Why Emerging Multinationals Are Embracing Social Responsibility

By Knowledge@Wharton

Engaging with stakeholders to solve societal issues gives companies a strategic advantage by reducing the likelihood of protest and aggressive regulation.

Earlier this year, *Forbes* reported that New York-based natural foods company KIND Snacks, in its first ten years, has grown from zero to over 450 million units sold. Its now-familiar rainbow-wrapped bars can now be found in over 150,000 retail stores. According to the article, founder and CEO Daniel Lubetzky’s focus is to “make profit *and* make a difference … achieve mass distribution *and* make his products healthy.”

An example of “doing good and doing well” — or corporate social responsibility (CSR) — KIND is far from alone in its approach. Companies from startups to huge conglomerates are increasingly incorporating social and environmental initiatives into their strategies. Microsoft partners with the non-profit NETHope to create IT apprenticeships in Kenya.

The Disney Company is providing $3 million in conservation grants this year to protect wildlife. Gap Inc. has a programme that teaches health awareness and literacy to women garment workers in Cambodia and India. JPMorgan

Chase has The Fellowship Initiative, a programme designed to help disadvantaged American young men achieve academic and professional success. Mattel is committed to using sustainably sourced paper and wood fibre in its packaging and products.

Mounting and sustaining social initiatives takes time, talent and resources. But increasingly, it is what investors, customers, employees and other stakeholders have come to expect and demand. Millennials — industry's new and future customers — cast a particularly keen eye on companies' commitment to social impact.

But is this phenomenon limited to American and European companies? What about emerging multinational firms from developing nations, fighting for survival and success in the global economy: Are they paying attention to CSR? Can they afford to? Can they afford *not* to?

Electric Cars, Cosmetics and More

There are some high-profile examples of emerging multinational companies engaged in socially or environmentally impactful activities. Chinese battery maker BYD brought out the first mass-market electric plug-in car in 2008, and earned the #1 spot on this year's Bloomberg *Businessweek* top 100 tech list. Despite a rocky entry into the U.S. market, it has built more than 1,000 electric buses and sold them in Asia, South America and Europe. In India, Suzlon Energy contributes to renewable energy as a major wind turbine manufacturer, operating on six continents.

And Natura Cosmeticos, one of Brazil's top cosmetics manufacturers, focuses on sustainability and social responsibility, serving as a founding member of the Union for Ethical BioTrade which promotes biodiversity conservation. According to Mauro Guillen and Esteban Garcia-Canal in their 2013 book *Emerging Markets Rule*, Natura uses only natural ingredients in its formulas, and has forged alliances with indigenous Amazon Basin communities to source herbal raw materials.

Tarun Khanna, a professor at Harvard Business School, points to India's Tata Group — one of India's largest conglomerates with revenues of $108.8 billion — as a company "long renowned for its commitment to social purpose." *Greenbiz* recently wrote, "In India, family-owned enterprises like the Tata Group occupy a place in citizen's hearts and minds that is not easily shifted. They are viewed as the 'go to'… to build schools and other social institutions, and fulfilling these social needs guarantees these companies' license to operate."

Khanna believes that emerging multinationals need to be even more attuned to social purpose than Western companies. "The way I think about it is that often in developing countries, the state fails to provide the public good. Ultimately, some societal actor has to step in at least partly, within the realm of private possibility, and well-run private sector entities are often the only game in town."

Doing the Right Thing the Right Way

Wharton professor of management **Witold Henisz** sees a number of solid business reasons for any company to engage in social impact initiatives. But he cautions that CSR should be designed to address the concerns of stakeholders, not just "giving money to the symphony or something your stakeholders don't [necessarily] really care about…. The better CSR programmes, either in emerging multinationals or developed-country multinationals … are not just philanthropy, they're strategic."

He points to the CSR programmes of big soda companies such as Coke and Pepsi, which are often focused on issues such as obesity, and water usage in developing nations, as good strategies. "These are programmes addressing issues that people are concerned about with those companies. By addressing them, they reduce the likelihood of protest, they reduce the likelihood of aggressive regulation, and they build relations with stakeholders who could otherwise be attacking them."

Henisz labels as a "win-win-win" an ongoing project by Coke in which the company is investing in numerous small African mango plantations. "It's helping small farmers in Africa; it's getting them to think really well of Coca-Cola because Coca-Cola's helping them grow their livelihoods; but it's also creating a much bigger stock of mangos [for] Coke to create a mango-based beverage globally." The ultimate metric of CSR success is whether it is driving shareholder value and long-term sustainable performance, he says.

Winning Hearts and Minds

When it comes to social impact, Henisz sees some differences between developed-world firms and emerging multinationals. "In the West, in the developed countries, more companies have kind of been dragged into this and now realise the benefits. They're all going on a similar journey together."

Whereas emerging markets display “much more polarized strategies”: one sees “companies that embrace it from the beginning … and companies that are reluctant or don’t even see the value of it.”

He identifies Chinese companies in particular as slow to adopt socially purposeful activities overseas because of their own political system. “Unfortunately, some of the Chinese oil and mining companies I run into in Africa where I do a lot of work [say,] ‘Well, the government should take care of that.’ Because in China, the government *does* take care of that.” Social development in China is the Communist Party’s responsibility, says Henisz, and businesses do not get involved. Only after “a lot of protests against them for not being more responsible, for not doing the same kinds of things that Western companies are doing,” Chinese multinationals have begun to build up their CSR.

In other cases, says Henisz, an emerging multinational’s attitude toward social purpose may stem from the way it achieved its original business success. It might have had to “survive in a very difficult, fraught environment” and so might be more inclined toward social responsibility. On the other hand, there are companies that have succeeded because “they’re an offshoot of the government, related to the president, [or] they paid bribes, or they took advantage of a gap in the market and built up a monopoly.” Those companies don’t think at all about CSR, says Henisz, “because they got where they were by being ruthless and well-connected.”

As an example of the former — an emerging multinational very much oriented toward CSR — Henisz cites Odebrecht, a Brazilian conglomerate with a large construction subsidiary. He says that Odebrecht nearly went bankrupt at its founding, but the CEO reached out to suppliers and buyers asking them to extend financing. The company survived the crisis, “and as a result, [the CEO has] always had this really strong relationship with his stakeholders — with the people in the supply chain and also the people all around his facilities.” The company does business in Africa where, Henisz says, “they’re involved not just in the big construction projects, but in really trying to win the hearts and minds of the people.”

For example, while competing for a large construction contract in Luanda, Angola, Odebrecht took the unusual step of taking on a street-sweeping contract. Henisz explains that this gave them some very visible PR: The employees, sporting orange Odebrecht vests, were seen tackling one of downtown Luanda’s fundamental problems by cleaning up its streets.

Another bonus was that many of these individuals, who would eventually work on Odebrecht’s construction sites, were acquiring basic job skills such as following processes and arriving on time. While acknowledging that Odebrecht “has been a little tarred in a corruption scandal recently,” Henisz says, “I still think, when I see their operations overseas, that they know what it means to come from a poor country; they know what the basic problems are; they know how to make a connection to the people as a result.”

By contrast, a multinational that ignores CSR might look something like Brazil’s EBX Group, according to Henisz. Its chairman, the mining, oil and gas magnate Eike Batista, had a net worth of $30 billion in 2012, but his wealth sank to $200 million due to debts and his company’s plummeting stock prices. His fall from grace and his trial for insider trading were widely reported in the business press. “His mines had nothing in terms of socially responsible behavior,” Henisz comments. “His company wasn’t based on success in the community. It was based on kind of moving envelopes of cash around and convincing people that he had connections.” EBX is now bankrupt, Henisz points out.

Social Purpose in Health Care

An emerging multinational in the health care space, and one very much focused on social purpose, is Narayana Hrudayalaya Private Ltd. in India. The for-profit company, founded in 2000 and now with 56 facilities in India and one in the Cayman Islands, was started by heart surgeon Devi Shetty to provide low-cost or free cardiac procedures to the poor and underserved. It has since expanded to treat other medical conditions as well.

Harvard’s Khanna, who has done pro bono work and research for the organisation for over a decade, comments, “What’s neat about it is that it’s now the lowest-cost heart surgery (for example for coronary artery bypass graft, and many other procedures) in the world. Think more than 90% cheaper than in the US.”

Shetty introduced a unique business model, drawing on economies of scale, which has allowed Narayana Health to help indigent patients while remaining profitable. Khanna notes that the *Wall Street Journal* a few years ago dubbed Shetty “the Henry Ford of heart surgery” He adds: “Though I think better than to use a comparison with Ford and its standardised mass production system [would be a comparison] with Toyota and its famed learning approach to describe what Shetty has pulled off.”

No patient is ever turned away from Narayana, notes Khanna. Patients who cannot pay are treated at no cost or through charity efforts that the hospital chain coordinates. “So, it has to be efficient enough to both turn a profit and to make money available for this social mission. Very cool.”

Of emerging multinationals and social purpose, Khanna notes that one of the “underappreciated benefits of being attuned to social impact” is that it puts you “on the cutting edge of many of society’s most pressing issues.” A well-run firm and a motivated entrepreneur can turn this to substantial advantage, he says.

Thomas Robertson, a former dean of the Wharton School and a professor of marketing, comments that while “obviously you have to keep your focus on profits or you won’t meet any of your objectives,” increasingly, business has moved from a shareholder model to the more encompassing stakeholder model. He sees increased recognition by industry of its responsibilities to employees, customers and the neighbourhoods and regions in which it operates. “It’s kind of hard to [just] walk away from that.”

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