

SYNERGY OF TACKLING GRAND CHALLENGES – FROM THE BUSINESS DIPLOMACY’S PERSPECTIVE

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In a fast-developing and uncertain world, grand challenges emerge as a collection of programs encouraging creativity to address significant worldwide development and health issues. It is essential that grand challenges are debated at various levels comprising spheres of policymaking, publicity, and academics worldwide. Depending on the urgency of a challenge, the opinion and prioritisation of stakeholders may vary. Nevertheless, stakeholders demand collective business actions to handle these grand challenges jointly. A synergistic approach to business strategy draws the attention of scientific researchers and practitioners in the way that it could combine many crucial factors to create a dynamic in business. By applying a critical and integrative literature review, this paper aims to conceptualise the creation of competitive advantages and innovative dynamics from the perspective of business diplomacy. The consonance from business diplomacy, which is about stakeholders’ engagement and negotiation, and shared values creation will ensure the operation of a company. This is a synergistic approach as business diplomacy and shared value creation are capturing the significant profit of synergy. This research will analyse the interconnection between business diplomacy and shared value creation based on synergy.

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1 Introduction

A synergistic approach to business strategy draws the attention of scientific researchers and practitioners in the way that it can combine many crucial factors to create a dynamic in business. It is essential in the context that grand challenges are debated throughout the world. Stakeholders demand more collective actions from firms to handle these grand challenges jointly. Internationalising and internationalised companies risk losing legitimacy, social license to operate, and a bad reputation. To safeguard their reputational image, many companies opted for CSR activities to avoid being confronted by stakeholders.

Nonetheless, the reliability of CSR is decreasing because scholars are exposing the dark side of CSR, which is economic benefits only for companies rather than society and companies as a whole. Creating shared values is an excellent choice to prove that a company is thinking of values for its stakeholders and society when implementing its business activities. It is also a cost-benefit for companies. Moreover, The consonance from business diplomacy, which is about stakeholders' engagement and negotiation, and shared values creation will ensure the operation of a company. This is a synergistic approach as business diplomacy and shared value creation are capturing the significant profit of synergy. This research conceptualises how firms could create their competitiveness and innovative dynamics as synergistic consequences for jointly tackling grand challenges. While creating shared values implies mutual understanding and common objectives between businesses and stakeholders, business diplomacy-related studies explain how this implication could be achieved.

2 Theoretical research

2.1 Innovative dynamics and competitive advantages

Market globalisation offers business opportunities for firms to contribute to the development of the national economy and to where they have business operations (Ordeix-Rigo, 2009). The internationalisation of firms is a complex strategy in the present day as competitive advantages are changed by non-business stakeholders (Ruël, 2020). Historically, dynamic capabilities were considered a driver for enterprise-level competitive advantage in rapidly changing technological

environments (Teece, 2007). As part of a dynamic capacity-building approach, organisations can learn to adapt to changing environments by defining new products and processes (Teece, 2018). Competitive advantages will be subject to changes by economic and non-economic stakeholders from the business environmental spheres (Henisz, 2016).

Egea et al. (2020) claimed that drivers of competitiveness changes were related to sustainability factors. Yeow et al. (2018) suggested that enterprises with dynamic solid capabilities could profitably adapt to environmental changes by aligning with organisational changes and competencies. Notably, dynamic capabilities in the management literature are related to the use and distribution of organisational resources. In this sense, resources are directed to enhance competitiveness and address challenges to the rapid changes in the environment (Lin et al., 2016; Zollo & Winter, 2002). Scholars proposed that dynamic capabilities stemmed from the resource-based view, where firms allocated their resources to innovate processes or technologies to survive business environmental changes (García-Leonard et al., 2023; Peteraf et al., 2013; Yeow et al., 2018).

In the post-environmental changes, companies face increased demand for addressing social and political issues (Fitzpatrick et al., 2020). These demands are sorted by allocating firms' resources. However, they must be aligned with business interests with firms (Bolewski, 2018; Marques, 2018). Stakeholders' demands increase, so firms must allocate resources to address these demands. This action assists companies in ensuring their responsibility and accountability towards society. In this way, firms can survive environmental changes by employing business diplomacy. Firms that apply a business diplomacy agenda will likely allocate their resources to pursue diplomatic aims and initiatives (Ordeix-Rigo and Duarte, 2009). In a highly competitive landscape, business diplomacy helps firms gain competitiveness to secure their position in the market (Henisz, 2016). Nobre (2017) and Willigen (2020) claimed that through the lens of diplomatic research, a firm acts as its diplomatic agent to pursue and protect its business interests. Tran (2023) stated that corporate social responsibilities play a role as the soft power of firms to enhance their influence in the market. Hence, firms will acquire more dynamic capabilities if they implement good business diplomacy strategies. Dynamic capabilities define the extent of allocating organisational resources to scan and seize new business

opportunities during environmental changes (Arifin and Frmanzah, 2015). Firms acting as their diplomatic agents will be discussed in the below section.

2.2 A conceptualisation of business diplomacy from the perspective of mainstream diplomacy

The conceptualisation of diplomacy is constantly evolving around negotiation, building and maintaining relationships from one state to other states, mediation, and creating a network with a specific subject according to the type of diplomacy. Based on the above essences, business diplomacy is conceptualised with the business sector—either private or public companies implant business diplomatic activities. The conceptualisation would stretch out the notion of diplomacy to the business sector. The nature of diplomacy changed from state-to-state to state-to-multi-stakeholders with the emergence of globalisation. In addition to the proliferation of parties, negotiations must address the diversification of political identities and ways of life (Scholte, 2008). Heine (2013) stated that globalisation and the development of communication led to the growth of several international actors such as NGOs, companies, social communities, etc. Modern diplomacy is where the government and other parties have collaborated in various diplomatic networking activities (Cooper, 2013).

Ruel (2013) and Tran (2023) defined business diplomacy as building and maintaining a positive relationship and network among host state representatives and non-governmental representatives. This is to preserve MNCs' legitimacy and license to operate. Interactions between firms and stakeholders also affect firms' reputational capital and capacity to form and impact the operational environment (Alammar and Pauleen, 2022; Saner and Yiu, 2014). Alammar and Pauleen (2016) and Marschlich and Ingenhoff, (2022) have expanded the topics by including internal and external business players. Therefore, MNCs would leverage the premise of CSR engaging with stakeholders to protect their reputational image and validity (Amann et al., 2007; Tran, 2023).

3 Discussion

3.1 Synergy approach from business diplomacy and value creation

Andersen et al. (1959) defined synergy as a concept describing the acquisition of resources for more competitiveness and the ability to adapt to external changes and pressures in the business environment. Weber and Dholakia (2000) justified the M&A strategy by using a Marketing synergistic approach to the financial development from the standpoints of related-industry companies with a wide range of financial measurement indicators such as stock prices, revenues, or investments. Scholars examined the economic benefits of synergy, which are conceived of return on investment via four major types: sales, operations, investment, and management (Holtström and Anderson, 2021; Zollo and Meier, 2008). Holtström and Anderson (2021, p. 29) outlined the list of “market power synergy, operational synergy, management synergy, and financial synergy”. Scholars also conceptualised synergy toward two broader and precise separate ramifications, which were “*a complementing effect (using resources more efficiently) and a synergy effect (using the companies' unique resources)*”. From this point, synergy could seize companies' societal and value creation faces according to the recent social demands. Social well-being must be maintained at a particular level in industrialised nations through consistent economic expansion. Business diplomacy plays a role in harmonising companies and society in the host country (White, 2015; Windsor, 2018). Businesses have always encountered great difficulty managing the alteration of various perspectives on their position in a broader political and social environment in the host country, especially when those perspectives contrast their economic goals or corporate interests (Muldoon, 2015). The company's operations and strategies must be more directly correlated with the larger social values and principles of CSR (Tran, 2023a; Ingenhoff and Marschlich, 2019). CSR is now considered a crucial leverage for negotiating and enhancing international companies via business diplomacy (Tran, 2023b; Yiu and Saner, 2017). The business strategies of numerous top firms in major worldwide businesses progressively include social and economic challenges. CSR integrated with business diplomacy could be a perfect synergistic factor companies could utilise to optimise their operation and gain legitimacy and social license (Saner, 2019; Weber and Larsson-Olaison, 2017). The diplomatic agenda toolbox includes research and development programs, funding or sponsorship activities, partnerships with local communities, etc, in the host countries (Saner and Yiu, 2014). CSR activities act as

either instrumental or political tools to address societal sustainability issues, enhancing visibility and influence (Marschlich and Ingenhoff, 2021). Accordingly, CSR can be regarded as a diplomatic action due to its impacts on policymaking, public opinion agendas, and societal transformation (White et al., 2011).

To this end, firms engaging in business diplomacy agenda could create synergy effects which lead to positive outcomes for both firms and stakeholders. Firms could address and jointly solve social, environmental and economic issues from the stakeholders' sides. On the other hand, firms could gain and maintain legitimacy and social license to operate, along with the increase in reputational capital and market competitiveness. Hence, companies must enhance their dynamic capabilities and innovations to cope with environmental changes and meet stakeholders' demands (Breznik, 2012). These outcomes are a result of synergy effects for both firms and stakeholders. Delić et al. (2016) perceived that the synergy effect resulted in multiple positive outcomes for companies, but it was vital for them to recognise common objectives with stakeholders. The above section indicated that CSR could be regarded as a political and instrumental tool to influence public opinion, policy-makers, civil communities, etc. Oetzela and Doh (2009) have recognised that NGOs and social communities could potentially increase risks by drawing attention to the detrimental effects of foreign investment and influence. In nations where innovative incentives fail, the social costs of certain items and the legal responsibility they cause outweigh the value of the business assets, causing negative externalities (Gande et al., 2020). Corporate shared value (CSV) is not generally corporate social responsibility but rather a novel strategy for achieving economic prosperity and emphasising the link with social welfare (Baldo, 2014). From a perspective, CSV is intrinsic to a company's prosperity and competitive advantage. This strategy could entail an innovative and more improved level of cooperation.

3.2 Business diplomacy and creating shared values as a synergy for grand challenges.

Global challenges have captured the attention of scholars in business management and companies. Aside from lucrative operations, companies are a joint hand in dealing with international issues. Furthermore, society, communities, NGOs, and governments have stricter demands for collective actions from the business sector. Quayle et al. (2019) saw that grand challenges are complicated, all-encompassing

issues demanding interdisciplinary cooperation by utilising many sectors' varied perspectives, experiences, skills, and capabilities. George et al. (2016) stated that grand challenges have been formed by global issues that are only being solved by collective activities in the form of collaboration. Grand challenges emerged from the involuntary minimisation of businesses’ unsustainable behaviour rather than drastically altering the behaviour of all actors and levels to increase the sustainability of the entire system (Gorissen et al., 2014). There are “bridging approaches” discovered by Ricciardi et al. (2021):

Table 1: “bridging approaches” to deal with grand challenges

No	Approaches	Interpretation
1.	Embeddedness	Entrepreneurs are seen as deeply ingrained in their environment and as facilitators of social learning. Thus, companies should be embedded in the socio-economic issues.
2.	Stakeholders	The “embeddedness” could formulate “performance criteria” that involve stakeholders who could justify companies’ legitimacy based on companies’ practices of business activities.
3.	Institutions	This theory could facilitate integrating companies’ business activities into the host’s societal and economic issues.
4.	Design	This approach aims to structuralise a connective and progressive governance and management system attached to sociopolitical and economic issues in the host country.
5.	Process	This term refers to cooperating with stakeholders to create an ecosystem that could leverage co-evolution in accordance with SDGs.
6.	Effectuation	This approach reflects companies' perspective on the grand challenges and opportunities around it. Furthermore, flexibility and capacity to adapt in uncertain contexts were bolded.

Source: built based on Ricciardi et al. (2021)

The research by Ricciardi et al. (2021) shared similarity with creating shared values as they could accelerate an ecosystem that benefits businesses and society. The dynamics capabilities exist where companies could re-design their business model and process to deal with grand challenges and respond to stakeholders’ demands. This transition will increase a company’s reputational capital and enhance its influence in the host market.

If collating the perspective of Itami and Roehl (1991) with two effects of synergy with six approaches of strategy to handle grand challenges from Ricciardi et al. (2021), the first three approaches will correlate with the “*a complementing effect (using resources more efficiently)*”. It describes the external factors complementing the synergy

strategy to construct collective solutions to grand challenges with external participating factors such as the framework of SDGs or viewpoints contributed by stakeholders. The second group consists of 3 other factors aligning with the “*synergy effect (using the companies’ unique resources)*”, which portrays the internal factors shaping the paradigm shift in business strategy and activities toward inclusion of societal and economic issues in the host country (Holtström and Anderson, 2021, p. 27). From three means for companies to create shared value of Porter (2011), and combining with two synergistic effects of Itami and Roehl (1991), the relationship should be concluded as follows:

Table 2: The relationship of Shared values creation, synergistic effects and the grand challenges’ “bridging approaches”

No.	Approaches by Francesca Ricciardi, Cecilia Rossignoli, and Alessandro Zardini (2021) to deal with grand challenges	Manners for Companies to Create Shared Values designed by Porter (2011, p. 05)	Synergistic effects by Itami and Roehl (1991)
1.	Embeddedness	“Enabling local cluster development”	“complementing effect (using resources more efficiently)”
2.	Institutions		
3.	Stakeholders	“Redefining productivity in the value chain.”	“synergy effect (using the companies’ unique resources)”
4.	Process		
5.	Design	“Reinventing products and markets”	
6.	Effectuation		

Source: built based on Itami and Roehl (1991); Porter (2011); Ricciardi et al. (2021)

Synergy from the side of shared value creation is defined based on the emergence of grand challenges and how companies need to cope with them. However, it is essential to recognise the importance of stakeholders who were mentioned and involved in the synergy. Business diplomacy serves the synergy as a concept contributing to protecting a company’s image, reputation, and social license to operate via dialogues and communication with internal or external stakeholders. Marschlich and Ingenhoff (2019) reaffirmed the critical importance of stakeholder engagement. They stipulated that the firms' actions must align with the stakeholders' expectations in the host nations by actively taking part in decision-making processes regarding sociopolitical concerns and fostering constructive connections. Knowledge transfer to multiple stakeholders is essential and should be implemented through dialogues. These diplomatic strategies could help stakeholders to acknowledge a company’s business strategy and practices. Nevertheless, companies

need to hear opinions from stakeholders. Therefore, companies should create two-way communication to learn about socio-economic and political contexts in the host country.

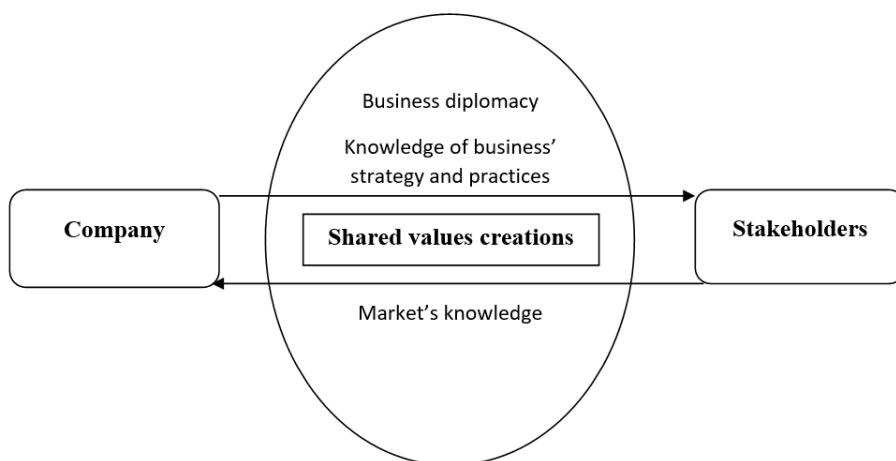


Figure 1: proposed communication roadmap
Source: proposed by the author

Figure 1 describes the communication roadmap proposed for the “two-way” communication strategy. A company communicates its business strategy and practices to stakeholders with its shared values, which correlate with socio-economic concerns and political context. In this sense, a company could prove that the shared values contribute to the development of the host’s economy and society. In exchange, that company could acquire more knowledge from the market’s context and stakeholders’ perception, including customers, competitors, and governmental actors in the host country, to shift the company’s strategy accordingly. Information gathered from the host market could translate into competitive advantages for firms: “simultaneous global integration, local and professional differentiation, and worldwide learning and knowledge-sharing” (Søndergaard, 2014, p. 357). Salam et al. (2023) highlighted the exchange of market information and intelligence between businesses and stakeholders as the core agenda of business diplomacy. From that point, business diplomacy helps companies to reconcile their and stakeholders’ values (Salam et al., 2023). Business diplomacy handles the strategy of interactions between a multinational company and its “external non-business counterparts”,

which affect the company's reputational capital and capacity to shape its organisational context (Saner and Yiu, 2014). The reconciliation of shared value promotes firms' innovative capabilities to respond to stakeholders' demands. Furthermore, innovation or innovative capabilities could be regarded as a driver for competitive advantages (Egea et al., 2020).

4 Conclusion

It is undeniable that grand challenges are rising strongly recently, especially after the Covid-19 pandemic. The energy crisis, the Ukraine War, and poverty and economic regression cause uncertainties which demand close collaborations between companies, governments, and stakeholders. Implementing international business is severe due to the harsh public pressure in the host and home countries where global companies operate. Business diplomacy is a concept describing a representation of companies in the host and home markets. This concept stimulates the nature of conventional diplomacy, which is state-centric. This concept will help businesses recognise the importance of stakeholders in their operations. Businesses could gather more information and gain legitimacy from these stakeholders.

However, leverage is a must for exchange. CSR activities are usually regarded as a good advantage as they involve elements of sustainability. Nevertheless, when scholars find out about political and instrument CSR, the credibility of companies decreases within the communities. Porter (2011) proposed the transition from CSR to CSV. The synergistic nature emerged from this stage when global companies could brace for both CSV and business diplomacy. This resonant from the two factors could ensure an effective operation in the host market and create shared values for the host country's society to deal with grand challenges. A compelling business diplomatic agenda could assist businesses in forming a market entry process by acquiring market intelligence. Business diplomacy forms a win-win business environment and mutual understanding between firms and stakeholders. In this case, firms must reconcile their values to the stakeholders' values and demands. In the modern world, businesses are required to be involved in tackling grand challenges. These grand challenges will enhance innovation and dynamic capabilities, leading to competitive advantages. As a result, a company could gain more competitiveness in the context of internationalisation.

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