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**Social Responsibility and Managerial Ethics  
A Focus on MNCs**

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## The 2nd Peter Drucker's Challenge

### Social Responsibility and Managerial Ethics -A Focus on MNCs

#### 1.1 Introductory Remarks

Managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, interest groups, legal and governmental concerns, and media coverage. It is less clear where to draw the line between socially responsible behavior and the corporation's other concerns, or between the conflicting expectations of ethical behavior among different countries.

This essay on social responsibility and ethics set externally to international managers and thus in a sense outside their realm of control, is the expectation of appropriate behavior. This behavior is measured both in terms of social responsibility of the organization as such, as well as ethical behavior of individual managers. In addition to these expectations there is an onus on organizations and managers alike to manage the relationship with the host country.

Having noted this, I shall now move on to the main issues this essay has set out to address in the following manner:

#### 1.2 Global Interdependence

Global interdependence is a compelling dimension of the global business environment, creating demands on international managers to take a positive stance on issues of:

- social responsibility and ethical behaviour;
- economic development in host countries; and
- ecological protection around the world.

Multinational corporations continue to be the centre of debate regarding the benefits versus harm wrought by their operations around the world. Because of their size and economic power, the MNC will be held to a higher standard of performance. Balancing the interests of the varied stakeholders is an important consideration of top managers.

Issues of social responsibility continue to be those of:

- poverty and lack of equal opportunity around the world;
- the environment ;
- consumer concern;and
- employees' safety and welfare.

## Social Responsibility and Ethics of MNCs

Multinational corporations constitute a powerful presence in the world economy, and often have more leadership and capacity to induce change than many governments. Many argue that MNCs should play a proactive role in handling worldwide social and economic problems and should be concerned with host country welfare.

### 1.2 Social Responsibility- International

The concept of international social responsibility is the expectation that MNCs concern themselves about the social and the economic effects of their decisions regarding activities in other countries.

#### Level of Social Responsibility

The opinions on the level of social responsibility that a domestic firm should demonstrate range from two extremes:



#### Pro-active and re-active Social Responsibility

Pro-active responsibility is where an organization accepts responsibilities beyond its legal requirements and attempts to establish a positive association with its interaction with the environment within which it functions. Re-active responsibilities are evident when an organization has breached the legal requirements and is brought to book (held accountable). In this situation the organization only accepts responsibility for its behavior and impact after it has been held accountable and all escape options have been exhausted.

Carroll presents a three-dimensional model of corporate social responsibility (Carroll, 1979). The model presents the interaction between a company's philosophy of responsiveness, social responsibility categories, and the social issues involved.

#### Consensus

With the growing awareness of the interdependence of the world's socioeconomic systems, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior around the world. Some think a consensus is forming due to the development of a global corporate culture — an integration of the business environments in which firms currently operate.

### **Moral Universalism and Ethnocentrism**

Although it is very difficult to implement a generalized code of morality and ethics in individual countries, such guidelines do provide a basis of judgment regarding specific situations. Bowie used the term moral universalism to describe a moral standard that could be accepted by all cultures (Bowie, 1987). Under the ethical approach of ethnocentrism, a company would apply the morality used in its own home country. A company subscribing to ethical relativism would take the local approach to morality appropriate in whatever country it is operating.

### **MNC Responsibility toward Human Rights**

What constitutes “human rights” is clouded by the perceptions and priorities of people in different countries. While the United States (US) often takes the lead in the charge against what they consider human rights violations around the world, other countries point to the homelessness and high crime statistics in the U.S.

The best chance to gain some ground on human rights around the world would be for large MNCs and governments to take a unified stance. A number of large, image-conscious companies have established corporate codes of conduct for their buyers, suppliers and contractors, and have instituted strict procedures for auditing their imports. Reebok (a multinational company manufacturing running shoes) ([http://www.reebok.com/static/global/initiatives/rights/pdf/ReebokHR\\_OurCommitment.pdf](http://www.reebok.com/static/global/initiatives/rights/pdf/ReebokHR_OurCommitment.pdf)) has audited all of its suppliers in Asia. Levi Strauss (a multinational company manufacturing denim clothing, in particular jeans) (<http://www.levistrauss.com/responsibility>) announced this corporate policy: “We should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights.” (Zachary, 1994)

### **Codes of Conduct**

A considerable number of organizations have developed their own codes of conduct. Some have gone further to group together with others around the world to establish standards to improve the quality of life for workers around the world. Companies such as Avon (cosmetics), Sainsbury Plc. (a food retailer in the United Kingdom (UK)), Toys ‘R Us (toy retailer) and Otto Versand (clothing retailer) have joined with the Council on Economic Priorities (CEP) to establish SA8000 (Social Accountability 8000, on the lines of the manufacturing quality standard ISO9000) (<http://www.sa-intl.org/>). Their proposed global labor standards would be monitored by outside organizations to certify if plants are meeting those standards, among which are the following:

- Do not use child or forced labour.
- Provide a safe working environment.
- Respect workers’ rights to unionise.
- Do not regularly require more than 48-hour work weeks.
- Pay wages sufficient to meet workers’ basic needs.

There are four international codes of conduct that provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by the:

- International Chamber of Commerce.
- Organisation for Economic Cooperation and Development.
- International Labor Organisation.
- United Nations Commission on Transnational Corporations.

Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics (any group, with some common characteristic with which an organization needs to communicate), and people (Getz, 1990).

Taking all this into account, I shall proceed to explain the meaning of ethics and the role of managers for good management, the different views of ethics, & the factors that affect ethical behavior, followed by ethical issues in global management.

### 1.3 Ethics and the Role Managers

Ethics deals with human action. It can be considered as philosophy, philosophical thinking about morality, moral problems and moral judgements. Ethics can also be defined as a study of what is good or right for human beings, what goals people ought to pursue and what actions they ought to perform. We are guided by our sense of morality based on a combination of beliefs and values, stemming from individual and societal ideologies along with the various eastern and western religious cultures.

All managers need to be aware that while they may be employed by an organization as its representative or decision maker, they bring with them entities; people, not organizations, make decisions. Organizations exist within society and as such should be bound by the expectations and moral codes of that society and contribute to its betterment as well as furthering its own interests.

### 1.4 The Different Views of Ethics

- **Utilitarianism** – in this view you approach an ethical problem using the question, “Which course of action will do the most good and the least harm?” This view is based on the ideas of Jeremy Bentham and John Stuart Mill (18th and 19th Century). Actions are considered good or bad depending on the extent to which they make the greatest number of people happy. So suffering of a few is OK as long as it maximises the overall good.
- **Rights view** – in this view you ask the question, “Which alternative best serves other’s rights?” This view is based on the ideas of Thomas Jefferson’s Declaration of Independence (USA) and John Locke and Immanuel Kant. Actions here are judged according to whether people’s rights have been served and may be seen in terms of keeping within the Law. (e.g. shareholders' rights are written in Law).

- **Theory of justice view** – in this view you ask the question, “What plan can I live with which is consistent with the basic values and commitments of the community in which I live?” This view is based on the ideas of John Rawls and Alasdair MacIntyre (late 20th century). Actions are judged according to the enforcement of widely-held views of justice and virtue. (e.g. protecting the needy, looking after the community).
- **Integrative social contracts theory** – in this view you would ask the question, “What course of action is possible in the world as it is now?” This view is based on the ideas of Machiavelli in which actions are judged according to pragmatic consideration and practicalities. Decisions are made according to the current situation and with reference to what ought to be done. So you would be both pragmatic and idealistic as the need arose.

### 1.5 Factors that Affect Ethical Behavior

- **Stage of moral development** (Kohlberg) – Stage one – pre-conventional, rule following. Stage two – Conventional, living up to expectations of others. Stage three – Principled, following self-chosen path and respecting others.
- **Individual characteristics** – values, knowing right from wrong. Ego strength, the power of your convictions. Locus of control, an internal locus of control means that you believe you control your own destiny, an external locus of control means you believe you have no control.
- **Structural factors** – an organisation’s structure affects people’s ethical behaviour (e.g. clear ethical statements, policies and regulations).
- **Organisational culture** – this is made up of the values and norms shared by people working for an organisation. A strong culture will exert more influence than a weak one.
- **Issue intensity** – this refers to how important an issue is. Something not so important (e.g. making private local calls) has different ethical implications to something very large (e.g. embezzling \$1 million). The act is the same (theft) but the intensity of the issue is different.

### 1.6 Ethical Issues in Global Management

#### *Ethical Problems*

Globalization has multiplied the ethical problems facing organizations. While domestic American companies may use general guidelines for appropriate behavior based on federal law and the value structure rooted in the nation’s Judeo-Christian heritage, such guidelines are not consistently applicable overseas.

#### *International Business Ethics*

International business ethics refers to the business conduct or morals of MNCs in their relationships with all individuals and entities. Such behavior for MNCs is based largely on the cultural value system and the generally accepted ways of doing business in each

## Social Responsibility and Ethics of MNCs

country or society. Those norms are based on broadly accepted guidelines in religion, philosophy, the professions, and the legal system.

### *Rules and Values*

The American approach is to treat everyone the same by making moral judgments based on general rules. Managers in Japan and Europe tend to make such decisions based on shared values, social ties and their perception of obligations.

### *Variation of Standards*

The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of standards of ethical behavior around the world. U.S. companies are often caught between being placed at a disadvantage in doing business in some countries by refusing to go along with accepted practices, or being subject to criticism at home for going along with them to get the job done.

### *Ethical Limits*

Whereas the **upper limits** of codes of ethics for international activities are set at any given time by the individual standards of certain leading companies, it is more difficult to set the **lower limits** of those standards. Laczniak and Naor explain: The laws of economically developed countries generally define the lowest common denominator of acceptable behavior for operations in those domestic markets. In an underdeveloped country or a developing country, it would be the actual degree of enforcement of the law that would, in practice, determine the lower limit of permissible behavior. (Laczniak and Naor, 1985)

### **Questionable Payments**

A specific ethical issue for managers in the international arena is that of questionable payments. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs and ethics in various countries - whether the payments in question are political payments, extortion, bribes, sales commissions or "grease money" (payments to expedite routine transactions).

### *Making the Right Decision*

What is the right decision for a manager operating abroad when faced with questionable circumstances of doing business?

Richard Rhodes discusses the ethical issues he has faced with his business, Rhodes Architectural Stone, Inc., as he conducts business in Africa, China, India and Indonesia. He explains that his business has had to clearly establish "black and white" (<http://www.entreworld.com/Content/EntreByline.cfm?ColumnID=445>) operating

principles, and the company will not pay bribes. This sometimes requires walking away from a deal. Rhodes offers the following advice when pondering an ethical situation:

- Who am I?
- How do I feel about this situation?
- Can I sleep at night if I engage in this behaviour?

### **Ethics and transparency**

The standards of performance include ethical behavior. You should therefore exhibit the highest standards of ethical behavior, avoid dual standards (for example, tolerating behavior in one country that would not be tolerated in another), and clearly communicate expectations about how your personnel should behave—that is, clearly and consistently communicate your values. *These actions are, of course, integral to being a good leader, and these leadership responsibilities are likely to become more rather than less important in the future. What all this, in turn, suggests to us is that the question of the legitimacy of management and the ground for its power—a code of responsibility and a focus of accountability.*

### **1.7 Managing Interdependence**

#### ***Implications***

Because multinational firms (or other organizations such as the Red Cross) represent global interdependency, their managers at all levels must recognize that what they do, in the aggregate, has long-term implications for the socioeconomic interdependence of nations. Simply to describe ethical issues as part of the general environment does not stress the fact that managers need to control their activities at all levels for the long-term benefit of all concerned.

The powerful long-term effects of MNC activities should be considered as an area for managerial planning and control, not as haphazard side effects of business.

#### ***Managing Subsidiary-Host Country Interdependence***

When managing interdependence, international managers must go beyond general issues of social responsibility and deal with specific concerns of the MNC subsidiary/host country relationship.

Exhibit 2-6 (Deresky page 49) summarizes the benefits and costs to host countries of MNCs in three areas: Capital market effects, technology and production effects, and employment effects.



### ***Going green & Managing Ecological Interdependence***

Going green refers to the recognition by a business that there is a close link between its activities and decisions and the impact they have on the environment, and the effects this will have on the future performance of the business. Many companies have now recognized that going green means a healthier “bottom line”, better customer relations, increased sales, an assured long-term future and very little possibility of legal or government action against them.

It is clear that MNCs must take the lead in dealing with ecological interdependence by integrating those factors with strategic planning. At the least MNC managers must deal with the increasing scarcity of natural resources in the next few decades by:

- Looking for alternate raw materials;
- Developing new methods of recycling or disposing of used materials;and
- Expanding the use of by-products.

### **1.8 How Managers can Shape the Future- Managing Paradoxes**

As a good manager, you will be dealing with a complex and faster-changing world. You will need to bring intellect and passion to bear on your work. While you must strategize, you must also inspire; while you must implement, you must also be visionary; while you must be creative, you must also be ethical; while you must simplify, you must also cope with great complexity. These are the challenges that will test your mettle. While these requirements may seem paradoxical, they constitute the gauntlet (challenge) that has been cast in front of you. A fulfilling and exciting opportunity awaits those who can meet the challenge.

### **1.9 Concluding Remarks**

Ethics concerns itself with human conduct or activity that is done knowingly or consciously. Ethics does have applicability to organizational life. Organizations do not make decisions, individuals acting in the interests of the organizations do. It is their responsibility to ensure that they understand the consequences of their actions and business decisions, not just in terms of the impact on the organization but also on society.

No company today, regardless of size, is isolated from the impact of globalization. It will be your reality: prepare for it, relish it, and seize the opportunities it will present.

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