

# Ouverture de ‘Corporate Responsibility & Market-Space Competition’

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## *Abstract*

*Business globalisation has led to a growing awareness of social and environmental issues, and – in more general terms - the sustainable growth of those organizations involved.*

*Firms are nowadays exposed to socio-environmental forces on a vast scale. This calls for a modern code of corporate social responsibility that clearly demonstrates the company’s global corporate responsibility in the overall framework of sustainable growth.*

**Keywords:** Corporate Responsibility; Corporate Social Responsibility; Global Managerial Economics; Market-Space Competition; Global Markets; Global Markets and New Welfare

## **1. Overture**

Business globalisation has led to a growing awareness of social and environmental issues, and – in more general terms - the sustainable growth of those organizations involved. Even mass communication have become globalised and, above all, far less *one-way* or linear (the role of receiver versus source is therefore no longer purely passive, but an active player in the communication process).

Furthermore, the markets of more socially developed countries are increasingly marked by over-supply. This pushes businesses into a neo-liberal spiral in the tireless infuriated search for sales opportunities offering minimal production and marketing costs. Over-supply leads to the intense, accelerated and often irrational and socially unviable exploitation of basic production elements (capital, human labour and natural resources)<sup>1</sup>. In global markets, this exploitation causes inevitable competitive rifts between organizations at various levels when specific conflicting interests are involved (corporations at transnational level; local governments; and, finally, at an international level – and hence, with self-governing and independent authority – those bodies regulating competition, such as antitrust authorities and central banks, etc.) As a result, companies are nowadays exposed to socio-environmental forces on a vast scale. This calls for a modern code

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of corporate social responsibility that clearly demonstrates the company's global corporate responsibility in the overall framework of sustainable growth<sup>2</sup>.

## 2. Global Markets and New Welfare

Over-supply conditions often lead to the importance of extremely short-term results being overestimated. They focus attention on invested resources and neglect to fund the kind of local social development carried out in the past by some large corporations (for example, P&G, Unilever, Ford and GM), which adopted a high-profile international vision. On the other hand, solid long-term growth cannot ignore the issue of a *new welfare*, which should be pursued by:

- extending the boundaries on competition (market-space competition) and adopting corporate policies based on the 'harmonious globalisation' of production and consumption. This necessitates abandoning the concept of performance based on 'local competitive disadvantages' (which evidently maximize profit if local weaknesses are exploited over the short-term and no money is spent to help the local community grow and improve);
- developing new industries (biotechnology, large-scale food production, climate protection, renewable energy, waste disposal) consistent with new global production and consumption requirements;
- developing a global business economy focused on key secondary factors (technology, communication, corporate/product intangible assets) whose value is not determined by the extent of exploitation but by the extent to which a specific resource is shared with other bodies within the organization's network.

## 3. Global Managerial Economics

A global managerial economics typically has the following characteristics:

a. *A Business Network*. The global corporate policy of sharing resources normally takes place among the various organizations that comprise a business network. In this complex structure, the global managerial economics extends its activity into intangible areas and develops complex intercompany relations<sup>3</sup> (connected by company culture, IT systems and brand name ownership<sup>4</sup>), with very fragile and unstable restrictions on competition given that such relations act within a constantly shifting framework of goods supplied and companies supplying.

b. *Global Collaborative Networks*. The sharing of resources by global businesses may involve other organizations via agreements and joint ventures in addition to the various parties belonging to the same network. Collaborative alliances between businesses have been a fact of life for a long time but they have changed significantly in the past 20 years. Traditional agreements were restricted to collaboration alliances enabling multinational corporations to enter host country markets or purchase specific resources at a lower cost (for example, raw materials

or labour). In these original alliances, the corporation headquarters had an unchallenged leading role in defining strategy and controlling business policy.

The global context of competition has brought about profound innovations in the role of strategic alliances between companies and the development of collaborative networks between business groups – usually companies of a similar corporate profile and size. In order to compete on a global scale, large corporations from industrialised economies promote various means of cooperative competition. This may be via equity alliances or non-equity alliances. On the other hand, multinational companies from developing economies, on the whole, become active members of business networks or groups of businesses that are headed by large corporations.

c. *R&D Dissemination*. Increasingly complex forms of technical innovation are typical of global competition and motivate businesses to share emerging technologies and advanced research techniques<sup>5</sup>. Furthermore, the spread of computerized electronic communication and the growth of multinational corporations helps promote widespread sharing of R&D with local partners and co-makers, thereby creating a high level of technological dissemination<sup>6</sup>.

□ *‘Competition in the pharmaceutical industry is global... Thus, one of the major trends in the pharmaceutical industry has been the increasing number of mergers and acquisitions among big players... Big drug companies such as Merck (United States), Pfizer (United States), and Warner-Lambert (United States), which are in the merging process; Johnson & Johnson (United States), Pharmacia-Upjohn (United States), Glaxo-Wellcome (United Kingdom), and SmithKline Beecham (United Kingdom), which are in the merging process; Novartis (Switzerland), and Ciba-Geigy (Switzerland), compete worldwide... Despite the popularity of recent mergers... many pharmaceutical companies have preferred strategic alliances with other pharmaceutical or biotech companies to costly mergers and acquisition... For example, Genome Therapeutics has extended its partnership with Schering-Plough’<sup>7</sup>.*

d. *Demand involvement in the development of goods*. Advanced digital communication makes it possible for intermediate demand (trade) and final demand (consumers and purchasers) to have systematic and rapid information about new products and, therefore, to participate in the development of the distinctive features of those products. This radically alters the nature of competition and creates new roles and responsibilities in the production-distribution-consumption relationships.

□ *‘Dell Computers and Gateway, for example, effectively use a built-to-order strategy in manufacturing personal computers by getting customer specifications and assembling computers rapidly to customer satisfaction. Automobile manufacturers, after seeing the successful application of built-to order strategies by PC manufacturers, have undertaken similar projects. The Ford Motor Company, for example,*

*asked for help from Dell Computers to launch a similar built-to-order program in its production system’.*

#### **4. Economics of Corporate Responsibility**

The global managerial economics highlights corporate policies that, in short, tend to break up large companies concentrated in a single location and replace them with multiple entities caught up in the complex logistics of start-up and localization (proximity to supply markets, preferential trade and intermediate demand relations, installation costs, the quality and cost of infrastructure, and the nature of public incentives), all of which go towards performing the function/objective of reducing action-reaction competition times. Furthermore, over-supplied markets force companies to strengthen external relations, externalising corporate processes and sharing results and responsibility with companies at the beginning or at the end of the production chain (vertical cooperation) or with competitors (horizontal cooperation)<sup>8</sup>.

The complex organisation of global business (based on networks and collaborative equity and non-equity alliances) also leads to a profound change in *corporate responsibility*, whereby a company must be open to a dialogue and comparison with the numerous (and often unstable) internal, external and co-makership bodies.

In global managerial economics, however, corporate responsibility extends beyond the organisation and willingly interacts with a (complex, multilevel and international) system of stakeholders, with whom it expresses a corporate social responsibility focused on social and environmental issues in accordance with a business vision of sustainable growth.

The corporate responsibility of global businesses carries clear connotations that are very different from the business responsibilities that might be developed in either domestic markets or markets dominated by export-import policies.

Neighbouring markets are marked by a basic business model with a restricted locally-defined reference environment. In this context, company responsibility stems from the low cost of production, and social responsibility is identified as providing local jobs and the production of goods required by the community of which the company is a part.

In economies characterised by controlled competition and export-import policies, competition becomes stronger and its limits are not as clearly defined as they are in neighbouring markets. As a result, ties between the company and the local community are weaker and control/collaboration relations between entrepreneur and employees are lost. Corporate responsibility becomes depersonalised, loses any sense of enlightened paternalism and also represents social and environmental issues (with specific reference to stakeholders in the markets in which the company operates) together with internal financial objectives (whether of the company or local bodies, and involving the interests of shareholders, managers and employees). The concept of corporate responsibility thus positions company profitability alongside respect for social and environmental issues. Thus corporate social responsibility involves specific conditions in well-defined markets (domestic and export markets). In large US-based companies, which often have a marked

Protestant ethic, corporate responsibility clearly extends to cover specific social and environmental issues, not for charitable reasons or moral imperatives, but rather out of the need imposed on the company following growth due to export activities or its stable presence in certain international markets.

Finally, in global managerial economics, competitive space cannot be defined as stable or relating to geographic or administrative factors. In this context, also generally characterised by over-supply, large corporations operate in networks and must therefore continuously interact on a global scale with a varying and constantly changing group of stakeholders, and agree to expose the organisation to two-way flows of information from any market, including those in which the company is not present<sup>9</sup>.

□ *'By far the largest number of corporate responsibility reports deal exclusively with environmental issues such as air emissions, water discharges, use of natural resources... On the whole, these reports provide few clues as to the creation or destruction of environmental capital by the individual business... For most companies social reporting is in its infancy. Executives are just discovering the vast range of potential issues... and wondering how to gather the relevant information'*<sup>10</sup>.

In global managerial economics, corporate responsibility therefore amounts to the unstable and dynamic equilibrium, on a global scale, between the concerns of corporate governance bodies, stockholders, management, employees and, finally, stakeholders.

In global markets, powerfully divergent interests may manifest among the various players, and the corporate responsibility must mediate – at both a corporate level and at the level of individual operating entities – between company profitability and social and environmental issues.

Mediating between profit targets and social and environmental interaction thus tends to define the complex social responsibility of the company. The corporate social responsibility of a global company, in fact, imposes the need for the various entities comprising the business network to be open to dialogue – with varying levels of interest and openness – with the stakeholders (given that all stakeholders can profoundly influence short-term results at a local and corporate level, sometimes with devastating long-term consequences), setting up specific corporate and local communication tools (such as ethical codes, social balance sheets, environmental balance sheets, lobbying through associations, etc.).

At the same time, as a global company expands its global interconnections, its corporate social responsibility also tends to develop a *policy of 'opacity' in its conduct* (typically with specific corporate communication tools, such as social environmental and cultural sponsorships and institutional publicity through social foundations). Such conduct *generalises* the social and environmental issues relating to specific stakeholder areas of interest in order to minimize the operating-objective transparency of the potentially complex resulting benefits and their usefulness.

□ To conclude with an example of ‘opacity of conduct’ in the corporate responsibility of a global company, consider the recent communications of a Swiss multinational, which, to avoid the debate on GMO research on coffee, spent a significant amount of money informing the European scientific community about the corporation’s activities in the social development of local communities. Emphasis was placed on the money spent by the multinational business to give travelling salespeople in Ivory Coast and Senegal bicycle-kiosks (sponsored by the company to sell hot coffee on the street and increase brand consumption in developing countries!).

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## Notes

<sup>1</sup> Cf. P. de Woot, The Challenges of Economic Globalisation: Business, Competition and Society, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 2, 2002.

<sup>2</sup> Cf. Brondoni Silvio M., Overture de ‘Market-Space Management’, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 1, 2002.

<sup>3</sup> Cf. Golinelli Gaetano M., Vagnani Gianluca, Corporate Governance as a Viable System: the Role of Intra- and Inter-Systemic Relationships, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 2, 2002.

<sup>4</sup> Global Markets and Market-Space Competition, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 1, 2002.

<sup>5</sup> 'Today's products rely heavily on many different critical technologies that most companies can no longer maintain cutting-edge sophistication in all of them...The inevitable result is the rapid dispersion of technology. No one company can do it all, simultaneously. No one company can keep all the relevant technologies in-house, as General Motors did during the 1930s and 1940s. And that means no one can truly keep all critical technologies out of the hands of competitors around the globe'. See Ohmae Kenichi, The Logic of Strategic Alliances, *Harvard Business Review*, March-April, 1989, p. 145.

<sup>6</sup> Cf. de Leersnyder Jean-Marc, Corporate Culture and Geopolitics, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 2, 2002.

<sup>7</sup> See Culpan Refik, Global Business Alliances: Theory and Practice, Quorum Books, Westport, 2002, pp.144-147.

<sup>8</sup> Cf. Garbelli Maria Emilia, Over-Supply and Manufacturing Localization, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 1, 2002.

<sup>9</sup> Cf. Salvioni Daniela M., Transparency Culture and Financial Communication, *Symphonya. Emerging Issues in Management* ([www.unimib.it/symphonya](http://www.unimib.it/symphonya)), n. 2, 2002.

<sup>10</sup> See Lane Geoff, Carrington Melissa, Measuring the Triple Bottom Line, *European Business Forum, Special Report on Sustainable Development*, 2002, p. 22.