

# chapter three

## Ethics and Social Responsibility

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# Ethics and Social Responsibility

## ■ Chapter Objectives:

1. **EXAMINE** ethics in international management and some of the major ethical issues and problems confronting MNCs in selected countries.
2. **DISCUSS** some of the pressures on and action being taken by selected industrialized countries and companies to be more socially and environmentally responsive to world problems.
3. **EXPLAIN** some of the initiatives to bring greater accountability to corporate conduct and limit the impacts of corruption around the world.

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# Ethics and Social Responsibility

## ■ Ethics:

- ❑ Study of morality and standards of conduct
- ❑ Dilemmas arising from conflicts between ethical standards between countries most evident in employment practices
- ❑ Inferring right vs. wrong in legal sense

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# Ethics and Social Responsibility

## □ Corporate Social Responsibility (CSR):

- Closely related to ethics
- Actions of a firm to benefit society beyond requirements of law and direct interests of firm
- CSR involves taking voluntary action
- CSR concerns include working conditions in factories and service centers as well as environmental impacts of corporate activities

# Who's Doing Well By Doing Good

## Who's Doing Well by Doing Good

**SOME LEADERS** What does it mean to say a company, its products, or its processes are "sustainable"? Here is a list of top-rated companies by industry:

AUTOMOBILES		COMMUNICATIONS EQUIPMENT	
<b>TOYOTA</b>	The maker of the top-selling Prius hybrid leads in developing efficient gas-electric vehicles.	<b>NOKIA</b>	Makes phones for handicapped and low-income consumers. A leader in phasing out toxic materials.
<b>RENAULT</b>	Integrates sustainability throughout organization. Has fuel-efficient cars and factories.	<b>ERICSSON</b>	Eco-friendly initiatives include wind- and fuel-cell-powered telecom systems in Nigerian villages.
<b>VOLKSWAGEN</b>	A market leader in small cars and clean diesel technologies.	<b>MOTOROLA</b>	Good disclosure of environmental data. Takes back used equipment in Mexico, U.S., and Europe.
COMPUTERS & PERIPHERALS		FINANCIAL SERVICES	
<b>HEWLETT-PACKARD</b>	Despite board turmoil, the company rates high on ecological standards and digital tech for the poor.	<b>ABN AMRO</b>	Involved in carbon-emissions trading. Finances everything from micro enterprises to biomass fuels.
<b>TOSHIBA</b>	At forefront of developing eco-efficient products, such as fuel cells for notebook PC batteries.	<b>HSBC</b>	Lending guidelines for forestry, freshwater, and chemical sectors factor in social, ecological risks.
<b>DELL</b>	Among the first U.S. PC makers to take hardware back from consumers and recycle it for free.	<b>ING</b>	Weighs sustainability in project finance. Helps developing nations improve financial institutions.
HEALTH CARE		HOUSEHOLD DURABLES	
<b>FRESENIUS MEDICAL CARE</b>	Discloses costs of its patient treatment in terms of energy and water use and waste generated.	<b>PHILIPS ELECTRONICS</b>	Top innovator of energy-saving appliances, lighting, and medical gear and goods for developing world.
<b>IMS HEALTH</b>	Places unusual emphasis on environmental issues in its global health consulting work.	<b>SONY</b>	Is ahead on green issues and ensuring quality, safety, and labor standards of global suppliers.
<b>QUEST DIAGNOSTICS</b>	Has diversity program promoting businesses owned by minorities, women, and veterans.	<b>MATSUSHITA ELECTRIC</b>	State-of-the-art green products. Eliminated 96% of the most toxic substances in its global operations.
OIL & GAS		PHARMACEUTICALS	
<b>ROYAL DUTCH SHELL</b>	Since Nigerian human rights woes in '90s, leads in community relations. Invests in wind and solar.	<b>ROCHE</b>	Committed to improving access to medicine in poor nations. Invests in drug research for Third World.
<b>NORSK HYDRO</b>	Cut greenhouse gas emissions 32% since 1990. Strong in assessing social, environmental impact.	<b>NOVO NORDISK</b>	Sells diabetes drugs in poor nations at deep discounts. Helps upgrade clinics, public education.
<b>SUNCOR ENERGY</b>	Ties with aboriginals help it deal with social and ecological issues in Canada's far north.	<b>GLAXO-SMITHKLINE</b>	One of few pharmas to devote R&D to malaria and T.B. First to offer AIDS drugs at cost.
RETAIL		UTILITIES	
<b>MARKS &amp; SPENCER</b>	Buys local product to cut transit costs and fuel use. Good wages and benefits help retain staff.	<b>FPL</b>	Largest U.S. solar generator. Has 40% of wind-power capacity. Strong shareholder relations.
<b>HOME RETAIL GROUP</b>	High overall corporate responsibility standards have led to strong consumer and staff loyalty.	<b>IBERDROLA</b>	Since Scottish Power takeover, renewable energy accounts for 17% of capacity. Wants that to grow.
<b>AEON</b>	Environmental accounting has saved \$5.6 million. Good employee policies in China and SE Asia.	<b>SCOTTISH &amp; SOUTHERN</b>	Aggressively discloses environmental risk, including air pollution and climate change.

**SOME LAGGARDS** Concentrating on the bottom line makes companies postpone important changes. It can also lead to poor public relations. Here are a few companies that received lower marks:

**ALLEGHENY ENERGY** Reliance on coal poses risk if U.S. passes greenhouse gas rules.

**BANK OF CHINA** Hit by recent corruption cases, but bank says it has since improved governance.

**GENERAL MOTORS** Trails Toyota and Honda in fuel-efficient cars. High reliance on SUVs.

**NINTENDO** Slow to grapple with how emerging environmental, safety, and labor standards will affect offshore suppliers.

**PETROCHINA** Lacks transparent environmental programs. Safety record includes fatal gas leak and benzene plant explosion.

**SURGUTNEFTEGAZ** Plagued by shareholder suits. Lacks public environmental policy.

**WAL-MART** The mass retailer has made great strides with ambitious green initiatives, but the company's image remains tarnished by criticisms of labor and offshore sourcing practices.

Data: Innovest Strategic Value Advisors

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# Ethics and Social Responsibility

- Employment and business practices
  - ❑ Difficult to establish a universal foundation of employment practices
  - ❑ Difficult dilemmas in deciding working conditions, expected consecutive work hours, and labor regulations.
  - ❑ Offshoring due to differences in labor costs

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# Ethics and Social Responsibility

## ■ Human Rights

- ❑ Currently no universally adopted standard
- ❑ A great deal of subjectivity and culturally biased viewpoints exist
- ❑ Some basic rights: life, freedom from slavery or torture, freedom of opinion and expression, general ambiance of nondiscriminatory practices

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# Ethics and Social Responsibility

## ■ Corruption

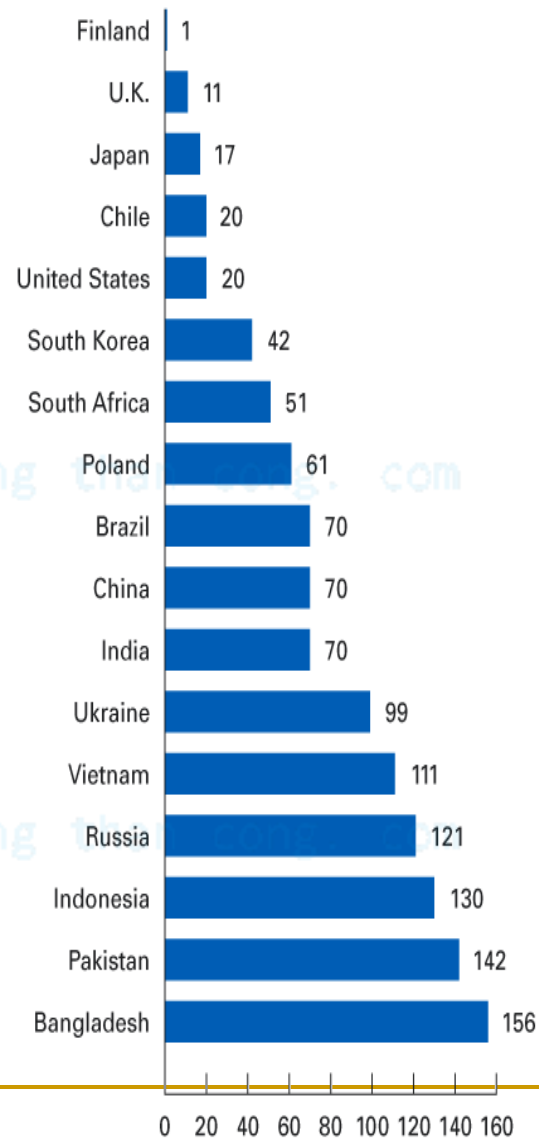
- ❑ Government corruption pervasive element in international business environment
- ❑ Scandals in Russia, China, Pakistan, Lesotho, South Africa, Costa Rica, Egypt and elsewhere

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# Corruption Index: Least and Most Corrupt Countries

Figure 3-1

Corruption Index:  
Ranking of Least  
Corrupt to Most



Source: Adapted from Transparency International, CPI Table, [www.transparency.org/news\\_room/in\\_focus/2006/cpi\\_2006\\_1/cpi\\_table](http://www.transparency.org/news_room/in_focus/2006/cpi_2006_1/cpi_table).

# Corporate Social Responsibility (CSR) and Sustainability

- **CSR:** Action of a firm to benefit society beyond the requirements of the law and direct interests of the firm

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- **Sustainability:** Development that meets humanity's needs without harming future generations

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# NGOs, MNCs and Ethical Balance

- **NGO:** Non-governmental organization; private, not-for-profit organization that seeks to serve society's interests by focusing on social, political, and economic issues such as poverty, social justice, education, health and the environment.
- NGOs have urged MNCs to be more responsive to range of social needs in developing countries
- NGOs have grown in number, power, influence
- NGO activism has caused major changes in corporate behavior
- NGO leaders are the most trusted of eight leadership categories (see slide to follow)

# NGOs

- NGOs in U.S. and globally
  - Save the Children
  - Oxfam
  - CARE
  - World Wildlife Fund
  - Conservation International

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# Rise of Civil Society and NGOs

- Major criticisms
  - ❑ Exploitation of low-wage workers
  - ❑ Environmental abuses
  - ❑ Intolerable workplace standards
- Response to social obligations:
  - ❑ Agreements and codes of conduct
  - ❑ Maintenance of standards in domestic and global operations
  - ❑ Cooperation with NGOs regarding certain social issues
- Corporations receiving heavy criticism
  - ❑ Nike
  - ❑ Levi's
  - ❑ Chiquita

# Trust in Leaders



**Figure 3-2**

**Trust in Leaders:  
Percentage Saying  
“A Lot” and “Some Trust”**

Source: From *Voice of the People Survey, 2003*. Reprinted with permission of Gallup International.

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# Ethics and Social Responsibility

## Around the World: CHINA

- Workers not well paid
- Often forced to work 12 hours a day, 7 days a week
- Piracy, counterfeiting, industrial spying
- Human rights violations
  - Use of prisoner and child labor

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# Ethics and Social Responsibility

## Around the World: JAPAN

- Political and business scandals:
  - ❑ Japanese cabinet member have accepted questionable payments and favors
  - ❑ Japanese banking system has failed to take corrective actions when dispersing loans
  - ❑ Some Japanese firms systematically concealed customer complaints

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# Ethics and Social Responsibility

## Around the World: JAPAN

- Equal opportunity issues
  - ❑ Refusal to hire women or promote them into management positions
  - ❑ Hostile work environment
  - ❑ Traditional role of females and female employees
  - ❑ Sexual harassment may not be considered a moral issue

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# Ethics and Social Responsibility

## Around the World: EUROPE

- Equal employment opportunity
  - Glass ceiling pervasive throughout the world
  - France, Germany, Great Britain have seen increase in number of women in management, but tend to represent only lower levels

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# Corporate Response to Social Obligations

- Agreements and codes of conduct committing MNCs to maintain certain standards
- Codes help offset real or perceived concern that companies move jobs to avoid higher labor or environmental standards in their home markets
- Contribute to raising of standard in developing world by exporting higher standard to local firms in these countries

# Principles of Global Compact

- Human Rights
- Labor
- Environment
- Anti-Corruption



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# Principles of Global Compact

**Table 3–1**  
**Principles of the Global Compact**

## **Human Rights**

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Principle 1: Support and respect the protection of international human rights within their sphere of influence.

Principle 2: Make sure their own corporations are not complicit in human rights abuses.

## **Labor**

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Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: The elimination of all forms of forced and compulsory labor.

Principle 5: The effective abolition of child labor.

Principle 6: The elimination of discrimination with respect to employment and occupation.

## **Environment**

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Principle 7: Support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

## **Anticorruption**

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Principle 10: Business should work against all forms of corruption, including extortion and bribery.

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*Source:* Reprinted by permission of the United Nations Global Compact.

# Corporate Governance

- The System by which business corporations are directed and controlled:
  - Distribution of rights and responsibilities
  - Stakeholder management
  - Spells out rules and procedures
  - Makes decisions
    - Objective setting
    - Means of attaining objectives
    - Monitors performance

# Corporate Governance

- Many continental European countries are “insider” systems
  - Ownership more concentrated
  - Shares owned by holding companies, families or banks
- Rules and regulations differ among countries and regions
  - U.K. and U.S. systems are “outsider” systems
    - Dispersed ownership of equity
    - Large number of outside investors

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# Global Initiatives to Increase Accountability and Limit Corruption

- Foreign Corrupt Practices Act
- International Assistance Partnerships

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# Corruption and Foreign Corrupt Practices Act (FCPA)

- Some evidence that discontinuing bribes does not reduce sales of the firm's products or services in that country
- Recent formal agreement by many industrialized nations to outlaw the practice of bribing foreign government officials
- Illegal for U.S. firms and their managers to attempt to influence foreign officials through personal payments or political contributions, including such tactics as
  - "Entertainment" expenses
  - "Consulting" fees

# Corruption and Foreign Corrupt Practices Act

- Recent formal agreement by many industrialized nations to outlaw the practice of bribing foreign government officials
  - Organization for Economic Cooperation and Development
  - 29 members plus several other countries have signed on
  - Fails to outlaw most payments to political party leaders
  - Does indicate growing support for anti-bribery initiatives

# International Assistance

- Governments and corporations increase collaboration to provide assistance to communities and locales through global partnerships
- Best “investments”
  - ❑ Controlling and preventing AIDS
  - ❑ Fighting malnutrition
  - ❑ Reducing subsidies and trade restrictions
  - ❑ Controlling malaria

# International Assistance

**Table 3–2  
Copenhagen Consensus Development Priorities**

<b>Project Rating</b>		<b>Challenge</b>	<b>Opportunity</b>
<b>Very good</b>	1	Diseases	Control of HIV/AIDS
	2	Malnutrition	Providing micro nutrients
	3	Subsidies and trade	Trade liberalization
	4	Diseases	Control of malaria
<b>Good</b>	5	Malnutrition	Development of new agricultural technologies
	6	Sanitation and water	Small-scale water technology for livelihoods
	7	Sanitation and water	Community-managed water supply and sanitation
	8	Sanitation and water	Research on water productivity in food production
	9	Government	Lowering the cost of starting a new business
<b>Fair</b>	10	Migration	Lowering barriers to migration for skilled workers
	11	Malnutrition	Improving infant and child nutrition
	12	Malnutrition	Reducing the prevalence of low birth weight
	13	Diseases	Scaled-up basic health services
<b>Bad</b>	14	Migration	Guest-worker programs for the unskilled
	15	Climate	“Optimal” carbon tax
	16	Climate	The Kyoto protocol
	17	Climate	Value-at-risk carbon tax

*Source:* Copenhagen Consensus.

*Note:* Some of the proposals were not ranked.

# Millennium Development Goals

## Table 3–3

### The U.N. Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger.

Goal 2: Achieve universal primary education.

Goal 3: Promote gender equality and empower women.

Goal 4: Reduce child mortality.

Goal 5: Improve maternal health.

Goal 6: Combat HIV/AIDS, malaria, and other diseases.

Goal 7: Ensure environmental sustainability.

Goal 8: Develop a Global Partnership for Development.

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*Source:* [www.unmillenniumproject.org](http://www.unmillenniumproject.org).

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# Review and Discuss

1. What lessons can U.S. multi-nationals learn from the political and bribery scandals in Japan that can be of value to them in doing business in this country? Discuss two.
2. How do ethical practices differ in the United States, and in European countries such as France and Germany? What implications does your answer have for U.S. multi-nationals operating in Europe?
3. Why are MNCs getting involved in corporate social responsibility? Are they displaying a sense of social responsibility, or is this merely a matter of good business? Defend your answer.