Business Ethics And Social Responsibility Strategies For Foreign Subsidiaries

Yezdi H. Godiwalla, University of Wisconsin-Whitewater, USA

ABSTRACT

Multinational corporations (MNC) operate in multiple, diverse and complex global environments, making it not only interesting but challenging to pursue business ethics and social responsibility strategies. They have to formulate and execute business ethics and social responsibility strategies to suit the culturally diverse and differing operating conditions of the countries in which they operate. The culturally generated social mores and values are vastly different in an MNC's multiple country environments. The peoples of different countries have different expectations of what should be the foreign corporation's performance of business ethics and social responsibility.

Keywords: (Global) Business Ethics; (Global) Social Responsibility; International Management

INTRODUCTION

A globally sprawling MNC, with the scope of its markets and suppliers in many countries, should create strategies for managing itself in its multiple and diverse cultural and operating task environments. Its ability to have insights about each of its country cultures and operating task conditions and their challenges would be the basis to correctly develop effective business ethics and social responsibility strategies. The need for a country-by-country, fully customized strategy formulation would make the process very complicated and challenging.

One solution to overcome this challenge of dealing with complexity is to have a hybrid approach. An MNC should simultaneously pursue on the one hand a common set of broad standardized values and philosophy for business ethics and social responsibility, and, on the other hand, many tailor-made, detailed set of specific business ethics and social responsibility strategies for the different countries.

Thus, there are effective ways of dealing with the problem of managing in diverse, varying cultural environments is a certain challenge for an MNC. Social responsibility expectations, which reflect a country's culture, vary from country to country. An MNC operating in diverse cultural environments would encounter diverse social responsibility expectations from among the countries of its operations.

The task of managing its social responsibility strategies across the countries of its operations is as interesting as it is complicated. It can be torn between following a standardized, common global policy, and, customizing to each country's culture and social responsibility expectations.

THE PURPOSE OF THE PAPER

The purpose of the paper is to provide a method by which an MNC may satisfy its two important business ethics and social responsibility needs: (a) the desire to have a common global social responsibility policy, and (b) the desire to customize to each country culture's social responsibility expectations. It is worthwhile for an MNC and its foreign subsidiaries to ensure that each of its foreign subsidiaries must simultaneously satisfy: (a) host country's local needs, and (b) the MNC's core business ethics and social responsibility philosophy and values.

A LITERATURE REVIEW AND DISCUSSION

Business ethics and social responsibility are often treated together or, at least, considered as allied issues in the literature. The focus of each is often not altogether unrelated, depending upon the scope of the topics under consideration.

Much of the literature on business ethics focus on the clear imperative need to know the right from the wrong, and, the strong obligation to choose the morally correct choice irrespective of the costs involved or the lost opportunity in making the morally correct choice. This is often emphasized in light of the often aberrations of the ethical conduct.

Much of the literature on social responsibilities provides a wide range of activities, from very modest beginnings to a significant involvement in community activities. On the one hand, there is the strong profit oriented responsibility for the benefit of the stockholders, as a strong mandate from the fundamental economists who would view an organization purely as an economic entity. On the other hand, there is a more liberal and socially conscious view of an organization that is considered to having a focus upon succoring those in distress in the segments of the society. The diversity and breadth of views will vary in the literature, often affecting the strategic orientations of an organization and the future relationships that it would have with its society.

Archie Carroll (1991) provides a useful set of overlapping priorities for business ethics and social responsibility activities. This is layered and it bears an implication that the desirable thing for an organization to do is to pursue an upward climb for its improvement along the layers. One may interpret that an organization should first satisfy the lower three levels, and, then it may maximize the same three levels. Only after that, it may pursue the fourth level. Level 4: Philanthropic responsibilities; Level 3: Ethical responsibilities; Level 2: Legal responsibilities; Level 1: Economic responsibilities.

Therefore, it may be said that for an organization to pursue extended and serious philanthropic giving, it must first perform efficiently in the economic sense and turn at least a decent profit, and provide a yield to its stockholders. The pursuit of a reasonable profit that is achieved in a legal and ethical manner is not only acceptable but also desirable. One cannot accept the tenet that a badly performing organization in the economic dimension should further distract itself by also performing expensive acts of social kindness. It needs to first set its economic house in order before giving out charity at an undue cost to its stockholders. An organization must first justify its economic existence, sustain itself, and fully meet its economic obligations as it runs its business activities. That is to say, an organization must first turn a reasonable or a good profit on a continuous basis before doing any serious social giving. Such a pursuit of the profit motive is a capitalist ideal that is tempered by socially responsive conscience where the economic performance is seen as a necessity and a most helpful threshold for launching sustainable community and socially focused programs.

Literature on the subject is full of many different views. The diverse views for social responsibility are interesting as we understand the many scholars deal with the subject in their own ways. Some feel of diversity of views may be felt as we study the few references listed here: Asgary & Mitschow (2002); Brady, Crittenden, Hoffman & Robertson (2002); Cottrill (1990); Clikeman (2004); Donaldson (2003); Freeman & Gilbert (1988); Freeman & Liedtka (1991); Grant (1991); Kraft & Hage (1990); Salbu (1993); Saunders & Thorne (2002); Snider (2003); and Stoffman (1991).

It is likely that in many instances a good number of researchers in the subject may even agree that firms must pursue some form of sustainable social responsibilities programs in the long run, particularly as those programs that would benefit the organization in the long run. However, they have disagreeing philosophies about how the programs and activities should be poised and pursued. A good number emphasize the a-priori ethical conduct in business is fundamental requirement to social responsibilities programs that should come afterward (Armstrong, 2003; Asgary and Mitschow, 2002; Brady et al, 2002; Donaldson, 2003; Epstein, 1987). Another set of researchers, however, would argue that the stakeholders approach is a good core concept for developing social responsibility activities (Cottrill, 1990). Another set of researchers would emphasize a strategic approach to social responsibility and they would argue that “strategic management must start with a strong moral, ethical and socially responsible

core” (Epstein, 1987; Freeman and Gilbert, 1988; Kraft and Hage, 1990). A set of researchers would argue against the Milton Friedman school of “pure economic” school of thought, i.e., firms should single-mindedly serve the stockholders and that there is no place for social responsibility for a firm which is an economic entity (Grant, 1991; Stoffman, 1991). For researchers of international business, we may cite the cultural gap and divide as a major challenge for MNCs to formulate effective global social responsibility activities (Asgary and Mitschow, 2002; Brouthers and Brouthers, 2001; Saunders and Thorne, 2002; Snider, 2003; Wozniak, 1997). These concepts clearly argue for the need to integrate the various views of social responsibility that is based upon an ethical and moral core and that firms must give back to society because it gets so much from society. J. R. D. Tata, the erstwhile and most legendary patriarch of Tata group of companies in India, sets it forth clearly: “What comes from the people must go back to the people”.

This wide range, along with alternative and varying methods of social responsibility action, can be sustainable only if the organization is consistently performing profitably. Implicit in the sustainable concept is that an organization must show at least a reasonable growth. Growth may be manifested in terms of growth in sales revenues, market shares, product innovation and augmentation, product range expansion, target market segment expansion, product application enlargement, organizational development and career development of its employees, improved competitiveness, and sustained total quality management. Organizational growth and improving profits are interrelated. So too are profits and sustainable social responsibility.

These two paired relationships make organizations a vehicle of efficient resource utilization and its role as a social organ in society. Thus, an organization, a social organ with economic goals, must properly exist in its society. Otherwise, the society may find it undesirable to support the organization in its midst.

This leads to the idea that an organization, because it is a part of the society, must bear additional responsibilities beyond profit performance, particularly to the larger community. This is well articulated by Freeman and Gilbert (1989, p. 89): “Firms are social entities, and so they should play a role in social issues of today. They should take seriously their ‘obligations to society’ and actively fulfill them.”

Social responsibility is culture bound. It reflects the values and customs of a society. Each country, or a region of a country, has its own unique culture. Each unique culture places upon its organizations unique expectations for their conduct, whether the conduct refers to their internal operations, or to externally oriented business transactions, or even to externally oriented non-business transactions. This would include expectations of social responsibility activities. On-going interactions between a society and an organization build a bridge of relationship between a society and the organization.

Such a bridge or relationship between an organization and society should be a happy one; otherwise the society may ill regard the organization even if it was a most efficient utilizer of its resources and even if it was a remarkable profit generating machine. Thus, an organization must not only conduct its business activities efficiently and within the spirit of the law of the society, but it must also pursue responsible conduct beyond the strict definition of business activities, i.e., social responsibilities.

The concept of the stakeholder approach is useful in the study of an organization’s social responsibility. Scholars seem to use the stakeholder approach to facilitate social responsibility action. For example, Epstein (1987, p. 104) posits the stakeholder approach as a cause-effect relationship between an organization’s social responsibility and the effect upon its stakeholders. He views social responsibility as: “relating primarily to achieving outcomes from organizational decisions concerning specific issues or problems which have beneficial rather than adverse effects upon pertinent stakeholders.”

Further, an organization, including its foreign subsidiary unit operating in its host country society, would perform better if it pursues the stakeholders approach to better integrate and coordinate the valid needs of all its stakeholders. Freeman and Liedtka (1991, p. 97) express this sentiment: “If we come to see corporations as connected sets of stakeholders, all of whom are ‘in it together’, then we are able to live in a way that doesn’t carve up the world into ‘economic, social, political, and technological’ parts.” As a continuation of the above argument, it may then be said that an MNC must satisfy its headquarters’ stakeholders, and, all its foreign subsidiary units must simultaneously also satisfy their respective stakeholders.

Further, as we have stated before, social responsibility expectations are embedded in the culture of a given society, therefore cultural differences among countries make it necessary for an MNC to study the cultural divide among its countries of operations and decide how it would develop its social responsibility agenda. This viewpoint of cultural distance or differences is widely expressed in the international business literature. An example of the additional challenge placed upon an organization operating in multiple, diverse, cultural environments is that of Wozniak (1997, p. 1) when he states: “Business behavior emanates from the complex set of factors that define a culture. These factors include how we perceive the environment, time, power, structures, space; the emphasis we place on relationship or tasks, on individuals or the collective; how we think and communicate. Confucianism focuses on collective order and hierarchy. The social corporatism of Sweden stresses social class and equality of results.”

For cultural dimensions in international business, the literature often uses Hofstede’s five cultural factors of uncertainty avoidance, power distance, masculinity-femininity, individual-collectivism, and Confucianism. Although there is some debate about these factors and how valid they may be in this context, they are most widely accepted and they are validated by previous studies. They are “regarded as the most extensive examination of cross-national values in a managerial context” (Brouthers and Brouthers, 2001, p. 188, item 4).

To conclude, an MNC may find it beneficial to focus on its social responsibility endeavors, adapting them to suit its various home and host country cultures and stakeholders.

CONCLUSIONS FROM LITERATURE REVIEW

Earlier discussions in literature review provide useful ideas. Ideally speaking, some of these may be summarized here in a “normative” manner. Many of these perspectives are incorporated in the three models.

To the extent feasible, many of the following tenets that are derived from the discussions on the literature review may be applied in foreign unit’s social responsibility situations. Social responsibilities process of an MNC must be viewed as important and integral parts of strategic management. Social responsibilities of an MNC must be broad and specific; that is, they must be broad enough to be global or “universal,” and specific enough to be applicable to the unique social responsibilities situation of each of its host countries. They should be wrought after a well-coordinated application of stakeholder approach. The stakeholders of the MNC’s home country and of each of its host countries should be taken into consideration in the application of the stakeholder approach. The economic or profit performance of the overall MNC and that of the foreign unit must be taken into account, that is, social responsibilities action should be after achieving a sustained satisfactory profit performance of a well established foreign unit. If a foreign unit is in its infancy establishment stage, the MNC headquarters may approve a modest social responsibilities scope and outlay for the initial years of a new foreign unit. Social responsibilities programs must be a long term planned approach that simultaneously reflects both local needs and corporate capabilities. Cultural differences among the MNC’s countries of operations should be fully addressed, that is, MNC headquarters must be as sensitive to the host countries’ cultures to the extent feasible. The level and scope of involvement of social responsibilities programs would be more effective if the MNC and its foreign unit took into account the realities of host country’s social programs, civic infrastructural facilities, and, the expectations of host country people with respect to the foreign unit’s social responsibilities actions.

DISCUSSION ON THE MODELS

There are various conceptual implications from the concepts in literature reviewed in the foregoing. These concepts are important as we formulate ideas and develop models that portray a perspective of understanding the issues of business ethics and social responsibility in MNCs and its foreign subsidiaries. The models, which are provided in the following, are also discussed.

Country Culture and Social Responsibilities of a Foreign Unit

The MNC headquarters home country culture might often be an anchor for the MNC’s global social responsibilities plans. However, because an MNC has a multi-cultural composition, it must analyze and adjust to

the differing cultures for its social responsibilities strategies. It must view the global, basic issues as well as the unique cultures of each country.

The MNC has to be conscious of both a set of fundamental universal common, generic core values for social responsibilities, and, a customized approach for the unique details of social responsibilities of each country culture. Universal fundamental core social responsibilities attributes must reflect the current broad trends of social changes across the world. This approach is relevant for the MNC as a whole for its overall social responsibilities strategies. While for the foreign unit, the approach is more focused and strong adaptation. The country culture-specific expectations must drive the details of foreign unit's country-specific social responsibilities strategies.

Figure 1: National Cultures and Business Ethics and Social Responsibilities of Each Foreign Unit of an MNC

Stakeholder Approach and Social Responsibilities

The literature review provides a strong emphasis for the adoption of stakeholder approach as a basic for coordinating social responsibilities strategies. Figure 2 views stakeholders at both unit of analysis: the MNC headquarters, and, the foreign unit. This approach should lead to better coordination and formulation of social responsibilities goals and strategies for the overall MNC and for each foreign unit. The figure provides an approach to formulate the broad global core values of social responsibilities as well as country specific strategies.

Figure 2: Stakeholder Approach of Business Ethics and Social Responsibility Goals and Strategies

Major Factors Determining the Details of a Foreign Unit's Social Responsibilities Programs

Here two sides are important: (a) host country, and (b) the MNC organization. These two are discussed here. (a) The foreign unit's host country resource environment is important. If it is munificent, the role of the foreign would be different than if the resource environment is undernourished. The level of infrastructure, civil services, and other governmental programs of the host country should be a major factor in determining the social responsibilities needs of the host country, and, in turn should determine the goals and strategies for the foreign unit. The needs of the host country must drive the goals and strategies. This is from the host. (b) The MNC organization must be also considered in this context. Its resource availability, organizational capabilities and interests become important. This refers to organizational resource capabilities at both levels: overall MNC organization and the foreign unit organization. Contained in this analysis is the profitability of the overall MNC and that of the foreign unit. Profit trends and future profit forecasts are relevant to determine the sustainability and the extent of social responsibilities activities and expenditures.

Figure 3: Processes Influencing the Content and Nature of a Foreign Unit's Business Ethics and Social Responsibility Activities

POSSIBLE SOCIAL RESPONSIBILITIES PROGRAMS

There can be a long list of many dimensions of social responsibility activities. Social responsibility activities may be along the dimensions listed in the following as a foreign unit formulates a proper set of activities. These may be: Observing ethical values in operating the business; Making charitable contributions; Donating money; Donating time of personnel to community activities; Supporting important, beneficial causes; Helping the truly needy; Encouraging employees to support charitable and community causes; Protecting the ecology and the country's natural resources; Reducing the unit's pollution in the host country environment; Creating a healthy and happy culture in the workplace; Encouraging diversity in personnel in the workplace; Engaging in fair labor and union practices; Pursuing good activities to support community needs; Pursuing fair and honest dealings with customers; Building effective industry relationships; Forging an effective, fair, trusting and supportive partnerships with suppliers and vendors; Pursuing fair HR policies: selection, promotion, employment, compensation, benefits; Fair treatment of minorities, handicapped people, equal treatment to both genders; Preventing of sexual harassment; Pursuing clear disclosure to public for potential dangers of the company's activities; Promoting trust and integrity; Pursuing ethical conduct: no bribery, no unfair treatment to groups of people, no corruption, no undue harassment nor reprisal, and good faith dealings, staying far above the law.

The MNC must encourage each of its foreign units to formulate a unique set of programs and activities from the above listed dimensions so that it may best meet its own needs and also those of the host country in which it operates.

CONCLUSIONS

Business ethics and social responsibility goals, objectives, strategies and programs would, on the one hand, depend upon the specific needs and expectations of the host country, and, on the other hand, the overall MNC performance and foreign unit's profitability and its available resource capabilities for social responsibility activities in which it contemplates engaging. The twin pronged approach described here is vital for formulating a sustainable social responsibility programs.

Further, the foreign unit's host country, local stakeholder approach could provide good insights in formulating a "balanced" social responsibility program that would best suit the complex stakeholder dynamics. Stakeholders of the MNC as a whole and of each foreign unit are important in this regard. The synthesis of the needs of all stakeholders may be considered. Diversity in social responsibility programs abound. This is because social responsibility is culture bound. Thus, the host country culture may be the final determinant for the details in social responsibility activities in a host country.

The global overall social responsibility framework of the MNC is important. It must reflect the broad trends and changes in the social fabric of the world as a whole. While this overall, global MNC framework should be guidepost, the host country culture and social responsibilities expectations and needs must be the drivers of a foreign unit's social responsibilities goals and strategies. The level of host country's governmental and civic services and social programs should also be helpful in determining the scope, extent and content of a foreign unit's social responsibilities programs. At the same time, these programs must be consistent with the foreign unit's and MNC's resource capabilities and profit performance.

Social responsibility ideas and activities should be considered as a central component of an MNC's strategy formulation and implementation process. That is to say, a business organization is a part of the economic and social system of a country in which it operates. An MNC must carefully formulate social responsibility activities that are sensitive to the host country social needs and expectations so that its subsidiary units would thrive with respect in the host country. The focus should be to attempt to best address the real and valid needs of a host country's economic needs and problems as the foreign unit uses its social responsibility resources and activities to make the most beneficial impact in the host country.

AUTHOR INFORMATION

Dr. Yezdi H. Godiwalla is Professor of Management at University of Wisconsin-Whitewater for three and a half decades. He has a BA Honours, Ranchi University; MBA, Indian Institute of Management-Ahmedabad; and PhD, Oklahoma State University. He has over 40 years of experience in the fields of strategic management, international management, social responsibility, and organizational theory and behavior in industry and university and consulting settings. He has conducted numerous professional conferences and seminars, published 3 research and scholarly books, and numerous professional and academic articles and papers. He has served as the department chairman and on numerous faculty and administrative committees of his university and on professional organizations. He has been on boards of reviewers of scholarly journals. E-mail: godiwaly@uww.edu.

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NOTES