WEB CHAPTER

Social Responsibility and Ethics in International Business

LEARNING OUTCOME

After reading this chapter, you should be able to:

- Assess the nature of social responsibility
- Learn to debate for and against CSR
- Recognise the principles of CSR
- Understand the limits to CSR
- Kow how to manage CSR
- Analyse business ethics, its sources and importance
- Identify the role of social responsibility and ethics in international business
- Categorise the national differences in ethics and social responsibility
- Identify the code of conduct for an MNC
- Analyse the decision flowchart for an MNC

OPENING CASE

THE ONE-MINUTE MORALIST

Once there was a bright young businessman who was looking for an ethical manager.

He wanted to work for one. He wanted to become one.

His search had taken him over many years to the four corners of the business world.

He visited small businesses and large corporations.

He spoke with used-car dealers, chief executive officers of *Fortune 500* companies, management-science professors, vice presidents for strategic planning, and one-minute managers.

He visited every kind of office, big and small, carpeted and tiled, some with breathtaking views, some without any view at all.

He heard a full spectrum of ethical views.

But he wasn't pleased with what he heard.

On the one hand, virtually everyone he met seemed frank, friendly, and courteous, adamant about honesty even to the point of moral indignation. People were respectful of one another, concerned about their employees, and loyal to their own superiors. They paid their debts and resented the lawsuits in which they considered themselves the innocent party, victims of misunderstanding and anti-business sentiment. They complained about regulation and the implied distrust of their integrity. They proudly asserted that they were producing quality products or services that truly did satisfy consumer demand, making the world a better—even if only a very slightly better—place in which to live.

Their superiors were proud of their trustworthiness.

Their subordinated were confident of their fairness.

But, on the other hand, when they were asked for their views about ethics and business, what all of these people had to say was startling, to say the least.

The answers varied only slightly.

'You have to understand that it's a jungle out there!'

'Listen, I'm a survivor.'

'If I don't do it, the other guy will.'

"You've got to be realistic in this business."

'Profits—that's what it's all about. You do whatever you have to.'

And when our bright young businessman brought up the topic of business ethics, he invariably heard:

'There aren't any ethics in business'; or….

'Business Ethics—the shortest book in the world.'

The latter usually with a grin.

At the same time, however, many executives shook their head sadly and privately expressed the wish that it were otherwise.

He met a few unscrupulous businessmen who admitted cutting corners and making a profit and were proud of it.

He met others who had cut corners and were caught. "This is a cutthroat world," they insisted, often contradicting this immediately by complaining about the injustice of them being singled out.

He met several self-proclaimed ethical managers who insisted that everyone who worked for them—and, of course, they themselves—had to be perfectly virtuous, to the letter of the Moral Law.

These managers' subordinates generally despised them, and their departments were rife with resentment. More than one employee complained about autocratic management and dogmatic ineffectiveness; a philosophical assistant manager pointed out the difference between morality and moralising. Almost everyone pointed out that the principles that were so precisely printed out in both memos and plaques on their desks were usually impossible to apply to any real ethical issues. Their primary effect was, rather, to cast a grey shadow of suspected hypocrisy over everyday business life.

Our bright young businessman was discouraged. He could not understand why the conscientious, sociable, civilised, thoroughly ethical flesh-and-blood managers he met in the office talked, in their off moments, like the most cynical prophets of corporate Darwinism.

The flesh-and-blood managers complained that the public did not appreciate them.

The cynical prophets joked, 'There are no ethics in business,' and then wondered why people didn't trust them.

Our bright young businessman was perplexed: Could there be ethics in the real business world? He wondered. Were compromises and cuting corners inevitable? He asked. Did the untrammeled pursuit of virtue have to be either hypocrisy or damaging to the bottom line, as he now feared?

And then he met the One-Minute Moralist.

The bright young businessman presented the One-Minute Moralist with his dilemma.

The One-Minute Moralist answered him without hesitation.

'You don't understand ethics,' he said. 'And you don't understand business either.

'You set up an absurd dichotomy between ethical absolutism and the so-called real world, and then you wonder how ethics can possibly be at home in business, and whether business can function without cutting corners and making uneasy compromises. But cutting corners presumes that there are sharply delineated corners. And talking so uneasily of compromise (that is, compromising one's moral principles rather than compromising with other people) seems to assume that ethics consists of engraved principles rather than relations between people who (more or less) share values and interests.

'But ethics isn't a set of absolute principles, divorced from and imposed on everyday life. Ethics is a way of life, a seemingly delicate, but in fact very strong, tissue of endless adjustments and compromises. It is the awareness that one is an intrinsic part of a social order in which the interests of others and one's own interests are inevitably intertwined. And what is business, you should ask, if not precisely that awareness of what other people want and need, and how you yourself can prosper by providing it? Businesses, great and small, prosper because they respond to people, and fail when they do not respond. To talk about being "totally ethical" and about "uneasy compromises" is to misunderstand ethics. Ethics is the art of mutually agreeable tentative compromise. Insisting on absolute principles is, if I may be ironic, unethical.

'Business, on the other hand, has nothing to do with jungles, survivalism, and Darwin, whatever the mechanisms of the market may be. The "profit motive" is an offensive fabrication by people who were out to attack business, which has curiously—and self destructively—been adopted by business people themselves. Business isn't a single minded pursuit of profits; it is an ethos, a way of life. It is a way of life that is at its very foundation ethical. What is more central to business—any kind of business—than taking contracts seriously, paying one's debts, and coming to mutual agreements about what is a fair exchange? Ethics isn't superimposed on business. Business is itself an ethics, defined by ethics, made possible by ethics. Two hundred years ago, Benjamin Franklin insisted that business is the pursuit of virtue. If you find yourself wondering or doubting whether virtue is possible in business, I suggest you reexamine your ideas about business.

'If you want to talk about hypocrisy, by the way, it is not just to be found in such bloated phrases as "the untrammeled pursuit of virtue". There is just as much hypocrisy in the macho, mock-heroic insistence that business is a tough-minded, amoral struggle for survival and profits rather than a staid and established ethical enterprise.

'Now you've had your Minute. When you think about business and ethics, don't worry about whether one is possible along with the other. In America, at least, nothing is more ethical than good business.'

THE opening case aptly sums up the state of business ethics today. The corporate world is full of bright young businessmen and one-minute-moralists.

This chapter examines ethical issues in their proper perspective. Before that, we propose to discuss the related topic—corporate social responsibility.

SOCIAL RESPONSIBILITY

Social responsibility, also known as corporate social responsibility (CSR), is understood as the obligation of decision-makers to take actions that protect and improve the welfare of society as a whole along with their own interests. Every decision the business person makes and every action he or she contemplates has social implications. Be it deciding on diversification, expansion, opening of a new branch, closure of an existing branch, or replacement of men by machines, the society is affected in one way or the other. Even routine matters like overtime and night shifts, sub-contracting, outsourcing, and laying off employees due to fall in demand have a social impact. Whether the issue is significant or not, the manager should keep his or her social obligation in mind before contemplating any action.

What is significant is that CSR makes a corporation accountable for any of its actions that affect people, their communities, and their environment.

What is equally significant is the fact that CSR extends beyond its regular activities that are carried out in a lawful manner. The social actions which a firm undertakes in the name of its CSR occur "beyond the factory gate" and will benefit the society in general. Successful companies need a healthy society. Education, health care, and equal opportunity are essential to a productive workforce. Safe products and working conditions attract customers and minimise the costs of accidents. Efficient utilisation of land, water, energy and other natural resources make businesses more productive. Ultimately, a healthy society creates additional demand for business, as more human needs are met and aspirations grow. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and short-lived.

A healthy society needs successful corporations. No social programme can rival the business when it comes to creating jobs, wealth, and innovation that improve standards of living and social conditions.

How does CSR differ from charity? Charity or philanthropy refers to an idea that a wealthy individual should be bountiful to the weak and poor in the society. Poor feeding and donations to temple construction constitute charity. Charity is undertaken to redeem **Karma,** a wealthy person has inherited because of misdeeds in his or her previous birth, or to accumulate **Punya** for the next birth. Charities are generally occasional, cheque-book oriented, and their end use is not monitored.

Unlike philanthropy, CSR is inspired not by self interest but the motive is the interest of the organisation. 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 systematised, are periodic and the end uses are subject to social audit.

THE CSR DEBATE

There are arguments for and against business's social responsibility. While there are Friedman, Peter Drucker and Dhirubhai Ambani who do not subscribe to CSR there are more number of people—business, government and academic—who advocate social actions. Knowledge on the debate is useful for any individual to make better judgement of social actions.

Arguments for CSR

There are many arguments in support of socially responsive actions. The more important of them are explained below (see Fig. 1).

1. Changed Public Expectations of Business One of the most potent arguments for social responsibility is that public expectations from business have changed. It is reasoned that the institution of business exists only because it satisfies the valuable needs of society. Society gives business its charter to exist, and the charter can be amended or revoked at any time that the business fails to live up to society's needs and give the society what it wants.

Arguments for CSR	Arguments against CSR
• Changed public expectations	• Profit maximisation
• Better environment for business	• Society has to pay the cost
• Balance power with responsibility	• Lack of social skills
• Business has resources	• Business has power
• Prevention is better	• Social overhead cost
• Moral responsibility	• Lack of accountability
• Globalisation	• Lack of broad support
• Better employees	• Experts' views
• A way to resolve conflict	• Scalability of the concept
• DNA of an organisation	

Fig. 1 *The Pros and Cons of CSR*

2. Better Environment for Business Another argument favouring social responsibility is that it creates a better environment for business. This concept rationalises that a better society produces environmental conditions more favourable for business operations. The firm that is most responsive to the improvement of community quality of life will, as a result, has a better community in which to conduct its business. Labour recruiting will be easier, and labour will be of a higher quality. Turnover and absenteeism will be reduced.

As a result of social improvements crime will decrease, with the consequence that less money will be spent to protect property, and less taxes have to be paid to support police forces. The arguments can be extended in all directions to show that a better society produces a better environment for business.

3. Balance of Responsibility with Power Another argument for social responsibility is that the business's responsibility should be more related to its power. It is reasoned that businesses has vast amounts of social power. They do affect the economy, minorities, and other social problems. In turn, an equal amount of social responsibility is required to match their social power. If each institution is to perform its social role in an orderly relationship with other institutions, then responsibility must be accepted whenever there is power. Any other arrangement invites irresponsible behaviour.

4. Business has the Resources Another argument for social responsibility is that business has a vast pool of resources in terms of men, talents, functional expertise, and deep pockets. Probably, business is without peers in respect of the resources it possesses. With these resources at its command, business is in a better position to work for social goals.

5. Prevention is Better than Cure Another argument is that prevention is better than cure. If business delays dealing with social problems now, it may find itself constantly occupied with putting out social fires so that it has no time to accomplish its goal of producing goods and services. Since these social problems must be dealt with at some time, it is actually more economical to deal with them before they develop into serious social breakdowns that consume most of the management's time.

In India, CSR is mandated now. Every profitable company needs to spend atleast two percent of its profits on social activities.

6. Moral Responsibility It is said that the acceptance of corporate social responsibility is morally the correct position. This notion suggests that our modern industrial society faces many serious social problems brought on, to a large extent, by MNCs. The corporations therefore have a moral responsibility to help solve or ameliorate these problems. It is this moral obligation that made Toyota recall 9.3 million vehicles since 2004 from the US and Japan. In July 2007, the CEO of Toyota Kaesnaki Wataneble even deeply bowed before public in apology. A corollary to this notion is that because business firms control so many of the resources in an economy, they should devote some of these resources to the overall betterment of society.

There is no gainsaying the fact that criticism of business is far-reaching. The criticism is evidenced by protests at global meetings—the Seattle meeting of the WTO in 1999, for example—as well as the actions targeting individual firms. In 2002, the accounting and governance in scandals associated with Enron, WorldCom, and other major corporations have further contributed to this criticism.

Time it is for business to become more socially responsive and accountable.

7. Globalisation The recent globalisation of large corporations has led to firms increasingly operating in countries with very different, and generally, much lower standards of living than found in their respective home countries. More extensive media reach coupled with advances in information technology (e.g., NGO use of web sites) has allowed rapid and widespread exposure of alleged corporate abuses even in the remote parts of the globe. Both Shell (oil spills in Nigeria exposed on television documentaries) and Nike (exposure of sweatshop labour conditions in its subcontractor operations in developing countries) have learnt at their cost. Such revelations compel global firms to undertake social actions.

Failure to undertake social actions may dent the reputation and brand image of the firms. In fact, companies are likely to be penalised by consumers and other stakeholders for actions that are not considered socially responsible.

8. Better Employees As stated earlier, labour hiring becomes easier for a socially responsible firm. Employees prefer to work for more socially responsible firms. It is well-known that tobacco companies find it difficult hiring the best talent. This has become more widespread, particularly in tight labour markets as potential and current employees value the corporate social performance of their employers.

9. A Way to Resolve the Conflict Profit seeking firms often face a conflict between distributive and wealth creating activities. This conflict can often be resolved by invoking CSR. One way is to argue for the 'business case' for social responsibility, where the short-term costs of CSR are contrasted with its expected long-term benefits. In otherwords, if philanthropy is 'doing good to do good', the business case for CSR can be expressed as 'doing good to do well'.

10. Organisation's DNA DNA of an organisation tends to change, thanks to CSR. CSR awakens the power of inclusion and voluntarism among employees, which rub off on the way they approach the work. They build a higher sense of purpose, see themselves as agents of change, take charge of their tasks and environment, and in some cases even drop the possibility that has so far caused them to view a working day as two swipes and a lunch. At the same time, voluntarism connects the like-minded people. Jamsetji was passionate, warm, humble and driven. These qualities have been encoded in the DNA he passed down to his sons and successors as well.

Arguments Against Social Responsibility

Arguments against social responsive actions are equally strong. Some arguments are as follows:

1. Profit Maximisation The first and the most forceful argument disfavouring social responsibility is that business has profit maximisation as its main objective. Infact, the business is most socially responsible when it attends to its interests and leaves other activities to other institutions. Since business operates in a world of poverty and hunger, the economic efficiency of business is a matter of top priority and should be the sole mission of business. Business's function is economic, not social, and economic values should be the only criteria used to measure success. In this kind of system, managers are the agents of the stakeholders and all their decisions are controlled by their desire to maximise profits for the stakeholders while reasonably complying with law and social custom.

2. Society has to Pay the Cost Another argument is that the costs of social responsibility will be passed on to the society, which must bear them. Can the society afford these additional costs? That society has to bear the cost has counter argument. Often, consumers refuse to buy ethically produced products, in which case, the company has to bear the burden.

3. Lack of Social Skills Managers are best at managing matters relating to business. They are not equally good at solving social problems. Their outlook is primarily economic and their skills are the same. They really do not feel at home in social matters. If society is going to depend on someone to work with social problems, why choose a group which is so poorly qualified? Does society really want economic and technical people meddling in social affairs? Will they broaden their outlook and will their skills transfer? Can business really do the job? Is it better equipped than the government and other institutions?

4. Business has Enough Power That business has enormous power is a known fact. This power means that every action the business takes could affect the quality of human life—for individuals, for communities, and for the entire globe. This obligation is often referred to as the iron law of responsibility. The iron law of responsibility says that in the long run, those who do not use power in ways that society considers responsible will tend to lose it. With such technology as global computer networks, instantaneous commercial transactions, and exponentially increasing collection and storage of information drawing the world into a tighter global village, the entire planet has become a stakeholder for all companies. All societies are now affected by corporate activities. Adding social responsibility to business means making it much more powerful.

5. Social Overhead Cost Cost on social responsibility is considered to be a social cost, which will not immediately benefit the business. Why spend money on an object, the benefits of which will be realised only in the future? It is the heavy social overhead cost that is one of the reasons for the dismal performance of some of India's government undertakings.

6. Lack of Accountability Another point of view is that the business has no direct accountability to the people, therefore, it is unwise to give business responsibility for areas where they are not accountable. Accountability should always go with responsibility, and it is poor social control to allow any other kind of arrangement. Until the society can develop mechanisms that establish direct lines of social accountability from business to the public, business must stand clear of social activities and pursue only its goal of profit where it is directly accountable through the market system.

7. Lack of Broad Support Another point is that business involvement in social goals lacks support from all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment. Although many persons desire business to become more socially involved, others oppose the idea. There is lack of agreement among the general public, among intellectuals, in the government, and even among business people themselves.

8. Friedman and Levitt's Views The most cogent criticism has been voiced by the economist Milton Friedman. Friedman based his arguments on two principal contentions, one economic and one legal. From the economic perspective, he asserted that if managers spend corporate funds on projects not intended to maximise profits, the efficiency of the market mechanism will be undermined and resources will be misallocated within the economy. On the legal side, Friedman contended that because managers are legal agents of the stakeholders, their sole duty is to maximise the financial return to the stockholders. Hence, if they spend corporate funds for social purposes, they are essentially stealing from the stockholders. Moreover, Friedman suggested that if the stockholders want money spent on social causes, they are free to do so individually with their dividends.

Theodore Levitt argued against corporate social responsibility fearing that business values might come to dominate society. He posited that business as an institution, would become the present century equivalent of the medieval church—the all-embracing institution in society. He suggested that this would not be healthy for society.

9. Scalability of the Concept There appears to be no genuine concern for CSR from MNCs. Much of the CSR behaviour of MNCs has been characterised more by an avoidance of the stick than reaching for the carrot. The main problem with CSR is the scalability of the concept, given the limited size of the 'market for value'. If certain firms in some markets make significant improvements in labour and environmental standards in a way that is commercially viable, it does not mean that the same firms can do so in different markets, let alone that other firms would be able to do the same.

General Principles of CSR

CSR does not carry any norms or benchmarks. Each firm can have its own practices. Nevertheless, all the firms need to observe the following principles:

- ***Corporations are economic institutions*** Corporations are business entities and their primary business is business. Their success is measured in terms of turnover, profit and growth. However, corporations must incur short-run costs to correct social problems that threaten long-term sustainability. Solving social problems can be profitable.
- ***Firms must observe multiple bodies of law*** including (i) the civil and criminal laws of nations, (ii) corporate laws and chartering provisions, (iii) bodies of regulation that protect stakeholders and (iv) international laws. However, obeying the law is a minimum. Law is reactive and lags behind emerging norms and duties.
- ***Firms have a duty to correct social disruptions they engender*** Corporations should bear the cost of adverse social actions. A factory letting untreated effluents into lakes, rivers, and open space is disrupting the ecology. It is the duty of the industrial establishment to treat the effluents before letting them out, even if the treatment adds to the cost.
- ***Social responsibility varies with company characteristics*** such as size, industry, strategies, marketing techniques, locations, culture, stakeholder's demands and manager's value. An MNC's social actions cannot be the replication of a domestic firm and the latter cannot afford to do what an international business does.
- ***Legitimate needs of stakeholders are a must.*** A firm has several stakeholders (see Fig. 2).
  But four of them are fundamental for a business and hence must be satisfied. The primary stokeholders are: customers, shareholders, government and employees. At times, multiple interests of stakeholders clash in which case the firm needs to set priorities.
- ***Corporate behavior must comply with norms in an underlying social contract*** To understand this contract and how it changes; managers can study the direction of national policies and global norms as evidenced in legislation, regulations, treaties, trade agreements, declarations and public opinion.

Prominence of Social Responsibility

Counter arguments notwithstanding, social responsibility has come to stay. In its *1981 Statement of Corporate Responsibility,* the Business Round Table, a group of 200 leaders of large corporations, said that the pursuit of profit and assumption of social responsibility were not incompatible. Social responsibility has been one of the leading topics at the World Economic Forum (WEF) meetings in 2003. A report from the WEF observes that Corporate Competitiveness, Corporate Governance, and Corporate Citizenship, and the linkages among them, will play a crucial role in shaping the agenda for business leaders in the coming decade. Similarly, the World Business Council for Sustainable Development (WBCSD), a coalition of 120 international businesses, refers to the increasing call for firms to assume wider responsibilities in the social arena and claims that social responsibility is firmly on the global policy agenda. Among the many other organisations that are advocating greater attention to social responsibility are the Business for Social Responsibility (BSR) and Business in the Community (BITC).

The UK government has appointed a minister for social responsibility. The European Commission adopted a new strategy on social responsibility in July 2002 which reads thus: 'Many businesses have already recognised that social responsibility can be profitable and social actions have mushroomed. However, the EU can add value in atleast two key ways: by helping stakeholders to make social responsibility more transparent and more credible, and by showing that social responsibility is not just for multinationals—it can benefit smaller businesses too.

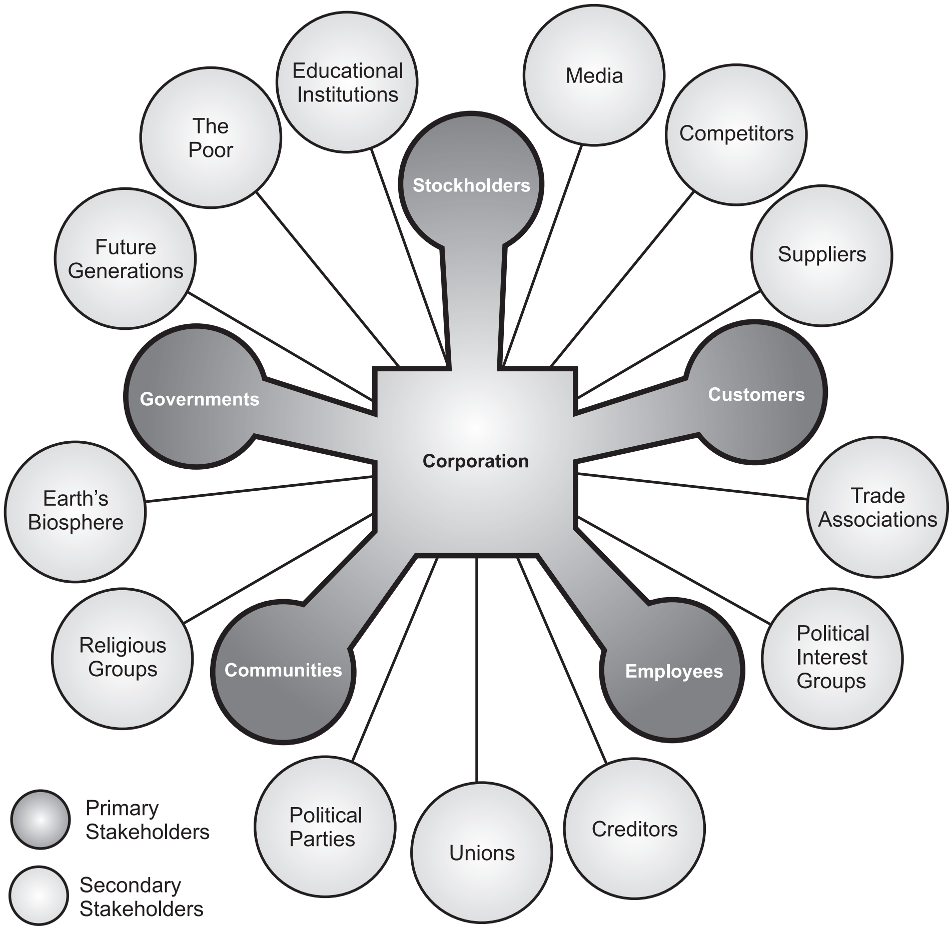


Fig. 2 *Stakeholders of a Firm*

(*Source*: George A. Stenier and John F. Stenier, *Business, Government and Society*, P.17)

Indian companies are not lagging behind in undertaking social actions. More details are provided latter in this chapter.

The Evolving Idea of Social Responsibility

The social responsibility idea evolved over a period of time. Some major stages in the long history are outlined here.

Business Social Responsibilities in Classical Economy Theory Throughout history, the classical economic theory has been the fundamental inspiration of people in business. In the classical economic view, a business is acting in a socially responsible fashion if it utilises resources as efficiently as possible to produce goods and services that society wants at prices consumers are willing to pay. The sole objective of business is to maximise profits while operating, of course, within the law. If this is done, say classical theorists, firms carry out their major responsibility.

This easily understood goal, derived from Adam Smith's *Wealth of Nations,* was never sought in business practice without reservations. Even Adam Smith voiced a surprising number of exceptions to his principles for social reasons. Throughout our history, business and business people have modified the strict profit maximisation principle to address social concerns—not much at first, but more and more over time. Nevertheless, today, this fundamental classical ideology remains entrenched.

The Eighteenth and Nineteenth Centuries In the colonial era, businesses were very small. Merchants practised thrift and frugality, which were dominant virtues then. But charity was a co-existing virtue and the owners of these small enterprises made contributions to schools, churches, and the poor.

In the early nineteenth century, companies were not effusive in their social concerns. Charitable contributions continued and grew over time as great fortunes in business were made. In most cases, wealthy entrepreneurs who gave their fortune to benefit society did so without any reference to the interests of the companies that were the fountainheads of their wealth.

For instance, John D Rockfeller, who accumulated a fortune in the second half of the nineteenth century, gave in his lifetime, more than $550 million and endowed the Rockfeller Foundation *"to promote the well-being of mankind throughout the world."* Andrew Carnegie gave away $350 million during his lifetime to social causes, built 2,811 public libraries, and gave 7,689 organs to American churches.

Changing Views of Social Responsibility in the Late Nineteenth and Early Twentieth Centuries During the latter part of the nineteenth century and into the twentieth, 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. Business leaders, many of whom by this time were not the original entrepreneurs, but owned only a small part of the stock of the companies they managed, felt freer to use corporate assets for social action. Business sought and found arguments to circumvent the *ultra vires* doctrine.

By the 1920s, three inter-related themes had emerged to justify broader business social responsibility. First, managers were *trustees,* that is, agents whose corporate roles put them in positions of power where they could enhance the welfare of not only stockholders, but others such 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. And 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. If individual managers served society by making a business economically successful; the aggregate business system would then work to eradicate social injustice, poverty, and other ills. 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.

These three inter-related ideas—trusteeship, balancing of interests, and service—were accepted by more and more business and opinion leaders. Although uplifting, they did not foster lavish contributions for social programmes, nor did they divert most individual managers from their laissezfaire attitudes and dominant emphasis on profits.

The Contemporary View of Social Responsibility In the last forty years, the concept of business social responsibility has continued to evolve and expand. Today, the efficient use of resources to make profit is still seen as the primary social responsibility of business. But added to economic performance are the ideals of previous eras about the meaning of social responsibility. 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.

The range of social programmes assumed by business has continuously expanded since the early years of the century. 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 centres 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 responsiblities have expanded is that accelerating industrial activity continuously changes society. In this situation, social responsibilities arise from the impacts of corporate actions on society. And we know more today about adverse consequences of some business activities. For example, early in this century, carcinogens in industrial effluents were unknown.

Corporate social programmes also arise from a second source—intractable social problem in the corporation's environment. *"A healthy business and a sick society are hardly compatible,"* noted Peter Drucker. Racism, wars, violent crime, epidemics such as AIDS and failing schools are societal pathologies a corporation has not caused but may benefit from mitigating.

Forces Pressuring Social Responsiveness

Not all firms are vulnerable to social group pressures and social regulations. Only some firms are pressured to undertake social responsibility actions. The forces that make firms become socially responsive are: government, community interests and demands, environmental concerns, competitive pressures, shareholder/investor pressures, philanthropic requests and initiatives and crises (see Fig. 3).

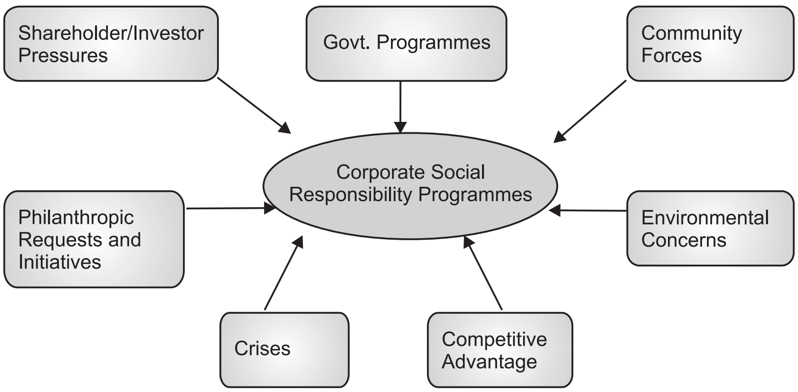


Fig. 3 *Pressures Leading to Social Responsibility*

Government Programmes Government (foreign and domestic) are the most significant forces pressuring firms for social actions. Most government pressures concern compliance with existing regulations. But governments are also major sources of potential rules, a fact which businesses need to take note of. Governments ask businesses to volunteer to help them solve their problems.

Governments mandating social actions are not new. In the 1300s, for example, Londoners who violated the city's smoke pollution ordinances were beheaded. In the US, laws that regulated the purity or quality of certain goods date from colonial times and state and federal efforts to control water pollution began in the late 1800s.

Foreign governments exert pressures on international businesses to abide by codes of conduct that they and international organisations have drafted. These codes expect businesses to respect human rights and social justice, pay fair wages, protect the environment, ensure safety and health of workers, improve worker living conditions, and behave ethically.

Community Interests and Demands Firms undertake many programmes that benefit society in general, not necessarily favouring stakeholders. Programmes can range widely, from helping rebuild disadvantaged sections to providing executive talents to run government undertakings.

MNCs from the US undertake a wide range of programmes in foreign countries, for example, creating scholarships for poor but deserving students from Korea, Malaysia, and Mexico, to pursue higher studies.

Environmental Concerns Environmental programmes of firms mainly result from standards established by government agencies. The Government of India, for example, enacted the Environment Protection Act 1986. The main objective of the Act is to protect and improve the environment and the prevention of hazards to human beings, other living creatures, plant and property. Pollution Control Boards set up under the provisions of the Act, have laid down norms that firms are expected to comply with.

Competitive Advantage Firms believe that by undertaking social actions, they can gain competitive edge. Realising this, corporations spend huge sums on social responsibility projects. US corporate spending on social responsibility shot up from $125 million in 1990 to an estimated $828 million in 2002. Additionally, spending on arts sponsorship amounted to $589 million in 2001.

Competitive advantage comprises four interdependent factors: factor conditions, demand conditions, related and support industries, and context for strategy and rivalry. (see Fig. 4)

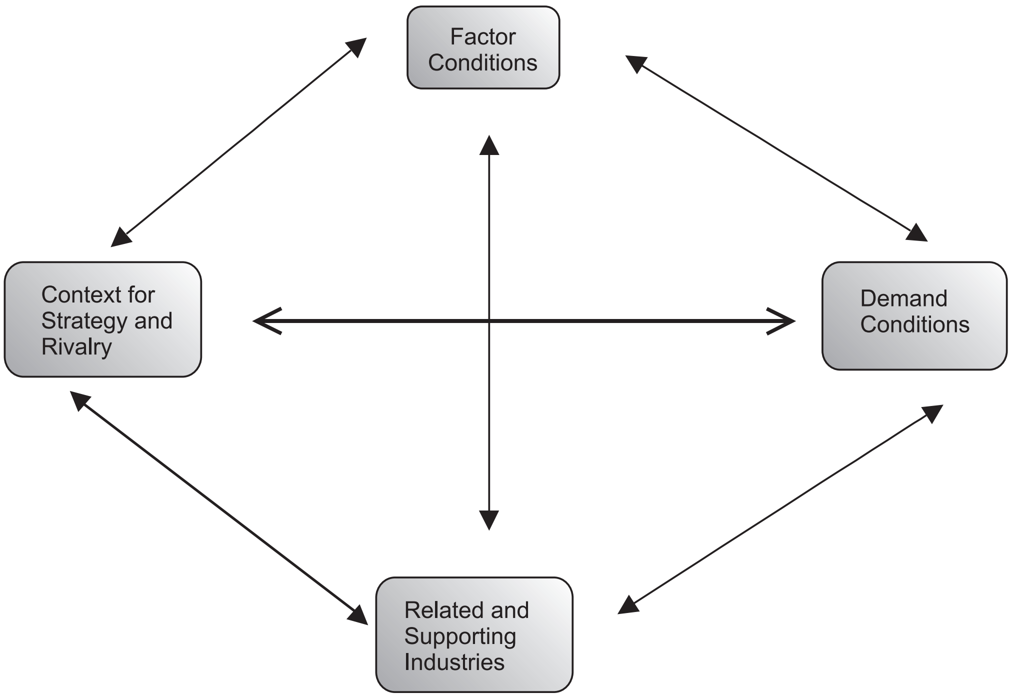


Fig. 4 *Four Elements of Competitive Strength*

(*Source*: Adapted from Michael E. Porter and Mark R. Kramer, p. 60)

Factor Conditions These include the availability of trained workers, high quality scientific and technological institutions, adequate physical infrastructure, transparent and efficient administrative processes, and natural resources. All these are the areas that social responsibility actions can influence.

Demand Conditions Demand conditions in a country or region include the size of the local market, the appropriateness of product standards, and the sophistication of local markets. Sophisticated local customers enhance the region's competitiveness by providing firms with insight into emerging customer needs and requisite pressure for innovation.

Social actions can influence both the size and quality of the local market. Apple Computer has donated computers to schools as a means of introducing its products to young people. This provides a clear social benefit to the schools while expanding Apple's potential market and turning students and teachers into more sophisticated purchasers.

Related and Supporting Industries Productivity of a firm can be greatly enhanced by the availability of high quality industries and services within easy reach. While outsourcing from distant suppliers is possible, it is not as efficient as using capable local suppliers of services, components, and machinery. Proximity enhances responsiveness, exchange of information, and innovation, in addition to lowering cost on transportation and inventory.

Social responsibility can foster the development of clusters and strengthening of supporting industries. American Express, for example, depends on travel-related spending for a large share of its credit card and travel agency revenue. Hence, in each of the countries in which it operates, it depends on the success of the travel clusters for improving the quality of tourism as well as attracting more travellers.

Context for Strategy and Rivalry The rules, incentives, and norms governing competition in a nation or region have a fundamental influence on productivity. Policies that encourage investment, protect intellectual property, open local markets to trade, break up or prevent the formation of cartels and monopolies, and reduce corruption make a location a more attractive place to do business in. Social responsibility can also have a strong influence on creating a more productive and transparent environment for competition. For example, 26 corporations from the US and 38 from other countries have joined to support Transparency International in its work to disclose and deter corruption around the world. By measuring and focusing public attention on corruption, the organisation helps create an environment that rewards fair competition and enhance productivity. This benefits local citizens while providing sponsoring companies improved access to markets.

Shareholders/Investors Pressures Large shareholders such as pension funds have long-range interests in the financial success of their investments. Some of them, obviously, exert pressure on firms to respond appropriately to community social interests. For example, shareholders of Pepsi Co launched a campaign to force the company to pull out of Myanmar because of the human rights violation of the military regime in that country. Pepsi Co did oblige the shareholders.

Philanthropic Requests and Initiatives As government funding for charitable causes has been declining, there is pressure on the corporate sector to fill the gap, to which, the firms have been responding positively.

Crises Firms that do not plan to deal with crises may suffer seriously. So crisis management is an area where proactive preparation may prevent a crisis or deal with it effectively if it comes.

Limits of Social Responsibility

The social responsibility actions of business are limited by cost, efficiency, relevance, and scope (see Fig. 5). As a result of these constraints, social responsibility actions fall short of public expectations.

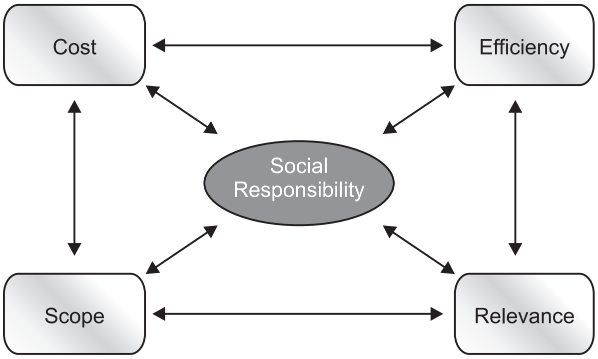


Fig. 5 *Limits of Social Responsibility*

Cost Social responsibility costs money. Whether a firm desires to adopt a village, donate to a college or school, built a hospital or undertake relief operations in times of calamity, it costs money (see Exhibit 1 for details) and the money could be used for welfare of employees for improving business. As worthy as some social actions may be, they do impose costs either on the business or on some groups in society, or both.

Exhibit 1

RELIEF OPERATIONS—THE COST

Corporate India, as expected, rose to the occasion once again when Gujarat was rocked by a devastating earthquake in January 2001. Be it the Tatas, Ambanis, Ruias, Lalbhais, Mehtas, Adanis, Amins, and of course, the IT industry, all of them pressed into service, their personal fixed-wing and rotor aircraft. Besides, jeeps, cranes, bulldozers, and ambulances were mobilised, doctors were pressed into service, hospitals were erected and relief camps were organised to provide food and drinking water to the affected.

Reliance Chairman Dhirubhai Ambani visited the affected areas and wrote to the Prime Minister expressing his grief. Stressing that his company's emotional bonds with Gujarat and its people are deep and abiding, he pledged Rs 15 crore to alleviate the suffering of the victims. His elder son Mukesh flew to Ahmedabad to personally handover a cheque for Rs 5 crore to Vajpayee. Besides, Reliance is assuming the relief and rehabilitation responsibilities for Anjar, 46 km from Bhuj, with a population that had once been 80,000. It was famous for its block-printing works, nutcrackers, scissors, and penknives. More than 3,000 Reliance staffers are working round the clock to rebuild Anjar.

Tata Group Chairman Ratan Tata addressed a letter to all his employees, urging them to support the victims by donating blood, food, medicines, or personal contributions. Individual Tata companies and the group as a whole are providing relief supplies and funds, he added. He also constituted a Tata Relief Committee to ensure that contributions reach only the deserving. The Tatas also pressed into service the Lifetime Express, a mobile hospital train that travels to rural areas to aid affected people.

The Essar Group, with an equally high presence in Gujarat, had its Chairman Shashi Ruia visit the stricken district town of Surendranagar, 282 km from Bhuj, and declare his company's resolve to adopt Bhachau. "We have large investments in Gujarat and deem it our duty to provide as much relief as possible during this crucial period," he notes. "We are also involved in relief work in Jamnagar's Nani Math village in Jodiya taluka, which has been completely devastated, and in Surendranagar we propose to build 1,500 houses to accommodate 7,500 people."

GNFC has installed VSATs at Bhuj and Anjar to provide communication facilities, Zydus Cadila has set up a 24-hour control room for free medical aid, the Hinduja Foundation has earmarked Rs 5 crore towards relief, and Blue Dart has kept one aircraft in Delhi as standby. LIC, which has claims of Rs 60 crore, has set up a special cell in Ahmedabad. It has also relaxed norms regarding death certificates by accepting death certificates issued by local authorities. L&T has committed Rs 5 crore towards reconstruction of houses. Air-India director Jitendar Bhargava says the airline has made its flights available for ferrying relief material from across the country and is also providing free air travel to people working for recognised relief organisations. "Our employees are donating a day's salary and the senior management is contributing Rs 5,000–10,000 each towards the PM's relief fund," he adds.

Efficiency The cost of social responsibility can reduce a firm's efficiency and affect its ability to compete in the market place. For example, if a firm is pressured by a local community to keep an outmoded, inefficient plant in operation because closing it would mean loss to local people, while its competitors close their old plants and move operations to other countries to take advantage of lower wages there, the business would not survive at all. The managers who place interests of local employees before the firm's survival, cannot face more efficient competitors.

Relevance According to several critics and as stated earlier, business has no obligations to society. The only obligation is to run the business successfully. Social responsibility is irrelevant. According to Friedman, for example, *"There is only and only one social responsibility of business: to use its resources and energy in activities designed to increase its profits so long as it stays within the rules of the game. (and) engages in open and free competition, without deception"*. Friedman contends that corporate officials are in no position to determine the relative urgency of social problems or the amount of organisational resources that should be committed to a given problem. He also insists that managers who devote corporate resources to pursue personal, and perhaps misguided notions of the social good, unfairly tax their own shareholders, employees, and customers. In short, business should produce goods and services efficiently and leave the solution of social problems to the concerned individuals and government agencies.

Often, social responsibility action is undertaken for wrong reasons rendering the exercise to irrelevance and ineffectiveness. Consider what has happened to Brij Mohon Khaitan, the tea giant. In the beginning of 1990s, Khaitan was under tremendous pressure from the Bodo Security Force (BSF). One of his executives was kidnapped and another was gunned down by the militants. BSF demanded hefty sums as a pre-condition for peace. It was at this time that Khaitan reflected and set up a school at a cost of Rs 22 crore. The school could not help Khaitan buy peace from the BSF.

Scope and Complexity Society's problems are too massive, and too deep-seated to be solved by even the most socially conscientious company or even by all companies acting together.

The problems such as environmental pollution—acid rain, ozone depletion, destruction of rain forests; health problems—AIDS, drug and tobacco use; racial discrimination; and the like defy solutions however conscientious one might be.

Each of these constraints influences and is influenced by other limits. All the constraints impact CSR and are influenced by corporate social responsibility.

Notwithstanding the constraints, Indian corporate is active in social actions. Indian companies have been donating considerable amounts towards social actions as Table 1 shows.

TABLE 1 Spending by Indian Corporate (Fiscal 2009)

	Rs. Cr
Reliance Industries	82.60
Jindal Steel	53.12
Jaiprakash Associates	33.24
Hindalco	28.87
Bharti Airtel	21.95
Ambuja Cement	21.48
Infosys Technologies	21.00
Mundra Port	17.67
Grasim Industries	15.81
Torrent Power	15.76

(*Source: The Economic Times,* Dec 2, 2009)

Contributions by Indian firms rose by 8 percent in 2009, despite worldwide economic downturn. As many as 760 companies donated ₹786 Cr. in 2009, up from Rs. 726 Cr. in 2008. The top 10 contributors are listed in Table 1. Reliance Industries tops the list of honour followed by Jindal, Jaiprakash, Hindalco and others. At the individual levels, Indian businessmen have donated considerable sums of money towards social actions. For example, Azim Premji donated ₹8500 cr, Ratan Tata $ 50 mn to set up Tata Hall at Harvard, Anand Mahindra donated $10 mn to set up Humanities Centre at Harvard, and Narayana Murthy gave $5 mn to Harvard to establish Murthy Classical Library of India. Anil Agarwal Foundation earmarked $1 bn to establish Vedanta University in Odisha.

As a percentage of GDP India gave 0.6.1 towards social actions in 2009. This compares favourably with other developing countries but unfavourably with developed nations. Figures for 2009 were–US 2.3%, UK 1.3%, Canada 1.2%, Brazil 0.31 and Chiina 0.1 of their respective GDPs.

MANAGING CSR

CSR management involves actions on several fronts such as leadership, mission statements, social issues, alignment of structure and social reporting.

Leadership Any activity needs leadership and CSR is no exception. Visionary leaders lay down a philosophy for business, and the philosophy can make the organisation a socially conscious one. Whether it is J.N. Tata, Azim Premji or Narayana Murthy, there are any number of illustrious leaders who have earned profit no doubt. But they earned profit not for its sake, but for the benefit of society. John D. Rockefeller and Andrew Carnegie earned but donated their fortunes for social good. Bill Gates, the founder of Microsoft has created the Bill and Melinda Gates Foundation and endowed it with a whopping $27 billion. The Foundation's primary mission is to develop and give out vaccines for a few diseases that are the major causes of death in developing countries.

As are the leaders, so are the subordinates. When the leaders are conscious about society's welfare, subordinates too orient themselves towards the social good.

Mission Statements A mission statement sets forth, with brevity, the basic purpose of an organisation or company. The best mission statement defines the business, differentiates it from competitors, explains relationships with stakeholders, and focuses energy on critical activities and goals. The mission statement is a powerful tool for expressing priorities. If social responsibility is central to the company's mission, that should be reflected in words. The mission statement of NTPC, a PSU, for example, is explicit about its social responsibility. Its mission statement: 'Develop and provide reliable power related products and services at competitive prices, integrating multiple energy resources with innovative and eco-friendly technologies and contribution to the society'. Mission statements, as the one cited here, help direct the resources of the company towards achieving social goals.

Social Issues At any given time, a large company will confront several social issues. Managers need to detect, classify, analyse, track and prioritise issues. There are cues in the environment which signal the emergence of issues. After having prioritised, issues that top the list should be addressed early. If not addressed soon, they are likely to cause severe damage to the business.

For JSW Steel Ltd, sustainability has emerged as a social issue. CII and ITC together offer sustainability awards every year. Sustainability goes beyond the traditional CSR. It has three components: economic, environment and social. Together these three are called the triple bottom line (see Fig. 6).

Listed below are a few examples of triple bottom line indicators. The full list of indicators is longer and more detailed.

Economic Performance Indicators
- Net sales.
- Total payroll and benefits by country.
- Taxes paid by country.
- Donations to communities.

Environmental Performance Indicators
- Total materials use, by type.
- Percentage of materials used that are wastes.
- Energy use.
- Changes to natural habitats resulting from operations.
- Polluting emission and effluents by type.
- Environmental impacts of principal products.

Social Performance Indicators
- Net employment creation.
- Percentage of unionised employees.
- Number of work-related injuries and fatalities.
- Evidence of consideration of human rights impacts.
- Composition of senior management using male/female ratio and other indicators of diversity.
- Number and types of breaches of advertising and marketing regulations.

Fig. 6 *The Triple Bottom Line*

Alignment of Structure, Culture and Process Socially responsive actions need proper alignment of structure, culture and processes with social goals. As with any business objective, a decision by management for action on CSR is only an initial tentative step. To be carried out, that decision must be translated into specific goals and performance objectives, embedded in policies and procedures, and supported by both the formal structure and the informal elements of the corporate culture. As stated earlier, organisation should commit itself to social causes.

Corporate Social Reporting Corporate social reporting is the practice of assessing and publishing information about social performance. Reporting needs to be preceded by social audit. Social audit, as stated earlier, is a systematic study and evaluation of a firm's social performance. Social audit helps assess social performance and reporting lets the world know what the company has done. ITC publishes social report every year. Social report should meet certain criteria. Its content needs to be useful to stakeholders, clear, timely, comparable to past reports, reliable and verifiable.

BUSINESS ETHICS

Ethics refers to a system of moral principles—a sense of right and wrong and goodness and badness of actions, and their motives and consequences. *Business ethics* refers to the application of ethics to business. To be more specific, business ethics is the study of good and evil, right and wrong, and just and unjust actions of businesses.

Business ethics does not differ from generally accepted norms of good or bad. If dishonesty is considered to be unethical and immoral in society, then any business person who is dishonest with employees, customers, shareholders or competitors is acting unethically and immorally. If protecting others from any harm is considered to be ethical, then a company that recalls a defective and harmful product from the market is acting ethically. To be considered ethical, business must draw its idea about what is desirable behaviour from the same sources as anybody else. Businesses should not try to evolve their own principles to justify what is right and wrong. Employees and employers may be tempted to apply special or weaker ethical rules to business situations. But society does not condone or permit such an exception. People who are in business are bound by the same ethical principles that apply to others.

Two theories are pertinent when one talks about the nature of ethics.

The *theory of moral unity* essentially advocates the principle that business actions should be judged by the general ethical standards of society. There exists only one ethical standard that applies to business and to non-business situations.

Opposed to the theory of moral unity is the theory of *amorality,* which argues that business can be amoral, and the actions of businesses need not be guided by general ethical standards. Managers may act selfishly because the market mechanism distills their actions into benefits to shareholders and society at large. Adam Smith argued that the 'invisible hand' of the market assures that by *"pursuing his own interest (a merchant) frequently promotes that of the society more effectively than when he really intends to promote it."* In this way, capitalism provides moral justification for the pursuit of profit through behaviour that is not purposefully ethical.

However, the theory of amorality is not acceptable to anybody. Everyone agrees that business actions should be subject to the same ethical standards as the one applicable to the society in general.

Sources of Business Ethics

Managers in every society are influenced by three repositories of ethical values: religion, culture, and law. (see Fig. 7). These repositories contain unique systems of value that exert varying degree of control over managers. A common thread, the idea of *reciprocity* or *mutual help,* runs through all the value systems. This idea reflects the central purpose of all ethics, which is to bind the vast majority of individuals in society into a cooperative whole. Ethical values are a mechanism that controls behaviour in business and in the other walks of life. Ethical restraints are more effective than are cruder controls such as police, lawsuits, or economic incentives. Ethical values channel individual energy into pursuits that are benign to others and beneficial to the society.

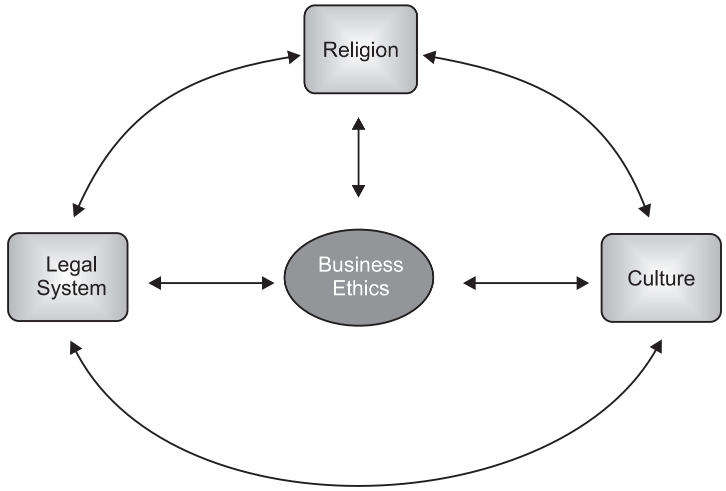


Fig. 7 *Sources of Ethics*

Religion One of the oldest sources of ethical inspiration is religion. More than 1,00,000 different religions exist across the globe. But despite doctrinal differences, the major religions converge on the belief that ethics is an expression of divine will that reveals the nature of right and wrong in business and other areas of life. The world's great religions are also in agreement on fundamental principles, which are similar to the building blocks of secular ethical doctrine. The principle of reciprocity towards one's fellow human beings is found in all major religions such as Hinduism, Buddhism, Christianity, Islam, Judaism, and Confucianism. The great religions preach the necessity for an orderly social system and emphasise social responsibility in such a way so as to contribute to the general welfare. Built upon such verities are many other rules of conduct.

Cultural Experience Culture, as was stated earlier, refers to a set of values, rules, and standards transmitted among generations and acted upon to produce behaviours that fall within acceptable limits. These rules and standards always play an important part in determining values, because individuals anchor their conduct in the culture of the group. Civilisation itself is a cumulative cultural experience in which people have passed through three distinct phases of moral codification. These stages correspond to the changing economic and social arrangements in human history.

For millions of generations in the *hunting and gathering stage* of human development, ethics was adapted to conditions in which our ancestors had to be ready to fight, face brutal foes, and suffer the hostile forces of nature. Under such circumstances, a premium was placed on pugnacity, appetite, greed, and sexual readiness, since it was often the strongest who survived. Trade ethics in the early civilisations were frequently conducted by brute force and violence.

Civilisation passed into an *agricultural stage* approximately 10,000 years ago, beginning a time when industriousness was more important than ferocity, thrift paid greater dividends, and peace came to be valued over wars, which destroyed crops and animals. These new values were codified into ethical systems, which even guide the managers today.

Two centuries ago, society entered an *industrial stage* of cultural experience, and ethical systems once more began evolving to reflect the changing physical, cultural, institutional, and intellectual environment. Large factories and corporations, population growth, capitalist and socialist economic doctrines and technologies have all assaulted the ethical standards of the agrarian stage. Industrialism has not created distinct ethics, but it has created tensions with old ethical systems based on the values of agricultural societies. It does this by changing values related to what is good and bad. For example, the copious outpouring of material goods from factories has encouraged materialism and consumption at the expense of older virtues such as moderation and thrift. Managers run an industrial enterprise on the cutting edge of cultural experience. The tensions their actions create make business more ethically complex. For existence, the widespread use of computers for data storage and communication raises new issue of privacy and individual expression unlike those present in the agrarian societies.

The Legal System Laws are rules of conduct, approved by legislatures, that guide human behaviour in any society. They codify ethical expectations and keep changing as new evils emerge. Law is reactive; new statutes and enforcement always lag behind the opportunity for corporate expediency.

Whatever ethics that law confides, it is binding on business. Society expects business to abide by law and obeying law is presumed to be ethical behaviour.

Although society expects business to be law abiding, seldom does the business adhere to the rules. Law breaking in business is common. Taxes are evaded, hundreds of employees die because of occupational diseases, many die because of industrial accidents, and million others receive disabling injuries on the job. The blame for these deaths and injuries can be shared by careless employees and by employers who fail to adhere to occupational health and safety laws.

Consumers suffer because of poor quality and high-priced products supplied by businesses. And business causes misery to the society by damaging the environment, disregarding environment protection laws.

Why is Ethics Important?

Ethics is important to business for several reasons as stated below:

(i) Ethics Corresponds to Basic Human Needs It is a human trait that man desires to be ethical, not only in his private life but also in his business affairs where, being a manager, he knows his decisions may affect the lives of thousands of employees. Moreover, most people want to be a part of an organisation, which they can respect and be publicly proud of, because they perceive its purpose and activities to be honest and beneficial to the society. Most top managers would like to respond to this need of their employees; and they (managers) themselves feel an equal need to be genuinely proud of the company they are directing. These basic ethical needs compel the organisations to be ethically oriented.

(ii) Values Create Credibility with the Public A company perceived by the public to be ethically and socially responsive will be honoured and respected even by those who have no intimate knowledge of its actual working. There will be an instinctive prejudice in favour of its products, since people believe that the company offers value for money. Its public issues will attract an immediate response. A century ago, a company could be criminal was not heard of. The prevailing assumption was as Edward Thurlow, an 18th century Lord Chancellor of England had put it, the corporates had neither bodies to be punished nor souls to be condemned, and thus they were incapable of being "guilty."

(iii) Values give Management Credibility with Employees Values are supposed to be a common language to bring leaderships and its people together. Organisational ethics, when perceived by employees as genuine, create common goals, values, and language. The management has credibility with its employees precisely because it has credibility with the public. Neither sound business strategy, nor a generous compensation policy and fringe benefits can win employee credibility; but perceived moral and social uprightness can.

(iv) Values Help Better Decision-making Another point of great importance is that an ethical attitude helps the management make better decisions, that is, decisions that are in the interest of the public, their employees and the company's own long-term goods, even though decision-making is slower. This is so because respect for ethics will force a management to take account of various aspects—economic, social and ethical—in making decisions.

(v) Ethics and Profit Ethics and profit go together. A company which is inspired by ethical conduct is also a profitable one. Value-driven companies are sure to be successful in the long run, though in the short run, they may lose money.

(vi) Law Cannot Protect Society, Ethics Can Ethics is important because the government, law, and lawyers cannot do everything to protect society. Technology develops faster than the government can regulate. People in an industry often know the dangers in a particular technology better than the regulatory agencies. Further, government cannot always regulate all activities that are harmful to society. Where law fails, ethics can succeed. An ethical-oriented management takes measures to prevent pollution and protect worker's health even before it is mandated by law.

Are business people ethical? The answwar is 'no' if one goes by recent happenings in India and elsewhere. Xerox Corporation has recently disclosed that its Indian susidiary, Xerox Modi Corp, made improper payments—an euphemism for bribes—to government officials to push its sales over the years. Cartelling in cement industry is the organised way of unethical behaviour. It was unethical practice at its worst when Parliament had to expel 11 MPs in 2006 for indulging in cash-for-questions scam.

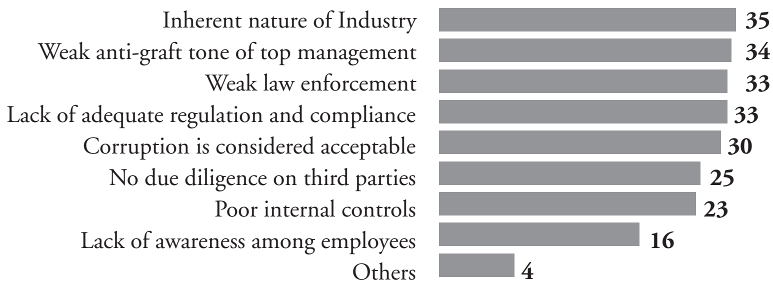
A study (2007) called *Early Warning Signals of Corporate Frauds,* jointly conducted by the Institute of Chartered Accountants of India (ICAI) and India Forensic Consultancy Services, revealed that as many as 1200 companies listed in stock exchanges have massaged financial statements to beat market expectations. The improper accounting practices included deferring revenues, inflating expenses and avoiding taxes. Table 2 shows reasons for unethical practices.

Perphaps, no other example than Satyam Computer Services, can demonstrate the accounting frauds that a firm can indulge in. The way American firms-Enron and World.com-went bust and the way the president of Huyandai Motor Company, Chung Mong Koo, was jailed for three years, reinforces the belief that businesses are not ethical.

Table 3 shows bribes paid by the US companies to different governments across the globe.

At the macro level, countries are being ranked as honest or corrupt. Ranking is made by Transparency International, a popular think tank. Its corruption perception index (2011) is shown in Table 4.

TABLE 2 Reasons for Graft



(Note: Numbers represent percentages of respondents. Total exceeds 100 as respondents chose multiple options)

(*Source: Business Today*, dated March 18, 2012)

TABLE 3 US Companies Bribing Indian Officials

Name of the Company	*Location of Time of Misconduct*	*Outome*
Dow Chemical Company	India, 1996-2001 De-Nocit, an arm of Dow, paid $200,000 to Indian Govt. officials to expedite registration of three De-Nocial products. $19,000 was given as gift.	Paid $325,000 civil penalty.
York International Corporation	India, Iraq, Bahrain, Egypt, Turkey, UAE 1999-2006. The company through its arms, paid over $7.5 mn to bag government projects in many countries, including India.	Paid a criminal fine of $11,50,000 and civil penalty of $2 mn to SEC.
Textron	Iraq, Bangladesh, Egypt, UAE, India, Indonesia 2000-03. The firm made 36 illicit payments of $115,000 to officials of state undertakings, including India, to obtain contracts.	The company agreed to pay a criminal fine of $11,50,000 and continue co-operating with the investigation.
Westinghouse Air Brake Technologies Corporation (Wabtee)	India, 2001-05. Made improper payments of $1,37,400 to Indian Railways Board officials.	The firm paid $300,000 as criminal penalty
Electronic Data Systems Corporation	In 2001-03. Made $72,000 in illicit payments to officers of two Indian PSUs to retain business.	Agreed to pay $70,000 as civil penalty.
Xerox	India, 2002, paid through its arm Modi Corp $700,000 to Indian government customers for the supply of equipment	—
Smirnoff and Johnywalker	Paid more than $1.7 mn as bribe to Indian government officials from 2003-09	—
Diageo Plc	—	Agreed to pay more than $16 mn to settle changes levelled by SEC (US)

TABLE 4 Some are honest and some corrupt (Score: 0=Highly Corrupt, 10=Very Clean)

Rank	Country	Score
1	New Zealand	9.5
2	Denmark	9.4
3	Finland	9.4
4	Sweden	9.3
5	Singapore	9.2
75	China	3.6
86	Sri Lanka	3.3
95	India	3.1
120	Bangladesh	2.7
134	Pakistan	2.5

Insider Trading

Insider trading made big news with the arrest of Rajat Gupta in 2011 for illegally tipping hedge fund manager Raj Rajratnam while serving on the boards of Goldman Sachs and P&G. This happened in the U.S. and India is not free from this deviant behaviour. In 2012, SEBI initiated investigation into 154 cases of wrong doing, of which 24 were related to insider trading. The corresponding figures in 2013 were 155 and 11.

Insider trading occurs when securities are bought or sold on the basis of material that are non-public information. The executives of a company and other insiders know the firm well, and as well might easily know about events that are likely to have a significant impact on the company's share price well in advance as other potential traders. Consequently, insiders are privileged over other players in the market in terms of knowledge, a privilege that they could take advantage of to reap a questionable profit. In the long run, such practice can derail investors' trust in the market – a problem that has led most stock markets (including India) to forbid the practice.

Is insider trading unethical? The answer is both yes and no. It is yes because of at least four reasons. *First*, information is not available to every concerned individual and hence unfair. *Second*, insiders misuse valuable information about the company for personal gain. *Third*, public lose faith in stock markets, thus damaging the economy as a whole. *Four*, managers are agents of shareholders, giving rise to fiduciary relationship between the two. By resorting to insider trading, managers undermine shareholders' interests, thus breaching the fiduciary relationship.

That insider trading is not unethical carries sound reasoning. Several companies offer SOPs to their executives as a retention strategy. Now, these people may use their inside knowledge of the company to decide when to exercise their options or sell their shares. It is not uncommon to see the allotees of ESOPs spending major portion of their office time every day, on watching their share price movements. They are privy to critical information and there is no guarantee that they separate share price movement from probity.

Besides, any investor tries to receive as much knowledge about a company as possible and analysts of major investment banks would by no means treat their knowledge as publicly available.

It may be stated that insider trading is both illegal and unethical. It is illegal and hence, outlawed in India as with other countries. It is also unethical for the reason that a privileged few make enormous gains at the cost of majority of investors.

Managing Ethics

In the past, it was assumed in most companies that ethics was a matter of individual conscience. But the scenario has changed. Today, many companies are using managerial techniques that are designed to encourage ethical behaviours. Some of the managerial interventions to ensure ethical conduct are explained below: (see Fig. 8)

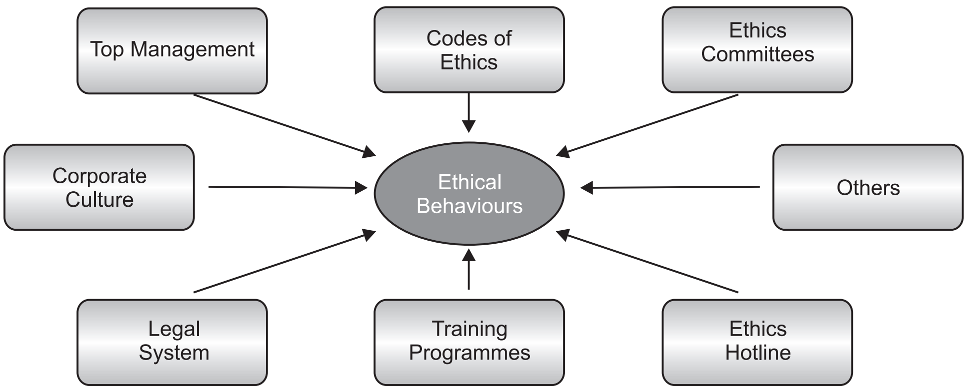


Fig. 8 *Ways of Managing Ethics*

Top Management The single most important variable that impacts ethical conduct is leadership. If Tata Group companies, WIPRO, HUL and the like are known for honest and fair dealings, credit should go to their founders and successive leaders. Leaders set formal rules, and by their behaviour can reinforce or undermine right-behaviours. Subordinates are keen observers and quickly notice if standards are upheld or evaded. Exemplary behaviour is a powerful tool available to all managers. Leadership is about communicating values (see also Exhibit 2)

Exhibit 2

ETHICAL CONDUCT

The first car produced by Maruti was donated to Lord Venkateshwara, the presiding deity at the Tirumala temple in Tirupati. The donation was not made by the company, as Maruti had already formulated a policy that it would not make donations to anyone. It was feared, not without reason, that if any donation was made, either in cash or in the form of a car, there would be endless demands and refusing them would create many enemies. It was easier to say that policy, framed at the instance of the Japanese, prohibited the company from making donations. The decision to donate a car to the deity at Tirupati was taken by vendors, dealers and employees, who paid for the car. The subsequent success of the company, and all those associated with it, showed that the humble offering pleased the God!

(*Source:* R.C. Bhargava, *The Maruti Story*, p. 88)

Top management should send right signals reiterating the need to observe ethical practices. German engineering giant Siemens AG, for example, has agreed to pay a record $80 million fine to US authorities to settle a bribery investigation under the Foreign Corrupt Practices Act.

The Factories Inspector once demanded ₹ 6000/- in return of not insisting on a compliance. But the management of WIPRO, instead, invested ₹ 14 million in complying with the requirement and solving the problem on a permanent basis. In another case, Wipro operated a highly power intensive factory with self-generated power for almost two years-incurring double the normal electricity charges. After two years, when the Chief of the board changed, Wipro got the required electricity overnight since the company's proposal complied with all requirements and the new Chief was an honest person.

J&J has an interesting anecdote to tell. It was Tylenol case of 1982. Seven people were dead in Chicago after consuming extra-strength Tylenol capsules (J&J's most profitable product at the time with a market share of 37%). A known suspect had tempered with the product by replacing the drug with deadly levels of cyanide. Even though J&J was not responsible for the deaths, Tylenol was recalled from the entire country which amounted to 31 million bottles and a loss of more than $100 million in revenue. (Also see Table 5)

TABLE 5 Cars Recalled-Worldwide

Year	*Company*	*No. of Cars with Cause*
1971	GM	6.7 million due to engine mounts
1981	GM	5.8 million due to loose suspension bolts
1996	Ford	8 million due to defective ignition switches
1998	GM	1 million due to defective airbags
2004	GM	4 million because of corroding tallgate cable
2007	Chrysler	575000 vehicles because of defect in gear shift assembly
2008	GM	857, 735 due to defect in windshield wiper fluid system
2008	Maruti	28500 cars due to faulty drive shaft
2009	Toyota	3.8 million due to defective floor mats
2010	Honda	646000 due to faulty window switch
2010	Toyota	16000 recalled in Germany

Code of Ethics Codes of ethics have become popular. Codes vary from book-length formulations to succinct statements which, in one or two pages, express a general philosophy for managing conflicts. Nearly 95 per cent of *Fortune 500* companies have codes and the trend is visible in the Indian corporate sector also.

Industry associations too have evolved codes of conduct of their own. For example, the Council for Fair Business Practices (CFBP) established in 1966, by leading private sector industrialists in Western India, adopted the following code of fair business practices:

- *To charge only fair and reasonable prices and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.*
- *To take every possible step to ensure that the agents or dealers do not charge prices higher than fixed.*
- *In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding or profiteering.*
- *Not to produce or trade in spurious goods of standards lower than specified.*
- *Not to adulterate goods supplied.*
- *Not to publish misleading advertisements.*
- *To invoice goods exported or imported at their correct prices.*
- *To maintain accuracy in weights and measures of goods offered for sale.*
- *Not to deal knowingly in smuggled goods.*
- *Providing after-sales service where necessary or possible.*
- *Honouring the fundamental rights of the consumers—Right to Safety, Right to Choose, Right to Information, and Right to be Heard.*
- *Discharging social responsibilities and the responsibility to protect the environment and nature's infrastructure.*
- *Ensuring that the product-warranty is offered in simple, unambiguous, and concise language, highlighting the rights of the consumer under it.*

Whoever evolves the code, its purpose is to provide guidance to managers and employees when they encounter an ethical dilemma. The most effective codes are those drawn up with the cooperation and widespread participation of employees. An internal enforcement mechanism, including penalties for violating the code, adds teeth to the code.

Tatas have a comprehensive code. Every Tata employee who joins the organisation pledges to abide by the code and is given a copy of it. The Tata code provides an ethical road map for every employee including the CEO/MD, full time and independent directors. The code of conduct has 25 clauses which cover all areas of company operations including accounting, insider trading, business gifting, equal employment opportunity, prevention of harassment, conflict of interests, protecting company assets and adherence to local regulations in every country of operation.

Ethics Committees Many firms have ethics committees to advise on ethical issues. Such a committee can be high-level one comprising the board of directors, chaired by the CEO of the company.

The committee fields questions from employees, helps the firm establish policy in new or uncertain areas, advises the board of directors on ethical issues and oversees the enforcement of the code of ethics.

Ethics Hot Lines In some firms, when employees are troubled about some ethical issue but may be reluctant to raise it with their immediate supervisor, they can place a call on the company's 'ethics hot line.' A member of the ethics committee receives the confidential call and then quickly investigates the situation. Elaborate steps are taken to protect the identity of the caller, so as to encourage more employees to report any deviant behaviour. This technique is advantageous in as much as ethics hotlines encourage internal whistle-blowing, which is better for a company than to have disgruntled employees take their ethical complaints to the media.

Whistle-blowing is in the news these days. Like the blowing of whistle by a referee to indicate violations of rules in the playfield, whistle-blowing in an organisation refers to disclosure by former or current employees of any illegal, immoral, or illegitimate practices involving its employees. Table 6 contains some well-known cases of whistle-blowing. But whistle-blowing can lead to loss of face and job for whistle-blower as Exhibit 3 shows.

TABLE 6 Whistle-blowing in Action

No.	*Organisation*	*Whistle-blower*	*Consequence*
1	Enron	Sherron Watkins	Liquidation of the company.
2	Kellogg's India	Senior executive (name not known)	Sacking of two senior executives who were promoted for excellent performance just a few months before.
3	Director, FBI, USA	Coleen Rowly	Attack on the World Trade Centre, New York.
4	WorldCom	Cynthia Cooper	Liquidation of the company
5	Xerox	Name not known	CFO made to pay $5.5 million in fines and banned by the SEC from practising accountancy.
6	Heinz India, Johnson and Johnson, Bayer India	Installed whistle–blowing system	No incident reported.
7	LG India	Names not known but 10–12 cases have been reported to head office, South Korea	Not known.
8	National Highway Authority of India	S. K. Dubey	S.K. Dubey murdered. Investigation by a commission in progress.
9	Hong Kong City Civil Service	LO Pui–Lam	Guilty disciplined but LO has been ostracised by fellow workers.
10	Modern Food Industries, Delhi	Gobind Yadav	Suspended and dismissed, however, the High Court ordered his resettlement
11	Ranbaxy, India	Thakur	Thakur will receive $48.6 mn of $500 mn Ranbaxy agreed to pay to settle dispute with the U.S.

Exhibit 3

THE TROUBLE WITH BUSINESS ETHICS

In the post-Enron, post-WorldCom, post-Tyco era, ethics has become one of the hottest topics in the business world. Business schools have entire courses dedicated to the topic. Companies have instituted more rigorous ethics policies and set up global ethics offices. One of the fastest-growing employment categories is chief ethics officer, as evidenced by the creation of that post at the New York Stock Exchange, Nortel Networks, Marsh & McLennan, and Hewlett-Packard.

But a recent case at Wal-Mart Stores shows how difficult it can be to push "ethics" in the corporate world. A few months after going through a new employee training session with a heavy emphasis on ethics, Chalace Epley Lowry acted on the guidance to report any activity that seemed the least bit suspicious. Lowry told the company's ethics office about what she thought could be a case of insider trading by one of her supervisors, Mona Williams, vice-president of corporate communications.

The company determined that Williams had done nothing wrong. But Lowry's identity was revealed to Williams, leading Lowry to conclude that she could no longer work in the department. Now she's looking for another job, but there's no guarantee she'll get one at Wal-Mart. "I acted in good faith, just pointing out that there might have been some wrongdoing," says Lowry. "But it was really disheartening to see how it was handled."

Lowry's case, unfortunately, is representative of exactly how ethics complaints and whistleblowers are handled at many corporations. "Most employees are reluctant to make any complaints for fear that they will either lose their job or get redirected into another position," says Jim Fisher, Shaughnessy fellow at the Emerson Center for Business Ethics at St. Louis University. "People who go into a situation naively thinking that they are taking care of a problem often find that it doesn't turn out that way. In fact, 95% of the time, whistleblowers lose their jobs."

The emphasis on ethics is hard to miss. Many of the companies leading the way are those that have been embroiled in scandals in the past. For instance, CA, the former scandal-tainted Computer Associates, two years ago had hired Patrick Gnazzo, a former chief trial attorney for the U.S. Navy. And former Securities & Exchange Commission Chairman Richard Breeden, who was first hired to be an outside monitor of accounting firm KPMG moved into a similar role at Hollinger International, where Conrad Black stirred up trouble and ultimately a lawsuit.

Eric Dinallo and Beth Golden, alumni of former NY Attorney General Eliot Spitzer's office, were hired at Morgan Stanley and Bear Steams, respectively. Wal-Mart itself set up its global ethics office in 2004 and prides itself on having one of the strictest ethics codes in the industry. Its employees aren't allowed to accept even a drink from their suppliers.

Still, strict ethics codes can be a catch-22 for workers. "Employees who read codes of conduct have an obligation to report misconduct whether big or small," says Mark Schwartz, assistant professor of corporate governance, law & ethics at Atkinson's School of Administrative Studies at York University. "However, if you do report violations there are serious consequences."

The most famous American whistleblower, Jeffrey Wigand, had to fight a smear campaign by the company, and lawsuits after he chose to go on national television to expose how Brown & Williamson Tobacco was hiding research on the highly addictive nature of tobacco. In the days after that, Wigand lost his privacy; the intense scrutiny and pressure wrecked his marriage and family.

That could be the reason why many employees turn a blind eye to violations. A recent survey conducted by LRN, an ethics research and consulting firm, found that 73% of full-time American employees reported encountering ethical lapses on the job. However, the survey also found that of that 73%, only "one in three, or 36%, said that they have reported an incident they believed to be unethical or questionable to management." Most, or 58%, of these respondents said they didn't report it because they were not directly involved in an incident. Fourteen percent said they lacked confidence in how their employer would handle it.

Some employees would rather leave a company than report ethical lapses, points out Lindsay Thompson, assistant professor of leadership ethics at the Carey Business School at Johns Hopkins University. "Students who take the course sometimes find ethical issues that come to consciousness during class, and they change their jobs because they are certain that they will not get support from their employers," says Thompson.

Still in some cases, companies that have failed a government investigation might be required by law to beef up ethics and will transform themselves on paper. "In fact, a vast majority of companies don't take ethics seriously. Shoring up ethics is part of risk management, or an insurance policy," says Schwartz of York University. But there are companies that really care and want to send a strong message to employees and to investors. For instance, after the Dennis Kozlowski excesses at Tyco International, the company's new CEO, Edward Breen, effectively fired the entire board of directors, replacing them with more independent members.

Boeing also tightened its ethics rules, after the ouster of CEO Phil Condit for misconduct. The test of how it would apply those rules came less than two years later. A Boeing employee saw possible ethics lapses in new CEO Harry Stonecipher's amorous e-mail exchanges with a female executive. Despite the possibility of being fired, the anonymous employee reported it to the board of directors. Stonecipher lost his job in the days following that, and the board of directors clearly followed the guidelines of its post-Condit code of ethics. "It's not an employee's place to determine the significance of an ethics violation, and in this case, the board really stood up to their principles," says Schwartz.

Ethics experts are united in their view that that any company that takes its ethics seriously has the obligation to protect the identity of whistleblowers. "Some companies think they are set up to protect whistleblowers but then you have to rely on the leadership and character of individual managers and business units to implement them," says Thompson of Johns Hopkins.

In Lowry's case, Wal-Mart says that she received anonymity and confidentiality in the Ethics Office complaint process. The company says in a statement: "It was through the subsequent 'open door' process that Lowry granted permission to her supervisor to tell Williams since Lowry accessed a document in Williams' e-mail." However, Lowry says that she was never told that she had the choice not to grant permission to reveal her identity to Williams.

After she requested a transfer, Lowry moved to a temporary position at Wal-Mart. "All I want is another job," she says. "I've been made to feel like I'd done something wrong. But nothing's been done to those who violated Wal-Mart's confidentiality policy. They're not worried about whether they will have a job, come tomorrow."

(*Source*: *The Economic Times*, June 29, 2007)

Measures can be taken to protect the interests of whistle-blowers as the Chennai based Murugappan group has done. Since March, 2006, the group has implemented a whistle-blower policy. As per the policy, an aggrieved worker can approach the ombudsman through letter, e-mail or call. Ombudsman shall report the matter to the Board. Three such cases have been resolved at the board level since March, 2006.

The Securities and Exchange Board of India (SEBI) mandates a whistle-blowing mechanism in Clause 49 of the listing agreement. The provision has been around since 2003, but it has been ineffective. The Public Interest Disclosure Bill 2010 has increased awareness about whistle-blowing and the need to protect whistle-blowers.

Ethics Training Programmes Nearly all companies that take ethics seriously provide training in ethics for their managers and employees. Such training programmes acquaint company personnel with the official company policy on ethical issues, and they show how those policies can be translated into the specifics of everyday decision-making. Often, simulated cases based on actual events in the company are used to illustrate how to apply ethical principles to on-the-job problems.

Generally speaking, ethics training is most effective when it is conducted by company managers, and is steered away from abstract philosophical discussions to focus on specifics from the work environment of those attending.

Ethics and Law Law and ethics aim at one thing—defining proper and improper behaviour. But the two are not quite the same. Laws are a society's attempt to formalise—that is, to reduce to written rules—ideas about what is right and what is wrong in various walk of life. However, it is rarely possible for written rules to capture all the subtle shadings that people give to ethics. Ethical concepts are more complex than written rules. Ethics deals with human dilemmas that frequently go beyond the formal language of law and the meanings given to legal rules.

Similarities and differences apart, legal rules help promote ethical behaviours in organisations. Some of the Acts which seek to ensure fair business practices in India are the following:

The Foreign Exchange Regulation Act, 1973 now replaced by FEMA
The Companies Act, 1956
The Monopolies and Restrictive Trade Practices Act, 1969 now replaced by Competition Act, 2003
The Consumer Protection Act, 1986
The Environment Protection Act, 1986
The Essential Commodities Act, 1955

Table 7 shows some of the means of promoting ethics in organisations in different countries and their popularity.

TABLE 7 Means to Promote Ethical Conduct

Means	*India*	*Asia Pacific*	*Global*
Ethics/Code of Conduct	72	73	64
Pre-employment screening	54	37	50
Public source information	32	25	33
Whistle-blowing system	28	18	28
Fraud training	24	25	29
Others	23	20	27

Note: Figures indicate percentage responses from sample firms who have implemented the system.

(*Source*: Survey by Price Waterhouse Coopers, 2003)

As seen from the table, ethics/code is most popular across firms in different regions. Nevertheless, whistle-blowing as a means of promoting ethical conduct is gaining in popularity.

Of all the means of promoting ethical behaviour, whistleblowing is emerging as a preferred choice, as Table 8 shows.

TABLE 8 Effectiveness of Whistleblowing to Check Corruption

	% of companies using whistleblowing effectively
North America	77
Australia and Newzealand	58
Latin America	50
West Asia, India, Africa	37
Central and Eastern Europe	23
East Asia (except Japan)	15
Japan	6

(*Source*: E&Y, 10th *Global Fraud Survey*, 2008)

Firms need to protect whistleblowers as their incomes, jobs and even lives are at stake. More so, they need to be reassured and encouraged to blow whistles when frauds are committed and detected. It is desirable that companies have exclusive policies, as Tata Motors has towards whistleblowing. Following considerations should guide such a policy:

- Mechanisms for reporting violations such as hotlines and mailboxes need to be installed.
- Have a referent person (such as the Chairman of the Audit Committee in Tata Motors) to whom communication can be addressed.
- Specify clearly the procedure for whistle blowing and following action that will be initiated.
- Strong commitment from top management to encourage whistleblowing is essential.
- Creating a culture of openness, honesty and sincerity is an essential pre-requisite.
- Set a deadline on or before which follow up to the complaint should be completed.
- Ensure full protection to the whistleblower.

Corporate Culture and Ethical Climate Corporate culture is a blend of ideas, customs, traditional practices, company values, and shared meanings that help define normal behaviour for everyone who works in a firm. Every organisation has a culture and it exercises considerable influence on employee behaviour.

Hewlett-Packard is well known for a culture that stresses values and ethics. Called the 'HP Way' by employees, the most important values of the culture are confidence in, and respect for people, open communication, sharing of benefits and responsibilities, concern for the individual employees, and honesty and integrity.

In some companies, one can feel the blowing of ethical winds. People pick up subtle hints and clues that tell them what behaviour is approved and what is forbidden. This unarticulated understanding among employees is called an *ethical climate.* It is that part of corporate culture that sets the ethical tone in a company.

One way to view ethical climate is diagrammed in Fig. 9. Three different types of ethical yardsticks are *egoism* (self-centeredness), *benevolence* (concern for others), and *principle* (respect for one's own integrity, for group norms, and for society's laws). These ethical yardsticks can be applied to dilemmas concerning individuals, one's company, or society at large. For example, if a manager approaches ethics issues with benevolence in mind, he or she would stress friendly relations with employees, emphasise the importance of team play and cooperation for the company's benefit, and recommend socially responsible courses of action. However, if the manager uses egoism to think about ethical problems, he or she would be more likely to

Ethical Criteria	*Focus of Ethical Concern*		
	Individual Person	*Company*	*Society*
Egoism (Self-centered approach)	Self-interest	Company Interest	Economic Efficiency
Benevolence (Concern-for-others approach)	Friendship	Team Interest	Social Responsibility
Principle (Integrity approach)	Personal Morality	Company Rules and Procedures	Laws and Professional Codes

Fig. 9 *Components of Ethical Climate*

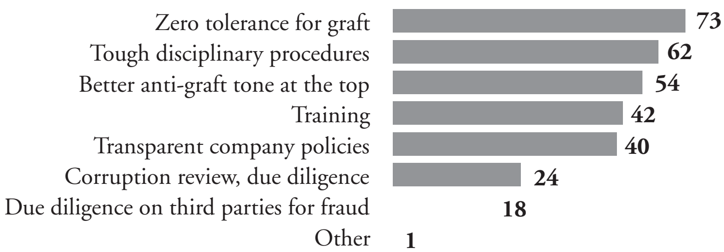
(*Source*: William Frederick, et al, *Business and Society*, p. 85) think first of self-interest, promoting the company's profit and striving for efficient operations at all costs. A company's ethical climate depends on which combination it has of these nine possibilities.

Corporate culture and ethical climate can put much pressure on people to channel their actions in certain directions by the company.

Ethical climate is often dented by peculiar circumstances as it happened to public sector undertakings in India. The Transparency International India (TII), the local chapter of the global non-profit organisation that seeks to combat corruption, accepts that lack of resources is hampering its efforts to effectively monitor agreements it has signed with 29 public sector enterprises in India. These agreements are known as 'Integrity Pacts'. Signing the pact bounds the undertakings to guarantee transparency in their procurement deals. Besides, pacts help the signatories when they bid for international projects. TII has not started monitoring yet because of shortage of resources. The undertakings that have signed the pacts, among others, include ONGC, ISPAT Nigam, HPC, GAIL and Coal India.

Others There are some other ways of fighting graft as Table 9 shows.

TABLE 9 Measures to Fight Graft



(Note: Figures represent percentages of respondents. Total exceeds 100 because of multiple options.)

Source: Business Today, dated March 18, 2012

Improving Ethical Decision-Making

Ethical decisions are difficult to make as the opening case shows. They cannot be programmed like production and inventory decisions. But decisions need to be made in business. This section contains practical difficulties in decision-making and guidelines that help a manager in making a choice.

Difficulties in Decision-Making There are at least nine reasons why decision-making becomes difficult.

Firstly, managers face dilemmas in deciding on a course of action.

Secondly, managers confront a distinction between facts and values when making ethical decisions. Facts are statements about what is and values are statements about ought to be. What is can never define what ought to be. For example, the cost of researching, developing and producing a life saving drug may necessitate fixing a high price, as far as the company is concerned but the price may be perceived by users as exploitative.

Thirdly, good and evil exist simultaneously, in tandem, and interlocked. Nestlés sales of infant formula in Kenya and Zambia have led to infant deaths as mothers mixed the powedered food with contaminated local water and their babies died of dysentery. But evidence also shows that the same formula has saved lives of several other infants. Evil should be minimised, but it cannot be eliminated.

Fourthly, knowledge about the consequences of an action is limited. One of the principles of decision-making is utilitarian. This implies that if an act results in the greatest good of greatest numbers, it is taken as morally acceptable. This principle assumes that the consequences of the act are known. But in uncertain business environment, consequences cannot be easily predicted.

Fifthly, antagonistic interests frequently use incompatible ethical arguments to justify their intentions. Thus, the ethical stand of a corporation is often based on entirely different premises from the ethical stand of critics. Animal lovers may argue against slaughter on the ground that beasts are entitled to rights similar to those enjoyed by humans, including the right to life. Poultry growers, on the other hand, contend that raising food animals inure benefits to the society.

Sixthly, some ethical standards vary with the passage of time. Donations to political parties were forbidden earlier but is allowed now. In addition, certain bribes and payments are accepted practices in Asian, African, and Latin American countries but are not regarded as ethical in the US. In India some business houses have institutionalised the practice of donating to political parties. For example, Tatas have setup the Tata Sons Ltd's Electoral Trust in 1996. Aditya Birla Group has also set up the Birlas' General Electoral Trust in 1998. Doing business with close friends and family is a standard practice in the Arab world but is treated as nepotism in Western Europe.

Seventhly, ethical behaviour is moulded from the clay of human imperfection. Unethical practices abound everywhere (see Fig. 10 for different crimes). An honest manager finds himself or herself like a babe in the woods, not able to do anything, surrounded as he or she is, by dishonesty everywhere.

Eighthly, in the 21st century managers are presented with new and emerging ethical problems that are not solved easily with traditional ethical guidelines. For example, modern ethical theory has not yet developed an adequate principle for weighing human life against economic factors in a decision. Cancer studies may predict that workers exposed to chemicals will become ill in small numbers far in the future. How should this information be balanced against costs of regulation, capital investment, or job loss?

Finally, the growth of large scale organisations in the 21st century gives new significance to ethical problems such as committee decision-making that masks individual responsibility, organisational loyalty versus loyalty to the public interest, and preferential hiring of disadvantaged sections of society. These are ethical problems peculiar to large organisations.

Practical Suggestions for Making Ethical Decisions Individuals in business can take a number of steps to resolve ethical problems.

First, three well known principles to resolve an ethical issue are moral idealism, intuitionism, and utilitarianism.

Moral idealism postulates that certain acts are good and others are bad. Pursue those acts that are good and avoid the bad ones. Moral idealism gives definite answers to ethical issues.

Intuition leaves it to the individual concerned to sense the moral gravity of the situation. If he or she feels that his or her motives are good and that they do not intend to hurt any one, he or she is taking an intuitive approach to morally difficult situations.

Utilitarianism seeks to establish the moral focus not on the act or the motives but on the consequences. If the consequences represent a net increase in society's happiness, or at least not a net decrease, the act is morally right.

Principles of the type described above help a manager in making a decision in ethically difficult circumstances.

Secondly, consider some decision tactics that illuminate moral choices. One such device is to engage in imaginary conversations with a hypothetical opponent as an antidote for certitude. Have a conversation or debate with an intelligent person in the organisation as your adviser. Alternatively, write an essay in favour of a stand and then a second, opposed to it. Write a case study in the third person about your situation. Try to apply ethical principles in answers to questions raised by the case.

Thirdly, write down pros and cons in the form of a balance sheet. The balance sheet approach helps decision-making by presenting information in an organised way.

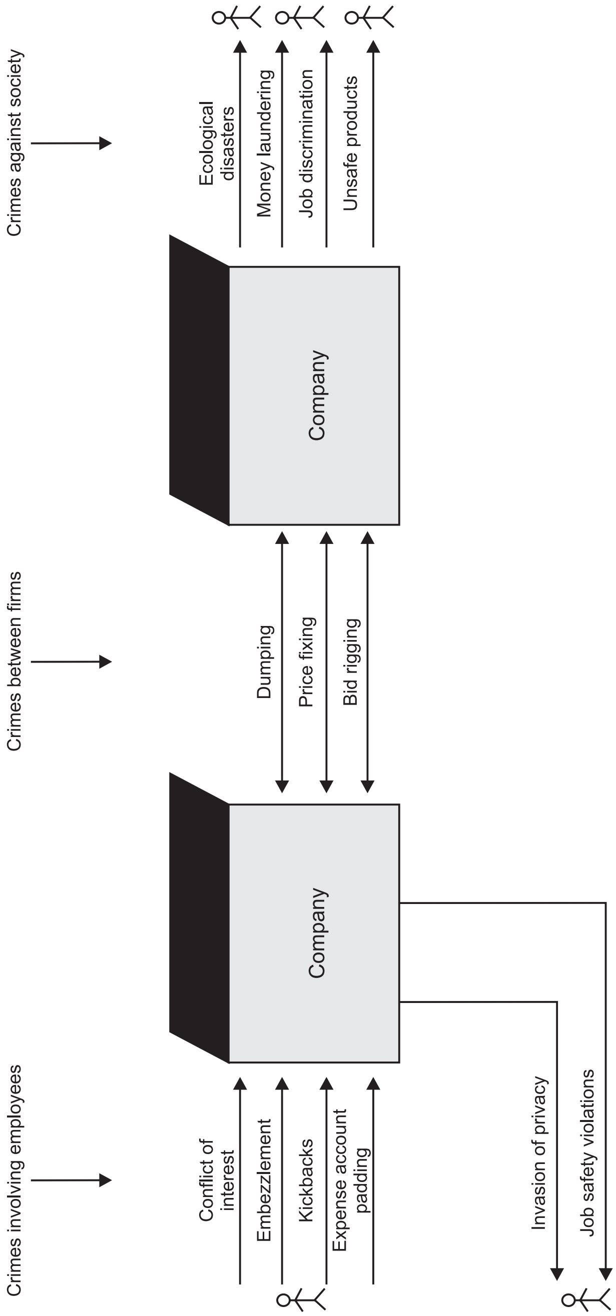


Fig. 10 *Ethical Imperfections*

(*Source*: Adapted from *Business and Society* by Frederic, Post and Davis, op. cit, p. 70)

Fourthly, sort out ethical priorities before problems arise. Prioritisation shall help consider alternatives when one is not under stress.

Fifthly, one should commit oneself publicly on ethical issues. He or she should identify potential areas of ethical conflict and make clear his or her opposition to padding expense accounts, stealing supplies from the company, price fixing, or damaging ecology. Once the stand is made clear, co-employees will be less tempted to approach with corrupt intentions.

Finally, ethical perfection, as stated earlier, is illusory. We live in a morally complex civilisation with profuse rules, norms, obligations, and duties existing like road signs that generally point in the same directions, but sometimes do not. No method of decision-making ends conflicts, no principle penetrates unerringly to the good, no manager achieves an ethical ideal (as the opening case indicates), particularly in situations as these:

A spokesman of the Animal Welfare Society revealed some telling details about the use of harmful hormones and chemicals like monosodium glutamate to fatten the chickens used by KFC (Times of India, *letter to the Editor, February 29, 1996). Earlier, Glaxo (India) had announced an incredible 175 per cent interim dividend. This is surmised to be a compensation for the UK-based company's investment of Rs 340 million to raise its equity holding from 32 per cent to 51 per cent. The declaration had come too soon after this increase to rule out such a connection. Even if this dividend were largely paid out of the sales proceeds of one of the divisions, still the question remains. Why repatriate large sums of these proceeds instead of investing them for business growth in India?* (Business Today, *January 22, 1996, p. 51) Similarly, another US company has recently patented an oil—extracted from the neem tree which grows in India. The medicinal properties of neem have been household knowledge and used in India in numerous forms from times immemorial. The implication of the above patent secured by the US companies seems to be that henceforth, neem oil cannot be used in India without paying royalty to this company.*

Realisation of the fact that there can be no ethical perfection helps a manager considerably.

Social Responsibility And Ethics In International Business

Till now we have covered the social responsibility and ethics of business in general, not particularly relating to international business. What is more important is to understand how an international business responds to society's expectations and undertakes social actions. It is equally important to understand how an international manager faces unique ethical problems while operating in overseas markets and how he or she resolves the dilemmas.

Social Responsibility and International Business

An international business faces several challenges while undertaking social actions. One such challenge relates to managing the type of government obtaining in a host country where subsidiary of an MNC is located. Militarised non-democratic governments operate in many countries of the world. Central America, for example, has been the scene of powerful military rulers and attempted takeovers in nations such as Panama, Nicaragua, Guatemala, and Elsalvador. 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. Low taxes, low wages, freedom from criticism in the press, and weak environmental rules and regulations are among the attractions that a military regime can create through its power. Still, if a company knows that human rights are suppressed, that military leaders are filling their own pockets with money that should go to the country, and that corruption and abuse of power are part of the standard operating procedure, business leaders must pause and think about long-term consequences. The strategic issue in this context is: Do the benefits of doing business in such a system outweigh the economic, human and social costs?

Secondly, 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.

Thomas J. Watson who led IBM from 1914 to 1956 firmly believed that trade between countries would help usher in peace. Hitler too convinced Watson that he (the former) did not want war. But Germany invaded France in 1940. Realising the mistake Waston tried to distance himself from the Nazis but IBM's German subsidiary provided a machine that was used in the Dachgu concentration camp. Watson had regretted this occurrence till his death.

Thirdly, 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. This has happened in basic or natural resources industries such as petroleum and mining. 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.

Intervention is at its extreme when a country expropriates a foreign firm's assets. The government assumes ownership of the property, without paying compensation. Fidel Castro nationalised billions of dollars of assets from the US firms in Cuba, in 1990, Iraq seized all of Kuwait's assets, including its oil fields.

Fourthly, 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 transpatation systems to ease the difficulties of employees. International business needs not only a proper physical infrastructure of airports, telephones, and fax machines but a social infrastructure as well. Whether the project is in the remote highlands of Papua New Guinea, the deep jungle of the Republic of Congo, or the desert city of Amman, Jordan, there are certain requirements that the host country must provide for the business to be successful. 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.

Fifth, 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, 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.

But the non-governmental organisations (NGOs) have succeeded in making MNCs conscious of CSR. NGOs include a motley crowd such as human rights, animal rights, environmental, labour, consumer, antipoverty, health care and religious groups. Many of these groups developed a close association with the United Nations which, besides its peace-keeping function, promotes international human rights and the development of interests of poor countries. During the 1990s, coalitions of NGOs pushed for a series of conferences sponsored by the UN for its members. Conferences were held on the environment (Riode Janero, 1992), population (Cairo, 1993), human rights (Vienna, 1994), social development (Copenhagen, 1995), and gender (Beijing, 1995).

These conferences engendered several positives. First, a series of declarations, resolutions, statements of principles, guidelines, and frameworks were made under UN auspices that shaped international standards for the conduct of MNCs and countries. Second, the conferences provided occasions for NGOs to interact and develop strategies for confronting organisations. Finally, and most important, they helped define and launch a new wave of global corporate social responsibility.

International businesses can meet the challenges if they design a corporate social strategy. The following questions are a good place to start the process:

- Are we being socially responsible in what we do? Do we meet the expectations of our host-country as well as our home-country? Would stakeholders in either country question our behaviour?
- Are we responsive to the stakeholders in each country where we do business?
- Do we treat employees, customers, suppliers, local communities, and others in a fair and just way?
- Do we recognise emerging issues, as well as immediate social issues, in the countries and communities where we operate? Are we anticipating change rather than just reacting to it?
- Do we abide by the host government's regulations and policies? Do we have good systems for ensuring that our employees and the agents who represent us follow our corporate policies?
- Do we conduct business in ways that respect the values, customs, and moral principles of each society? Do we recognise that there may be times when they conflict with principles of other societies? Are we ready to address these conflicts in positive ways? (Also see Exhibit 4)

Firms that address these questions before trouble strikes are better prepared to react to global challenges to corporate responsibility. They are better prepared to prevent crises, anticipate changes, and avoid situations that compromise the values and principles for which the firm stands. A corporate social strategy helps international managers achieve both the economic and the social goals of the firm.

International Business and Ethics

Two ethical issues are prominent in international business: bribery and corruption and work practices and worker remuneration.

Bribery and Corruption Bribery is a deliberate attempt to persuade someone (usually in position of power and authority) to act improperly in favour of the briber by offering money or gifts or any other material gain. Bribery has been at the root of corruption in many countries.

Exhibit 4

AREAS OF ETHICAL AND SOCIAL RESPONSIBILITY CONCERNS FOR THE MULTINATIONAL

Stakeholder Affected	Ethical/Social Responsibility Issue	Example Problems for the MNC
Customers	Product safety	Should an MNC delete safety features to make a product more affordable for people in a poorer nation?
	Fair price	Should a sole supplier in a country take advantage of its monopoly?
	Proper disclosures and information	Should an MNC assume the cost of translating all its product information into other languages?
Stockholders	Fair return on investment	If a product is banned because it is unsafe in one country, should it be sold in countries where it is not banned to maintain profit margins?
Employees	Fair wages	Should a company pay more than market wages when such wages help people living in poverty?
	Safety of working conditions	Should a company be responsible for the working conditions of its suppliers?
	Child labour	Should an MNC use child labour if it is legal in the host country?
	Discrimination by sex, race, colour, or creed	Should a company assign a woman to a country where women are expected to remain separate from men in public?
Host-Country	Impact on local economies	Should an MNC use transfer pricing and other internal accounting measures to reduce its actual tax base in a foreign country?
	Following local laws	Should an MNC follow local laws that violate home-country laws against discrimination?
	Impact on local social institutions	Should an MNC require its workers to work on religious holidays?
Society in General	Environmental protection	Is an MNC obligated to control its hazardous waste to a degree higher than local laws require?
	Raw material depletion	Should MNCs deplete natural resources in countries that are willing to let them do so?

(*Source*: John B Cullen, *Multinational Management*, p. 570)

Corruption is understood as the abuse of public office for private gain. The issue of bribery is controversial mainly because it depends on how it is defined and practised. In some Middle East countries, it would be perfectly acceptable to give a gift to an official or host as a token of appreciation for the time and consideration given. In Britain and US, however, such an act might be considered as an attempt to bribe for personal gain and might therefore be considered unlawful. The EU is in the process of legislating against any attempt by EU firms to offer bribes to their customers, wherever they may be. There are stories about dictators taking their share of business deals made with foreign companies as a bribe in return for a promise of favourable treatment for the firm concerned. The greater the value of a contract, such as a huge defense contract, the greater is the temptation to bribe in order to clinch the deal.

Bribery may be *malign* or *benign*. A benign bribe is one which benefits an economy by expediting and simplifying procedures, reducing bureaucracy, and reducing or eliminating unnecessary costs, thereby reducing prices and improving society's welfare. Malign bribery does the opposite and, in addition, leads to widespread corruption and a decline in public morals. So should an international firm offer a bribe to gain an unfair advantage over its rivals, bearing in mind that the firm offering the bribe may not necessarily be the one offering the best deal the host-country can afford? The answer obviously depends on the definition and practice of bribery adopted and observed in different countries and on the laws of the MNC's home-country.

Roots of Corruption Mere knowledge about the concepts is not enough. International managers should know why corruption occurs in the first place. He or she should know that corruption and decadence were first invented in ancient Rome. Knowing about the origins of corruption is the first step towards fighting unethical practices. There are quite a few occasions which increase the probability of indulging in corrupt practices. First, where legal framework and other anti-corrupt institutions are weak or non-existent, corrupt practices tend to originate as has been witnessed in many of the North-African countries. Second, high level and scope of government involvement in and regulation of economic activites make the officials become corrupt, particularly when their salaries are low.

Third, high levels of confidentiality prevailing with regulatory agencies leads to unethical practices. The Right to Information Act (RTI) which is in force in India is a welcome step towards making files transparent. Finally, culture tends to add to the corrupt practices. Uncertainty avoidance, power distance and masculinty tend to unethical decision-making. Corruption tandems with high uncertainity because unethical practices act as uncertainty reduction mechanisms. Masculinity tends to promote corrupt practices because they act as the means to gain wealth and power. Power distance is associated with paternalism, a system where a superior grants favours to subordinates in return for loyalty, permitting arbitrary judgement and hence corruption.

Work Practices and Worker Remuneration One of the main reasons for international firms to invest in production facilities abroad is to take advantage of the availability of relatively low cost labour in order to remain competitive in international markets. Indeed, they are actively encouraged to do so by host governments. The ethical dilemma facing an international firm is what type of technology it should employ in the host country. Inappropriate technology, especially in a Third World country, may fail to make sufficient use of the host-country's resources and increase its technology-dependence. Employing capital-intensive instead of labour-intensive methods of production may be cost-effective for the firm but fail to create many jobs in the host-country. One way out of this dilemma might be to bring in the appropriate technology that would create employment. However, increasing global competition might force the firm to employ the most cost-effective technology and production methods to remain competitive.

Because of the cultural differences explained thus far, one might expect an international firm to vary its work practices to suit the local culture and avoid ethnocentrism. But does this mean the firm should abandon its well-founded and efficient work practices developed at home for the sake of 'doing the right thing' in the host-country? For example, should Britain have denied Japanese firms the right to insist on single-union representation on the shop floor in Britain? What if the country in question is so desperate to attract foreign investment to help develop its economy that it is prepared to waive the usual health and safety regulations and workers rights? Should an MNC succumb to such an attraction? What happens if host-country work practices conflict with the firm's home practices? In many Western countries there are child labour laws preventing firms from employing children under a minimum age. But in other countries like India, Indonesia, and Thailand, there are few such laws and firms are free to employ children as young as 6 or 7. Should an MNC take advantage of the laxity of these rules or abide by its own ethical values?

MNCs are often criticised for exploiting workers in Third World countries. This criticism is particularly forceful in the case of MNCs paying unskilled or semi-skilled women workers' wages well below those in their own countries. MNCs argue that they create job opportunities for women who would otherwise remain dependent and continue their traditional subservient roles in society.

Many MNCs adhere to their own strict business ethics no matter where they operate. They insist that their licensees, franchisees, and other affiliates fulfill strict contractual obligations by observing minimum standards concerning working conditions, minimum age and wages of their employees, and health and safety regulations. This means the MNCs assume increasing responsibility not only for their own actions and business practices but also those of their suppliers. Levi and Nike, for example, guarantee their products to be manufactured by their foreign contractors under conditions acceptable to their global customers. International businesses have come under increasing pressure from various groups and agencies of global governance, such as the World Trade Organisation (WTO) and International Labour Organization (ILO), to observe and maintain acceptable standards of working practices and pay, and assume greater moral responsibility for their sub-contractors.

In addition, corporate strategy of the MNC must contain ethical orientation. An ethics-centered strategy requires a firm to do the following:

- Pursue business goals within the bounds set by society's values and moral principles. Business decisions and policies that show disrespect for these cherished beliefs are generally condemned by most members of general public.
- Respect human value diversity that is found among people and groups at home and abroad, in the workplace, and the community. People's notions of right and wrong vary considerably among societies, religions, historical periods, and ethnic groups. The wise corporation knows this and acts with care and understanding.
- Accept responsibility for nurturing ethical attitudes in business operations and for any negative impacts caused by the company. Business pressures that lead employees into unethical practices are a common problem. Ways exist for reducing these episodes.

National Differences in Ethics and Social Responsibility

Cultural differences affect the social and ethical practices of MNCs considerably. Figure 11 gives a single model of the relationships among national culture, social institutions, and business ethics.

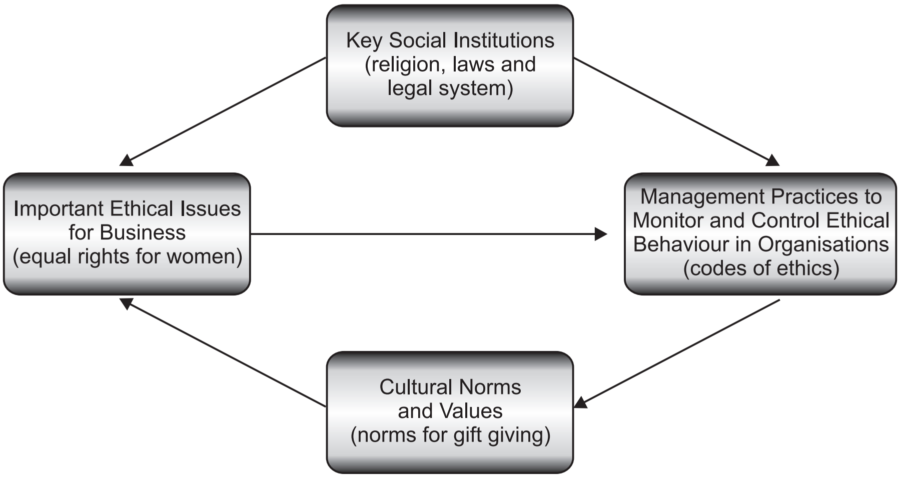


Fig. 11 *Institutional and Cultural Effects on Ethics and Management*

Cultural norms and values influence important business practices—such as how women and minorities are treated on the jobs, attitudes towards gift giving and bribery, and expectations regarding conformity to written laws. Religion and the legal system are the key social institutions that affect what ethical issues are important in a society and how they are typically managed.

The international manager lacks a comprehensive body of knowledge identifying exactly how national culture and social institutions affect business ethics and under what circumstances. Instead, most of the existing knowledge comes from anecdotal evidence from practitioners and the few research studies that have been conducted on the subject. Thus, the international manager can only infer from his or her knowledge of a country's social institutions and culture what ethical issues are important and how they are best managed.

Ethical Relativism or Ethical Universalism?

This question, at the outset, seems to be irrelevant because ethical behaviours are universal and are expected from all businesses, cultural differences notwithstanding. But the international manager often comes across a situation wherein he or she needs to "Do as the Romans do, when in Rome." He or she cannot impose his or her country's ethical values on people of other countries. Hence the concept *ethical relativism.*

Ethical relativism means that each society's view of ethics must be considered legitimate and ethical. This implies, if bribery is not unethical in a society, it is okay for an MNC to follow local practices, even if it is illegal at home. Ethical relativism, therefore, means that when doing business in a country, international managers need only follow local ethical conventions. The concept of ethical relativism is almost like that of ethical amorality explained earlier. But there is a difference. The theory of amorality justifies unethical actions if they benefit business. The theory of relativism suggests that business should follow local ethics, but not necessarily unethical actions.

The opposite of ethical relativism is *ethical universalism.* This principle holds that there are basic moral principles that transcend cultural and political boundaries. All cultures, for example, have rules that prohibit murder.

The theory of moral unity and the concept of ethical universalism seem to convey the same meaning. The theory of moral unity advocates the principle that business actions should be judged by the general ethical standards of society. There exists only one ethical standard that applies to business and non business situations in a given society. Ethical universalism stretches beyond the boundaries of a society. According to the universalism principle, there exist principles that are applicable to all societies.

For an MNC there are practical problems for following either ethical relativism or moral universalism. Ethical relativism is criticised by ethicists as a convenient way for indulging in unethical practices, using the excuse of cultural differences. They cite the example of abusing child labour in many developing countries to produce products that are used by MNCs.

Extreme moral universalism too has pitfalls. The assumption that one can identify universal ethics that all societies should follow can lead to cultural imperialism. Cultural imperialism makes international managers view cultures of other countries as inferior or immoral. This is particularly dangerous when the international business is a powerful one and has affiliates in developing countries.

Pressures for Ethical Convergence

Cultural differences notwithstanding, there are growing pressures on international businesses to follow the same rules in managing ethical behaviour and social responsibility. This is called *ethical convergence.* There are three reasons for ethical convergence.

1. The growth of international trade and trading blocks, such as the NAFTA and the EU, creates pressures to have common ethical practices that transcend national cultures and institutional differences. Predictable interactions and behaviours among trading partners from different countries make trade more efficient.
2. Interaction between trading partners creates pressures for imitating the business practices of other countries. As to people from different cultural backgrounds increase their interactions, exposures to varying ethical traditions encourage people to adjust to, imitate, and adopt new behaviours and attitudes.
3. MNCs that do business across the world have employees from varied cultural backgrounds who need common standards and rules regarding how to behave. Consequently, MNCs often rely on their corporate cultures to provide consistent norms and values that govern ethical issues.

Code of Conduct for an MNC

Just as domestic businesses have codes of conduct, so do the MNCs. These codes contain both proscriptive as well as prescriptive rules to guide the multinationals' behaviour. Prescriptive rules tell international managers and firms what they should do, while proscriptive rules tell them what they should not do. Exhibit 5 is a typical code of conduct for MNCs. The exhibit summarises ethical stipulations for the international firm derived from the following sources:

- The United Nations Universal Declaration of Human Rights
- The United Nations Code of Conduct on Transnational Corporations
- The European Convention on Human Rights
- The International Chamber of Commerce Guidelines for International Investment
- The OECD Guidelines for Multinational Enterprises
- The Helsinki Final Act
- The ILO Tripartite Declarations of Principles concerning MNEs and Social Policy

Decision Flowchart for an MNC

International manager, like his or her counterpart in domestic business, faces ethical dilemmas. Figure 12 contains a typical model that helps an international manager solve an ethical conflict.

The first task for an international manager is to consider the ethical and legal consequences of his or her actions. The legal consideration includes not only a test of whether a behaviour or its consequences meet legal standards in the home and host countries, but also a comparison against international standards. These standards come from the international agreements, treaties and conventions among nations.

The ethical analysis has three components: one's organisation, the national culture in which the business operates, and personal ethical beliefs.

In the organisational ethical analysis, managers must look to their written codes of ethics and the unwritten norms of the company culture. Many firms have ethical codes which guide managers' behaviours. In addition, all organisations have company cultures that have unwritten rules which prescribe or proscribe behaviours.

International managers are guests in other nations. As such, their ethical decision-making must go beyond legal constraints and follow company rules and cultural norms. The manager must ask himself or herself whether what they are doing is consistent with and respectful of local cultural norms.

An international manager may begin these analyses at different points. For some issues, one may consider personal moral beliefs first. For other issues it may make more sense to consider the law. At some point, however, either after considering all the forgoing or at any stage in managerial decision-making, the manager must make a personal moral judgement.

Exhibit 5

MNC'S CODE OF CONDUCT

Respect Basic Human Rights and Freedoms

- Respect fundamental human rights of life, liberty, security, and privacy
- Do not discriminate on the basis of race, colour, gender, religion, language, ethnic origin, or political affiliation
- Respect personal freedoms (e.g., religion, opinion)

Minimise any Negative Impact on Local Economic Policies

- Conform to local economic and development policies
- Avoid adverse effects on currencies and balance of payments
- Follow policies regarding local equity participation
- Provide truthful information for accurate taxation
- Pay fair taxes
- Source raw materials locally
- Reinvest profits in local economy

Maintain High Standards of Local Political Involvement

- Avoid illegal involvement in local politics
- Don't pay bribes or other improper payments
- Do not interfere in local government's internal relations

Transfer Technology

- Enhance the transfer of technology to developing nations
- Adapt technologies to local needs
- Conduct local R&D when possible
- Grant fair licences to use technology

Protect the Environment

- Follow local environmental-protection laws
- Actively protect the environment
- Repair damage to the environment done by company operations
- Help develop local standards
- Provide accurate assessments of environmental impact of the company
- Provide complete disclosure of the environmental effects of operations
- Develop standards to monitor environmental effects

Consumer Protection

- Follow local consumer-protection laws
- Ensure accurate and proper safety disclosures

Employment Practices

- Follow relevant manpower policies and employment laws of host nation
- Help create jobs in needed areas
- Increase local employment opportunities and standards

- Provide local workers stable employment and job security
- Promote equal employment opportunities
- Give priority to local national residents when possible
- Provide training opportunities at all levels for local employees
- Promote local nationals to management positions
- Respect local collective-bargaining rights
- Cooperate with local collective-bargaining units
- Give notice of plant closings
- Do not use threat of leaving country in collective-bargaining dealings
- Provide income protection to terminated workers
- Match or improve local standards of employment
- Protect employees with adequate health and safety standards
- Provide employees information on job-related health hazards

Summary

- Social responsibility, also called corporate social responsibility, refers to the actions taken by businesses which benefit society along with their own interests.
- Social responsibility has both supporters and opponents. Arguments apart, CSR has come to stay and even mandated also.
- CSR is based on certain principles such as corporators are economic entities, and the like.
- Cost, efficiency, relevance, and scope are the typical limits of CSR.
- CSR management involves action on several fronts such as leadership, mission statements, social issues and the like.
- Business ethics refers to good or bad and fair or unfair. Ethics have sources
- MNCs need to be socially conscious and ethically fair while conducting business across countries.
- Cultural differences affect the social and ethical practices of MNCs considerably.
- MNCs have their own codes. The codes contain dos and don’ts for international businesses.
- Decision flow chart is of great help to know whether or not an act is ethical, and if unethical what needs to be done.

Review Questions

1. What is social responsibility? Advocate why social responsibility is important? Irrelevant?
2. Define social responsibility. Trace the evolution of the concept of social responsibility.
3. Bring out the pressures leading to social responsibility.
4. How do firms implement socially responsive actions?
5. What are the limitations of social responsibility?
6. Define business ethics. Explain the sources of ethics.
7. What are ethical dilemmas? How are they resolved?
8. How does a firm manage its ethics?
9. Why is ethical decision-making difficult? How can the decision-making be made effective?
10. What is ethical relativism? Universalism?

Discussion Questions

1. "Doing international business poses challenges to managers so far as social actions are concerned." Elaborate this statement.
2. "Two ethical issues are prominent in international business: bribery and corruption and work practices and worker remuneration." Substantiate this statement.
3. "Corporate culture and ethical climate can put much pressure on people to channel their actions in certain directions." Discuss.
4. "Business's function is economic, not social, and economic values should be the only criteria to measure success." Elaborate this statement.
5. You are the head of purchasing department in a multi-crore firm. Point out the ethical conflicts you encounter. How do you resolve them?

Reinforcing Exercises

- The main reason behind Tata's massive social works is the ownership structure of the conglomerate. Tata trusts were established for the purpose of funnelling the personal wealth of the Tata family into CSR activities. Owners of Tata Sons, the holding company, are the trusts not individuals. Trusts get funds from dividends paid by Tata Sons every year. Tata Sons would not be known for its social work, was its ownership structure be like that of any corporate. What is your take on this?
- Social responsibility carries with itself moral dimension. It is immoral on the part of owners of a factory to allow untreated effluents into the open lake and make the water therein unsuitable for public consumption. It is equally immoral on the part of an automobile manufacturer to release unsafe cars, causing accidents that kill people. Precisely realising this moral obligation Toyota recalled 16000 cars from Germany in 2010. In 2007, the CEO of Toyota bowed before public in apology. Can you debate on the point that CSR has moral orientation.
- Corporate frauds in India have grown in size and number since 2008-09 as shown in Table 10. Comment on the contents of the Table.

TABLE 10 Value of fraud

	Total value of fraud (₹ crore) per year
2012	15,440
2011	66,880
2010	30,403
2009	1,38,074
2008	10,739
2007	2,803
2006	2,790
2005	1,500
2004	75,831
2003	3,030
2001	4,476
1997	26,000

(*Source: Mint*, February 4th, 2014)

Closing Case 1

Conscience or The Competitive Edge

The plane touched down at Mumbai airport precisely on time. Olivia Jones made her way through the usual immigration bureaucracy without incident and was finally ushered into a waiting limousine, complete with uniformed chauffeur and soft black leather seats. Her already considerable excitement at being in India for the first time was mounting. As she cruised the dark city streets, she asked her chauffeur why so few cars had their headlights on at night. The driver responded that most drivers believed that headlights use too much petrol! Finally, she arrived at her hotel, a black marble monolith, grandiose and decadent in its splendour, towering above the bay.

The goal of her four-day trip was to sample and select swatches of woven cotton from the mills in and around Mumbai, to be used in the following season's youth-wear collection of shirts, trousers, and underwear. She was thus treated with the utmost deference by her hosts, who were invariably Indian factory owners or British agents for Indian mills. For three days she was ferried from one air-conditioned office to another, sipping iced tea or chilled lemonade, poring over leather-bound swatch catalogues, which featured every type of stripe and design possible. On the fourth day, Jones made a request that she knew would cause some anxiety in the camp. "I want to see a factory," she declared.

After much consultation and several attempts at dissuasion, she was once again ushered into a limousine and driven through a part of the city she had not previously seen. Gradually, the hotel and the Western shops dissolved into the background and Jones entered downtown Mumbai. All around was a sprawling shantytown, constructed from sheets of corrugated iron and panels of cardboard boxes. Dust flew in spirals everywhere among the dirt roads and open drains. The car crawled along the unsealed roads behind carts hauled by man and beast alike, laden to overflowing with straw or city refuse—the treasure of the ghetto. More than once the limousine had to halt and wait while a lumbering white bull crossed the road.

Finally, in the very heart of the ghetto, the car came to a stop. "Are you sure you want to do this?" asked her host. Determined not to be faint-hearted, Jones got out of the car.

White-skinned, blue-eyed, and blond, clad in a city suit and stiletto-heeled shoes, and carrying a briefcase, Jones was indeed conspicuous. It was hardly surprising that the inhabitants of the area found her an interesting and amusing subject, as she teetered along the dusty street and stepped gingerly over the open sewers.

Her host led her down an alley, between the shacks and open doors and inky black interiors. Some shelters, Jones was told, were restaurants, where at lunchtime people would gather on the rush mat floors and eat rice together. In the doorway of one shack there was a table that served as a counter, laden with ancient cans of baked beans, sardines, and rusted tins of a fluorescent green substance that might have been peas. The eyes of the young man behind the counter were smiling and proud as he beckoned her forward to view his wares.

As Jones turned another corner, she saw an old man in the middle of the street, clad in a waist cloth, sitting in a large tin bucket. He had a tin can in his hand with which he poured water from the bucket over his head and shoulders. Beside him two little girls played in brilliant white nylon dresses, bedecked with ribbons and lace. They posed for her with smiling faces, delighted at having their photograph taken in their best frocks. The men and women moved around her with great dignity and grace, Jones thought.

Finally, her host led her up a precarious wooden ladder to a floor above the street. At the top Jones was warned not to stand straight, as the ceiling was just five feet high. There, in a room not 20 feet by 40 feet, 20 men were sitting at treadle sewing machines, bent over yards of white cloth. Between them on the floor were rush mats, some occupied by sleeping workers awaiting their next shift. Jones learned that these men were on a 24-hour rotation, 12 hours on and 12 hours off, every day for six months of the year. For the remaining six months they returned to their families in the countryside to work the land, planting and building with the money they had earned in the city. The shirts they were working on were for an order she had placed four weeks earlier in London, an order of which she had been particularly proud because of the low price she had succeeded in negotiating. Jones reflected that this sight was the most humbling experience of her life. When she questioned her host about these conditions, she was told that they were typical for her industry—and for most of the Third World, as well.

Eventually, she left the heat, dust, and din of the little shirt factory and returned to the protected, air-conditioned world of the limousine.

"What I've experienced today and the role I've played in creating that living hell will stay with me forever," she thought. Later in the day, she asked herself whether what she had seen was an inevitable consequence of pricing policies that enabled the British customer to purchase shirts at £12.99 instead of £13.99 and at the same time allowed the company to make its mandatory 56 percent profit margin. Were her negotiating skills—the result of many years of training—an indirect cause of the terrible conditions she has seen?

Once Jones returned to the United Kingdom, she considered her position and the options open to her as a buyer for a large, publicly traded, retail chain operating in a highly competitive environment. Her dilemma was twofold: Can an ambitious employee afford to exercise a social conscience in his or her career? And can career-minded individuals truly make a difference without jeopardising their future?

Olivia Jones described her subsequent decision as follows:

The alternatives for me were perfectly clear, if somewhat unrealistic: I could stipulate a standard of working conditions to be enforced at any factory employed, and offer to pay an inflated price for merchandise in an effort to fund the necessary improvements. This would mean having to increase the margins in other sections of the range and explaining to my controller exactly why prices had risen.

'There was no guarantee that the extra cash would make its way safely into the hands of the worker or improve his working conditions. Even exercising my greatest faith in human nature, I could see the wealthy factory owner getting increasingly fatter and some other keen and able buyer being promoted into my highly coveted position'.

'I could refuse to buy from India. This would mean I would have to find alternative sources at equally low prices to justify my action. There was always Macau, where I knew conditions were worse if anything, or Hong Kong, where conditions were certainly better, from what I had seen, but prices were much higher. I had to ask myself if I would truly be improving the plight of the workers by denying them the enormous orders that I usually put through their factories. Or would I simply be salving my own conscience by righteously congratulating myself at not dealing in slave labour? Doubtless my production schedule would be snapped up eagerly by the next buyer who was hungry for cheap labour and fast turn around.'

'I could consider speaking to the powers that be and ask their advice. After all, the group was proud of its philanthropic reputation and had promoted its charity work and sponsorship of various causes, including Wimbledon Football Club and Miss World. This in mind, I approached my line manger, who laughed at my idealistic naivety and made it quite clear that I should hold my tongue if I knew what was good for me.'

'It seemed I had but two choices. Either I quit the company and look for an employer which would be more responsible in its attitude towards sourcing merchandise, or I could continue to buy as before, but aware of the consequences and exercising a conscience wherever possible. I won't bother to list my excuses for opting for the latter choice.

'I believe that there is no solution, or generalisation which can be used as a precedent in this type of scenario. I don't know to this day what action I could have taken to improve the lives of those individuals who I felt I had compromised.'

'Every day, in various work situations, employees, and specifically managers, come up against questions of conscience versus the status quo. You may be encouraged to show prejudice against an individual or group of employees due to their race, colour or clique; may be your boss asked you to lie to camouflage an embarrassing error and insinuate that the fault lies with someone else; may be your employer's policy requires you to screw a client or a supplier to close a deal and maintain the bottom line.'

'Each case is different and demands its own evaluation. Each man and woman must draw their own set of rules and regulations to suit their own situation and conscience.'

'It takes brave individuals to jeopardise their careers for a cause but it is thanks to those who do take a stand that great feats of humanitarian work are successfully undertaken and completed. We should all evaluate the choices that are open to use and be true to ourselves. Let your conscience be your guide within the realms of reality.'

'The most important lesson that I learned from the episode was that above all, you have to learn to live with the choices that you make'.

Questions

(i) What ethical dilemmas did Jones encounter?
(ii) Do you think that the lesson Jones learnt is the right one.

Closing Case 2

One-Minute Moralist Revisited

Here are certain issues on which the international manager does not have definite answers:

1. International Telephone and Telegraph (ITT) is an extreme example of an MNC interfering in the local affairs of a host country. ITT had a profitable subsidiary company in Chile. It feared reduced profits in anticipation of nationalisation by the government if a Marxist candidate for President, Salvador Allende, were elected.

   ITT attempted to block Allende's election through a series of manoeuvres: ITT bankrolled Allende's opposition, including conservative newspapers. It lobbied Chilean legislators who would play a role in confirming the next President. It sought the support of the CIA in creating economic disruptions that would prevent Allende's ascent to presidency. Even after Allende assumed office in 1970, ITT continued its attempts to undermine him through economic disruption by limiting credit, by political propaganda, and even through a boycott of Chile's important copper export trade. Allende was eventually overthrown by a right wing military coup in 1973.
2. Developing countries need to have access to markets in high-income countries to sell their products. Many emerging economies have domestic markets of limited size, and their trade with each other is not significant. For example, Latin American countries, on an average, export only about 10 per cent of their products to other countries in the region, but almost 20 per cent of them to the US. However, politicians in rich countries are sensitive to increased imports which could lead to unemployment. That could lead to protectionist measures to limit low-cost imports from low-wage developing countries.
3. It is often argued that nations should use trade policies to pressure other countries to change certain policies. For example, countries engage in limited trade with Iraq in order to weaken its repressive dictatorship; with India to protest against its nuclear tests; with Malaysia so that it will prohibit abuse of child labour; with Taiwan so that it will curtail trade of endangered animals; and with Brazil so that it will restrict the cutting down of Amazon forests.
4. Acme Boots announced it was moving out of the US in order to gain tax advantages in Puerto Rico. The move stranded its US employees, some of whom had 30 years of service with the company. Many critics of FDI argue that it is unethical for governments to lure companies away from existing locations by offering them lucrative incentives to move.
5. The US government often gives aid as a bribe, with an understanding that the host country will grant political concessions in return. Governments use high-level official visits and lobby aggressively to help their home-based companies to gain foreign business. For example, the US government has paid for ministry heads of countries to visit the United States when a US company is bidding for a contract, and has given scholarships to family members of officials who can ensure business opportunities to their companies.
6. Tobacco giant Philip Morris spent $75 million on charitable contributions in 1999 and then launched a $100 million advertising campaign to publicise them.
7. The Queen of England wished to buy chocolates from the grandfather of Sir Adrian Cadbury to be sent to each soldier serving in the Anglo-Boer war in South Africa. But Cadbury was opposed to the war and was uncomfortable reaping a profit from such a transaction. On the other hand, he was striving to take the company forward, and this would mean additional business for the firm. He decided to accept the order, but supplied the goods at cost price with no profit. The firm benefited from the order, but he did not reap a financial gain at the expense of the war.
8. Milan magistrates are investigating Europe's biggest and spectacular corporate scandal, where an equivalent of some ₹ 25,000–50,000 crore cash in euros, have just vanished from the company's Cayman Island (tax haven) accounts. According to the investigating magistrates, the founder of the Parmalat Company, which employs about 39,000 staff, himself instigated a fraud plan which has led the company to the verge of bankruptcy.

The Italian authorities investigating Parmlat's slide into bankruptcy have accused Calisto Tanzi, its founder, of initiating a complex chain of financial schemes that has brought the huge dairy and food chain giant crashing down. Tanzi has now admitted to misappropriating about euro 500 million over seven or eight years, according to Italian investigating authorities.

9. An US apparel designer sells to major US department stores and retailers. Several years ago the firm decided to procure clothing sewn in India and Pakistan, resulting in tremendous cost savings when compared to having the work done in the United States. In making this decision, the firm considered its impact on the American families which depended on the income from these jobs. The firm, however, opted for cost savings, seeing its responsibility to produce a profit for shareholders as more important than providing jobs at home. Now, however, it finds that its contractor in India is overworking and abusing child labour in violation of internationally accepted standards for the treatment of children in the workplace. The Indian government shows little interest in policing its own labour policies. The sad story of these Indian children is run on national television and appears in the national press.
10. A firm enters into a contract to sell drilling equipment to a Korean company. The contract is sealed when the Korean company president is visiting the US plant. Subsequently the Korean executive points out that all imports to Korea must be channeled through a registered "local agent". He quickly suggests that a wholly-owned trading company that he owns could handle all of the paperwork—for a fee.

    Assuming you are the one-minute moralist, offer your views on each of the above case situations.

CLOSING CASE 3

A TRUE CSR

What India needs most and what has been regrettably neglected till now is primary education. Large number of people do not know how to read and write as a result. Now that the right to education has been mandated, things are likely to improve in the years to come. But we have to wait for long to see the improvement.

However, Sunil Mittal had no patience. The man who has built a telecom empire with above 140 million subscribers is all set to build 550 schools to educate 100,000 poor children, deep inside India's villages. "I knew we needed to do something that would create an impact. My mind was working at building a core around our giving activities.

When I discussed this with Rakesh (elder brother) and others, we wondered what kind of activity would have a multiplier effect. And I knew it would be education, especially in villages where schools are not available for the poorest of the poor. I firmly believe that if you teach a child, chances are that eventually this benefits the whole family.

Another factor also set me thinking. We had given crores to the Indian Institute of Technology (IIT), New Delhi, and while it (Bharti School of Telecommunication Technology and Management) was and is a great project, I felt that the output was very poor – in the sense that the number of students who qualified on that money was no more than 100 a year. In effect, we were spending very large amounts of money on high-quality education but it benefited a few.

I like scale; everything we do is done on a large scale. I felt that the money that had gone to IIT would have worked much longer had we done primary education.

This is where our shift in focus came, and we decided the Bharti Foundation would build and run 500 primary schools across the country.

If we wanted to scale up our philanthropic activities, then we had to have focus on one area. We decided to put in ₹ 200 crore from our own funds into the Bharti Foundation corpus towards this and started the programme around 2006."

Table 11 shows the progress made till now towards eradication of illiteracy.

All these schools are being run by Bharti Foundation set up in 2000 with a corpus fund of ₹200 crore. The foundation is the philanthropic arm of Bharti Group. Cost incurred to run the schools amount to ₹ 28 crore per annum. This project is the largest intervention by a business house and the largest affirmative action initiative in the country.

TABLE 11 Scaling up

Schools:	
Primary	233
Elementary	12
Sr. Secondary	5
States Covered: Punjab, Haryana, W.Bengal, UP, Rajasthan, Tamil Nadu	
Owned by Bharati Foundation	187
Adopted from Rajasthan Government	49
Student Strength	30,000
Fee	Free
Number of backward caste students	21,000
Teachers	1,100
Other support staff	500
Number of backward caste teachers	770
Initial cost of starting a school	₹ 20 lakh
Initial cost of renovating an adopted school	₹ 5 lakh
Annual running costs	₹ 12 lakh per school
Number of shifts	2
Number of teachers/school	5-7
Average teacher salary per month	₹ 4,500
Average head teacher salary/month	₹ 7,000

All the schools are built according to a blue print drawn up by a Delhi-based architect. Each school is located in half an acre of land and has five classrooms (for standards 1 to 5) and a staff room. Other facilities include toilets, a vegetable garden and a playground. Every school has Internet connection.

The Bharti Group's managerial skills are evident in the way these schools are run. Like every group company, the Bharti Foundation has a CEO, under whose leadership all the schools are administered. Sunil Mittal, of course, visits them at random. His elder brother, who heads the group's CSR activities also takes interest in running the schools.

A boy or a girl can study up to secondary school and what happens next remained a big question. The Foundation has found an answer too. Skill building initiatives are undertaken for all the students in their final years in the secondary school. Boys and girls can pursue their studies, if they can, or take up jobs based on the skills they have acquired.

The Sathya Bharti School programme (name of the umberella running the schools) now works like an organisation; each school follows the standard operating model. Each school is a photo copy of another. Curriculum is developed by the Foundation and is applicable to all the schools.

Teacher training is accorded lot of importance. Teachers are trained to teach through visual effects. They are discouraged to adopt the rote method.

It is typical of Sunil Mittal as a professional. He tried several models of CSR. For instance, he wrote cheques in favour of NGOs and extended financial support to governments. He was not convinced. Sunil Mittal studied the US model where individuals and corporates had pledged long-term commitments towards social responsibility. In 2006, he even visited the Gates Foundation in Seattle and had lunch with Bill Gate's father. He also went to the Rockfeller Foundation. He was inspired and was convinced that direct intervention would do. He precisely did that.

Bharti's business partners pitched in to supplement the Foundation's initiatives. IBM is installing a computer in every school with games and other features that are meant for education. PWC and E&Y are auditing the Foundation books of accounts free. Deutsche Bank has adopted four schools and WalMart has accepted one. Sunil Mittal's is a true and genuine CSR initiative.

Questions

1. Do you think what Mittal has done is on the right lines? If not, what suggestions can you offer?
2. Can other organisations replicate Mittal's model of CSR?

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