



KONFERENCIAKÖTET

Conference Proceedings

**Nemzetközi tudományos konferencia
a Magyar Tudomány Ünnepe alkalmából**
International Scientific Conference
on the Occasion of the Hungarian Science Festival

Sopron, 2022. november 3.
3 November 2022, Sopron

**TÁRSADALOM – GAZDASÁG – TERMÉSZET:
SZINERGIÁK A FENNTARTHATÓ FEJLŐDÉSSEN**

SOCIETY – ECONOMY – NATURE: SYNERGIES IN SUSTAINABLE DEVELOPMENT

Szerkesztők / Editors:

OBÁDOVICS Csilla, RESPERGER Richárd, SZÉLES Zsuzsanna, TÓTH Balázs István

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TARTALOMJEGYZÉK / CONTENTS

1. szekció (személyes): Fenntartható gazdálkodás és menedzsment, körforgásos gazdaság Session 1 (personal): Sustainable Economy and Management, Circular Economy

Az ökológiai termelés és termékek piacának változásai a COVID-19 okozta megszorítások alatt

Dr. GYARMATI Gábor 11

Fenntartható fejlődés és körforgásos gazdaság a vállalkozások mindennapi életében

Dr. FEKETE-BERZSENYI Hajnalka – Dr. KOZMA Dorottya Edina –

Dr. MOLNÁRNÉ dr. BARNA Katalin – Prof. Dr. MOLNÁR Tamás 26

Fenntarthatóság a divatiparban (?) – Négy divatipari szervezet CSR jelentésének rövid áttekintése, valamint a fenntarthatóságra törekvés fogyasztók általi észlelésének vizsgálata

VIZI Noémi 39

Épített örökségeink fenntarthatósága a volt szovjet laktanyák újrahasznosításának példáján keresztül

TEVELY Titanilla Virág 52

2a. szekció (személyes): A fenntartható fejlődés globális és regionális vetületei

Session 2a (personal): Global and Regional Aspects of Sustainable Development

A migráció mérésének módszertani nehézségei

RUFF Tamás 65

2b. szekció (személyes): A fenntartható fejlődés globális és regionális vetületei

Session 2b (personal): Global and Regional Aspects of Sustainable Development

Munkaérték preferenciák vizsgálata a szállítási ágazatban

Dr. BALÁZS László – Dr. KŐKUTI Tamás 73

3. szekció (személyes): Turizmus és marketing, fenntartható turizmus

Session 3 (personal): Tourism and Marketing, Sustainable Tourism

Studentifikáció Lágymányoson, avagy az újbudai egyetemek hatása a fenntartható turizmusra

KISS Bence Álmos – PORHAJAS Gábor László 85

Book Consumption Literature – Literature Review on the Subject of the Behavior of Book Consumers

Miklós LÉGRÁDI – Dr. habil. Zoltán SZABÓ 96

Szállodaüzemi intézkedések irányvonalai a fenntarthatóság jegyében

MARTOS János András 114

**Sportfogyasztási szempontú elemzés a Sopronban rendezett
2021-es Női Vízilabda Magyar Kupáról**
CSISZÁR Szabolcs János – Dr. habil. PAÁR Dávid126

4a. szekció (személyes): Pénzügyek, számvitel, fenntartható pénzügyek
Session 4a (personal): Finance, Accounting, Sustainable Finance

**A könyvviteli szolgáltatási szakma megítélése. Összehasonlító elemzés
a 2020. és 2022. évek felmérése alapján**
Dr. VERESS Attila – Dr. SIKLÓSI Ágnes – Dr. SISA Krisztina A.136

A KKV-szektor hitelezési tendenciának értékelése MNB adatok alapján
MÁRKUS Mónika147

**Az ellátási láncok fenntartható pénzügyi adaptációja
– rövidtávú fizetési kötelezettségek finanszírozása**
Dr. CZIRÁKI Gábor – HACKL János158

**ESG közzététel vizsgálata nemzetközi háttérű kereskedelmi bankok esetében
Magyarországon**
SIKLÓSI Veronika172

4b. szekció (személyes): Pénzügyek, számvitel, fenntartható pénzügyek
Session 4b (personal): Finance, Accounting, Sustainable Finance

A fenntarthatóság és az osztalékpolitika kapcsolata
Dr. KUCSÉBER László Zoltán – Dr. CSOMA Róbert180

**Pénzügyi és öngondoskodási ismeretek a magyar középiskolák
végzős osztályaiban 2021-ben**
KOVÁCS Zoltán – TÖRÖNÉ Prof. Dr. DUNAY Anna 188

A cégértékelés módszertani kihívásai
FÁBIÁNNÉ JÁTÉKOS Judit Ilona203

5. szekció (személyes): Sustainable Economy, Management and Development
Session 5 (personal): Sustainable Economy, Management and Development
(session in English)

The Qualitative Characteristics of Accounting Information: A Literature Review
Asma MECHTA – Prof. Dr. Zsuzsanna SZÉLES – Dr. Ágnes SIKLÓSI219

**Tourism Development in Indonesia - Surakarta City Role Supporting
National Tourism Planning**
*Dr. Rizky Arif NUGROHO – Laura BAZSÓNÉ BERTALAN PhD –
Judit PAPPNÉ VANCSÓ PhD*228

**Green Manufacturing Practices Towards Sustainable Development
in the Ready-Made Garments (RMG) Industry of Bangladesh**
Dr. Md. Sadrul Islam SARKER – K. M. Faridul HASAN – Dr. István BARTÓK241

Drivers and Barriers of GSCM Practices Implementation: Literature Review <i>Khouloud CHALLOUF – Dr. Nikoletta NÉMETH</i>	252
--	-----

6. szekció (személyes): Tourism and Marketing, Sustainable Tourism
Session 6 (personal): Tourism and Marketing, Sustainable Tourism
(session in English)

Impact of COVID-19 Pandemic on Tourism Sector in Vietnam <i>Thi Thuy Sinh TRAN – Dr. Nikoletta NÉMETH – Dr. Thai Thuy PHAM – Nhat Anh NGUYEN</i>	259
--	-----

Tourism in Troubled Times: the Economic and Social Effects of Short- and Expected Long-Term Changes <i>Dr. habil. Tamás SZEMLÉR</i>	276
---	-----

Application Areas of Drones: Exploratory Research from Residential and Corporate Perspectives <i>Bendegúz Richárd NYIKOS – Astrid IONESCU</i>	286
---	-----

7. szekció (online): A fenntartható fejlődés globális és regionális vetületei
Session 7 (online): Global and Regional Aspects of Sustainable Development

Németország elektromos személygépjármű exportja az Európai Unió tagállamaival <i>Dr. KONKA Boglárka</i>	295
---	-----

Fenntartható design - új megközelítések a terméktervezésben <i>NÁDAS Gergely – Dr. habil. MOLNÁR László</i>	307
---	-----

Challenges of the Adaptation Planning – Evolution of the Vulnerability Assessment Methodologies <i>Pál SELMECZI</i>	322
---	-----

Szisztematikus irodalmi áttekintés a személygépjárművekbe épülő elektromos hajtáslánc gyártásáról a fenntarthatóság szempontjából <i>Dr. TÓTH Árpád – BEGE András</i>	329
---	-----

Németország az európai labdarúgás térképén – jogi és sportföldrajzi megközelítés <i>Dr. ENGELBERTH István – Dr. VIRÁGH Árpád</i>	344
--	-----

A körforgásosság mérési lehetőségeinek vizsgálata a szállodaüzemeltetésben <i>KARAKASNÉ Dr. MORVAY Klára</i>	360
--	-----

Az állami nyugdíjrendszerek fenntarthatóságának kihívásai <i>SZABÓ Zsolt Mihály</i>	377
---	-----

Competencies for Sustainable Development <i>Zsuzsanna NAGYNÉ HALÁSZ</i>	391
---	-----

8. szekció (online): Turizmus és marketing, fenntartható turizmus
Session 8 (online): Tourism and Marketing, Sustainable Tourism

Gyógynövényturizmus és az abban rejlő lehetőségek
– Az Észak-Magyarországi kínálati oldal primer vizsgálata
PÁSZK Norbert400

Fiatal külföldi turisták pozitív és negatív tapasztalatai Budapesten
Dr. habil. GROTTE Judit – MAGYAR Tímea408

Mit ígér Bükkfűdő? A városmárka-kommunikáció lehetséges eszközei és csoportosításuk a POE-modell alapján
HORVÁTH Kornélia Zsanett417

9. szekció (online): Fenntartható gazdálkodás, körforgásos gazdaság
Session 9 (online): Sustainable Economy, Circular Economy

Erdei biomassa lehetőségei és korlátai Magyarország energiabiztonságában
VARGOVICS Máté – Dr. NAGY Dániel433

A körforgásos gazdaság és a soproni hulladékfeldolgozó stratégiája
KASZA Lajos – Dr. NÉMETH Patrícia444

10. szekció (online): Sustainable Economy, Management and Development
Session 10 (online): Sustainable Economy, Management and Development
(session in English)

Comparison of the Density of Physicians and General Practitioners in the Hungarian Csongrád-Csanád Country and in the Territorial Units of Vojvodina for the Period 2002-2020
Dr. Ivana KOCSICSKA453

The Re-Consideration of Business Diplomacy and Corporate Social Responsibility for International Business in the Post-Covid-19 World
Anh Tuan TRAN463

Examining the Process of Project Preparation
Attila LEGOZA474

The Relativity between Sustainable Management and Turnaround Management: Evidences and Suggestions for the Hungarian Agricultural Sector
Zsuzsanna VARGA – Dr. habil. Etelka KATITS – Dr. Éva SZALKA – Dr. Ildikó PALÁNYI – Katinka MAGYARI484

Developing countries and Sustainability
Arjana KADIU – Dr. habil. Zoltán SZABÓ504

The Effect of Supply Chain Management in Achieving Sustainability in Supply Chain in Four Seasons Hotel in Syria
Wael ALASFAR519

**The Role of EGTCs and Euroregions in Economic Cooperation Across
the Hungarian-Romanian Border Between the Period 2007-2020**

Melinda BENCZI 531

11. szekció (online): Poszter szekció

Session 11 (online): Poster Session

Procrastination and its Influencet on Retirement Saving Plann

Khaliunaa DASHDONDOG540

Színházi kommunikáció 2.0

Hazai kőszínházak jelenléte Facebookon és Instagramon a pandémia első évében

Dr. DÉR Cs. Dezső – Dr. habil. PAPP-VÁRY Árpád Ferenc – ZRINYI Ivett554

A felnőttképzésben résztvevő álláskeresők elhelyezkedési esélyei

Szabolcs-Szatmár-Bereg megyében

LE-DAI Barbara575

Cost Analysis of Sustainable Concrete Production Using Waste Nanoparticles

Omar ZINAD – Dr. habil. Csilla CSIHA – Prof. Dr. Alya'a Abas AL-ATTAR585

The Re-Consideration of Business Diplomacy and Corporate Social Responsibility for International Business in the Post-Covid-19 World

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Abstract

In the recent world, globalization is recently meta-trend making opportunities easier to access for many companies with the international expansion for business to increase competitiveness. Nevertheless, the Covid-19 pandemic has posed the flawed point of globalization as well as international business. The world's trade and economic relations among multinational companies (MNCs) were halted due to the policies of international mobility restrictions of many nations. The world COP23 conference posed many global challenges requiring collective actions from the private sector and MNCs via raising stricter regulations and norms in the post-Covid-19 era. Hence the internationalization strategy will be harder than before. If a company would like to join global economics, it must handle many stakeholders concerning corporate social responsibilities (CSR). CSR will not only define the corporate's competitiveness but also identify the corporate's brand in all international markets. CSR is the objective of many MNCs as a strategy for enhancing engagement towards society, the environment, and economy, etc. Dealing with many external stakeholders is a very comprehensive task for a company going global. This is where business diplomacy could provide a connection between stakeholders and the CSR strategy. However, the role of this function is underrated. This paper aims at identifying the effectiveness of business diplomacy with CSR's function to enhance corporate competitiveness. Specifically, based on the previous studies and model, this paper will form an interrelation ground of these two factors for international business.

Keywords: business diplomacy, corporate social responsibility, internationalization, sustainable business, international business

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1. Introduction

The Covid – 19 left the world with many challenges regarding the economic recovery or development of the health sector. Especially, this remarkable event has posed a concern about sustainability. The world is stricter in demanding the commitment of world leaders. The COP26 was the biggest event organized after the ease of the pandemic with the aim of commitment to sustainable development. This conference was also highly demanding the need for collective actions from the “private business world” for enhancing the commitment and effort to jointly deal with environmental issues in relation to SDGs. Business is the essence of the commitments which have been made by participant governments during the conference. This will cause many adjustments in the strategy and process of internationalization of companies in general. The emphasis on corporate social responsibility is one of government and policy prioritizations. The economic recovery is substantial but attaching sustainable growth. This context means that companies should be focusing on building a sustainable business model to join hands with the

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world in coping with inclusive issues. In particular, companies, especially multinational companies (MNCs) in need of developing communication strategies with related stakeholders, who could be deciding the grant the “license to operate”. The demands of stakeholders for collective actions and solutions are wide via corporate social responsibilities. The values created by companies necessitate strategic communication with stakeholders. A transparent ESG report might be considered as an instance. MNCs hence ought to acquire diplomatic competency and relationships with a presence of an actual diplomatic function. Diplomacy is no longer only a function of the state, but it would be appearing inside the companies. Once again, the term “business diplomacy” will rise as a required competency of MNCs as it offers a comprehensive strategy for stakeholder management in general and sustainable business in the foreign market in particular. The common ground of corporate social responsibilities and business diplomacy will be conducted here based on relevant theoretical and empirical formed articles, and studies, reports of prestigious MNCs in the field of management and business consulting.

2. Research methodology

This is an exploratory study which aim at redefining the link the of corporate social responsibilities (CSR) and business diplomacy. Theoraticle data are collected from articles from two sources which are web of sciences and the Scopus. Moreover, as the theory of business is expanding in the recent world, this paper would analyse those articles that mentioned the relevance of CSR. The author limited the findings to journal publications that have undergone peer review. The chosen articles were examined, and any pertinent articles were looked up in each article's references. There were 6 articles in all. The author then look-up for the corporate diplomacy to fuel the interconnection between CSR and Business diplomacy. As a result, other three additional relevent article on the corporate diplomacy were analysed. The reasoning behind the choice of corporate diplomacy is that this notion was used as common terms interchangeable by scholars. Several other articles from the Scopus source were used to determine the importance of CSR and its factors in the international business. Furthermore, reports from the World Economic Forum, McKinsey & Company and PWC were used as perspective of skateholders as IGOs, private companies to enhance the justification.

3. The rationale of the study

Many consulting companies have given out their perspectives concerning the prospect of international business. on April 13rd, 2022, McKinsey & Company released their study on how Covid-19 would affect the business in the future. In this report, the operational proposal pointed out that companies need to acquire “a sustainable, inclusive growth agenda”. This agenda according to Klaus Schwab who is the founder and executive director of the World Economic Forum, and Bob Sternfels of McKinsey’s global managing partner, comprises a list of actions assisting in “the health of the natural environment” and “the livelihoods of wider population segments” at the same time. The necessity of clarifying the connected multi-dimension between “climate, healthcare, labor needs, supply chains, digitization, finance, and inequality and economic development”. In the older report, the company (2022) also predicts the size of the CEO’s responsibility is increasing by considering and understanding “climate change” and “employees’ well-being”. The capacity building is surrounded by risks stemming from “regulatory, social, and market reactions to climate change”. PWC is representing companies as a whole to apply their ADAPT framework for predicting the most tendency in the business strategy after Covid-19. In general, these trends demonstrated obstacles that companies are required to overcome if they would like to operate in the market. The trends, being in line with the world's big issues, are “climate change”, “unemployment”, “localization of supply chain”, etc. Generally

speaking, from the perspectives of these companies, the world is putting pressure on the business sector to jointly handle these societal and environmental matters. MNCs must gain the trust of their external stakeholders including policymakers, citizens, and organizations. Communication with stakeholders is somewhat limited as the responsibilities and responsible department are not clearly defined. The function might come from Public Relations and public communication. Even a part of Marketing could be involved in this function. Business diplomacy is the most appropriate tool for forming a strategy in foreign markets. Corporate social responsibilities are recent inquiries. Stakeholders of companies in the international market are widening not only externally but also internally. Therefore, the reputation of a company would be in vain without the support of all sets of stakeholders including the citizens. Stakeholder management is a very complicated and intensive function whereas its objects are very large. This is where business diplomacy steps in as a guardian and negotiator. The communication strategy of companies among stakeholders in the global market must change. The business' reputation maintenance and performance are depending on the communication and support of external stakeholders. If the permission of society is granted, companies might operate with the "social license to operate". Some MNCs have put this terminology into operation under many names. However, it is not widely used throughout MNCs. Business diplomacy is sometimes misinterpreted as public relations, public communication, or even Marketing in terms of maintaining relationships and branding, etc. Furthermore, its function overlapped with other above-mentioned functions. In the definition of Ruel (2013), business diplomacy is meant to "establish and sustain a positive relationship to maintain legitimacy and a 'license to operate. This process would be executed as activities of "representation" and "communication" with "host government representatives and non-governmental representatives" (Ruel, 2013). The terminologies "legitimacy" and "License to operate" are at the core of business diplomacy. At this time, objectives to be influenced are limited to more general terms such as governmental and non-governmental representatives. In 2016, Ruel and his colleague clarified the "legitimacy" in the context of business diplomacy: "a business firm is accepted by the local community and society by which it is surrounded physically" (Rul & Walters, 2016). If business diplomacy was holding the mission to get the "license to operate" for companies, "social" is the crucial factor on which is needed to compressively focus, especially in the post-Covid-19. This is to understand that this is a severe challenge for international business in general, and in business internationalization in particular in the post-covid-19. This is yet understood that in the context of post-Covid-19, where multiple stakeholders demand more corporate social responsibilities (CSR), social license to operate will be at stake if the stakeholders' relationship is not maintained well. The interconnectivity between business diplomacy and CSR in the context of post-Covid-19 would be studied in this research. Moreover, the "social license to operate" will be taken under consideration if it could become the core of this interconnectivity.

4. Theoretical research

4.1. Business Diplomacy

The most common definition of diplomacy that we heard many times is the communication and the establishment of relationships between two or multiple states. The exercises of diplomatic activity and practice have been thoroughly determined by historical contexts and actions. In the Dictionary of Diplomacy, the terminology has been defined as "The conduct of relations between *sovereign states through the medium of officials based at home or abroad". The latter term "officials" is standing for representatives, who are elected as personnel of his/her country's diplomatic service institution, exciting diplomatic missions at host institutions or countries (Berridge & James, 2003). This book is following the guideline issued by the United Nations

which is the Vienna Convention. The convention (1961) stated very clearly that the functions of a diplomatic mission shall include:

1. To Represent the home country in the host country;
2. To protect the national interests of the home country State and its nationals in the host country, accordingly to international law;
3. To conduct negotiations with the host Government;
4. To determine the state of the host country by using all legal means, and report to the home country's government;
5. Lastly, to foster friendly partnerships between the countries and strengthen their ties in business, culture, and science.

Hence, the mission is to express and gain the “national interest” of the “sending state” with the approval of “receiving states” via many forms of cooperation in many fields such as scientific research, cultural activities, especially economic development, etc. Therefore, the objectives of diplomacy are defined throughout fields in one country. The range of stakeholders of diplomacy could be from the home country to the host country and their subjects, preferably state actors. In modern times and modern diplomacy, non-state actors such as non-governmental organizations, companies, or even civil organizations and citizens. This recognition is backed by scholars. Cooper, et al. (2013) have laid a foundation for the new diplomacy of the 21st century they widened the subjects of diplomacy are no longer only exercised by states but also “religious organizations, NGOs, MNCs, etc. considering the nature of diplomacy, the subjects could be individuals or influencers in their fields such as celebrities in music or arts. Taking BTS, a well-known K-pop group, as an example when they are representing South Korea to practice Korean public diplomacy. Or Emma Watson, a UK actor, is titled the “Woman Goodwill Ambassador” of the United Nations (UN) to advocate gender equality. Business diplomacy is still debatable and there are still arguments about the scope and development of this terminology in international studies, especially under the scope of international relations. With globalization and the expansion of non-state actors that even could set up diplomatic mindsets and practices, the “state-centric” has been outdated. The global sphere is inquiring about collaboration between state actors and non-state actors to jointly develop and handle global issues, especially in the post-covid-19 world. Business diplomacy is now attracting more attention from scholars in the fields of business, management, and international relations. As the scope of diplomacy has been enlarged to many non-state actors, state actors are not the only subjects to exercise diplomatic practice. Thus we could emphasize the role of MNCs with the function of business diplomacy in further research. From this stage, MNCs could exercise their diplomatic activities accordingly to the original nature of diplomacy by engaging with multiple stakeholders. This could understand that stakeholder communication and engagement are vital activities to acquire legitimacy which could be used for a company to legally operate in the market. Saner and Yiu (2014) and Ruel (2013) are two scholars laying the foundation of business diplomacy. It could be elaborated the change in the definition of business diplomacy as follow (Table 1):

Table 1: Definition of Business Diplomacy

No	Degree	Definition
1.	Foundational level	“Business diplomacy management, therefore, involves influencing economic and social actors to create and seize new business opportunities; working with rule-making international bodies whose decisions affect international business” (Saner et al., 2000)
2.	Intermeiate level	“Business diplomacy is the representation and communication activities deployed by international businesses with host

		government representatives and non-governmental representatives in order to establish and sustain a positive relationship to maintain legitimacy and a license to operate” (Ruel, 2013)
3.	Extended level	“BD pertains to the management of interfaces between an MNE [multinational enterprise] and its external non-business counterparts (NGOs, CSOs, international organizations (IOs), national and local governments) that have an impact on the MNE’s reputational capital and its ability to shape and influence its operational environment” (Saner & Yiu, 2014)

Source: Saner et al. (2000); Ruel (2013); Saner & Yiu (2014)

There are several definitions of business diplomacy, but it is in the course of the argument. At a very foundational level, Saner et al. (2000) identified vaguely the objectives of business diplomacy: (a) to have an impact on economic and social factors where a company could capture business opportunities, (b) to work with business affected state actors of the country, (c) to settle down any conflict concerning risks from stakeholders and politics, (d) and lastly to utilize multiple communication channels to safeguard company’s reputational images. The above statement regarded business diplomacy’s function as an advocacy tool for companies in the international market rather than a tool for engaging in business activities. However, while interpreting the previous study and extending the notion of business diplomacy, clear functions of business diplomacy have been listed in the vision of Ruel (2013). “Representation” and strategic communication are tasks of business diplomacy launched by MNCs to state and non-state actors. The outcomes were bright relations with governmental bodies and legitimacy. In the next year, scholars who laid the basic ground for business diplomacy Saner and Yiu (2014), had been elaborating on the BD as a function that helps MNCs to orient, direct and influence their business environment. This was another implication for advocacy activity. Nevertheless, in the scope of this paper, the author considered the definition from Saner and Yiu as only one among other functions of business diplomacy. Alammari and Pauleen (2016) have expanded the subjects to internal and external business players and combined functions defined by Ruel (2013) and Saner and Yiu (2014). Employees, managers and the board of directors could be regarded as the Internal business players. While competitors, suppliers, clients, etc, are external business players. Therefore, we could have a structural description as below (Figure 1):

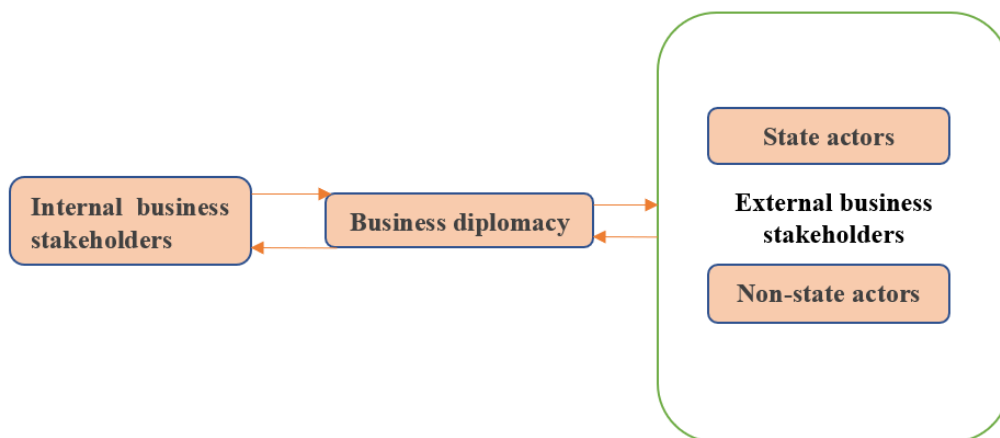


Figure 1: Structural relationships of business diplomacy

Source: Self-edited by the author

Internal business stakeholders will consist of actors directly involved in the management and operational activities of a company. This person should have the same interests in growing the business and creating value for their employer (Feng et al., 2020). According to these scholars, a structure of a company shall be simplified with three levels as follow: Decision-making, managerial employees, and non-managerial employees. Although this research lacks deep research on how these factors affect business activities, we could clearly consider the actors defined as internal stakeholders. External actors have also interested in the status of a company and have an indirect impact on it. They would not be involved in the operation and management of the company. Business diplomacy hence could be referred to as the process of representation of a company creating and fostering a positive business environment, and acquiring legitimacy to operate in the host market by maintaining strategic communication and relations with internal and external stakeholders. Business diplomacy is having a stakeholder-centric approach to its operation. Moreover, another theory that is considered important for the approach is stakeholder capitalism. In the post-Covid-19 context, stakeholders' expectations would align with the long-term strategy of MNCs. It happens to see if these strategies are going along with sustainability and social wealth. if the strategy and operation of these enterprises are challenged by external stakeholders regarding CSR, their legitimacy is at risk. The role of business diplomacy (BD) in this case is to forge an optimist environment by managing the effective communication and relationships to either internal or external stakeholders in order to preserve their legitimacy from challenges. Hence, MNCs would safeguard their reputational image and legitimacy through the use of the concept of CSR engaging with stakeholders. But why the need for BD is instant in the post-Covid-19 world? Alammar et al. (2016) conceptualized 9 factors that contribute to the need for business diplomacy (Figure 2):



Figure 2: 9 factors that contribute to the need for business diplomacy
Source: Alammar et al. (2016)

In this sense, the post-covid-19 world has augmented the number of stakeholders, it is not limited to several or specific stakeholders, as one of factors in the figure 2. Citizen perspectives are also a vital component, making every people have the right. The reputational image and social license are more fragile. Also, new governmental policies might not be supportive for companies as stricter rules on “new standards” of societal, environmental, and economic issues

which could be factors referred to the figure 2. Companies' legitimacy or social license to operate could be withdrawn if any regulation is not obliged. In the context where stakeholders demand more responsibilities from corporates, the internationalization process and strategy would be harsh as the business environment in host countries might be relentless. These factors proposed by Alammar et al. (2016) are still effective as the guideline for research in the field. Within the scope of the study, the research will emphasize "internationalization", "globalization", "increased stakeholders" and "government supports".

4.2. Stakeholder capitalism and CSR perspective

The World Economic Forum (2020) has deployed its declaration titled "Davos Manifesto" to identify the important factor for a company to prioritize in the long run. This "Manifesto" put an emphasis on stakeholder capitalism as a means to tackle challenges of all aspects that the world is facing. Collective actions of the business sector demanded more from all stakeholders including employees at all levels. It is comprehensible that there is a shift in approach is needed. MNCs will focus on stakeholder capitalism rather than shareholder capitalism in the past (Schwab, 2020). From this perspective, Ji et al. (2019) have recognized the interconnectivity of CSR and stakeholders in a very challenging market like China. For these scholars, the CSR of a company is an integration of sustainability into business strategy by creating shared values with multiple stakeholders. In their research, they distinguished two kinds of CSR a proactive approach and the reactive approach. Although this paper argues that the subjects of reactive CSR are those of stakeholders with state or non-state perspective, their paper has created a recognition with the regard to CSR and stakeholders. In 2018, Godos-Díez et al. (2018) have associated CSR's impact with other factors. In return, they have concluded that CSR might leverage an international company within internationalization. It will help MNCs retain their legitimacy and enhance their reputational capital. Folk (2016) saw corporate sustainability are crucial on a voluntary basis. However, corporate actions toward sustainability will have an impact on the corporate's survival and performance on "various dimensions" depending on the range of sustainable issues. However, the rate of executing CSR is depending on the regulation and sensitivity of the host country. This is up to the company to apprehend the sustainability inquiries of the host's business environment. This is to comprehend that pressures are rising from both domestic and international environments. And the company should handle these pressures arising from stakeholders from both contexts. Concerning companies with the intention of internationalizing, it necessities a deep analysis of the business environment before entering the market. On the other hand, successful firms should pay more attention to the change in the business environment and demands from stakeholders to protect their image and legitimacy. This is somewhat interlinked with the mission of BD and will be discussed below. In the international business environment, MNCs are more exposed to multiple stakeholders including state and non-state actors. To perceive CSR as added value, the communication strategies and CSR activities must be well-prepared in order to satisfy stakeholders' expectations. According to Freeman and Mcvea (2001) that companies' activities should meet stakeholders' requirements in order to acquire legitimacy. Is additional to achieving shareholders' objectives. There are two approaches provided by Marschlich (2022) in her research about the interconnection of corporate diplomacy and organizational legitimacy, which are the instrumental CSR angle and the political CSR angle. The instrumental CSR angle is proposed by 3 dimensions associated with a specific subject that corporates need to act on: shareholders' concerns, the satisfaction of stakeholders' requirements, and the separation of public and private dimensions. Based on the statement of Schultz et al. (2013), corporates need to have strategic and wise CSR communication, so that stakeholders could perceive and understand the CSR activities of a corporation. A clear reflection of CSR communication with stakeholders' expectations is indeed a must. Through communication channels, corporates could interpret their visions of CSR and act on

reality. From there, the credibility of the corporate would be increasing. This ideal development was based on the stakeholder theory (Jones, 1995; Parma et al., 2010). If stakeholders' expectations are considered as an integrated addition to shareholders' prospects, all CSR activities must contribute to the benefits of corporates with shared values of shareholders. These activities will improve the financial performances of firms and increase economic resources. However, challenges have still remained as instrumental CSR activities are corporate-centric, leading to skepticism among society. Regarding the political CSR angle, the interaction between corporates and public authorities is enhanced. In the globalized world, this sense is even greater as corporates now are regarded as influential actors. Political CSR could have an impact on the governmental decision to construct regulations in the field of economics and business. Scherer and Palazzo (2011) also had the same standpoint in this regard. They oversee CSR activities and will involve in contributing to public goods and regulation buildings at the global level. However, they also raise a point that the author considers a dilemma from a political angle. There are many different interests of actors that might be contrary to corporates' interests. Seele and Lock (2015) have once again raised this issue in their research. Political CSR will assist corporates in building legitimacy although some controversial interests might have conflicts with corporates' interests.

4.3. The connection between Business diplomacy and CSR

The Covid-19 pandemic has brought an increasing challenge to the commitments of companies operating on the market, especially commitments and action plans related to social, and environmental issues. The influence, reputation, development strategy, and stakeholder relationship management will be on the edge of collapse if the commitments and actions of companies go wrong. Stakeholder management is the most important to acquire the license to operate in the market. In the above section, all scholarships of CSR mentioned the legitimacy of a corporate in the host market. Seele and Lock (2015) stated that corporate could acquire legitimacy by applying political CSR. If companies could express transparency in their CSR activities, they could gain a consensus among stakeholders leading to legitimacy (Scherer and Palazzo, 2011). Suchman (1995) had formed that if corporates could prove their commitment to public interests, they could gain legitimacy.

"License to operate" was mostly defined as a "Grant of permission to undertake a trade or carry out a business activity, subject to regulation or supervision by the licensing authority." Following this notion, in 2003, Gunningham et al. conceptualized the notion of "social license" describing the legitimacy to operate based on "the degree to which a corporation and its activities are accepted by local communities, the wider society, and various constituent groups". "social license to operate" is becoming popular in the context of CSR and sustainable business study. In order to keep their "license to operate," businesses must hence demonstrate their legitimacy by responding to stakeholders in their local and global environment. Hence, stakeholders' management and engagement are key pillars to acquiring and maintaining "a social license to operate."

In recent research on business diplomacy, the integration of social license to operate and legitimacy to objectives of business diplomacy is always mentioned. In the mentioned-above section regarding corporate social responsibilities and stakeholders, it is hence appearing in research of business diplomacy. In 2016, Alammari and Pauleen hence gave a clear definition of Business Diplomacy "Business diplomacy is the practice of establishing and maintaining positive relationships with internal and external business and non-business stakeholders, including employees, businesses, governments, and civil society actors, to create and maintain legitimacy and a social license to operate, create alliances, environment, and shape and influence them". According to Mogensen (2017), Corporate diplomacy can benefit both society and the corporation by directly interacting with the population of the host country, i.e., involving

their interests. By addressing citizens' demands, corporate diplomacy simultaneously raises the legitimacy of MNCs in the eyes of the local populace. In a similar vein, incorporating political CSR into corporate diplomacy. Ingenhoff and Marschlich (2019) have developed a definition that accounts for MNCs' societal role while simultaneously pointing to legitimacy as the central goal of MNCs. Accordingly, corporate diplomacy is defined as “the corporate activities of multinational companies, which are directed at the host country’s key stakeholders and aimed at participating in decision-making processes on relevant socio-political issues and building relationships in order to gain corporate legitimacy”. (Ingenhoff & Marschlich, 2019).

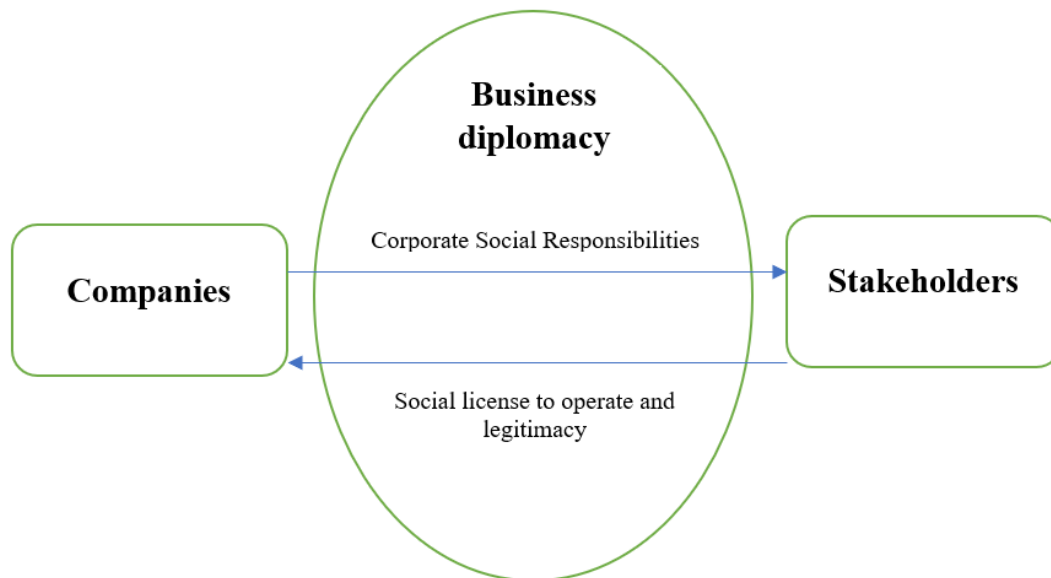


Figure 3: Relational structure of business diplomacy

Source: Self-edited by the author

From the above figure, it is comprehensible that if companies implement business diplomacy with an appropriate approach and clear priorities and target stakeholders' expectations, it will lead to the social license to operate and legitimacy. Business diplomacy is not only taking effect at the local level, but it also must demonstrate reputational image and stakeholders' engagement at the global level. How companies manage the process of business diplomacy will reflect credibility and firm performance.

5. Conclusion

Business diplomacy has a young attraction to researchers in the related field of business which dated back to the 2000s. the concept of business diplomacy has been established firmly by not only diplomats and related scholars and also by leaders of companies. Business diplomacy urges companies to manage their relationship with both state and non-state stakeholders. The role of stakeholders has been proven for a long time leading to the terminologies such as public relations or related marketing and the function of stakeholders' engagement. However, companies will limit their range of stakeholders by order of priorities. Identifying multiple stakeholders' expectations, even if some of them are in contrast to companies' philosophies and strategies. Furthermore, it is necessary to widen the range of stakeholders as credibility comes with the supervision of citizens. Corporate social responsibilities are taken under careful consideration based on reputational capitalism, leading to the social license to operate and legitimacy. Hence, stakeholders' management and engagement by responding to social demand is a

key pillar to acquiring and maintaining “social license to operate” and legitimacy. After the Covid-19 pandemic, state actors see companies as associates to cope with societal, economic, and environmental issues, especially MNEs. On the contrary, the credibility of companies is decreasing in the eyes of non-state actors such as social groups or citizens.

6. Future research

The need for business diplomacy is well structured. However, a clear description of the functions of business diplomacy is somewhat remaining questioned. By doing that, business diplomacy might differentiate itself from notions such as relationship marketing, public relations, etc. Business diplomacy needs to define its position in the internationalization process and strategy as its role is increasing based on previous research. A general conceptualization of business diplomacy in the context of MNEs is clear. But its approach to small and medium enterprises is lacking. SMEs will need to implement business diplomacy as an easier way to enter a new market.

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