

QUESTION & ANSWER

May 30, 2007

Social Responsibility Of The Global Corporation

by **Michael Rasmussen and Chris McClean**

with Navi Radjou and Alissa Dill

EXECUTIVE SUMMARY

Companies weighing the risks and rewards of globalization often overlook aspects of social responsibility — specifically, what they owe to the communities abroad from which they are profiting. Being a global corporation implies more than a cross-regional distribution of operational activities like sales and marketing. With mounting scrutiny from customers, governments, partners, and shareholders, risk professionals must consider the importance of working responsibly with regional and local communities worldwide.

QUESTIONS

1. What defines the global corporation of the 21st century?
2. What should corporations do to close the knowledge gap around the globe?
3. Beyond philanthropy and PR, where's the value?
4. How are concepts like triple bottom line changing the private sector's responsibility?
5. What happens when a company leaves a community?
6. What does the global growth of corporate social responsibility mean for the future of governments?
7. What level of responsibility can stakeholders inside and outside the company reasonably demand?

TARGET AUDIENCE

Security and risk professional

GLOBAL CORPORATIONS HAVE HIGHER LEVELS OF SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is following the path of governance, risk, and compliance into boardroom conversations, annual reports, and shareholder resolutions. As companies find new ways to profit by expanding their global reach, their actions are being closely monitored not only at home, but increasingly in their remote markets as well. The risk assessment process for global expansion must consider the local and foreign expectations of corporate responsibility. Forrester answers the top questions about what is expected of a global corporation and what constitutes a reasonable level of responsibility.



Headquarters

Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617/613-6000 • Fax: +1 617/613-5000 • www.forrester.com

1. What defines the global corporation of the 21st century?

The term “global corporation” implies a significant level of investment, commitment, and participation in markets around the world. This goes hand-in-hand with the distribution of business operations — where in addition to sales, departments such as marketing, finance, and human resources are engaged and working closely with local communities. Strategies related to extending partner relationships, re-engineering, and outsourcing continue to create new models of global, distributed businesses.

Truly global corporations, distinct from traditional multinationals, will act as socially responsible learning organizations that rely on networked global assets, talent, knowledge, and partnerships to efficiently anticipate and respond to geopolitical, socio-cultural, and market shifts worldwide. These globally adaptive organizations embody five cultural values: creativity, flexibility, efficiency, altruism, and openness.¹

2. What should corporations do to close the knowledge gap around the globe?

Unfortunately, the countries with the widest knowledge gaps often have governments that restrict global companies from providing help in this area. For example, the efforts of several large IT companies that may have helped to significantly reduce the knowledge gap in China, have recently been met with substantial restrictions from that country’s government as well as negative feedback at home for bowing to this government pressure.²

Where open knowledge sharing is possible, corporations should focus on recruiting and training the local workforce. This makes sense especially for corporate communications, governance, human relations, and other positions where an understanding of local idiosyncrasies is critical. Investments in local education and nonprofits will also help narrow the knowledge gap while providing long-term ROI from the perspective of brand value. For instance, Google encourages its employees worldwide to actively participate in local educational initiatives supported by the Google Foundation, an organization funded by 1% of Google’s equity and profits.

3. Beyond philanthropy and PR, where’s the value?

The “rising tides lift all ships” metaphor certainly applies to social responsibility. While there are significant risks (such as geopolitical, regulatory, and financial) when expanding into global markets, the potential growth and lack of competition can open the door for significant returns. Corporations that invest in local infrastructure and human resources increase the community’s overall stability, thereby strengthening the available labor force and reducing the risk that that market will collapse or dry up. Such structural investments demonstrate a global corporation’s long-term commitment to local communities, which will gradually come to view and accept it as a national asset versus yet another foreign implant.

4. How are concepts like triple bottom line changing the private sector's responsibility?

Even with the triple bottom line (i.e., measuring success against economic, environmental, and social criteria), companies still expect their efforts to create financial value. Anonymous, completely altruistic philanthropy might be a nice personal goal of some business leaders. However, corporate responsibility for most companies will provide stability and prosperity for the markets in which they operate and reduce their bottom-line environmental impact (negative impact of operations plus positive impact of environmental efforts) to zero.

5. What happens when a company leaves a community?

Companies that have had a positive impact on the quality of life in a particular area by employing a large percentage of the local population should expect substantial negative consequences for the workforce and the surrounding community if or when they close operations.

However, companies that have invested in the community, especially in infrastructure and the labor force, can significantly minimize the negative impact the community will feel when they leave. The community's access to information and resources, workforce capabilities, and ability to recruit other corporations and investments will all have increased. For instance, local technical experts that were trained in team facilitation and financial management skills while working for a global corporation can more easily find a job in another company if their current employer has to uproot itself.

6. What does the global trend of CSR mean for the future of governments?

Globalization and the increased focus on CSR have ultimately positive effects on the knowledge and economic strength of the people that they touch, but they are also widening the gap for communities already cut off by restrictive governments. Political leaders that want to take advantage of technology advances and keep up with rising tides will have to accept that their control and influence may fade.

On the positive side, governments that are open to foreign investment and offshoring in their communities have the potential to achieve significant improvements, particularly if they work with companies to strengthen the capabilities of their workforce. For instance, the Chinese government desperately needs global corporations' knowledge and expertise to train more local managers. China needs 75,000 qualified managers to sustain its stellar economic growth in the long term, but currently has only 3,000.³

7. What level of responsibility can stakeholders inside and outside the company reasonably demand?

Naturally, the size of the stakeholder matters a great deal. Business partner relationships are starting to have more requirements that affect social responsibility. For example, Bank of America requires partners to use recycled paper and includes questions about environmental impact on RFPs for products such as furniture and carpeting.⁴

Compared with large business partners and investors, other internal and external stakeholders typically yield far less leverage to demand socially responsible action. However, they can certainly pressure companies to consider adopting policies or supporting specific philanthropic initiatives. Shareholder resolutions calling for greater social and environmental responsibility on a global scale continue to rise. For example, a group of concerned investors and environmentalists launched the Investor Network on Climate Risk to assess the effectiveness of corporations' responses to global warming.⁵ The best strategy for most stakeholders is to build a case for how such action or support will fit within the company's existing CSR strategy, support the company's mission, or, ideally, have a positive impact on the company's competitive position and financial strength.

ENDNOTES

- ¹ Incumbent and aspiring MNCs with industrial-era insular corporate cultures, hierarchical organizational structures, and deterministic planning tools won't be able to thrive in a chaotic, unpredictable global business environment. To win, they must adopt a fluid and socially responsible organization that Forrester designates as the Globally Adaptive Organization. See the December 13, 2006, Forrester Big Idea "[The Rise Of Globally Adaptive Organization](#)."
- ² Google would provide significant help in reducing the knowledge gap in China, but the company faced significant backlash and a decline in its stock price after agreeing to launch a version of Google in China that restricted links of which the Chinese government disapproved. Source: Clive Thompson, "Google's China Problem (and China's Google Problem)," *The New York Times*, April 23, 2006. (<http://www.nytimes.com/2006/04/23/magazine/23google.html?ex=1303444800&en=972002761056363f&ei=5090>).

Likewise, Cisco Systems, Google, Microsoft, and Yahoo! were chastised by the US Congress for acts it perceived as complicit with human rights violations by the Chinese government. Source: J. Nicholas Hoover, "U.S. Lawmakers Lecture Google, Yahoo, and Microsoft on China Censorship," *InformationWeek*, February 15, 2006. (<http://www.informationweek.com/news/showArticle.jhtml?articleID=180202533>).
- ³ The popular myth that emerging markets like India and China boast millions of scientists, engineers, and business professionals isn't true. Only 10% of the 600,000 engineers graduating in China are of comparable quality to the 70,000 engineers produced in the US and therefore considered employable by multinationals. China is also short of the 75,000 qualified managers multinationals need to expand their local operations. See the November 14, 2006, Trends "[Debunking Five Myths About Emerging Markets](#)."
- ⁴ Source: Core Business Practices (http://www.bankofamerica.com/environment/index.cfm?template=env_core_bpractices).
- ⁵ Source: Investor Network On Climate Risk (<http://www.incr.com/>).