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CORPORATE SOCIAL RESPONSIBILITY AND ETHICS - AN INTERNATIONAL PERSPECTIVE

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ABSTRACT

In this paper the concept of social responsibility, its evolution, factors necessitating social responsibility, elements and strategic responses alongwith limitations of corporate social responsibility are discussed. Issues and challenges pertaining to social responsibility in international business are also discussed. Likewise, besides nature and sources of business ethics, need for ethics in business, prominent issues in international business are discussed. When business companies spread their activities to foreign lands, business managers are exposed to varying guidelines of corporate social responsibility and different concepts of ethical behaviour. Contrary to domestic ethical and social responsibility issues, the managers at international level are confronted by such unfamiliar elements, they sometimes have to adapt to the changed social responsibility and ethical behaviour. They sometimes change the product, follow a different product and marketing strategy, modify their HR practices, and sometime make changes in the very organizational structure.

Keywords: *Corporate Social Responsibility, Ethics, Companies, International Business.*

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INTRODUCTION

When business companies spread their activities to foreign lands, business managers are exposed to varying guidelines of corporate social responsibility and different concepts of ethical behaviour. Contrary to domestic ethical and social responsibility issues, the managers at international level are confronted by such unfamiliar elements, they sometimes have to adapt to the changed social responsibility and ethical behaviour. They sometimes change the product, follow a different product and marketing strategy, modify their HR practices, and sometime make changes in the very organizational structure. In case they strike to their own ethics and social behaviour, very often it becomes a source of conflict with the host government. Keeping in view, the varying socio-cultural and ethical environment in different countries, managers at international level need to be acquainted with the environment in order to enhance performance.

Corporate Social Responsibility (CSR) means the ethical behaviour of a company towards the society. In the words of **Archie B. Carroll**, *"Corporate Social Responsibility is defined as the entire range of obligations business has to society"*. Carroll presented four categories of responsibilities as a pyramid of CSR give in figure1 in which economic responsibilities are at the base of the pyramid succeeded by legal responsibilities ethical responsibilities and, finally, philanthropic responsibilities.

Fig. 1: Carroll's Pyramid of CSR

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Corporate Social Responsibility is defined as the obligation on the part of the decision-makers to take actions that protect and improve the welfare of society as a whole with their own interests. Every decision the business person makes and every action he or she contemplates has social ramifications. The managers thus should keep their social obligation in mind. They must understand that a healthy society in always instrumental in the growth of business and success of corporations. There is a long history that reveals that the CSR evolved over a period of time.

Unlike philanthropy, Corporate Social Responsibility is inspired not by self interest but the motive is the interest of the organization. Maintaining schools, donating computers to village schools, adopting villages, promoting greenery and contributing to ecology and the like, benefit society and in turn help contribute to the growth of healthy businesses. Social actions of businesses are being systematized, are periodic and the end uses are subject to social audit.

Views about CSR during 18th and 19th Centuries

In the colonial era, businesses were very small. Merchants practiced thrift and frugality, which were dominant virtues then. But charity was a communication-existing virtue and the owners of these small enterprises made contributions to schools, churches, and the poor. During the latter part of the 19th century and into the 20th, a number of forces converged to lead business leaders, especially of the larger corporations, to address social problems out of self interest. Vigorous industrial growth has many negative social impacts. Business feared new government regulations and sought to blunt their urgency. By the 1920s, there inter-related themes had emerged to justify broader business social responsibility.

First, managers were trustees, that is, agents whose corporate roles put them in position of power where they could enhance the welfare of not only stockholders, but others such

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as customers, employees and communities. *Secondly*, managers believed they had an obligation to balance the interests of these groups. They were, in effect, coordinators who reconciled the competing claims and multiple stakeholders on their enterprises. *Thirdly*, many managers subscribed to the service principle, a principle with two distinct definitions. One definition was a near-spiritual belief that business, simply by operation for profit, had the power to redeem society by creating a broad general welfare. A second understanding of the service principle, however, was that although the capitalist system elevated humanity, individual companies and managers were still obligated to undertake social programmes to benefit or serve the public.

In the last 40 years, the concept of business social responsibility has continued to evolve and expand. The view that total social responsibilities are broader than economic responsibilities has become more compelling, more accepted by managers and more widely put into practice than ever before. Today, corporations carry out a wide array of social actions. The span includes programmes for education, public health, employee welfare, housing, urban renewal, environmental protection, resource conservation, day-care centers for working parents and many others. In each of these areas, the programmes that different corporations have implemented run into thousands. The fundamental reason why the concept and range of social responsibilities have expanded is that accelerating industrial activity continuously changes society. In this situation, social responsibilities arise from the impact of corporate actions on society. Following Table 1 shows the spending of Top companies worldwide on CSR:-

Table 1: Money Spent on CSR worldwide

To qualify for the ranking at all, each company had to have an above-average reputation score (defined as over 64) in its home market, based on Reputation Institute's global database of RepTrak™ scores spanning 2007 to 2012.

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THE FULL RANKING:

2013 Rank	Company	2013 CSR RepTrak®
1	Microsoft	72.97
2	The Walt Disney Company	72.83
3	Google	72.71
4	BMW	72.14
5	Daimler (Mercedes-Benz)	70.65
6	Sony	69.49
7	Intel	69.32
8	Volkswagen	69.29
9	Apple	69.21
10	Nestlé	69.00
11	LEGO Group	68.77
12	Rolex	68.45
13	Canon	68.02
14	Kellogg Company	67.90
15	Johnson & Johnson	67.80
16	Colgate-Palmolive	67.62
17	Danone	67.25
18	IBM	67.09
19	Philips Electronics	67.03
20	Honda Motor	67.03
21	Toyota	66.96
22	Adidas Group	66.90
23	Michelín	66.75
24	L'Oréal	66.66
25	Hewlett-Packard	66.51
26	Samsung Electronics	66.50
27	The Coca-Cola Company	66.43
28	Amazon.com	66.26
29	Procter & Gamble	66.16
30	Ferrero	66.15
31	Giorgio Armani Group	66.14
32	Volvo Group	66.13
33	Bridgestone	65.98
34	Deutsche Lufthansa	65.93
35	Electrolux	65.91
36	Siemens	65.86
37	IKEA	65.84

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38	Oracle	65.72
39	Eli Lilly	65.64
40	Marriott International	65.60
41	SAS (Scandinavian Airlines)	65.60
42	Goodyear	65.55
43	3M	65.54
44	Whirlpool	65.43
45	General Electric	65.42
46	FedEx	65.33
47	Barilla	65.30
48	Abbott Laboratories	65.28
49	Kraft Foods	65.26
50	Dell	65.25
51	Singapore Airlines	65.20
52	Cisco Systems	65.20
53	Pirelli	65.18
54	HJ Heinz	64.95
55	Nintendo	64.91
56	Heineken	64.86
57	LG Corporation	64.74
58	LVMH Group (Moët Hennessy-Louis Vuitton)	64.69
59	Nokia	64.65
60	Bayer	64.59
61	Panasonic	64.53
62	Roche	64.51
63	General Mills	64.50
64	Toshiba	64.38
65	Unilever	64.15
66	Marks & Spencer Group	64.10
67	British Broadcasting Company (BBC)	63.96
68	Diageo	63.94
69	Nike	63.90
70	Bristol-Myers Squibb	63.81
71	Swatch Group	63.77
72	Ford Motor	63.76
73	Airbus	63.69
74	Fujifilm	63.68
75	Xerox	63.50
76	UPS	63.49

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77	ACER	63.35
78	Carlsberg Group	63.31
79	DuPont	63.09
80	eBay	63.09
81	Hertz Global Holdings	63.04
82	Starbucks Coffee Company	62.97
83	Suzuki Motor	62.96
84	Qantas Airways	62.95
85	GlaxoSmithKline	62.79
86	Boeing	62.72
87	Sharp	62.57
88	Peugeot-Citroen	62.57
89	H&M	62.46
90	Air France-KLM	62.38
91	Lenovo Group	62.23
92	Hitachi	61.95
93	General Motors Company	61.94
94	Pfizer	61.77
95	Nissan Motor	61.76
96	Fujitsu	61.50
97	British Airways-Iberia (International Airlines Group)	61.33
98	Zara (Inditex)	61.16
99	PepsiCo	61.04
100	Bacardi	60.67

Source: Reputation Institute

The Ages and Stages of CSR- Wayne Visser's Model

Wayne Visser is the Founder and Director of the think-tank CSR International and the author/editor of twelve books, including nine on the role of business in society, such as The A to Z of Corporate Social Responsibility and The World Guide to CSR. His most recent book is *The Age of Responsibility: CSR 2.0 and the New DNA of Business*. In this book he has given a model of CSR which is as follows:

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Table 2: The Key Characteristics of CSR Model of Wayne Visser

Economic Age	Stage of CSR	Modus Operandi	Key Enabler	Stakeholder Target
Greed	Defensive	Ad hoc interventions	Investments	Shareholders, government & employees
Philanthropy	Charitable	Community programmes	Projects	Communities
Misdirection	Promotional	Public relations	Media	General public
Management	Strategic	Management systems	Codes	Shareholders & NGOs/CSOs
Responsibility	Systemic	Business models	Products	Regulators & customers

Source: The Age of Responsibility, by Wayne Visser Wiley Publication, 2011

1. Defensive CSR: The Age of Greed is characterized by Defensive CSR in which all corporate sustainability and responsibility practices – which are typically limited - are undertaken only if and when it can be shown that shareholder value will be protected as a result. Hence, employee volunteer programmes (which show evidence of improved staff motivation, commitment and productivity) are not uncommon, nor are expenditures (for example in pollution controls) which are seen to fend off regulation or avoid fines and penalties.

2. Charitable CSR: Charitable CSR in the Age of Philanthropy is where a company supports various social and environmental causes through donations and sponsorships, typically administered through a Foundation, Trust or Chairman's Fund and aimed at empowering community groups or civil society organisations.

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3. Promotional CSR: Promotional CSR in the Age of Misdirection is what happens when corporate sustainability and responsibility is seen mainly as a public relations opportunity to enhance the brand, image and reputation of the company. Promotional CSR may draw on the practices of Charitable and Strategic CSR and turn them into PR spin, which is often characterized as 'greenwash'.

4. Strategic CSR: Strategic CSR, emerging from the Age of Management, means relating CSR activities to the company's core business (e.g. Coca-Cola and water management), often through adherence to CSR codes and implementation of social and environmental management systems, which typically involve cycles of CSR policy development, goal and target setting, programme implementation, auditing and reporting.

5. Systemic CSR: Systemic CSR in the Age of Responsibility focuses its activities on identifying and tackling the root causes of our present unsustainability and irresponsibility, typically through innovating business models, revolutionizing their processes, products and services and lobbying for progressive national and international policies.

Hence, while Strategic CSR is focused at the micro level – supporting social or environmental issues that happen to align with its strategy (but without necessarily changing that strategy) – Systemic CSR focuses on understanding the interconnections of the macro level system – society and ecosystems – and changing its strategy to optimize the outcomes for this larger human and ecological system.

SOCIAL RESPONSIBILITY CHALLENGES IN INTERNATIONAL BUSINESS

Till now we have discussed social responsibility of business in general not particularly relating to international business. In international business there are many challenges relating to business activities that the MNCs have to face. These challenges are:

1. **Managing the type of Government in a Host Country:** In many countries there are militarized non-democratic governments. A small wealthy class is sometimes allied with the military government, with its members serving in high-level government posts. Human rights and democratic freedoms are generally curtailed by the government. Labour unions, religious organisations and other interest groups are watched carefully by the government authorities to keep them from becoming political opponents. Military regimes present serious conflicts and strategic problems for international business leaders. In an effort to generate economic activity, such regimes may make attractive deals with foreign firms.
2. **Managing the type of Relations between Home Country and Host Country:** Relations between home country and host country pose challenge to the international business. If two countries are at war, for example, there will be no trade between them. When Great Britain and Argentina went to war over ownership of the Falkland Islands, British companies, such as Unilever, found themselves in a serious dilemma. Unilever subsidiaries conducted business in Argentina but were barred by the government from doing business with the enemy-Great Britain. Similarly, Great Britain ordered all British companies to cease commercial transactions with the enemy-Argentina. Unilever was, therefore, under orders from the warring governments not to send or receive messages between its headquarters and its Argentinean businesses. The dilemma facing Unilever's managers was resolved when it was determined that the headquarters and business units could both report to Unilever's office in a neutral country (e.g., Brazil) without violating the dealing-with-the-enemy rules of the two warring nations.
3. **Varying Attitudes of Governments:** Social actions of an international business are influenced by host government's attitude towards foreign investment. Host countries use a variety of sanctions and incentives ("sticks and carrots") to shape and regulate foreign investment, attempting to lure investors but also trying to

prevent excessive manipulation by them. Host country governments use laws, rules, and regulations to ensure that international businesses do not engage in certain types of conduct. These standards usually apply to all companies in a nation or to a specific industry. In some countries, however, national governments may wish to single out MNCs for special treatment. Interference becomes extreme when the host government insists on becoming a partial owner of the foreign business. Resource rich countries such as Brazil, Chile, Papua New Guinea, Saudi Arabia, and Indonesia have often insisted that foreign mining and oil exploration firms share ownership with the governments.

4. **Social Problems:** Social problems come in the way of socially responsive actions of MNCs. Inadequate facilities may require an international business to build housing, establish schools, and create transportation systems to ease the difficulties of employees. If the government is unable to provide these, the firm may have to do so or conclude that it cannot do business in the host country.
5. **Problems due to International Law:** International law is weak in addressing social effects on business. It strongly protects commercial rights, but norms protecting cultures, human rights, and nature are less codified. Sixth, in adapting to global economic growth, corporations have used strategies of joint ventures, outsourcing, and supply chain extension that create efficiencies, but often distance them from direct accountability for social harms. Finally, more national regulation of MNCs is unlikely. The governments of emerging nations fear that stricter rules and regulations will defer foreign investment

Thus, an international business cannot undertake social action programmes when the government of a host country is headed by corrupt-military dictatorship, if the home country and host country are at wars, when the host country's attitude to foreign investment is negative, and the host country lacks social infrastructure. International law is weak, MNCs have no accountability and developing countries are afraid of enforcing strict rules on MNCs.

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ETHICAL ISSUES IN INTERNATIONAL BUSINESS

On account of varying political systems, laws, growth rate and cultures in different nations, there arises several ethical issues band dilemmas in international business. These issues have been the subject of debate among international managers in recent years. These issues are shown in figure 2.

Fig.2: Ethical issues in international business

1. **Employment Practices:** Ethical issues may be associated with employment practices in other nation. Most often it is found that employment standards and norms are inferior in host country to those in a multinational's home country. What standards should be applied? Obvious answer is that the pay and work conditions should be the same across the nation or if divergence then to what extent. It has been observed that the companies of rich nations adopt the practice

of paying low wages, and fail to protect workers against toxic chemicals. In Indonesia, foreign companies employ child labour against the norms of UNO.

2. **Environmental Issues:** It is often debated that whether the multinational corporations should implement home country norms of safety and pollution measures in the host country. As it is a fact that the safety and environment protection rules are very strict in western countries. If those rules are followed in developing host countries, the cost of production will be higher and the competitive strength of the local manufacturers will be eroded. If they are not followed, it goes against the ethical norms of the multinational company.

3. **Human Rights:** Another ethical issue in international business is of human rights. As it is often debated that whether an international firm should move to a country say China where human rights are found violated. One view is that trade with and investment in such countries hardly deter human rights abuses as it has been experienced in the case of western trade and investment relations with China. On the contrary, dismantling of apartheid in South Africa was possible through economic sanctions by some western countries. The other view is that economic prosperity and political freedom go side by side. If foreign trade and investment bring about improvement in the living standards, human rights abuses would be contained.

4. **Issues of Consumerism:** In developed countries, a lot of consumer protection activities take place. But in developing countries, they are lacking. It is reported that multinationals sell many harmful products in emerging economics. For example, companies market a number of medicinal products that are banned in their home country. They often perform human trials, especially on those who are uneducated. Companies manufacturing tobacco products sell them in developing countries without sufficient warning, whereas in the home market they are sold

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under heavy marketing restrictions. Thus, it is advisable for multinational companies to care for social responsibility wherever they operate their business. They need apply home country norms in order to abide by ethical norms.

5. **Issue of Transfer Pricing:** Transfer pricing is a means to encourage illegal transfer of funds among the different units of a company through over invoicing/ under invoicing of export and imports. In many countries, there are strict rules restricting transfer pricing. Customs authorities are vigilant to check such practices. Even so, such practices are common. It is a fact that such practices lower the tax burden of the firm as a whole and smooth's the firm's international cash management, but it is unethical as it brings about loss to the exchequer in both the home country and the host country.

6. **Issues of Corruption:** Corruption has been a problem in almost every society in history, and it continues to be one today. There always have been and always will be corrupt government officials. International business can gain and have gained the economic advantage by making payments to those officials. But in western countries, bribery is highly unethical. Likewise, the OECD countries do not allow their companies to enjoy tax deductions for bribing overseas. Sometimes it is said that making illegal payments speeds up the approval and the multinational corporations have not to wait longer for entry. There are many cases of illegal payment reported from different corners of the globe. But for example, in China reciprocal gifts are common and not unethical. In such cases, an international manager has to draw a line between what is ethical from the viewpoint of local custom and what is clearly unethical and then to take a decision.

According to the combined survey of *American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA)*,ratio of ethical practices adopted by countries globally are given at following table 3:-

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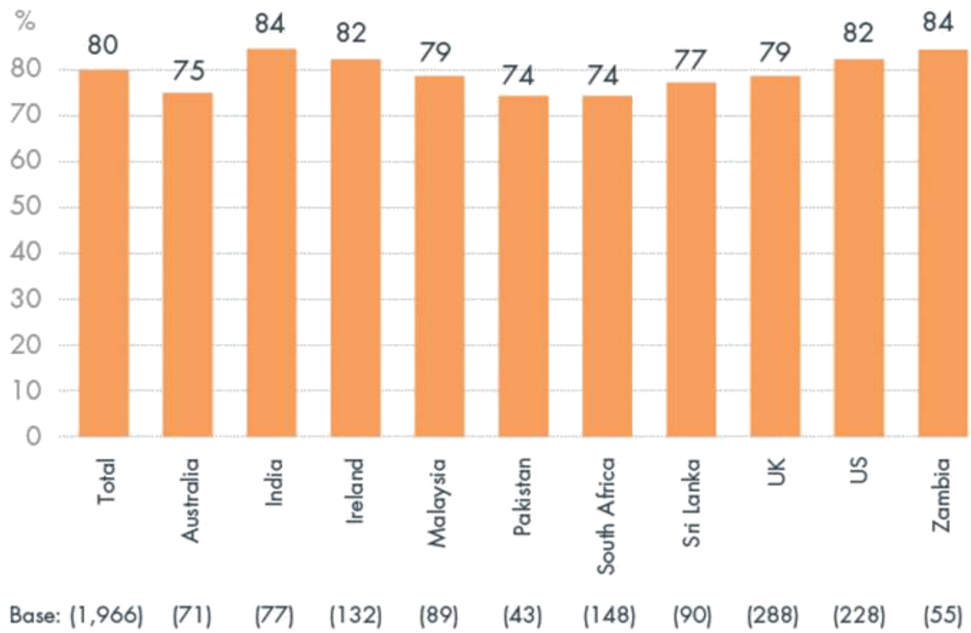
Table 3:- Ratio of Ethical practices adopted by countries



Source: Chartered Institute of Management Accountants and Institute of Business Ethics survey Report

Conclusion

Companies are realizing the value of responsibility fulfillment towards society and incorporation of ethical practices in their business strategies for long term sustainability and for this purpose support and commitments from within and outside the organizations in terms of Research & Development(R&D),Finance, Strategic Planning, Awareness programmes, Government policies, Rewards & incentives, Favourable political environment, International organizations support are needed. At international level, Organization for Economic Cooperation and Development (OECD) is working in a distinctive way to promote better government-governance among its member countries, based on soft law instruments, meaning nonbinding statements of values and principles which provide guidance for both government and corporate responsibilities in the investment area.

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