Business Ethics and Social Responsibility for the Multinational Corporation (MNC)

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Business ethics and social responsibility in multinational corporations (MNCs) are more and more challenging, because they are operated in culturally varied environments, which vary from host to host country of each foreign subsidiary and are often very different from the MNC headquarters’ (HQs) home country culture. A host country’s societal and cultural factors, combined with local economic conditions and business practices, play major roles in determining the preferred business ethics and social responsibility in each foreign subsidiary. An MNC’s global HQ should partner with all foreign subsidiaries to determine the global corporate business ethics, social responsibility core, general values, and objectives. Further, each foreign subsidiary should develop in partnership with the HQ, the customized details of its business ethics, social responsibility objectives, goals, strategies, and specific programs for its host country’s environment.

Keywords: international business ethics, international social responsibility, management of foreign subsidiaries

Introduction

Multinational corporations (MNCs) benefit the world in that they bring the state of the art products and services that are essentially standardized yet subtly customized to the local needs. MNCs not only transfer technology and raise the standard of living, but they also spread wealth and employment in underdeveloped regions, emerging market, and fast-developing regions of the world.

MNCs also respond to host country’s needs and expectations for business ethics and social responsibility. Larger MNCs, with greater resources and greater global influence, should consider their unique role of benefiting the world not only through the delivery of their products and services, but also through providing their philanthropic activities as they pay back to the society.

A large MNC, with its enactment of many countries as its relevant task environments, has to deal with varied cultural and operational environments. This situation poses a complex challenge in formulating effective business ethics, social responsibility objectives, goals, and strategies at the corporate and subsidiary levels.

An MNC may pursue: (1) a monolith and standardized global approach to suit its social responsibility; (2) multiple and customized approaches to suit each country’s needs; and (3) a combination of the two approaches. An MNC should decide the extent of the combination.

It may develop core values and philosophy of its global social responsibility and provide flexibility for customizing its detailed activities to suit each country’s unique needs.

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The important business ethics and social responsibility ideas have been the topics of study for the philosophically-minded scholars who go beyond the economics-oriented business studies that make a corporation to optimize its potential and resource utilization process. Business ethics, social responsibility, and community involvement topics, although often inter-related, are treated in business and economics body of knowledge that reveals a divergent set of views. The body of knowledge and research reveals discussions of a wide spectrum of topics that focus mainly on corporate profit orientation, such as what is espoused by the Milton Friedman’s (or, often referred to as the University of Chicago) school of thought. It is a thought that argues for a total and single-minded pursuit of profit maximization for the stockholders as the sole objective to many activities of various philanthropic blends as argued by Senser (2007). It shifts from almost no major involvement in local community or broad global or regional developmental and civic-minded activities, to a major focus on them. It shifts from a strong emphasis on a single-minded economic focus of business with a very clear and strong profit motive, to members; and from chasing economic objective and strategy without any civic and social considerations, to a major effort for these activities from the very inception of the objective formulation as in professor Perez Lopez’s forming “a solid base for that ethics, which starts from the decision-making process”, as quoted in the study by Argandona (2008, p. 436).

These different ideas and viewpoints are the subject of inquiry of many scholars specializing in business ethics and social responsibility. Their ideas and viewpoints are divers, and they are reflected by many different types of studies, such as those in this sample of several studies which are cited as follows.


It is understandable that many prominent and big firms generally have more social responsibility activities and focus than smaller firms do, because they have greater resources and are more conspicuous in the public eye. In-built in the strategic management process is the requirement of a significant commitment to such social responsibility values because of the need for formal core values of ethical conduct and also the need for a more heightened social responsibility consciousness. In this context, the author may review a range of viewpoints and arguments from many scholars. There are varied, even divergent views from them. Some scholars emphasize the need for a fundamentally ethical philosophy and a conviction about an ethical core in a firm’s strategic management process as prerequisites to truly effective social responsibility programs. Many scholars have expressed this viewpoint, as shown in the several studies that have been cited here (Argandona, 2008; Armstrong, 2003; Asgary & Mitschow, 2002; Brady et al., 2002; Chaudhri, 2007; Donaldson, 2003; Epstein, 1987; Jenkins, 2010; Kapp & Anderson, 2010; WorldatWork, 2010; Schwab, 2008). These studies provide varied ideas on social responsibility, and more importantly, they raise issues and discussions about the correct
extent to which an organization should commit its resources to extra or above the industry or regional norm for social responsibility activities. These studies also assume that the firm has a reasonably sound economic performance.

Another approach, which is quite popular, is the stakeholders approach. This is the central concept for developing social responsibility objectives and activities, as cited by several studies (Bartkowiak, 2006; Cottrill, 1990; Freeman & Gilbert, 1988; Gil Estallo, Giner de la Furnte, & Griful-Miquela, 2007; Jenkins, 2010; Kapp & Anderson, 2010; Tkac, 2006).

Yet, others emphasize a strategic approach to social responsibility and state that the strategic management must start with a strong moral, ethical, and socially responsible core. These are expressed in these studies that are cited here (Epstien, 1987; Freeman & Gilbert, 1988; Kraft & Hage, 1990; Senser, 2007; Svensen, Neset, & Ericksen, 2007). The focus on the long-term and the continuous relationship between the organization and the environment is the heart of the whole social responsibility process.

Scholars have often been against the Milton Friedman’s approach, which regards firm’s activities for social responsibility. His approach is that firms should single-mindedly serve the interests of shareholders, not just any stakeholder, since other stakeholders, workers, suppliers, customers, channel distribution members, local communities, and other collaborating firms are not central to the core interests as the abovementioned shareholders are. Friedman believed that there would be no place in a firm for social responsibility or community-related contributory activities, unless they improved shareholder value (Grant, 1991; Stoffman, 1991). According to the Milton Friedman’s school of thought, a business organization is an economic and financial entity that should aggressively and tenaciously pursue an economic motive within the scope of law. The economic motive should be the exclusive approach so long as the firm adheres to the letter and spirit of the law.

Many exponents of international relations and international business cite the cultural gap and the social division among countries as major challenges for international activities and business organizations, such as MNCs, have formulated worldwide worthwhile socially responsive and other community-related contributory objectives and programs. These ideas are cited in studies by several scholars (Asgary & Mitschow, 2002; K. Brouthers, & L. Brouthers, 2001; Giacalone, Paul, & Jurkiewicz, 2005; Gold & Dienhart, 2007; Jenkins, 2010; Saunders & Thorne, 2002; Snider, 2003; WorldatWork, 2010; Wozniak, 1997). Studies in this regard address business and community-based and non-profit organizations. The posited opinion in this context is that an organization’s administration and leadership process are culture-bounded activities and that social responsibility is a culture-bounded activity too.

The host country’s task environment and cultural setting are strong factors in formulating the details of a foreign subsidiary’s social responsibility goals and programs, which have exhibited the specific nature of its host country’s cultural, ecological, and operating environments (Bartkowiak, 2006; Dias, 2007; Ekanola, 2006; Gil Estalo et al., 2007; Hutchins, Walck, Sterk, & Campbell, 2007; Heidron, 2006; Jenkins, 2010; Lodge & Wilson, 2007; WorldatWork, 2010). The scholars have raised issues of the role of international business, namely, playing a proactive role in the host country, in as much that local and foreign firms and foreign subsidiaries can be the agents of social and economic change (Aguilera, Rupp, Williams, & Ganapathi, 2007; R. Jenkins, 2005; W. Jenkins, 2010; Spence, 2007). In this context, smaller-sized companies, which are led by an owner-manager paradigm, pursue not so much of profit maximization, “but rather by the challenge of their chosen profession and independence” (Spence, 2007, p. 535).
The diverse and different opinions of the many scholars make it necessary to develop a cohesive and well-synthesized scheme for social responsibility. A moral core, which is driven by a strong and ethical conscience as the basis for strategic management, is a central argument in this context. A well-thriving and prosperous company may find it fitting to pay back to the society, because it is the society that allows it to exist within its midst by patronizing its products and services. The integration of the two polarized approaches will benefit the development of a pragmatic organizational perspective on business ethics and social responsibility.

A broader way to visualize the very idea of social responsibility is to believe that “The firm considered and responded to issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along the traditional economic gains for which the firm sought” (Spence, 2007, p. 537).

For much bigger conglomerate organizations, having important and long-term policy decisions will certainly have significant and long-term directional changes in the courses of the organization regarding the social responsibility issue, as in the case of General Electric’s “ecomagination”, which has four major initiatives that are specific to General Electric and are expected to have an important, measurable, and ecological impact (Tarnowski, 2007).

Those MNCs in the business of extracting natural resources, such as in the industries of mining and petroleum, usually have environment-friendly practices, as well as ethically and socially responsible methods, as indicated by some studies (Hutchins et al., 2007; Kapp & Anderson, 2010; Jenkins, 2010; O’Riordan, 2006; Pickard, 2007; WorldatWork, 2010). It is not only in the industrialized countries that “going greener” is a strong commitment as in the vehicular industry in the US (Wagner, 2007). It is also increasingly important for organizations in the recently growing and the newer, emerging, and developing economies (Henderson & Sethi, 2007).

Like the Maslow’s hierarchy of need, there appears to be a hierarchy in corporate social responsibility. Archie Carroll’s (1991) hierarchy of corporate social responsibility is presented:

- Level 4: Philanthropic responsibilities;
- Level 3: Ethical responsibilities;
- Level 2: Legal responsibilities;
- Level 1: Economic responsibilities.

A for-profit business corporation should firstly display an on-going, financially adequate, and profitable activity for it to embark upon or continue with social responsibility, corporate charitable programs, or community developmental programs.

Helpful corporate activities for the disadvantaged segments of the society and other activities may include philanthropic programs that are part of the organization’s paying back to the society. Continuous social responsibility is viable only if a financial and economic growth is extant. Corporate progress for an on-going organization could take place by increasing sales revenues, financial stability, and market share, by improving financial ratios, continuous product innovation, augmentation progress in total quality management, continuous quality improvement, by improving and expanding product range and mix that are congruent with the contemporary market trends and expectations, by better targeted market segment performance, better product’s use and application, their enlargement, improved organizational development efforts, a focus on career enhancements of its employees, and finally, by a real progress in improving competitiveness. Organizational growth and improved profits are interrelated, so are profits and sustainable social responsibility. It is only with
a solid progress toward growth and prosperity that a corporation can meaningfully provide substantial and continuous programs for the society. If the corporation is hardly pressed in terms of its corporate financial performance, then it would have to re-think its commitment to these corporate charitable and social programs.

To set the parameters of social responsibility, Schwab (2008) argued that because innovation usually facilitated the rapid transferring and proliferation of information, goods, and services, globalization prompted a greater need for MNCs “to exceed imposed standards and set goals for sustainable development” (Schwab, 2008, p.110).

In this context, Schwab suggested the concept of corporate engagement. It has five core concepts: (1) corporate governance; (2) corporate philanthropy; (3) corporate social responsibility; (4) corporate social entrepreneurship; and (5) global corporate citizenship. Thus, the five core concepts can be the basis for providing the scope and the nature of an organization’s business and social responsibility engagement.

Further, Logsdon and Wood (2005) also made the argument that the notion of global corporate citizenship was important. It had three attributes: orientation, implementation, and accountability. They suggested that the process for pursuing global corporate citizenship required: a set of core values throughout the organization; an analysis and experimentation to deal with major problem cases; and a systematic organizational learning process to communicate the results of implementation and experiments which are internally within the organization and also externally to its stakeholders.

Similarly, international organizations provide maintenance and performance standards (e.g., International Standardization Organization [ISO] 14001 and ISO 260), which in effect have set similar standards to meet ecological standards as a basis to do business globally. These approaches were argued in several studies (Boiral, 2007; Castka & Balzarova, 2008; Duggan, 2007; Husthins et al., 2007; Kapp & Anderson, 2010; WorldatWork, 2010; Tarnowski, 2007; Wiist, 2006). In this context, Castka and Balzarova (2008) provided 10 good propositions for an organization’s supply chain to meet ISO 2600 standards.

A for-profit business organization must be efficient, and it must create a good profit before it can pursue continuous and serious corporate charitable giving or socially responsible programs. Firstly, a for-profit business corporation must demonstrate to its stockholders and the society in general that it is an efficient economic and producing unit, by providing worthwhile products and services to the customers, otherwise, the society will eventually subscribe less and less of its outputs. It must also win the society’s trust through its legal and ethical conduct. It may display increasing social responsibility, if its fortunes allow. It must firstly be financially and economically sound, and afterwards it can pursue socially responsibility activities. It may be said that a firm is an economic organ in a society, which must justify its economic existence and social acceptance. In general, the objectives of an established business corporation should go beyond the profit maximization. This is well-articulated in a landmark article by Freeman and Gilbert (1988, p. 89), “Firms are social entities, so they should play a role in social issues of today. They should take seriously their ‘obligations to society’ and actively fulfill them”.

For an international company, the argument needs to be pressed a step further. An MNC operates in multiple countries’ (cultural and operating) environments. Each country has its own unique culture and operating infrastructure. Social responsibility expectations of each country are rooted in the country’s culture. An MNC must tailor-make its detailed social responsibility programs for each country’s unique expectations and needs. The local foreign subsidiary unit must interact with its host country’s environments and determine
the appropriate details for an effective social responsibility program. The foreign unit should also integrate many expectations of different stakeholders of the foreign unit.

Stakeholder’s approach is an effective vehicle for developing appropriate social responsibility programs to suit the host country’s unique culture. Epstein (1987) argued that the stakeholder’s approach served as a cause-effect relationship between an organization’s social responsibility and the effect that it would have upon its stakeholders. His views on social responsibility activities were those “relating primarily to achieve outcomes from organizational decisions which concern specific issues or problems that have beneficial rather than adverse effects upon pertinent stakeholders” (p. 104). Also, a sound integration of stakeholder’s expectations as a central concept for effective foreign unit social responsibility endeavors was well-espoused by Freeman and Liedtka (1991), as they expressed the following statement:

If we come to see corporations as connected sets of stakeholders, all of whom are “in it together”, then we are able to live in a way that doesn’t carve up the world into “economic, social, political, and technological” parts. (p. 97)

Many MNC’s foreign subsidiary units provide additional challenges, as they try to deal with the wide cultural differences of their host countries. The significant cultural division among the headquarters (HQs), the foreign subsidiary unit, and the multiple host country’s environments poses complexities, for which a firm with a domestic orientation does not have much experience.

An example explaining that a firm would deal with the additional challenge which was placed upon an organization and operated in a multiple and diverse environment was given by Wozniak (1997) when he stated:

Business behavior emanates from the complex set of factors that define a culture. These factors include how we perceive the environment, time, power structures, space, and the emphasis we place on relationship or tasks, on individuals or the collective; how we think and communicate. Confucianism focuses on collective order and hierarchy. The social corporatism of Sweden stresses social class and equality of results. (p. 1)

Hofstede’s cultural dimensions (uncertainty avoidance, power distance, masculinity, individualism, and Confucianism) are commonly used in analysis of culture of host countries. These are useful factors, because they are “regarded as the most extensive examination of cross-national values in a managerial context” (K. Brouthers & L. Brouthers, 2001, p. 188). These dimensions can provide a descriptive picture of a country’s society.

At the MNC’s HQ level, the business ethics and social responsibility perspectives may be broad, general, universal, and overall. At the foreign subsidiary unit’s level, the perspective may be one of a relative kind, or, of a contingent kind that is based upon the host country’s environment (Argandona, 2008; Bartkowiak, 2006; Kapp & Anderson, 2010; WorldatWork, 2010). The basic core values of business ethics and social responsibility must be shared throughout the organization through the Internet, as demonstrated in a study by Chaudhri (2007). The core values provide a set of guidelines for developing responsive and proactive social responsibility plans for the host country’s environment.

Some Inferences

Some more important trends, which are the implicit assumptions of this paper, are delineated here. A foreign subsidiary unit’s social responsibility must fit with both the MNC’s overall picture and its host country’s social scene. Social responsibility, together with ethical issues, must be an integral part of strategic management of MNC.
At the MNC unit of analyses, social responsibility may be broadly and generally described. At the MNC’s HQ level, the global overview of preferred social responsibility values, perspectives, and (overall) goals rather than detailed programs should be pursued, unless a few detailed programs are of universal nature and are applicable to most country’s settings.

The stakeholder’s approach would be useful. It may be applied at both units of analysis: (1) MNC’s HQ; and (2) each foreign subsidiary unit. At the MNC’s HQ level, the stakeholders may be viewed as global, i.e., who view the world as a whole. In the case of each foreign subsidiary unit, it may be evolved from the host country’s setting. Each foreign subsidiary unit should have a local focus, but it must simultaneously reflect the overall, global, and core social responsibility preferences of MNC. Fine-tuning the social responsibility goals and programs to the host country’s cultural and economic conditions would make the social responsibility programs more effective.

An MNC’s HQ will initially regard its home country culture for its business ethics and social responsibility foundation. Thereafter, it may enlarge the scope of business ethics and social responsibility as it expands into different regions of the world. As it regionally expands, it enacts newer cultural and operational environments.

At the heart of universal core values are the values that are common to the world’s great religions (Kapp & Anderson, 2010; Logsdon & Wood, 2005). These generic and fundamental core values may include such universal ideals as: Treat others well; all of us are God’s children; be kind (do not cause harm); be ecologically responsible; good deeds bring good rewards; stand for truth; follow the spirit (not only the word) of the law; practice moderation; be kind to the poor; be hospitable to others; share your wealth; knowingly do not do wrong or cause harm; and then live in harmony and unity (Logsdon & Wood, 2005).

These religious and morality-based values may be considered to be universal. They are good candidates for MNCs’ organization-wide values. In an important part, they may become a basis for MNC’s core global values, upon which may be based on its basic mission, primary purpose, vision, and corporate strategy.

For the foreign subsidiaries, the quintessential parts, which are followed by an adaptation to local host country’s cultural and other environments, their basic mission vision, objectives, goals, business ethics, and social responsibility goals may also be derived from the MNC’s basic mission, vision, and objectives at the corporate level. The foreign subsidiaries may formulate its detailed business ethics and social responsibility objectives, goals, and programs in the context of the local and social business situation.

As it continues to expand internationally, it is worthwhile for the MNC to proactively transcend its initial home country’s perspectives to those of other countries. The assimilation of additional and diverse perspectives of culture is a prerequisite for the MNC’s HQs to effectively help its foreign subsidiary units to pursue local, cultural, and societal analysis for developing the goals and programs for the host country, and still be within the broad scope and spirit of the global social responsibility values of the global organization. This approach would lead to a better understanding between the MNC HQs and the foreign subsidiary unit executives. This approach would also facilitate the formulation of effective social responsibility strategies for the foreign units of host country. The core values are fundamental and probably universal to all its operations worldwide. They become the guiding principles for each of its foreign subsidiaries to apply in their host country’s context, as they develop the specific social responsibility programs.

There are good reasons for an MNC to be ethical in its international business conduct. An unethical business conduct would badly impair the reputation of the MNC and its key people at the HQ, the foreign
subsidiary, and its home country. Unethical practices can cause significant damage and can be costly, in terms of damage to public relations. Ethical business practice by an MNC is not only a morally good practice. It is also good for business in the long run. Ethical practice fosters good will in the environment that an MNC has enacted and will be enacted in the future. An MNC’s stakeholders at the HQ level and at each foreign subsidiary level can be adversely affected by an MNC’s unethical business practices.

**Recommendations for Specific Actions**

The following are the specific recommendations for an MNC to pursue ethical and socially responsible practices:

1. Developing ethical and social responsibility values, objectives, and goals that are morally sound. This approach would prevent fraud, bribery, misrepresentation, and deception, and would prevent unnecessary damage control expenses of legal and public relations, customer and supplier disappointments, and stakeholder rejections of MNC policies in the future. Top management at the HQ and foreign subsidiary levels should aggressively pursue repeated counseling and reinforcements to their subordinates with specific dos and don’ts as applicable to the MNC and its industry. A code of ethics should be composed and explained to all employees, and they should be required to endorse these codes;

2. Executives at all levels should work closely with their subordinates and teams to closely scrutinize any potential aberrations of ethical and socially responsible conduct. Frequent discussions which regard mistakes by other forms may bring to surface these issues and sensitize all employees about the temptations and lapses of unethical business conduct;

3. Creating an ethical and socially responsible culture in the organization; pursuing strategies that would lead to the sustainability of socially and ecologically responsible practices. These may have highly short-term costs, but may have overall long-term benefits in both monetary and non-monetary terms, e.g., those practices that would lead to an improvement in image as an ecologically sound firm, high integrity, and image of impeccable ethics in all business and employee dealings;

4. Higher levels of management executives should personally scrutinize any newer practices for any potential ethical and social responsibility lapses, oversights, and fallouts. Such systematic screening process would warn any personnel at a lower level of avoiding any temptation. It would caution people in the MNC. In time, they would then tend to be very careful in composing newer methods and practices. They would not yield to temptation, personal greed, or an over-eagerness for showing superior performance at the cost of good and ethical business and administrative practices;

5. When dealing with their lower-level personnel, higher-level executives should take every opportunity to pursue expressed ethical and socially responsible methods and to explain the underlying rationale and justification very articulately and explicitly to the people in the team;

6. Repeatedly displaying and communicating the MNCs’ very strong commitment and steadfast adherence to the basic principles and values of business ethics and social responsibility that the MNC espouses. The top management should not penalize subordinates who may lower their performance when they follow ethical practices, when contrasted with their competitors, as in the case of losing sales to a competitor who follows unscrupulous sales practices;

7. Recruiting directors, top executives, managers, and executives who have impeccable ethical and socially responsibility standards, as demonstrated by their past track records;
(8) Formulating corporate objectives, goals, and strategies that are consistent with the highest standards of business ethics and social responsibility;

(9) Setting MNC and foreign subsidiaries’ performance expectations or targets so that they are realistic and feasible, given the axiomatic necessity of adherence to the MNC’s ethical and social responsibility standards;

(10) Making all people familiar with governmental rules and regulations in the industry and regions in which the MNC and its foreign subsidiaries operate;

(11) Transferring the best practices from one part of the MNC to all the other parts and adapting them for the new application as needed;

(12) Collaborating with local environments and governmental authorities to improve understanding of the expectations of the local authorities;

(13) Collaborating with local communities on local projects to improve the environment and living conditions for the less advantaged people;

(14) Developing and improving practices within the MNC regarding industry-related standards, various ISO standards, the UN Global Compact, and the US Foreign Corrupt Practices Act;

(15) Encouraging and publicly rewarding employees volunteering their time and expertise for community service.

**Conclusions**

Unethical business practices are bad in themselves, and further, this would result in a large number of costs and difficulties for an MNC. Some of these costs and difficulties are: governmental restrictions, fines, penalties, lawsuits, legal fees, public relations expenditures, lowered MNC’s stock price, lost sales because of negative customer and market perceptions, lowered debt rating that causes greater difficulty in getting good terms for loans, employee’s lowered morale and higher turnover, employee’s lowered commitment to the MNC which results in lowered employee output, and negative MNC’s image and perception caused by greater difficulty in attracting and recruiting higher quality and ethical people.

Ethical conduct and socially responsible MNC’s performance are good business practices in the long run. They foster good relations with its stakeholders and the general public. They improve the MNC image and reputation, which have no price but untold benefits to the MNC in the continuous long run.

Creating a strong culture within all levels of the MNC for an unyielding ethical and socially responsible business practices would obviate the need for a close, frequent, and strong supervision of subordinates for checking potential lapses of ethical and socially responsible practices. A strong culture must be subjected to periodic review and scrutiny for future improvements, which are in tune with social changes in a manner that is consistent with the MNC’s core values and fundamental principles of business ethics and social responsibility.

Rewarding subordinates publicly and generously for their exceptional ethical and socially responsible practices would set very good examples for all employees. It will further strengthen the ethical and socially responsible culture. The MNC must communicate with all stakeholders on issues that would have great impacts on the ethical and socially responsibility dimensions.

Close coordination and communication with the MNC’s stakeholders are important practices for continuously realigning the MNCs’ stakeholders’ strategic environments at both the HQ level and the foreign subsidiaries level. The partnership of the MNC with its stakeholders is an important one. It would keep the MNC attune to the changes in the respective environments of the stakeholders.
References


