

# Competences for Economic Diplomacy and International Business; Convergence or Divergence?<sup>1</sup>

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## ABSTRACT

The article discusses whether competences needed for effective contemporary economic diplomacy are different from or similar to those needed by international businessmen, and whether economic diplomats are capable of responding to the challenges of tectonic changes in the world with the competences they now possess. It concludes that a convergence of competences between economic diplomats and international businessmen is taking place; diplomats are increasingly using competences of international managers, and international managers increasingly need diplomatic skills. Special attention is given to: relations between internal and international economic relations, the need for global mindsets, the business intelligence role of economic diplomats and long-term planning. Competences of economic diplomats from small countries are different from those of their large-country counterparts. One basic competence is flexibility, the readiness to change and to adjust to changes. To adjust to changes, there is also a need for reforms in training of economic diplomats and international businessmen.

*Key words: economic diplomacy, international business, competences, soft knowledge*

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## **1 Introduction**

German Chancellor Angela Merkel has recently been reported to be opening doors for German firms in China, and Chinese President Hu Jintao is now organising his visits abroad around economic interests. The Slovenian president and prime minister have also planned their recent visits abroad around the interests of the Slovenian economy. They have been accompanied by strong business delegations, particularly in countries that Slovenian policy has neglected since independence. For a time, talking about the non-aligned or Arab countries in which Slovenian firms had a strong reputation was treated the same way as mentioning communism. This was unfortunate, since gaining new markets is known to be much more costly than retaining old markets. Therefore, the major task of economic policy should be to retain position in existing markets, although this activity may be slowing in them, to avoid paying expensive one-off "entrance fees" and instead to pay "subscriptions" available from previous cooperation. It is clear that (ideological) emotions are costly.

Economic diplomacy (ED)<sup>2</sup> is becoming more and more important. Why are those who were originally against government intervention in business now becoming Keynesians? Is the crisis the reason for this or is something more at stake? The crisis has certainly brought about many new problems, and placed governments in the position of rescuer. But it is not only the crisis that has contributed to the return of the state on the economic playground. There are also tectonic changes in the world, demonstrated by the shifting of the centre of gravity of economic power to the East (see Svetličič & Sicherl, 2006). In this way, more distant and less known markets are becoming central. Consequently, firms, particularly small and medium-sized enterprises (SMEs), need help from the government in discovering and entering such markets. This is, however, possible only if: i) governments realise the importance of such new markets in time and ii) firms are, with their staff and expertise, able to enter such markets. Since we are talking about markets that are more distant and substantially different (physically and culturally) than those that

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**2** ED is defined as bilateral, regional or multilateral realisation of economic interests predominantly by diplomats, but also other civil servants and/or non-state actors in order to maximise national interests or maximise welfare of the population of the home country. It is not advisable to distinguish between different kinds of economic diplomacies (economic, commercial, business, or even intra business; see more in Udovič, 2009, figure 16) in small countries.

are already familiar, different competences are needed from those involved in working with "old friends" on close markets.

The article addresses the dilemma of whether those involved in ED possess the competences to face new challenges and of whether firms also need new and different knowledge. It also considers whether the competences required for ED and for international business (IB) are similar or are substantially different. Can we talk about convergence or divergence of competences, and which skills are necessary for successful realisation of interests in the turbulent and unpredictable global environment? Chapter two addresses the general concept of competences required for ED and IB. Chapter three compares competences required in ED and IB. Chapter four is devoted to selected issues of ED and IB, such as links between internal and international relations, the importance of global mindsets and risk assessments. Chapter five deals with competence convergence and chapter six with specific characteristics of ED for small states. The final chapter summarises major conclusions and provides some policy suggestions.

## **2 About competences**

Competences are abilities to effectively perform certain tasks. Perrenoud (1997) understands the competences of an individual as the activation, use and interconnection of knowledge, skills, motives, self-image and values as a whole, which enable the individual to successfully perform tasks and resolve problems in complex, diverse and unforeseeable situations. A competence is a body of patterns that an individual has to master to do his/her work efficiently and effectively, and the ability to implement such skills in (multicultural) teams required to face differences. This integrative ability, involving holistic assimilation of several related, subsidiary skills in complex and changeable unpredictable situations, can be regarded as central to successful implementation of tasks and resolving problems. It implies hard knowledge and skills (soft knowledge), along with appropriate motivation for their implementation (Weiart, 2001). Hard knowledge is usually equated with formal education because it refers to knowledge that can be codified and obtained at school. On the other hand, soft knowledge is intangible, relational<sup>3</sup> knowledge, which is difficult to quantify, codify, store and transmit,

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<sup>3</sup> It depends on existing environment, specific circumstances, and is becoming, in the ever more unpredictable global environment, more and more important.

because it relates more to personal characteristics and includes judgment and experience. It is hidden within the answers to questions such as how and with whom to negotiate, and how expertise is articulated and presented in a simple and comprehensible manner. To know "how" relates to the ability to implement certain tasks, to know "who", on the other hand, relates to who possesses knowledge of *what* and *why* (hard knowledge). Soft knowledge is tacit – made up of internalised skills acquired with experience and practice (Svetličič & Kajnč, 2010, p. 86).

### **3 General comparison of competences of economic diplomacy and international business**

Theoretically, it is possible to compare ED with relations within transnational companies (TNCs)<sup>4</sup>. In the case of TNCs, it relates to the relations between headquarters and affiliates, while in the case of ED it relates to relations between ministries of foreign affairs (government or other ministries) and economic diplomats (for further discussion see Svetličič, 2011). Although relations within network of TNCs are very complex, those between economic diplomats and their "bosses" are even more so. Economic diplomats lack the clear instructions that expatriate managers receive from their bosses. They have many more bosses with frequently contradicting objectives/instructions. There is also a difference in terms of hierarchy. Ministries are still very hierarchical, while the tendency in TNCs is away from too strict a hierarchy and more towards decentralisation (network or project organisation with more autonomy of affiliations, and distributive governance on the basis of simple and flexible rules<sup>5</sup>). Hierarchical organisation usually suffocates the initiative and flexibility required by economic diplomats. Although ED is substantially older than IB, IB is today much more dynamic and responds more quickly to a changing international environment. Therefore stronger convergence of ED with the organisation of IB would seem appropriate (Svetličič, 2011).

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<sup>4</sup> This is based on the general theory of internalisation, in which the business theory of internalisation is implemented in the case of states, as an analogy to firms. Imperial states with colonies can be seen as analogous to TNCs with affiliations abroad, having similar relations with colonies as headquarter of TNCs have with their affiliates. (see Casson et al., 2006).

<sup>5</sup> See Nohria, 2006, p. 23.

This comparison indicates similarities of competences, but also important differences when it comes to hard and soft skills/competences<sup>6</sup>. Hard knowledge is necessary but not sufficient for effective work of economic diplomats and (expatriate) managers. Soft knowledge is gaining in importance in the case of economic diplomats since they are supposed to possess critical know-how and "know-who", and this implies judgments that are easier to make based on rich experience. Those with charisma and curiosity can be much more successful in such activities – those possessing skills in persuasion<sup>7</sup>. Fukuyama (2008) even talks of the world today being driven by weak states, because the usual instruments of power (especially hard military power) do not work. For such a new world, a new arsenal of competences is required (Fukuyama, 2008, p. 40), including rapid and *ex ante* response to unpredictable changes.

Differences among the tasks of economic diplomats and international managers are withering away, particularly for small countries. Executing managerial and expert tasks demands, according to Jazbec (2009), different knowledge, and consequently also different training.

In the case of IB, soft competences have a different source and weight. They refer to intangible assets, such as technological, information-based, managerial, marketing and entrepreneurial skills, organisational systems, and incentive structures (Dunning & Lundan, 2008, p. 96). Because TNCs operate in a multicultural environment, managers have to have specific cross-cultural competences. Beamish & Killing (2001, pp. 178–195) include the following among these competences: the ability to develop and implement strategic skills, change and cultural-diversity management, functioning in a flexible organisational structure and teams, the ability to communicate openly, as well as to learn and transmit knowledge within an organisation. Of particular importance are international orientation, international marketing skills, international innovativeness and international marketing orientation (Knight & Kim, 2009). Research with regard to managers in companies indicates that leading managers show weakest competences precisely in the fields of intercultural sensitivity, introducing changes and leadership. Therefore it is

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<sup>6</sup> These are: communication skills (rhetoric, conversational, lobbying and networking, cross-cultural) – including use of (foreign) language, leadership, negotiating skills, as well as capacity to apply such knowledge swiftly. The prevailing values in society have an important influence on these skills (see Svetličič and Kajinč, 2009).

<sup>7</sup> Nye (2004) defines »the ability to influence the behaviour of others to achieve the outcomes one wants« as soft power.

not surprising that implementation is more challenging than strategy (Hrebiniak, 2005), and precisely these are the tasks of economic diplomats and managers of IB.

Fragmented, integrated international production, mostly directed by TNCs, presents new challenges. Economic diplomat must take them on board and put more emphasis on complex forms of IB (such as foreign direct investment – FDI), since modern communication techniques provide easy and fast access to information on more traditional types of international economic cooperation. What is missing is assessment of the reliability of otherwise accessible information, about its quality and practical importance for the home economy or firms. This is the task of economic diplomats. Traditional marketing is for them less important when intermediate products, without brand names, have assumed almost 50% of international trade and much more than 50% for most small countries.

**Table 1: Comparison between tasks of managers and economic diplomats**

<b>General international managers' tasks</b>	<b>Economic diplomats' specific tasks</b>
Good results	Satisfaction of customers (more and more firms, achieving results)
Cooperation	Within ministries, with firms and institutes, etc. Achieving reverse flow of information from the capital
Setting priorities	Not only set by "bosses" but also as self initiative based on the place of operation
Governance	Governing the whole network of managers and customers. Hierarchy, which usually dominates in civil service, should be reduced
Execution	Efficiency (related to rational use of resources) and effectiveness regarding objectives and methods
Team work, human-resource development	Permanent transfer of knowledge to the capital and on other colleges and customers
Conflict management	Between public and private interest and within them
Trust and responsibility	Establishing trust and confidence in the role of ED

Source: own table and Praček, 2010.

Comparison between the tasks of economic diplomats and international businessmen demonstrate many similarities, but also some differences (Table 1).

In both cases, actors have to satisfy customers and to cooperate effectively in realisation of objectives. The role of economic diplomats is even more complicated due to complicated accommodation of interests between different interests/institutions/customers. They also have to have good initiative, because they are usually alone in the host country without as clear instructions as managers get from headquarters.

Changed circumstances in the global economy with fantastic opportunities to access information and knowledge demand not only different functions but also different knowledge/skills. Hard knowledge is more accessible to everyone. The priority is therefore to assess the importance and reliability of information, how to get it as quickly as possible, possibly before others, and communicate it to customers as quickly as possible. What is important is the background of information (who, why, how and when) and how to enable customers to utilise such opportunities<sup>8</sup> as they appear on the market. Major failures of ED so far have been in providing information that is otherwise accessible on the Internet or other public sources, and even this with substantial delays, instead of providing interpretation of the relevance of such information for specific users. A shift from simple provision of information to evaluation<sup>9</sup> of relevance, reality and possible impact, and above all, a shift to timely delivery to customers, is essential.<sup>10</sup>

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<sup>8</sup> Porter (1990) indicates in his diamond of competitive advantages two factors important in this respect: government, which can influence competitiveness, and opportunity, which economic diplomats can identify or not. Speed becomes the key for success also for ED.

<sup>9</sup> Economic diplomat should be capable of alerting the appropriate ministries, business and other associations, firms. For example, in the inaugural WTO conference, it was decided that the Multi Fiber Agreement (MFA) is going to an end in 10 years, and that deadline was later extended. By using this information firms could get better prepared and avoid being "surprised" only a month before the expiration of the MFA (as actually happened in Slovenia, but also in Europe in general). The textile industry panicked when it was realised that Chinese and other producers could flood European and other markets with their products. Similarly relevant is information about the preparation of EU directives or even non-binding standards of the OECD or other international organisations.

<sup>10</sup> Justinek's analysis has clearly demonstrated that Slovenian firms are most dissatisfied with the speed of response of Slovenian economic diplomats. His experiment has even demonstrated that many requests by firms have not received a response at all (Justinek, 2010, pp. 7 and 144–148).

Soft knowledge is making the difference between those who know and those who are able to apply such knowledge, who are able to articulate their knowledge. Churchill long ago claimed that it is not important what one knows but how one is able to articulate this knowledge. In a survey, as many as 40% of English employers claimed that communication skills are considered most important, followed by work ethics (39%), and personal characteristics (32%), while formal education received less attention (25%) (see Svetličič, 2007, p. 233). All these are of little importance if one does not speak foreign languages or possesses cross-cultural communication skills. In times of globalisation this knowledge is an important competitive advantage, particularly in relations with cultures which give high importance to their identity. At least modest knowledge of local languages is an important catalyst for business success, enhancing other, more robust, competitive advantages.

Traditional competences are also not sufficient for successfully facing the crisis and post-crisis challenges<sup>11</sup> and the shifting of the drive of development to Asia. This implies increasing shares of cross-cultural business, triangular diplomacy (states, TNCs, even NGOs), of international, regional and non-governmental organisations as well as the governance of globalisation, particularly financial transfers, contemporary climate challenges, water, energy or raw-materials scarcity, etc.<sup>12</sup> Evaluation of the Slovenian EU presidency in 2008 has clearly demonstrated that the most deficient skills were soft skills (knowledge of English, rhetoric, building acquaintances and team work) (see Svetličič & Kajnč, 2009).

Comparison between public and private organisations has demonstrated that civil servants must be better in maintaining good relations and partnerships with the political institutions/politicians and civil servants of the two countries involved. This also applies to economic diplomats since their task is not only to inform relevant actors at home *ex post* of any relevant changes of laws and regulations or other measures taken by the local governments, but to do this when such legislation/measures are in the preparatory stage. This is, however, possible only on the basis of very close formal and informal contacts with

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<sup>11</sup> For example, risk management or forecasting (see Svetličič, 2011).

<sup>12</sup> Most FDI is expected in the future in raw materials and much less in manufacturing.



local partners. Diplomats skilful in all forms of informal communications are better equipped to perform such tasks.

#### **4 Comparison of competences in selected fields**

General comparison of similarities and differences between ED and IB, and also of comparison between the public and private sector (see Svetličič, 2011) has revealed differences and similarities, and convergence and divergence between ED and IB, particularly in the following domains:

- a) Connections between internal and external international economic relations
- b) Global mindsets and global orientation
- c) Security culture and risks
- d) Long-term planning or preparation of scenarios.

##### **4.1 Connections between internal and international economic relations**

The first similarity between ED and IB is the close connection between internal and external (economic) relations. IB is usually the result of the evolution of the development of a company, gradually expanding its activities from internal to international markets. ED diplomacy is also highly dependant on internal development, on domestic polity. Its priorities are determined by the governing elite. Economic diplomats are supposed to be selected based on their expertise, but in practice, the political criteria of those who make the selection always play a certain role. Comparison between profit and non-profit organisations has also demonstrated that maintaining good political relations is much more important in the case of public organisations. Obviously the link between internal and international economic relations is much stronger in the case of ED. The weakening of such links can create problems. A significant gap between the internal and the external can pose a substantial barrier to effective ED and/or IB. Therefore, an economic diplomat has to develop very good relations not only with economic actors but also with political actors in both countries concerned. An international businessmen, however, must be skilful in diplomatic techniques, to develop good relations with local authorities, trade unions, civil society and the media.

## **4.2 Global mindsets and global orientation**

Both economic diplomats and international managers are required to be globally oriented if they wish to be successful. They must have global mindsets, which prevent the inbuilt internal filters from rejecting or sidelining important information coming from the world, but must also be able to change their mindsets with integrating and differentiating. It is crucial to combine speed with an appropriate reaction (see Gupta & Govindarjan, 2002, pp. 200 and 203). A global mindset is a basic characteristic and stepping stone to successful IB and ED, particularly in the case of small states. It enables openness to new ideas and proposals, to "blue oceans".<sup>13</sup> One precondition for such a role is interdisciplinarity. Without such an approach, global mindsets cannot develop. Although it is necessary in both professions, a multidisciplinary approach is relatively more important in ED. An economic diplomat has to consider all the time not just one market but also the whole region in which he or she operates, taking into account possible competitors in the region and even globally. Therefore, knowledge of macroeconomics and microeconomics, political analytical capabilities, and communication skills, to gain necessary information, are essential.

A global orientation, however, is more important for international businessmen. Multinationality has, because of the need for global optimisation of activities, proved to be a more important factor in competitiveness than local or foreign ownership (Bellak, 2004; Castelani & Zanfrei, 2006). Although there is no linear relationship between internationalisation and performance, some claim that there is a positive relationship, and others, that there is a negative relationship between the two (see In Hyeock Lee, 2010: 1). More and different knowledge is therefore needed for such global activities.

The present economic crisis has clearly demonstrated the importance of global orientation in spite of a strong trend towards synchronisation of economic cycles between states and regions. Countries more integrated in the global economy have suffered more, but those that have identified crises ahead in a timely manner and have responded to the shifting centre of the dynamics of the global economy to emerging economies have

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<sup>13</sup> According to Kim and Mauborgne (2005), these are new opportunities on the markets with no existing competitors; in essence creating new niches and not competing where there are many competitors ("red oceans").

performed much better during the crisis. The task of economic diplomats is not only to trace such tectonic changes, but also to proactively warn firms about them, and help them transcend the traditional orientation to close, regional markets. Tradition may also be a barrier to economic ED. It holds to the traditional understanding of diplomacy as a high-flying salon activity, which is not supposed to "dirty its hands" with microeconomic interests. In Kunič's words (2005, p. 9–14), the »problem of economic diplomacy is also the mindset of diplomats considering the economy as *low politics*, while diplomacy as *high politics*.«

### **4.3 Risks and security culture**

Although risk management is not new, its importance has substantially increased in the face of the increasing uncertainty and unpredictability of the global economic environment, not least due to the very strong link between trust and international economic cooperation: more trust, more trade and FDI. It is therefore crucial that ED contributes to better information flow among economic partner countries to enhance mutual trust. Better information contributes to lessening of mistrust, and consequently barriers to business fade away (see Guiso et al., 2005, p. 25). The structure and relative weight of specific groups of risks has also changed. To traditional economic and political risks, we must add geopolitical, environmental, societal and technological risks (see World Economic Forum, 2010). Economic diplomats must alert businessmen to such risks. Not least since, at first glance, analysis of this type has often proved right, and has anticipated such risks (see table 5 in World Economic Forum, 2010).

Internationalisation and informatisation of business has enhanced the vulnerability of the whole system (interruption of access, database crashes, unauthorised user access). The Economist therefore rightly talk about "war in the fifth domain" (3 July, 2010, pp. 22–24), since digital infrastructure has become a "strategic national asset". President Obama has quoted a figure of \$1 trillion lost in 2009 to cyber crime, which would represent a bigger underworld than the drugs trade, though such figures are disputed. Because of the threat of hackers and virus-writers, both the US and the UK set up dedicated cyber-security bodies in 2010 (in the US, Cyber Command) and China is talking about "winning cyber wars by the mid-21<sup>st</sup> century". At a time when around 140 trillion electronic mails are spam and when cyber-espionage »is the biggest intelligence disaster since the loss of nuclear secrets in late 1940s« (Jim Lewis of the Centre for Strategic

and International Studies, Washington; see *The Economist*, July 3<sup>rd</sup> 2010, pp. 22 and 23), this is really necessary.

Security culture is clearly increasingly important but is nevertheless still marginalised in firms. It can be an instrument of defending one's own interests and for proactively enhancing competitive advantages. In fierce competitive battles, firms and states do not always shy away from also using illegal methods to gain information/knowledge. Therefore, concern over protecting knowledge is becoming more and more important, and almost as important as acquisition of new knowledge<sup>14</sup>. Economic diplomats should more systematically alert businessmen to these security dimensions, but at the same time be careful not to disclose information about firms that they would not like disclosed<sup>15</sup>. Economic diplomats have to know clearly when and what to disclose and know not to reveal what firms would not like to be revealed. This is only possible if they nurture permanently close links with them.

Therefore economic intelligence (collecting, organising and applying commercial information), competitive intelligence (data on competitors and markets and education) and industrial intelligence (data on production), due diligence, and social intelligence about human capital<sup>16</sup> all gained in importance. The market for economic intelligence is estimated at 2 trillion dollars annually (Peruško, 2004, p. 2). Such aspects are particularly important for Slovenia, »where business intelligence is not recognised and valued and therefore underestimated« (Gjerek, 2009, pp. 10 and 10–132).

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<sup>14</sup> President George H.W. Bush therefore in 1992 highlighted the importance of economics in the context of national security. President Clinton then set up the National Economic Council and introduced direct reporting of the CIA also to the financial, economic and international economic areas of government. He also set up the Board for the Promotion and Coordination of Trade and Advocacy centre. Their task was to assist and facilitate cooperation between firms and the security community. (Gjerek, 2009, p. 29).

<sup>15</sup> This is especially important in the case of "hidden champions" because one of their competitive advantages/characteristics is that they do not disclose information about their leading market position, since they do not want competitors to enter such niches or to learn secrets of their success (See Simon, 2010, p. 14).

<sup>16</sup> It is about legal searching, evaluating and diffusion of information from publicly available sources (marginally also by secret operations) not, as with espionage, applying clandestine methods and illegal sources. (Gjerek, 2009, pp. 9, 22, 53, 62)

#### **4.4 Long-term planning or preparation of scenarios.**

Traditional annual or longer-term planning methods are becoming, in turbulent and uncertain times, and due to discontinuities and fluctuations, outdated. It is therefore better to prepare long-term scenarios for possible alternative developments and possible reactions to such alternatives. Flexibility and adaptability are becoming the rule. These demand much greater knowledge and a wider range of competences. Therefore Bryan and Hoffman suggest that firms:

- drop the pretence that they can predict the future,
- adapt their managerial processes and capabilities with a view to making better decisions under uncertainty, e.g. by abandoning a fixed calendar and planning schedules. This change requires a shift to monitoring macroeconomic data in real time, rather like the "just-in-time" approach in manufacturing, and will enhance contingency planning and flexibility in strategic activity (Bryan & Hoffman, 2009, p. 3). Managers are supposed to make evaluations each month (43% of responses), each quarter (35%) and, some even claimed, each week (7%) (Dye et al., 2009, p. 6).

Similar practices can also be applied in ED, which must become more flexible, and more able to predict and permanently evaluate strategies<sup>17</sup>. Kunič (2005, pp. 9–14) claims that politicians are too slow in application of the needs of the business. One reason is that they are required to accommodate different interest groups, while businessmen operate in a more immediate, "no nonsense" manner, with no time for extended coordination. Slowness is characteristic of public, non-profit organisations. Greater flexibility can be achieved only if one is prepared in advance for the unpredictable. The function of scenario preparation is to prepare for (undesired) events. *Pre-mortem* analysis is one instrument by which one can evaluate potential problems *ex ante*. The other is decision-making that is intuitive, and not based only on robust assessments/forecasts. The precondition for effective application of such methods is to stimulate creative thinking as an instrument to gather as much opinion as possible and not merely to discuss proposals offered in advance by leaders (more in Svetličič, 2011). Economic diplomats and international businessmen are supposed to be keen to apply such

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<sup>17</sup> More in Svetličič, 2011.

techniques. *Pre-mortem* analysis and stimulation of creative thinking should become a part of their mindsets.

## 5 Convergence of competences

The transformed world of international economic relations and the intensive participation of new actors in international relations (IR) demand new competences in economic diplomats and international managers if they wish to cope with relations in the triangle among states, firms, and firms among themselves. Comparing training, and the importance of competences and qualifications required by post-modern diplomats, Saner and Yiu determined that the borders between them have almost blurred, and that there is a strong convergence between the competences required for ED and IB (Saner & Yiu, 2003, p. 22). On the basis of comparative evaluation of the two sets of competences, they clearly show which of the competences of international management are needed for ED.

**Table 2: Key Competence Requirements for Economic Diplomacy**

Business School Education	Education at Diplomatic Academies	Competences of Particular relevance for:	Competences for post-modern diplomatic environment
General Management	History of diplomacy	•♦ •♦	- Knowledge of diplomatic instruments - Capacities in influencing the diplomatic process
Strategic Management	Treaty-making	•♦ ♣•♦	- Knowledge of key international business-related legal standards - Capacities in influencing standards setting at key international organisations (WTO, ILO, UNEP, WIPO, OECD).
Managerial Accounting	International law	•♦ ♣•	- Knowledge of functioning of international law and arbitration - Knowledge of impact of "Corporate Reporting to Stakeholders"
Financial Management	International economics	♣• •♦	- Knowledge of history and logic of non-US economic theories and practices - Knowledge of influence of international financial institutions (IMF, World Bank, Paris Club, London Club, US FRB, BIS)

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Human Resource Management	International and supranational organisations	♦♦ ♣♦♦	- Knowledge of structure and decision-making processes of supranational organisations (UN, EU, NAFTA, ASEAN, etc) - Capacity to influence supranational organisations through direct or indirect means
Marketing	Regional and country studies	♦♦ •	- Knowledge of interplay between economics, politics and culture by region or country - Capacity to promote proactive perspective in region regarding business diplomacy
International Management	Theory of international relations and contemporary history	♣♦♦ ♣•	- Knowledge of decision-making processes of key countries (domestic and foreign) - Capacity to conduct political risk analysis regarding key stakeholders of investment projects
Operations Management	Managing delegations, embassies and consulates	♦♦	- Knowledge of mechanisms of international crisis-management and corresponding roles of diplomacy and government - Capacity to intervene on behalf of company
Information management	Interactions with media	♣♦♦ ♣	- Mastering public speaking and media (keynote speeches, TV interviews, press conferences, etc) - Managing Business Diplomacy Information System, which supports strategic planning regarding stakeholder management
Organisation Behaviour and Change	Negotiation skills (bilateral, multilateral, plurilateral)	♣♦♦	- Managing and influencing international negotiations (bilateral, multilateral, plurilateral)
Quantitative Methods	Diplomatic behaviour and protocol contemporary history	♦♦ ♣♦	- Mastering diplomatic practices and protocol - Mastering analytic tools, e.g. stakeholder analysis, scorecards on stakeholder satisfaction, scenario planning, etc.

Competences of particular relevance for:

- ♣ Economic and Commercial Diplomats
- Business Diplomats
- ♦ Transnational NGO Diplomats

Source: adapted from Saner, Yiu & Sondergaard (2000)

In 5 of 21 areas of competences for the post-modern diplomatic environment (last column), all competences are required. With the exception of one area, at least two competences are needed, irrespective of basic education. Most frequently, the same competences are required for both business and transnational diplomacy<sup>18</sup>. Among the 21 types, only 8 can be defined as specifically diplomatic. All others are more business oriented. Competences for ED are clearly converging with those needed for successful IB rather than the reverse. Success in both cases depends on focusing on core competences. This is particularly true for small countries, which by specialising in fields of their competitive advantages (see Baillie, 1999) can improve their results with the help of ED. As firms must focus on their core competences, the core tasks in which their performance is relatively best placed, economic diplomats also have to focus on major interests – the competitive advantages of their home countries/firms.

ED and IB use similar sources of information, although from different perspectives. Both must give more attention to future developments, to risk management (particularly financial risks), to developments among competitors and multicultural differences. Our analysis has demonstrated that Slovenian managers are weaker in the areas of mastering cross-cultural differences than in areas of products or processes, and that their knowledge about other cultures is rather weak. Mastering cross-cultural differences is even more important for economic diplomats because the sensitivity of the public and of politics to this is much higher. Comparison between non-profit and profit organisations has also demonstrated that public organisations require better cross-cultural competences.

## **6 Special characteristics of economic diplomacy in small countries**

Economic diplomacy has relatively higher importance for small countries than for large states, firstly because they have to be much more intensively integrated in the global economy, and their firms much more internationalised. However, even diplomats from large countries give high

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<sup>18</sup> Economic and commercial diplomacy deal with economic policy in international organisations and with the implementation of commercial interests of own country. Corporate diplomacy deals with relations within TNCs and their environment, while transnational with overseas lobbying also with relations with NGOs (Saner & Yiu, 2003).



priority to promotion of the economic interests of their countries.<sup>19</sup> Secondly, a specific characteristic of small countries is that they are faced, when penetrating global markets today, with the increasing importance of economies of scale and scope, and international regulation of international economic relations, with fewer barriers (liberalisation of international trade). However, other barriers (consolidation and oligopolisation of global markets, more rules in the WTO and other international organisations) are limiting their strategies and policies. The configuration of the negotiating powers of small states and their firms also enhances the importance of ED for these countries. The negotiating power of states is based on control of territories/markets and production capital (which are naturally more limited in small countries), while that of firms is based on their possession of technology, products, capital, customers/markets of their products and jobs created by their activity (see Grosse & Behrman, 1992; Stopford & Strange, 1991, p. 215). Through ED, small countries can help in gaining access to production factors in other countries and winning control over profits and rents stemming from international production.

Consequently, taking into account hard negotiating factors, small countries have weaker negotiating powers than large countries. Small countries can also only apply hard/aggressive negotiation tactics less successfully because they can not transform them into effective implementation measures. They may also fear retaliation if applying hard bargaining (see Dur & Gemma, 2010, pp. 564–565). However, small countries can compensate for their weak bargaining powers by creating coalitions<sup>20</sup>. Consequently ED is much more relevant to these countries.

The functions of ED for small states are also different. Diplomats of small countries have to deal much more with "micro" ED, and have to take care of the interests of even individual firms. In such activities, they can learn from hidden champions (Simon, 2010). The secret of their success, although there is no formula to fit all circumstances, can be summarised in nine points:

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<sup>19</sup> Ambassador of one very large country in response to my question to which meeting he would give priority; i) one in which he would be supposed to promote the business interest of companies or ii) one that has some political issues to be discussed, clearly gave priority to economic interests.

<sup>20</sup> Slovenia has weak capacity for this since it was among the least-desired partners for coalition creation in the EU (see Naurin & Lindahl, 2008).

- a) Focusing, specialising on core competences in narrow niches,
- b) Global orientation from the outset (they resemble global firms),
- c) Customer focus,
- d) Fast response, utilisation of first movers' advantages and flexibility,
- e) High importance of soft skills (culture, employee orientation and loyalty),
- f) Ambitious objectives to achieve leading positions in their core products/services,
- g) Operation under the media horizon,
- h) Stability; management not changing in 20 years or more,
- i) Small steps, not revolutionary development (also in innovations).

The similarity with the more general conclusions from small-states theory is obvious. This theory also emphasises focusing on critical advantages, specialisation, avoidance of conflicts, flexibility and fast reactivity (see Baillie, 1999; Bunse, 2009; Thorhallsson, 2000 and 2006). Thorhallsson argues that small countries can compensate for their weaknesses in influencing decisions in the EU by good relations with the EU Commission administration.

## **7 Conclusions**

Tectonic changes and ever-stronger interdependence between IR and international economic cooperation has led to convergence of competences required for IB and ED. A similar convergence is also taking place in the management of public and private organisations. Nevertheless, it seems that economic diplomats are adopting more of the competences that make international businessmen successful. At the same time, international managers must be trained more across disciplines, and equipped with strong soft skills that should provide advantages for diplomats to cope successfully with the complex global environment. This is particularly relevant in view of the need to strengthen economic cooperation with emerging countries, where one cannot be successful without possessing strong cross-cultural skills, for example.

The importance of soft skills for IB and ED has also increased in parallel to the increasing importance of tacit knowledge in knowledge societies.

Despite of the strong convergences of competences needed for successful ED and IB, there are also differences. Links between internal and international economic relations are much more important in the case of ED. Such relations are quite blurred in IB, parallel to the internationalisation of operations of national firms. Global orientation and global mindsets have become a necessity for survival in IB, while economic diplomats are only now starting to realise this requirement, together with the areas of expanding trade and FDI in emerging markets, where businessmen need more assistance, and where greater innovativeness and flexibility is required.

With the growing instabilities and vulnerabilities of IR and business, risk management and a culture of security are increasingly important. Security has always had high importance in diplomacy, but now is also becoming highly relevant in IB. Illegal ways of enhancing competitiveness are today more frequently applied. The importance of proactive strategies and/or long-term scenarios so that economic diplomats and managers can prepare in time for possible changes is also increasing. One such way to enhance such *ex ante* readiness is *pre-mortem* analysis, while another is promotion of creative thinking, rather than position-taking.

The economic diplomacy of small countries, which depend so strongly on international economic cooperation, has specific characteristics. Economic diplomats must master more skills and must possess more knowledge, because they are not in a position to specialise on only one among several functions of broadly defined economic diplomacy, as is the case in large countries. They can learn from hidden champions, which are able to become and stay competitive thanks to the development of special skills, and thanks to their specialisation on core competences in selected niches.

One basic precondition for successful ED and IB is appropriate training, because traditional approaches concentrating mostly on hard knowledge are losing importance. More holistic and interdisciplinary education and training, encompassing also the necessary soft knowledge and skills, particularly on cross-cultural communication skills and negotiations is necessary. Different criteria for the selection of economic diplomats are also needed, taking into consideration these soft skills.

Comparison of public job tenders in Slovenia with those published in *The Economist* have clearly indicated that international experience, ability to work in a multicultural environment, and personal soft skills (communications, negotiations, etc.) are included as job requirements in those published in *The Economist* and not in those published in the Slovenian media.<sup>21</sup>

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<sup>21</sup> *The Economist* and *Delo* were evaluated for the period 2005–2009 (see Purg, 2010).

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