Corporate Social Responsibility and Global Competitiveness[1]

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As Chinese firms have increasingly sought global markets for their products and services they have also run into a number of serious problems. By many measures, Chinese firms have been exceedingly successful in going global. For example, as of 2013, China had become the world's third largest source of overseas foreign direct investment ("OFDI", $84 billion USD) following the United States ($329 billion dollars) and Japan (123 billion dollars). Yet by other measures, there are questions about the extent to which Chinese firms have effectively penetrated international markets. For instance, on two major recent lists of leading global brands, Chinese firms do not fare well. For example, there is not one Chinese firm on Forbes magazine's list of the worlds 100 most valuable brands, and on a similar list top global brands by InterBrand, the only Chinese firm to crack the top 100 is Huawei at 94.

Thus, while Chinese firms have tremendous financial resources to invest overseas, they still lag in achieving the same recognition as US, European and even Japanese and Korean firms in global markets. In this article, we argue that global citizenship and global social responsibly provides a basis for truly great companies to establish corporate brand and identity in international markets.

Global CSR and Competitiveness of Chinese Companies

Questions of Chinese firms' CSR performance has not only been raised by international stakeholders, but also Chinese firms themselves. Even today in China, there is much higher expectation for social responsibility. In meeting the challenges of going global, we argue that there are three key strategic benefits to internationalizing firms developing a strategic CSR program, including establishing a "social license to operate, " developing market intelligence, and enhancing cultural embeddedness.

- Establishing "social license-to-operate." A key challenge for all globalizing firms is establishing social and cultural legitimacy in new markets. The idea of "social license to operate" which is basically the extent to which a company had gained the acceptance or approval of the local community and other stakeholders is becoming increasingly common. For example there are a number of cases, from oil company CNOOC to restaurant Chain Haidilao of Chinese firms being resisted by US government and consumers. And recently some African populations have also voiced concerns about increased Chinese firms influence in their countries. An example of a highly scrutinized and critiqued firm who has effectively developed a social license to operate in global markets is Goldman Sachs. Over the past decade Goldman Sachs has developed an innovative program to foster women's entrepreneurship in emerging markets called the

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10,000 Women Initiative. As Goldman Sach's leaders discovered, such a program greatly helped their social image in new markets as it showed that they were there to "give, not just take," and that having this program also opened important governmental doors. At the governmental level, the idea of "soft power," has become popular and in many ways, having a strategic CSR program is a corporate analogue to soft power. It is a way for companies to soften skepticism about their motives and enhance image and reception.

• <u>Developing market intelligence.</u> Being embedded locally, as a company is through CSR programs is another way that firms can develop greater intelligence about new markets. For example, one of the most respected brands in the world, IBM created an international volunteering program for its key leaders to spend a month on the ground in international markets working for local NGOs. IBM selected countries to send volunteers based on an internal list of the key growth markets in the next 20-30 years. While on the ground, the volunteers learned more about the markets and unique opportunities of these countries, fulfilling a key intention of the program to enhance leaders human capital along international dimensions. But also these leaders frequently met with senior leaders of the host countries, burnishing IBMs reputation locally and establishing important future contacts. While in the developed world, purchasers of IBMs expensive equipment and services are corporations, in emerging markets, purchasers are frequently governments, so these contacts are quite strategic. IBMs leaders estimate that their progress in developing viable businesses in these locations has been sped up by at least a decade as a result of this international volunteering program.

• <u>Enhancing cultural embeddedness</u>. It is widely acknowledged that national culture exerts its influence on the way individuals' act and work and that there is tremendous variation across countries in cultural approaches. Such difference is particularly pronounced when there is greater cultural distance, as there is between China and Western countries. Over the past decade, there have been a number of cases of MNCs doing business in China that have developed unique CSR programs that have fostered their local operations. For example, both Timberland and Coca Cola, have created large scale employee volunteering projects in China aligned with their key global issues, for the former, the environment in general and latter water issues. MNC management has found that such programs help them better understand local conditions and employees, but further, for local employees to establish a deeper bond with the MNC management.

Establishing a Global CSR Portfolio

While much research has shown that CSR has image/reputation and potential performance benefits, we argue that CSR should be set up as a fundamental goal in and of itself, as opposed to just a means to meet other goals. Yet in our research, we have found that most companies marginalize the importance of CSR due to being unclear as to the deep purpose and potential of CSR. Keeping this ultimate goal in mind, we

recommend the following principles for companies to follow as they consider how to develop a CSR portfolio and engage in CSR internationally.

- <u>Focus on authenticity, not just public relations benefit.</u> Taking CSR as a marketing and public relations instrument may have short-term benefits, but is potentially harmful for companies' long-term development. To have a deep impact, CSR commitment should be deeper than just a communication strategy, but a way to authentically engage global stakeholders. There are many examples of companies who have focused on CSR as a communication strategy, yet this has backfired when their lack of authenticity was exposed. British Petroleum (BP) is one such example. While they tried for many years to position themselves through their PR strategy as an environmentally friendly and socially responsible company, following their massive oil spill disaster in the Gulf of Mexico, they were labeled as a hypocrite, significantly undermining their image. Furthermore, as CSR and sustainability reports have become more popular, this issue has become more pronounced, as it is much easier now through these reports to take symbolic gestures, as opposed to changing the firms deeper attitude, belief, and vision.

- <u>Be issue focused and connect to brand</u>. In the examples listed above, companies CSR programs frequently take on a specific social cause or issue (such as water conservation, women's entrepreneurship). By focusing on a specific issue, the company can communicate a holistic picture and the program is more likely to enjoy buy-in from top leadership. A well-known program along these lines is Western Union's CSR focus on the plight of international migrants. Western Union has designed a number of philanthropy, education and advocacy programs to aid migrants settling in their new county. Taking on a specific issue allows companies to develop synergies in the program across countries. Further, if the program has at least some connection to the companies' brand and business, they will be able to use their core capabilities to more effectively implement it, and stakeholders will be less likely to question its authenticity.

- <u>Balancing global and local customization.</u> While it is important to connect to the global brand and strategy, when CSR programs have some local focus, they are more likely to meet the needs on the ground and develop the local buy-in necessary for effective implementation. In some cases, companies choose locally focused rather than global CSR strategies in order to take advantage of the most effective NGO partners. For example, because of governmental restrictions on NGOs, many MNCs in China have struggled with identifying NGO partners, which has led companies doing CSR in China to focus on local implementation since there are fewer large national NGOs. However, if the focus is too local, the risk is that there may be redundancies across the program, the company may miss out on program synergies, and there may be less top management understanding of, and

identification with the program. So, whether the program is more local or more global, presenting a cohesive corporate social strategy is an important prerequisite for its success.

Conclusion

Our contention is that social responsibility should be at the core of all firms' business strategy, because companies are meant not only to create wealth and drive productivity, but also are the foundation of a well-functioning and caring society. As we summarize in this article, there are a number of ways that developing a global CSR portfolio can help Chinese firms burnish their image and reputation internationally, foster greater understanding of new markets and develop better connections with local employees and consumers. Thus, by developing a sincere sense of social responsibility, Chinese companies can gain prosperity in the global market. Finally, as such, we believe that such a focus has an even bigger effect: it will position corporations as the social and economic unit to take care of worlds severe social and environmental issues.

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