Corporate Social Responsibility and the Globalization of "Local Values"

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Value Creation from Social Responsibility

In an increasingly global economy, the choice between globalization and local values is a false one. An effective multinational corporation can no longer distinguish between business practices that improve its global competitiveness and those that respond to local values. The forces driving globalization increase transparency and further the flow of information, exposing not only competitive advantages but also corporate behavior for global scrutiny. The same technology that enables viral marketing via social networking among consumers also enables more effective public advocacy by vigilant non-governmental organizations (NGOs). If managed effectively, this advocacy enhances brand and reputation, thereby opening global opportunities and creating value for shareholders. If managed poorly, this advocacy raises the risk of public embarrassment and litigation. Given this operating environment, corporate social responsibility (CSR) must be central to global risk mitigation strategies in multinational firms. As multinationals adopt and eventually compete on the basis of CSR, values previously considered local will gain global acceptance to the benefit of shareholders, consumers, and the broader society.

While corporate social responsibility may be defined and implemented differently for various organizations and businesses, this paper considers three broad categories: local philanthropy and service, environmental sustainability, geopolitical advocacy. This paper will argue that CSR strategies for each category have become increasingly integrated with broader corporate strategies. Driven by the forces of globalization, such as transparency and global brand management, this integration of strategies implicitly recognizes the inseparability of global competitiveness and social responsibility for local values.

Global Expressions of Local Values

Global competitiveness is inextricably linked to local awareness. Multinational corporations inevitably rely on local talent and, as the head of European CSR efforts at KPMG says, "people want to work at a company where they share the values and the ethos." [1] Raising its profile among the cosmopolitan pool of both clients and prospective talent in Boston, the Swiss bank UBS sponsors local performing arts such as the Boston Symphony Orchestra. Although charitable giving remains significant, volunteer service often accompanies cash. KPMG allows its British staff to spend two hours per month of their paid-for-time work for community service.[2] Such accounting will likely become part of the standard compensation package for globally competitive multinationals.

Illustrating the globalization of local values, such as community service, corporations often collaborate with international NGOs to most effectively identify high impact opportunities worldwide. Furthermore, as multinationals respond to local values, they also frequently accompany the expression of those values abroad. For example, 60 percent of IBM's charitable giving target causes outside the United States.[3] As before, service accompanies cash and IBM staff may opt for one-month assignments in developing countries for worthy causes. With multinational corporations often competing for the same talent within the same local markets, multinationals must offer local talent opportunities to act on their local values, presenting these service opportunities as part of the overall corporate experience.

Global Competition to Combat Global Warming

Al Gore's public advocacy for action against climate change, coupled with scientific evidence from the United Nations climate change report on global warming from January 2007, builds momentum toward international consensus on the importance of environmental sustainability. Although countries may disagree on the most effective framework for combating global warming, most multinational corporations have

[1] "Just good business." The Economist, 17 January 2008.
[2] "The feelgood factor." The Economist: 17 January 2008.
[3] "The feelgood factor." The Economist: 17 January 2008.

observed a fundamental shift in public perception and have already begun to formulate strategies for environmental philanthropy. Furthermore, these efforts are increasingly integrated into a corporation's overall business strategy. For example, Goldman Sachs implements a range of environmentally aware business practices such as sustainable business operations (i.e., reducing indirect carbon emissions), market-based solutions to climate change, and environmental/social criteria when performing fundamental analysis of companies.[4] These efforts complement the firm's core competencies in finance and are combined with environmental philanthropy; the firm purchased 735,500 acres in Tierra del Fuego, Chile for preservation into perpetuity. Most striking, however, is the prominence of these efforts on the company website (www.goldmansachs.com). Web visitors are greeted with a view of Tierra del Fuego on the homepage as the company asserts such environmental efforts are "business as usual." Thus, the Goldman Sachs approach reflects the shift in public perception and illustrates a paradigm shift in environmental sustainability.

In addition to enhancing public image, environmental CSR strategies anticipate an international framework that increases the economic cost of carbon emissions. According to Jose Manuel Barroso of the European Commission, the costs of reducing carbon emissions by 20 percent of 1990 levels before 2020 may be 59 billion euros or 0.4% of GDP.[5] As these economic costs become a reality and the broader international community adopts similar mechanisms, a corporation's competitiveness can no longer be distinguished from its efforts in environmental sustainability. By preparing for these expected obligations in advance, "green" corporations gain a competitive advantage over those waiting for specific regulations to come into effect. Furthermore, corporate leaders in emissions accounting and mitigation may gain credibility, using this credibility to exert greater influence in shaping regulation and policy.

In addition to impending regulation, multinational corporations are motivated by opportunities to enhance their public image among consumers who are increasingly

[4] "Goldman Sachs Environmental Policy Framework." http://www.goldmansachs.com/citizenship/environment/index.html, 31 January 2008.
[5] "Package of implementation measures for the EU's objective on climate change and renewable energy for 2020." European Commision Staff Working Document, 23 January 2008.

cognizant of “green” consumption. Toyota, in particular, has built a competitive advantage in the “green” automobile space with its Prius hybrid vehicles. Although General Motors and Ford have since unveiled a significant line of hybrid vehicles, Toyota’s early innovation means American consumers often equate a hybrid vehicle with a Prius. Similarly, General Electric’s ecoimagination initiative is a combination of public perception and business strategy, which “puts into practice GE’s belief that financial and environmental performance can work together to drive company growth.” [6] General Electric’s size gives ecoimagination scale; research and development expenses will rise to 1.5 billion dollars by 2010 to produce expected revenues of 20 billion dollars.[7] These strategies illustrate how social responsibility and environmental sustainability translate into global competitiveness in an era of greater environmental awareness among consumers.

Geopolitical Entanglements

Effective CSR programs must also include strategies to navigate geopolitical risk as multinationals operate in diverse political environments, each with implications for the expression of its corporate values. Such awareness is required, for example, of multinationals using long, distributed supply chains that may include links in countries with significant political risk. Despite declarations of ethics and values by corporate headquarters, multinationals are still struggling for effective mechanisms to enforce these values abroad in its distributed supply chains. Diminishing marginal returns from frequent site inspections motivate a more effective approach for instilling value into operations abroad. Until the entire supply chain, not just the end of the chain, is exposed to the economic costs of poorly enforced ethics, the incentives for implementing lax standards that satisfy the occasional inspection will be greater than those for implementing more fundamental practices consistent with the spirit of the corporation’s values.

[6] “Ecoimagination: A GE commitment.” http://ge.ecoimagination.com, 31 January 2008.
[7] “A change in climate.” The Economist, 17 January 2008.

Geopolitical awareness is also particularly important in the current period of commodity-driven global economic expansion where essential commodities are often located in politically unstable regions. Multinationals must ensure brand integrity by monitoring closely their global activities to ensure practices are consistent with their CSR values. Otherwise, the advantages of greater access to natural resources may be offset by losses in public perception. This risk is particularly relevant when the instruments of choice for international behavior change are economic sanctions. For example, Chinese corporations frequently operate in African regions considered politically risky by western multinationals. Even as sanctions and NGOs force western firms to leave countries like Sudan, Chinese firms provide foreign direct investment in business and infrastructure. Illustrating the globalization of geopolitical values, Chinese firms have realized the impact of such activities on their global competitiveness. China National Offshore Oil Corporation's failed acquisition of Unocal might have ended differently had Chinese firms built a better reputation among American politicians. PetroChina's access to capital and investment might improve if it were not targeted by disinvestment campaigns due to its operations in Sudan. Thus, there is a growing recognition that enhanced public image and branding through geopolitical awareness will increase competitiveness in attracting regulatory approval and capital.

Multinationals must often tread a fine line between principles and market access, especially if the market exists in a different political environment. For example, internet search companies often confront these challenges in countries that constrain the right to speech and expression. Google, in particular, builds a global image around the informal corporate motto "Don't be evil" that emphasizes the organization is a "different kind of company."[8] In an effort to stay consistent with its values, Google reached an agreement with Chinese authorities that allows it to disclose to users whether information has been withheld from the search.[9] This compromise mitigates the political risk of operating in China while allowing Google to claim its Chinese operations are consistent with its corporate principles. Although this compromise is imperfect, consider the alternative. Yahoo, Google's competitor, was castigated by the United States Congress in November

[8] "Google investor relations." http://investor.google.com/conduct.html, 31 January 2008.
[9] "Here be dragons." The Economist, 26 January 2006.

of 2007 after surrendering data to Chinese authorities, data that was used to jail two dissidents.[10] The Alien Tort Claims Act of the United States allows companies, such as Yahoo, to be tried in American courts for violating human rights abroad. This particular incident led to an out-of-court settlement with the dissidents' families. Thus, multinational corporations must implement CSR strategies that navigate the geopolitical complexities abroad while staying true to principle, not only for the sake of principle, but to ensure global competitiveness in politically unfamiliar environments.

Globalization Waiting for Convergence

Although CSR is widely recognized as a critical component of global competitiveness, the current diversity of strategies and implementations suggest no consensus on the best approach. This is especially true for efforts in environmental sustainability. Regulatory policies in Europe, the United States, and emerging economies define the nature and scope of sustainability efforts for companies in the respective regions. Companies that participate in European cap and trade mechanisms examine strategies to meet their reduction targets. American companies, although lacking regulatory motivation, likely have more flexibility and scope for addressing environmental concerns (e.g., voluntary carbon offsets) should they decide to do so. Lastly, China and other emerging economies realize the importance of environmental sustainability and its implications for global branding. This is most evident in efforts to mitigate pollution leading up to the 2008 Olympic Games. However, these efforts are constrained by the still developing, relatively ineffective regulatory infrastructure for environmental protection in China.[11] In the future, however, these different policies will converge and multinational corporations will identify the most effective CSR strategies as scientific consensus on climate change builds momentum and international frameworks post-Kyoto are negotiated.

Similarly, most countries and their multinational corporations recognize the importance of geopolitical awareness, but currently implement different strategies based on different geopolitical philosophies. However, there are also signs of convergence in this aspect of

[10] "A stitch in time." The Economist, 17 January 2008.
[11] "Don't drink the water and don't breathe the air." The Economist, 24 January 2008.

CSR. Chinese firms are notable in their willingness to operate in African countries shunned by their western counterparts. However, geopolitical advocacy is gradually impacting their philosophy of non-interference in another country's internal affairs. The Chinese government began its support for United Nations sanctions against Darfur after allegations that Chinese oil investments were sustaining genocide in the region. This philosophy shift is intended, in part, to preserve its public image leading up to the 2008 Olympic Games. Similarly, disinvestment campaigns against ChinaPetro arising from the firm's Sudanese operations are likely to shrink the divide between the firm's operating principles and those of its western counterparts. Thus, the different geopolitical strategies of multinationals will likely converge as they identify the most effective strategies for navigating the complexities of international affairs to maximize competitiveness.

Multinational corporations will increasingly compete on the basis of values, whether these values call for local service, environmental sustainability, or geopolitical advocacy. As this competition unfolds in the global economic arena, multinationals will more closely integrate their CSR strategies into their overall approach to business. A firm's commitment to these principles reflects on the principles of its people and directly impacts recruitment for top talent. Environmental sustainability and geopolitical awareness will open markets and reveal opportunities abroad. In the future, social responsibility, or at least awareness of its implications, will be inseparable from global competitiveness.