakeholders wherever the MNCs have business interests, be they in the form of local production, distribution of open and participatory societies around the world. (Saner and Yiu, 2005:298)

As mentioned before, while the need for business diplomacy is evident, it is less clear how MNCs actually conduct business diplomacy around the world and how they develop this core competence. It is also unclear how this function is actually structured within MNC. To

answer some of these questions and to see the tasks of BDM better, we preferred the method of case study by means of Alman- American MNC as known DaimlerChrysler.

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Case study of DaimlerChrysler presents to any of MNC set appropriate policies and develop organizational competence in this emerging three tasks domain.

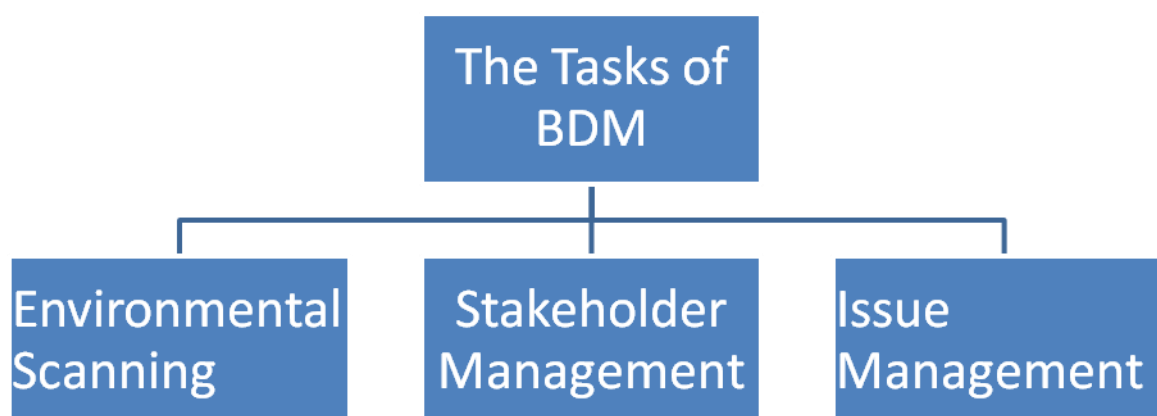


Figure 1: The tasks of Business Diplomacy Management Towards to Non-Business Counterparts. ( Saner ve Yiu, 2005)

On 6 May 1998, Daimler- Benz of Germany signed a merger agreement with Chrysler Corporation of the United States. The merger marked the beginning of the ambitious goal of merging two styles of auto-making two approaches to business and the proud but distinct cultures of two nations. Thus Daimler's engineering skill and technological advances could be complemented by Chrysler's skills for innovation, speed in product development and bold marketing style.

After signed the merger agreement German car maker Daimler-Benz AG and American's third largest automobile company, Chrysler Corporation transformed to be one of the world's biggest automakers. While Chrysler has the reputation of being a "lean" car manufacturer producing "cuttingedge" vehicles, Daimler Benz was the symbol of Germans conservative, high class quality craftsmanship (Johann, 2006:4).

For this study one multinational company was selected with an outstanding track record in managing their broader business environment in accordance with its sustainability over the last five years: DaimlerChrysler.



With DaimlerChrysler (DM) case, 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 (Steger, 2003:23)

DaimlerChrysler: Responsiveness And Determination Via Business Diplomacy Management Practices

At the company’s 2001 General Assembly, at the top of the agenda there was clearly disappointment with the share price. But, as on similar occasions, pressure groups used the platform to voice their concern: DaimlerChrysler’s “Dodge” supports bullfights in Mexico; there are no female managers in top positions; DaimlerChrysler subsidiaries are still producing landmines etc.

Since November 1998, after the merger euphoria faded and now exacerbated by heavy losses in the Chrysler Group and Freightliner, DaimlerChrysler came under criticism by financial analysts due to an underperforming share price. But otherwise you have to go back many years to find DaimlerChrysler in negative headlines; being the first to implement a new but controversial law for sick payment brought massive protests from the metal-workers union, worker council and ordinary employees.

In 1991 the new Mercedes S-Class was the focus of a broad coalition of critics as being an irresponsible product, neglecting environmental concerns and resource conservation and increasing traffic jams due to its sheer size. Greenpeace staged a major demonstration at the door of Frankfurt Automotive Fair, piling up all the barrels of oil that an S-Class car would consume during its life cycle. After the unsuccessful but ambitious strategy to transform the car company into a technology concern, Daimler-Benz, like the S-Class, were considered the dinosaurs of German Industry.

Chrysler was faced with another situation with regard to its business environment, different from that of the high profile Daimler Benz subsidiary. Being the smallest of the “Big 3” in Detroit, Chrysler tended more to follow the industry mainstream and was less visible and risk exposed than were the more global General Motors and Ford.

### **1.7.1. Issue Management & Environmental Scanning**

As a sub task domain of BDM, issues management tends to be one of the most important techniques to work for the mentioned corporate and social values symbiosis and to map the relevant stakeholders’ expectations. In words of Heath (1997), “Issues communicators discuss values to establish the standards of acceptable corporate responsibility, the foundations of corporate policy and operations” (p.217)

Global issue management at DaimlerChrysler has an important distinction (Figure.2). Here, the system is based on the assumption that there is a pattern in the dynamic of issues and that you can detect it early. You then have to respond differently, depending on how the

escalation has worked out. Therefore, extensive scanning of leading media companies in Europe and the US, based on a set of criteria, is an ongoing activity: In addition, relevant chat rooms are visited – the themes raised there often serve as an early warning system too. From product-related (for example a recall), corporate themes (for example, financial reports) to general, political, social or environmental trends relevant to Daimler Chrysler (Steger, 2003:259-260)

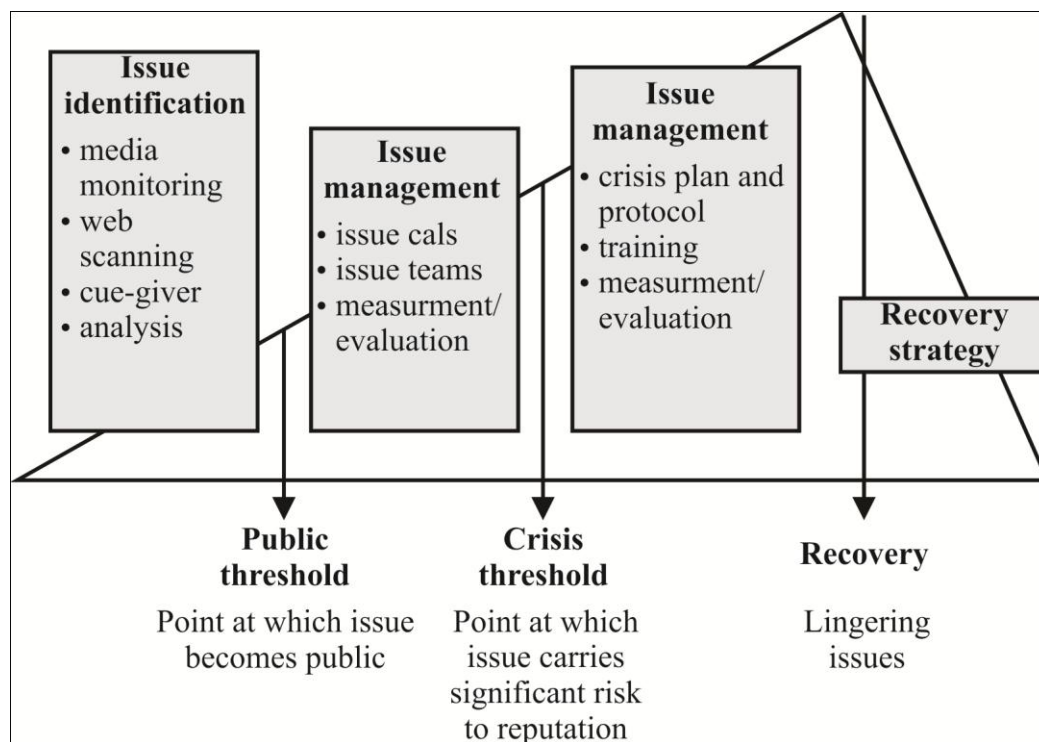


Figure 2: Global issue management at DaimlerChrysler. (Steger, 2003:260)

On these issue, a large number of communications professionals and other observers provide their input weekly, and the end of the week the CEO and the management board receive a “key issue briefing” of not more than three pages. The amount of processed information should not be underestimated: 20.000 quotes on Daimler Chrysler per month is not extraordinary. Sophisticated IT equipment in the “war room” makes this possible. Financial analysts increasingly dominate the reports in business news papers with their quotes, where as environmental and social issue are driven by NGO activities (Steger, 2003:260-261)

To be able to match internal and external expertise and to understand, evaluate and privatize the input from the external world, you need in-house competence that can process the information, make sense of it and put it into a framework that allows management conclusions for strategy, products and organization (Amann et al., 2007: 34).

At Daimler Chrysler, an interdisciplinary internal research group “society and Technology” is fulfilling this role. Based in Berlin, Palo Alto and Kyoto, the research group focuses on the future- oriented identification of societal “needs”, using scenario us to understand upcoming “battle-necks” and to complement market research with a better understanding of context

factors (for examples, ageing) trends (for example, multicultural societies), individuality and environmental values ( for example, leisure time).

With its approximately 25 multi- disciplinary teams, however, it is not only shaping new technologic in the Daimler Chrysler group. An important product is the annual “Delta Report”, which documents research into the socio- economic environment as a basis for decision- making in all business units. In addition, the group supports the innovation process and internal organizational learning with “laboratories of the future”, where decision- makers from all disciplines learn to understand the complexity of the business environment, conflicting views and expectations and test the available contributions in different scenarios. (Steger, 2003:261).

To monitor information is one thing, to act on it is another. When one issue is identified (for example, the Kerkonian legal attack against the manager in late 2000), a master plan is developed. In the case of issue that are expected to be around for a longer period of time (for example, slave labour compensation payments for slave labour in Nazi camps), on IT-based platform is the focal point of all activities (Steger, 2003:262)

### **1.7.2. Stakeholder Management**

Dialogue with stakeholders is regarded as a top priority for corporate Sustainability Management (CSM) In automotive companies and especially in Daimler Chrysler some stakeholders has got more importance: NGOJ are usually open to dialogue to achieve their aim of improving the social and environmental responsibility. Financial markets are always open to dialogue on sustainability. They treat sustainable development as a niche investment market. And government, other regulatory authorities are only marginally interested in the concept of sustainable development. Their focus is mainly on product related legislation. (Brunner, 2004:93)

But apart from these stakeholders, the workforce and investment communities are currently of special importance for DC. Whereas the US media jumped enthusiastically at the chance of “Coerman-bashing” – when economic problems hit Chrysler – The European media like to ridicule the quality of Chrysler cars. To prevent a deep division “them” and “us”, internal communication has become even more important noted Ulrike Becker, Director for Internal Communications. She has built a system of communication channels, aimed at specific target groups and time-frames. Having established a process to do this, top management can bypass middle- men and outside advisors, creating space for face-to-face meetings with institutional investors, major shareholders and rating agencies (Steger, 2003:264)

A special unit copes with non-brand – specific corporate themes and sponsoring. They maintain good relations with environmental groups or NGOs and conduct regular dialogue. Sponsoring has a philanthropic dimension, which builds mainly on the Chrysler tradition of community involvement and promoting opportunities for minorities and disadvantaged people. Senior executives serve therefore as sponsor of internal interest groups (for example,

Afro – Americans) and purchasing rules ease access for small-and-medium-sized businesses, especially when these are owned by minorities (Steger, 2003:265).

In addition, the DC Corporation recently concluded an agreement with labor representatives to promote the employment of women and remove barriers to their career development. Continuing along these lines, in 2000 the DC Fund sponsored, for an amount of US\$32 million, a wide variety of education, community development and cultural groups across the world—from the society of Women Engineers in Michigan , Nelson Mandela’s Children’s Charity fund to the Charities Aid Foundation in the U.K (Steger, 2003:266)

Beyond the philanthropic dimension, corporate-sponsoring is also related to leveraging DC’s core competence for the solution of ecological, social and scientific problems, The branch of corporate sponsoring has therefore set up projects that relate to the key corporate goals and help to establish the image of a “troubleshooter”: for example, satellites from the aerospace division collect data for an environmental project, researchers in sophisticated transportation simulations models receive support from Daimler Chrysler engineers, as do road safety education programmers ( Steger, 2003:266)

## **2.CONCLUSION**

In order to succeed a business and ensure sustainable economic viability of their investments, MNCs must draw on competencies which will allow them to manage multiple stakeholders at home and abroad. Faced with these challenges, these companies need to acquire greater diplomatic capacities and competencies in handling both the internal stakeholders and the external non-business stakeholders. We have elaborated on one case study that illustrated the need for business diplomacy systematically. MNCs are challenged to manage their business environment systematically and professionally so that a formal and informal licence to operate is sustained. This can be achieved by:

- Detecting and understanding emerging issues, via early warning systems.
- The key to success when dealing with a broad range of stakeholders lays in managing a double tension:
  - a) to have a set of clear messages on issues and on your corporate values, but to be responsive to the questions with which you are confronted,
  - b) to decentralize all stakeholder activities as far as possible, but make sure that all who are communicating externally use the same song book.
- Extensive scanning of leading media companies in Europe and the USA based on a set of criteria is ongoing activity.
- With sophisticated IT equipment in the “war room”, to know and to process information regarding media report before.
- The group names “Society and Technology” focuses on the future-oriented identification of societal needs, thus to be able to match internal and external expertise.

- By the way of “The Global News Bureau” to integrate the different communication units that either focus on a brand, a subsidiary or corporate issues.
- A special unit copes with non-brand-specific corporate themes and sponsoring. They maintain good relations with environmental groups or NGOs, and conduct regular dialogue.

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