

## GloCo-Motives: Arguing the Case for Globalization

**Companies seeking continued access to the benefits of globalization need to pursue a policy of 'enlightened self-interest,' demonstrating the mutual benefits of globalization across their relationships with employees, consumers, local communities, governments and investors.**

### Why 'Being GloCo' Matters

Three years ago, we proposed the concept of 'GloCo,' arguing that corporate success in a world of globalization would require companies to focus on eight criteria ranging from global brand to social involvement. We argued that meeting these eight criteria would help GloCo to achieve above-average returns. The firms we identified then as potential GloCos have in fact outperformed the broader market over the past decade, and most have significantly outperformed within their sectors in recent years—which we attribute in part to their embrace of our GloCo criteria. The box on page 2 shows our GloCo picks and their relative performance.

We remain as convinced as before that these criteria are critical to the difficult challenge of becoming GloCo. But they are probably not sufficient. To thrive, GloCo needs to demonstrate the mutual benefits of globalization in five key relationships: with employees, consumers, local communities, governments and investors.

For companies, the benefits of globalization are clear: it offers the best opportunity to prosper in the decades ahead. Globalization can allow access to new markets, new technologies, a global workforce, inexpensive transport and communications, and fresh ways of doing business.

But a growing backlash suggests that these opportunities will remain available to companies only if the broader benefits—greater consumer choice, greater individual opportunities, economic development and a more inclusive global governance structure—are widely shared. This is because corporations are the chief transmission

channel by which many of the benefits of globalization reach consumers, including lower-cost goods, deflationary pressures and the global exchange of ideas. They are also the transmission mechanism (and scapegoats) for many of the ills of globalization, including lost jobs and social insecurity.

Enlightened self-interest suggests that companies must forcefully argue the broader case for globalization, demonstrating that it improves the greater good, not just the bottom line. The payoff for this complex effort should be outperformance, as the intertwined efforts with these five key groups come together to yield superior operating and financial performance.

### Workplace Standards: Beyond Bread-and-Butter

Workplace practices have an important impact on corporates' reputations, brands, and ability to hire and retain the best talent—which ultimately is key to the future success of any organization. Employment surveys bear this out: research at the corporate, university and demographic level suggests that employees of the 'millennial generation' expect their personal and corporate values to be aligned—with companies interested in more than 'just' profits and rewards extending beyond the financial.

At the core of workplace standards are issues like diversity, training, work/life balance and contingent workforces. Though these are primarily developed-country issues for now, we think GloCo will come under pressure to apply standard policies across its global workplace. This will be a challenge—after

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all, part of the appeal of globalization is access to lower-cost workforces. We expect that workers themselves will lead the pressure on GloCo to implement comparable policies around the globe.

The debate about workplace practices is rapidly evolving beyond these bread-and-butter issues to include areas where corporate policies have a broader economic impact, such as healthcare coverage for part-time workers. We expect to see greater focus on issues like transparency in governance and compensation, and the number of women on corporate boards. As the competition for talent becomes more global, companies will increasingly need to recruit on the basis that they do ‘do good.’

### Consumers: Benefits, Education and Standards

Because companies are the key link between globalization and consumers, they are extremely vulnerable to any anti-globalization backlash. Creative firms are positioning themselves as pro-consumer in several ways.

- Some are directly demonstrating how globalization benefits consumers, by showing how cross-border mergers and improved market access give consumers access to lower prices and greater variety. A variant is to stress the way in which globalization undermines the power of small but influential vested interests.
- Others are positioning themselves as trusted advisers and allies rather than simply sellers. By offering websites with information on healthcare, parenting and travel, companies are trying to develop relationships with consumers that are not—at least initially—about sales. The goal is to generate ‘stickiness’ as well as sales and to boost the brand’s perceived quality.
- Some industries are developing voluntary standards to regulate the production and distribution of goods and services. Initiatives like the Equator Principles for project finance lending; the Kimberly Process for conflict diamonds; and the Extractive Industries Transparency Initiative typically

require participants to achieve ‘reasonable’ standards—not too onerous, but meaty enough to make some real improvements. Though the motivation behind these programs is complex, we think a key driver is the recognition that consumers—particularly affluent, educated and vocal consumers—care about these social issues.

Critics argue that industry-led initiatives are driven by self-interest and are designed to pre-empt regulation. We agree—but think that this is exactly the point. The interests of the corporation and the interests of the wider community increasingly intersect. Voluntary standards give corporations the chance to ‘do the right thing’ without fear of being undercut by competitors. And, especially for first-movers, they can be important opportunities to strengthen other key GloCo attributes, including brand, localness, flexibility and perception as a good employer.

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### Our Potential GloCos Have Outperformed

Company	Share Return 1996-2005 (annualized %)	GloCo Outperformance*	Company	Share Return 1996-2005 (annualized %)	GloCo Outperformance*
AIG	12.4	3.3	Nokia	25.8	10.3
BP	13.5	7.7	PetroChina**	42.5	39.8
Cisco Systems	15.2	6.2	Pfizer	9.9	0.9
Citigroup	19.6	10.5	Procter & Gamble	12.8	3.8
Coca Cola	2.2	-6.8	Rio Tinto	16.3	10.5
Dell	39.3	30.3	Samsung Corp	19.6	17.8
GE	13.5	4.4	SAP	14.1	7.3
GlaxoSmithKline	7.7	1.9	Sony	3.7	3.7
HSBC	16.8	11.0	Unilever	10.4	4.6
Hyundai	14.7	13.0	Vodafone	13.5	7.8
IBM	14.5	5.4	Volkswagen	8.9	2.1
Microsoft	18.5	9.4	Wal-Mart Stores	16.2	7.2
Nestlé	12.4	5.1	Yukos	34.2	6.3
Nike	10.7	1.6			
<b>Average Outperformance 1996-2005</b>			<b>8.3</b>		

\*GloCo performance compared to main national index, in US\$ terms, annualized %. \*\*PetroChina (HK) since April 2000.

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## Local Communities: Social Engagement 'Doesn't Matter' . . . But It Does

Three years ago, we received a lot of pushback on our view that companies need to engage in meaningful 'social good' programs at the local level. When we interviewed the equity analysts covering our 27 potential GloCos in 2003, the prevailing comment was that social good 'doesn't matter to us.' We argued then that they were wrong, and we hold that view even more strongly now.

Many of the naysayers now seem to be coming around to our view. Companies themselves have moved forward on social good issues. One corporate executive with whom we spoke is 'more and more convinced of the need for a social role to be front and center of what companies consider in terms of reputation management, creating stable markets and creating receptivity to global activities.' He adds that 'if we get it wrong, that's the biggest single hurdle to us making further progress.'

Expectations for CSR programs are evolving rapidly. The most interesting programs—which we think will be most successful from a GloCo perspective—tie specific needs to a company's core business, leveraging products, distribution channels or management expertise. These programs offer institutional expertise that would otherwise be unavailable. They also benefit companies by strengthening the brand and potentially pointing the way to new markets or new ways of doing business.

Half an hour on the web will convince the casual reader that every major company places 'community,' 'community relations' and 'corporate responsibility' at the heart of its organization—in some cases ahead of profits, at least as far as prominence on the website! But programs range widely in terms of content, effectiveness and management buy-in, and we think discerning consumers and investors will be able to differentiate among them.

## GloCo and Government: Friend or Foe?

Relations with governments are a key—and evolving—issue. Companies have always had to navigate relationships with regulators. But we think globalization is changing the dynamic between the two, in complicated and sometimes contradictory ways.

On the one hand, globalization means companies need to be more engaged with regulators, as their product lines and consumer bases change rapidly. As we noted earlier, industry standards are one way to forestall regulation. Self-interest clearly plays a role in these efforts, but so too does the understanding that global industries can benefit from global standards, and that companies can operate more effectively when they face a coherent and consistent regulatory framework.

Some argue that the rise of GloCo may strengthen companies' power relative to governments. But we are

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inclined to think that companies throwing their weight around will trigger more—not less—scrutiny and regulation. Governments are notoriously sensitive to suggestions that the global marketplace has undermined their traditional powers, and they will always have the upper hand in fields like regulation and tax.

GloCo's rise may also blur the lines between governments and corporates. We do not mean this in a Big Brother fashion—though that is likely in some security-related industries. The lines are also likely to blur in more subtle ways, as policies implemented at the corporate level have a macroeconomic impact. For example, higher labor force participation by older workers could have a significant impact on growth in the labor force, GDP and income per capita—if corporates change their policies on recruitment, training and retention.

Similarly, if fertility rates are to rise in the developed world (which could reduce the tax burden on future generations), companies and governments alike will need to develop more family-friendly policies.

In countries where the state remains a major player in the economy, the dynamics will be different. GloCo's global reach and global investor base should help to strengthen its relative standing with its home government. But there will undoubtedly be frictions as the company evolves into a fully independent actor.

Finally, the state/corporation relationship is actually a triangle that includes citizens as well. GloCo will need to be sensitive to perceptions

that it is 'teaming up' with governments to bypass democratic processes or override the interests of ordinary people. This problem is not limited to countries with undemocratic governments.

### Investors: GloCo Issues Moving From the Fringe to the Mainstream

Does all of this matter to investors? Recent evidence shows that it does. In the wake of widespread corporate scandals, investors are paying more attention to corporate governance. And socially responsible investing (SRI), considered a fringe issue just a decade ago, is rapidly moving closer to the mainstream.

Socially responsible equity products and indices are expanding rapidly. No longer just concentrated in niche firms, these can now be found in major asset management firms as well. Today's SRI research integrates the social responsibility angle with traditional financial analysis. Research on the links between CSR and company and industry performance is growing, as analysts conclude that social, environmental and corporate governance issues have a material impact on shareholder value.

Shareholders are thus joining employees, consumers and governments in pressing corporates to pursue sustainable and socially responsible policies, and companies are responding by showcasing their sustainability and CSR efforts. We expect to see intensifying performance differentiation between the best GloCos and the rest.

### The World and GloCo

Globalization clearly still has farther to run. For many large firms, the impact of globalization so far has largely been concentrated in improved supply chains: to our surprise, we recently found that the largest US firms are not notably more global today, in terms of share of revenues, than a decade ago. Yet our work on the BRICs economies indicates that global sales should become an increasingly important part of the GloCo story in a few years' time. And the macro story of rising global trade and portfolio flows, greater FDI and more cross-border M&A should continue to develop.

The intangible aspects of globalization—a global approach to such issues as training, management, leadership and strategy—also have farther to run. 'Being GloCo' is, at its core, a way for firms to capitalize on the opportunities of globalization while shielding themselves, as best as is possible, from the backlash that seems unlikely to dissipate. We see deeper relationships with employees, communities, consumers, governments and investors as the best way to achieve this. ■

### BRICs' Incremental Demand Could Be Four Times G6 Demand

