

# Chapter 18

## The Conceptualization of Corporate Social Responsibilities as Soft Power of Firms: The Implication of Business Diplomacy

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### **ABSTRACT**

*This chapter serves the conceptualization of corporate social responsibilities as soft power. Moreover, this chapter will offer insight into the tie between business diplomacy, CSR, and soft power. First, a section is dedicated to a glimpse of the relationship between CSR and business diplomacy. Another area frames instrumental CSR, political CSR, and soft power into an intensive framework. This is a literature research that utilizes an extensive analysis of literature via the research of key terms and their abbreviations. It is expected that this study would contribute as a foundation to the intersection of international relations and international business as well as business research concerning the political role of corporates, stakeholders, management, and business environment.*

### **INTRODUCTION**

The global economy has undergone a significant transformation as a result of globalization and demands on multinational firms to manage the environment in which they operate are on the rise. Hence MNCs tend to positively take cautious steps to generate a favorable business environment to create more profit. Ferrier et al. (1999) argued that to strengthen or safeguard their competitive positions, businesses engage in competitive acts like pricing advantages, the development of new products, and legal corridors. MNCs seem to implement strategies to many stakeholders in order to acquire supports as well as legitimacy to operate. Zinn & Goldsby (2019) stated that the political environment and network are factors that increase

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degree of effective business operation in the host market. From this viewpoint, a positive environment would be created by stakeholders supporting business operation. These companies are enjoying privileges from political globalization such as free trade agreements from multilateral or bilateral relations between countries. The influential power and the role of MNCs and TNCs are by far very large in every market. MNCs must deal with state and non-state actors who are always challenging all multinational companies regarding economic contribution, environmental issues, and social well-being (Saner and Yiu, 2005). Saner et al. (2000) proposed the business diplomacy (BD) concept referring to the capacity to deal with the complexity of political environment including the host country's interest that any company operates within. Caballero and Arbiol (2022) expressed that after years of conducting relevant literature, BD displayed businesses as powerful players working to advance their own interests in politics by taking into account the needs of stakeholders such as cooperating with international organizations (IGOs), non-governmental organizations (NGOs), governmental institutions, etc. although, the number of literatures concerning business diplomacy has been gradually growing since 2000 by Saner and Yiu (2000), Willigen (2020) gave an insight of this concept from the International Relations viewpoint that as businesses were growing its role in global sphere not only in private sector but also in politics and policy initiatives, BD would be considered as crucial factor for firms operating internationally. From the perspective of the conventional definition of diplomacy, the Vienna convention of diplomacy (1961) define the function of diplomacy which are 1. To represent the native nation in the foreign one; 2. To adhere to international law and preserve the home nation's interests as well as those of its citizens residing in the host country; 3. to engage in positive dialogue with the host nations; 4. to assess the condition of the host nation using all legal means and report back to the home nation's government; and 5. to promote amicable relations between the nations and enhance their links in trade, culture, and science. In this sense, participants in diplomacy were identified preferably governmental stakeholders. Overall objectives were based on mutual benefit which served home and host nations' interests. Tran (2023) argued that the modern model of diplomacy had extended its relevant stakeholders to non-state players including non-governmental organizations, media, civil organizations as well as citizens, etc. The scope of diplomacy had been expanded to religious institutions, non-governmental organizations, multinational corporations, and other entities which could also exercise diplomatic acts (Cooper, et al., 2013). From this academic standpoint, business diplomacy would be executed by businesses. And they shall utilize soft power as an influential factor to create positive business environment. Muldoon (2005) viewed that soft power has been becoming more and more vital in the global economy in general and in private sector in particular. Thus, he claimed that firms often acted essentially as a diplomatic organ where BD is responsible for organizing a company's representation (Muldoon, 2005). Ruel (2013) asserted that BD has been used by MNEs to build and maintain a good connection and network with host authorities and non-governmental groups and to preserve their legitimacy to operate. Ordeix-Rigo and Duarte (2009) referred business diplomacy by firms to public diplomacy by governments in the sense that they might utilized the soft, hard and smart powers. Scholar was trying to imply corporate social responsibilities (CSR) as soft power to communicate and respond to relevant stakeholder for the enhancement of firms' reputational capital and legitimacy as well as the establishment of strategic alliances (Caballero and Arbiol, 2022; Egea, 2020; Saner, 2019). However, controversies are occurring around the effectiveness of CSR for businesses. In this sense, CSR might be considered as a soft tool for MNCs to form their advantages in either home and host market. Perceived from the notion of diplomacy, companies hence must apprehend diplomatic acts and tools to draw advantage. In this sense, business diplomacy should refer to CSR. This idea has provoked an issue among scholars. Although CSR had a tight link with business diplomacy as

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