

Simon Johnson: One Page Summary

15.223, class #10: NGOs and Private Non-Market Action

What should companies do? One view is simple: aim to make profit and create value for shareholders. An extension of this position would allow companies to make charitable donations. Particularly when seeking to improve an image or build relationships with a community, this can also be in the long-term interest of shareholders.

Alternatively, management may answer to a broader set of stakeholders. This could even help (a) the firm to survive, (b) top executives to do well. Taking this further, some argue companies have a moral obligation to help the less fortunate.

Modern forms of globalization began around 1500 with European overseas expansion and there was a great deal of capital and labor mobility in the second half of the 19th century. The last 60 years have seen an upsurge in market-based globalization, involving a rapid increase in trade and capital flows relative to world GDP, with the U.S. in a leading position.

The end of the Bretton Woods system of fixed exchange rates in 1971 was thought by some to represent a mortal blow to the global market-based growth. But over the past 40 years, large corporations have increasingly dispersed the value chains for their products around the globe – much of the world is more highly integrated than ever before.

Nike is a good example, starting as an importer of Japanese specialty running shoes – using an initial cost advantage to break into the industry. The company moved into design and added supplier: in the early 1980s, these were mostly in Korea and Taiwan; later they expanded into Indonesia, China and Vietnam.

Potential areas for controversy in global supply chains include: low wages; child labor; and health and safety conditions. Both initial reports and corporate reactions can surface issues of honesty and integrity. “Critical events” occur – as in the case of Brent Spar. Consumers can become angry; changes in purchasing patterns may be temporary or longer lasting.

Responses from Nike and other global companies include: code of conduct; training for staff; and inspection of factories, including by outside consultants. Does the UN Global Compact help?

Some NGOs like to be confrontational – as Greenpeace says in the Brent Spar case. They compete for attention and dollars just like for-profit companies. Media also likes the opportunity to seize attention, particularly if there are graphic images of some kind. Today many dispersed people seek to capture and convey images that evoke an emotional response.

Shell came under pressure from German activists and German public opinion. National and local politicians responded to this pressure.

Increasingly there is suspicious of paid “independent” experts – particularly after the movie, *Inside Job*. How do you determine whom to trust?

Values at the national level continue to change, including in the light of international developments. Government regulation can provide some protection to business activities, but there is an obvious fight to shape and control those rules.

Where will be the next backlash? How can you best prepare for this?

MIT OpenCourseWare
<http://ocw.mit.edu>

15.223 Global Markets, National Politics and the Competitive Advantage of Firms
Fall 2011

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.