Volume : 3 | Issue : 7 | July 2014 • ISSN No 2277 - 8179

Research Paper

International Business

KEYWORDS : Social Responsibility, Ethics, Global business, MNC

Social Responsibility and Ethical Issues in Managing Global Business

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ABSTRACT

Managing global business is not easy as the corporate world is full of young bright businessmen and one minute-moralists. Social responsibility and ethical issues needs to be managed for managing global business. Social responsibility 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. Business ethics refer to the application of ethics to business. An international business faces several challenges while undertaking social actions. Certain ethical issues are prominent in international business like bribery & corruption and work practices & worker remuneration. Every MNC should take care of certain areas of ethical and social responsibility while operating in global environment. MNCs need to develop code of conduct for managing certain issues. This paper focuses on social responsibility and ethical issues involved in managing global business

Introduction

Global business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. These transactions take on various forms, which are often interrelated. Primary types of international business are import export trade and foreign direct investment (FDI). The latter is carried out in varied forms,including wholly owned subsidiaries and joint ventures. Additional types of international business are licensing, franchising, and management contracts.

As definition indicates, and as for any kind of domestic business, "satisfaction" remains a key tenet of global business. Beyond this, because transaction environmental factors, to different-constraints, and to quite frequent conflicts resulting from different laws, cultures, and societies.

The basic principles of business still apply, but their application, complexity, and intensity vary substantially. To operate outside national borders, firms must be ready to incorporate international considerations into their thinking and planning, making decisions related to questions such as these:

- How will our idea, good, or service fit into the international market?
- Should we enter the market through trade or through investment?
- Should I obtain my supplies domestically or from abroad?
- What product adjustments are necessary to be responsive to local conditions?
- What threats from global competition should be expected and how can these threats be counteracted?

When management integrates these issues into each decision, international markets can provide growth, profit, and needs satisfaction not available to those that limit their activities to the domestic marketplace. Managing global business is not easy as the corporate world is full of young bright businessmen and one minute-moralists. Social responsibility and ethical issues needs to be managed for managing global business. This paper focuses on social responsibility and ethical issues involved in managing global business

Social Responsibility

Social responsibility 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 that 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 by one way or 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 comtemplating any action.

What is significant is that CSR makes a corporate accountable for any of its actions that affect people, their communities and environment. Successful companies need a healthy society. Education, healthcare and equal opportunity are essential to a productive workforce. Safe products and working conditions attract customers and minimize the cost of accidents. A healthy society in turn will create additional demand for business as more human needs are met and aspirations grow.

Money spent on CSR

The PAT figure for each company is taken from its annual report 2011-12. The PAT and CSR spent amount are in INR Millions.

Table1: "Table showing amount of CSR spent"

Name of the Company	PAT 2011-12	CSR spend 2011-12	2% of PAT 2011-12	CSR Rank
Tata Steel	53,898	1,460	1078	1
L & T	44,565	700	891	2
Reliance	197, 240	2880	3945	3

Source: CSR 10 India Index 2010

In the top 10, Tata Steel is the only one that has a CSR spend of more than 2% of its profit-aftertax.

All others have to still ramp-up their act. It is also interesting to see a Tata company leading the ranking and another languishing at the bottom. Larsen and Toubro seem to be quite close to the mark in terms of percentage and even the amount of increase it needs to make in the coming years is not very high. Reliance Industries has a relatively high percentage, however in coming years it may need to increase its CSR spending by around INR 1 billion.

The Evolving Idea of Social responsibility

In the last 40 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. The view that total social responsibilities are broader then 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 fundamental reason why the concept and range of social responsibilities have expanded is that accelerating industrial activity continuously changes society.

Business Ethics

Ethics refer 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 refer to the application of ethics to business.

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Managing Ethics

Top management: Top management commitment is necessary to ensure ethical standards in a firm. The chief executive should consciously avoid strategies and actions harmful to employees and society.

Code of Ethics: Codes vary from book-length formulations to succinct statements which in one or two pages express a general philosophy for managing conflicts. The purpose of code is to provide guidance to managers and employees when they encounter an ethical dilemma.

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

Ethics Hot Lines: In some firms, when employees are troubled about some ethical issue they 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.

Ethics Training Programmes: Nearly all companies that take ethics seriously provide training in ethics for their managers and employees. Such programmes acquaint company personnel with the official company policy on ethical issues.

Ethics and Law: Law and ethics aim at one thing-defining proper and improper behavior. But the two are not quite the same. Laws are the society's attempt to formalize –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 then written rules. Ethics deal with human dilemmas that frequently go beyond the formal language of law and the meanings given to legal rules.

Social responsibility and ethics in 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.

Military regimes present serious conflicts and strategic problems for international business leaders. 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.

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 to shape and regulate foreign investment, attempting to lure investors but also trying to prevent excessive manipulation by them.

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. 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.

But the NGOs have succeeded in making MNCs conscious of CSR. These conferences engendered several positives. First, a series of declarations, resolutions, statements of principles, guidelines, and frameworks were made under UN auapices 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 organizations. Finally and most important, they helped define and launch a new wave of global corporate social responsibility

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 briber by offering money or gifts or any other material gain. Bribery has been at the root of corruption in many countries. 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 practiced. 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.

Work Practices and Worker Remuneration: The ethical dilemma facing an international firm is what type of technology it should employ in the host country. Because of the cultural differences, 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? What happens if host country work practices conflict with the firm's home practices?

MNCs are often criticized 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

Table 2: "Table showing areas of Ethical & 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 codt 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 then 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 forerign 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 then 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

National differences in Ethics and Social Responsibility
Cultural differences affect the social and ethical practices of MNCs considerably. 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 affects business ethics and under what circumstances.

Ethical Relativism or Ethical Universalism?
This question, at the outset, seems to be irrelevant because ethical behaviors are universal and are expected from all businesses, cultural differences notwithstanding. But the international manager often comes across a situation where 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.

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.

For an MNC, there are practical problems for following either ethical relativism or moral universalism.

Pressures for Ethical Convergence
Cultural differences notwithstanding, there are growing pressures on international businesses to follow the same rules in managing ethical behavior 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.
2. Interaction between trading partners creates pressures for imitating the business practices of other countries.
3. MNCs that do business across the world have employees from varied cultural backgrounds who need common standards and rules regarding how to behave

Conclusion
CSR has come to stay. Corporations across the globe allocate money for social actions. Indian firms are no exception. MNCs encounter certain problems while implementing CSR. Thanks to the efforts of NGOS, MNCs have clear guidelines to undertake social actions.

Ethics refer to a system of moral principles –a sense of right and wrong. Business ethics have been derived from religion, legal system and cultural experiences. Ethics can be managed through codes, training, legal system and ethics committees. Ethical issues in international business relate to bribery, corruption and work related practices and compensation. Ethical dilemmas crop up too often and needs to be managed.

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