

# **Global Corporate Responsibility and Ethics**

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## **1. Overview/Goal**

By the end of unit 1, students should be able to understand need for ethics, corporate social responsibility, human rights, the environment and global corruption.

By the end of unit 2, students should have learned about corporate social responsibility of a leader, host country interdependence, ethical scandals, transparency and disclosure, Aristotle: character formation and global leadership.

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## **2. Competencies**

Unit 1 - Understanding of importance of ethics and morality among leaders in international management.

Unit 2 - Understanding the importance of transparency and disclosure in today's technology and engineering fields. Students should be aware of the significance of having global business leaders with integrity and character in order to navigate through sensitive global markets in the post-Enron era.

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### **Unit 1: Responsibilities of an International Business**

#### **3.1. Pre-activity discussion / UNIT 1 – Responsibilities of an International Business**

Students would make an introductory discussion regarding their thoughts of the various responsibilities of a company that does business overseas. The students should be able to describe what responsibilities, in addition to profits, a multi-national organization should be accountable for.

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#### **4.1: Learning activity**

**(Slide 6):** Those engineering and technology based organizations that compete most aggressively in their industries must interact with the rest of the world to be most profitable. Cross-cultural design and global interdependence in an international business environment compels a global manager to take important stances on ethical issues and social responsibility in the workplace. The field of ethics is vital for a student of technology to comprehend and assess, particularly in a post-Enron era where transparency and integrity are vital.

**(Slide 7):** Corporate Social Responsibility, aka business ethics, includes the belief that multinational organizations take into special consideration the social and economic effects of their workplace activities in the countries in which they do business, as well as with the working relationships with workers and fellow cross cultural team members. Currently, there

is an expectation that a multinational organization should contain suitable specifications into their corporation-wide plans in order to address corporate social responsibility. Ethics in an international setting are harder to clarify and understand due the fact that there are different factors that complicate global business, including the lure of profits and economic development, any cross-cultural dealings, the fact that there are so many stakeholders involved, and the vast differences in legal issues across borders.

**(Slide 8):** The most likely ethical issues that an international manager often must confront and assess include human rights concerns and the corresponding human rights standards in a country of operations, the level and standards involving corruption, the vast array of various cross-cultural employment practices, and any environmental regulations in a country where you are doing business. One theory that has been proposed to combat inconsistent CSR is moral universalism, which is the need for a common moral standard for companies around the world. Many indicate that moral universalism is unattainable in global management due to disparities in ethics due to differences in cultural norms

**(Slide 9):** Organizations decide what should constitute moral and ethical behavior, emerging because of the development of a global corporate culture (an integration of the business environments) in which firms currently operate. China is a country that is commonly brought up when discussing issues concerning international human rights. South Africa faced many issues with their apartheid (sp?) structure in the 1980s and only when many businesses left the country did they change their government. “What is human right” is a common question in cross-cultural management. Whereas the US may indicate the human rights concerns wages, consumer rights, education, and freedoms, often times little value is given to human rights in many countries around the world.

In many other regions of the world, areas of human rights have not yet been accepted. Those human rights issues that often affect engineering or technologically based work environment in another country might include freedom from political persecution, child labor laws, freedom of the press, and even education for females. It is especially important for a worker in any technology driven or engineering field to assess human rights in any nation where that organization operates.

**(Slide 10):** What does a one do when work conditions in another country are inferior to the working conditions in your home nation? It is important to understand what standards might pertain to the work at hand. Some simple safeguards might need to be addressed that establish the most basic rights of cross cultural teams, staff members, and other workers. IBM has taken a lead and has put forth their own safeguards in place on various topics that include employment practices assurances regarding forced or involuntary labor, child labor, wages, benefits, respect and dignity, and health and safety. Although they establish their own rules and guidelines for these employment safeguards, they have included practices that go according to the local business conduct of the host country.

**(Slide 11):** Although IBM establishes their own rules and guidelines for these employment safeguards, they have included practices that go according to the local business conduct of the host country. Many multinational companies use the same approach and use a combination of their own employment practices as well as some that are standard in the host country.

**(Slide 12):** There are many hot-button issues concerning the environment that need to be addressed. Among these topics include the handling the exporting of hazardous waste, the exporting of pesticides, looking for alternative raw materials, developing new methods of recycling, and the assessment of the environmental regulations in a particular country. Other environmental issues that need to be considered include working with and dealing with any environmental special interest group, the social responsibility towards the earth's environment, and the intricate guidelines of the Kyoto Protocol. India and China often don't have the same strict governmental environmental rules in place and their factories tend to pollute more so than industrialized countries.

**(Slide 13):** The Kyoto Protocol is an international agreement, negotiated in December 1997, by which industrialized nations have committed to making substantial reductions in their emissions of greenhouse gases by 2012. More than 160 countries have committed to the agreement thus far. With about five percent of the world's population, the United States produces roughly one-quarter of all global greenhouse gas emissions. The Kyoto Protocol is the most important international treaty on climate change. It has come with controversy, as some indicate that it goes too far in curbing greenhouse gas emissions, while others indicate that the emission cuts are too small. China and India both ratified this treaty but are not obligated to cut carbon emissions. The only major developed countries that have not signed the Kyoto Protocol are the US and Australia. Many in the US argue that it would cause damage to the economy and would put the US at a disadvantage when competing against other countries.

**(Slide 14):** Corruption in the global marketplace has become an important ethical issue for international managers. Payments in question include any payment that might expedite business dealing (or a token of appreciation) and might be associated with extortions, payments to top political officials in a given country (local or federal), bribes to local key businesspersons, any illegal sales commissions, and any grease money given for a project. Corruption is often exacerbated in a cross cultural work setting where technology and computers play a large part in the inner business workings due to the increased complexity of issues. The Foreign Corrupt Practices Act (FCPA), enacted in 1977, makes it illegal for U.S. companies from making illegal gifts, other payments, or political contributions to foreign government officials for the purposes of influencing them in international business transactions.

**(Slide 15):** There are 3 useful questions that might be asked when assessing if a particular corporate action is ethical. First, is this action legal? Next, does this action work in the long run? And lastly, could this action be talked about or printed on the front page of your local newspaper. If the answer to any of these questions is a resounding "NO", then that particular action might not be ethical. Proactive ethical steps for companies include develop a worldwide organizational codes of ethics, think about ethics in overall companywide planning, and if there are major ethical problems, complete withdrawal from the problem market might need to be considered.

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## **5.1: Post Activity Discussion/Unit 1 – Responsibilities of an International Business**

Which of the corporate social responsibility issues were mentioned most often by students? Do you think that certain industries should focus more so on certain human rights issues instead of others? Which companies or areas of the world should concentrate heavily on their environmental policies?

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## Unit 2: **Global Leadership and Integrity**

### **3.2. Pre-activity discussion / UNIT 2 – Global Leadership and Integrity**

Ask each student to write down 5 adjectives and descriptive words that characterize the values that they expect from a CEO of an international company. What morals and standards should this person expect from his or her global organization? Then, incorporate these adjectives into a 20-words or less universal “code of conduct” for an all-purpose MNC. An international code of conduct is a collection of standard beliefs, values, and general doctrine that are expected of a person or group belonging to that global organization.

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### **4.2: Learning activity**

**(Slide 20):** There are several philosophies that global companies might take into account when establishing their ethical guidelines. The Friedman doctrine says that the only social responsibility of a multinational organization is to increase profits, as long as no laws are being broken. Cultural relativism is an approach where a business simply adopts the local morals and ethics of whichever nation in which it is operating. Utilitarians state the ethical worth of operating practices is ultimately determined by the end consequences, and the best decisions are the ones that provide the greatest good for the greatest number of people.

**(Slide 21):** The old approach for MNC’s was to concentrate only on profitability and short range goals. However, there are several trends occurring that have highlighted the importance of host country interdependence. First, the number of foreign subsidiaries in the US has grown dramatically and will continue to increase. Also, the foreign direct investment in the US is in many cases far more than US investment outward. Global managers today need to understand the ramifications of corporate social responsibility and focus their attentions towards related substantive issues such as issues dealing with MNC subsidiaries in LDCs. Most of the past criticism aimed at MNCs has centered on their actions in LDCs. In LDC’s the profits get sent out instead of being directed at capital for infrastructure and investments within the host country

**(Slide 22):** How is a manager operating abroad to know what is the “right” decision when faced with questionable or unfamiliar circumstances of doing business? Here is a suggested sequence:

Consult the laws of both the home and the host countries

Consult the International Codes of Conduct for MNEs (as shown in text Exhibit 2-2)

Consult the company’s code of ethics

Consult your superiors

Use your own moral code of ethics

Follow your own conscience

Because multinational firms represent global interdependency managers must recognize that what they do has long-term implications for the socioeconomic interdependence of nations.

**(Slide 23):** There are many criticisms of MNC subsidiary activities. Capital Market Costs- increased competition for local scarce resources - increased interest rate as supply of local capital declined. Technology Costs- technology transfer is always not appropriate - government infrastructure investment is more than expected benefit. low % of managerial job to local people - employment instability because of ability to move production operation freely to other country. Employment Costs- competition for scarce skills.

**(Slide 24):** MNC's must assess the risk that their possessions, assets, and resources in a host country might be seized or taken control of. These seizures might be affected by the level host control, which may take the form of nationalism, protectionism, or governmentalism. Nationalism is when the opinions of the locals become rallied in favor of national goals and against foreign influences. Protectionism occurs when the host institutes a partial or complete closing of borders to withstand competitive foreign products, using tariff and non-tariff barriers. Governmentalism is when the gov't uses its policy-setting role to favor national interests, rather than relying on market forces. The greater the trends towards these areas, the greater the risk a company might have working in that country.

**(Slide 25):** Enron, WorldCom, and Tyco were three US companies that saw ethical scandals turn them from Wall Street darlings in 2001 to the punchlines of jokes in 2002. These three corporations found themselves under the microscope of the media due to their leaders' shady actions and ethical blunders. Their leaders had lapses in judgement and these corporate scandals prompted stock selloffs and ultimately caused the Nasdaq's bubble to burst, as many technology-based stocks were hammered. The world's tech companies have taken notice and this has scared them into action. Lessons were learned from the mistakes of these companies, and today, ethical guidelines and integrity-based standards are at the forefront of company-wide policies in efforts of technology-oriented companies to avoid the missteps and pitfalls of these once-strong companies.

**(Slide 26):** To highlight the importance of the US corporate scandals that rocked the global business world, Time Magazine's 2002 Persons of the Year were whistleblowers. A whistleblower is a person who informs on another or makes public disclosure of corruption or wrongdoing.

**(Slide 27):** What kind of integrity did the leaders of Enron have?

Well, they lacked any integrity, and they lacked proper ethics. The increasing importance of business ethics cannot be underscored in today's business environment. Other companies with global interests, particularly those in the technology sector, have made dramatic ethical changes in their corporate codes of conduct in response to the Enron collapse. The DVD cover of an Oscar nominated documentary, "The Smartest Guys In the Room", is pictured. This was the inside story of one of history's greatest business scandals, in which top

executives of America's 7th largest company walked away with over one billion dollars while investors and employees lost everything. The almost unimaginable personal excesses of the Enron hierarchy and the utter moral vacuum that posed as corporate philosophy are revealed. The film comes to a harrowing dénouement as we hear Enron traders' own voices as they wring hundreds of millions of dollars in profits out of the California energy crisis. As a result, we come to understand how the avarice of Enron's traders and their bosses had a shocking and profound domino effect that may shape the face of our economy for years to come.

The markets around the world are bind together and transparency and disclosure of financial information among international managers is essential, particularly in any tech-based organization. In a technology based, post-Enron marketplace, integrity and ethics in the corporate culture have become more important than ever for an international organization. MNCs now realize the importance of transparency in their business dealings, and the global companies that have the best chance of succeeding today have the trust of the consumer. It has become fashionable for Multinational Corporations to issue ethical scandals by instituting or strengthening codes of conduct. Take a look at Nokia's and Nike's Code of Conduct.

**(Slide 28):** Aristotle laid the groundwork for integrity-based studies by claiming that ethics involved building character. The development and formation of one's ethics can guide their business morals. A picture of Aristotle is shown.

The companies who have the best *leaders* will succeed in the world of capitalism

"Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good." *Aristotle*

"Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good." (Aristotle). Character formation in an international work environment involves the creation of good people. When we learn about character, we ultimately study and discover more about our ethics. Ethics practices and character habits has a huge impact on the capitalistic world and/or Lesser Developed Countries. The ethical culture and the overall character of an organization is immensely important to assess for a global manager, and integrity and ethics seems to be particularly important for leaders in the global tech sector, as exemplified by the Nasdaq market's swings. Character formation involves the creation of good people when we are taught character, we learn about ethos, ethics, Integrity. It seems to be particularly important for leaders in the global tech sector.

**(Slide 29):** The concept of "character" in a business context can be traced back to Plato, Aristotle, and Socrates. Character absolutely necessitates ethics, and "Ethics" in Greek ("Ethos") can translates literally into character. Ethos involves customs, behaviors, and habits. Ethics is one's character that is expressed in the world. Ethical practices and character habits have had a huge impact on the capitalistic world and their business relationships with Lesser Developed Countries. The ethical culture and the overall character of an organization is immensely important to assess for a global manager.

**(Slide 30):** A global company also has character, just like an individual has character. The character of a particular international company thus becomes its corporate culture. The leaders and the leadership style of a multinational company define its corporate culture.

There has been a shift in theory involving whether a leader is born or bred. Shown are the three phases of global leadership research. From the late 1800s to the mid 1940s, scholars believed that leaders were born, not bred. The thought was that someone was either born a leader, or they were not born a leader (a picture of UK war hero Winston Churchill is shown). After World War II, from the mid 1940s to the early 1970s, thoughts on global leadership shifted and said that the behaviors of a leader can be observed, can be objective, and can be more quantifiable than previously thought. It was found that these leadership behaviors can indeed be taught, studied, and developed for someone (US scandal-ridden president Richard Nixon is shown). Global leadership studies shifted again, and from the 1970s to today, contingency theory, which states that the best way to organize depends on the nature of the environment to which the organization relates (Dell computer founder Michael Dell is shown) ([http://faculty.babson.edu/krollag/org\\_site/encyclop/contingency.html](http://faculty.babson.edu/krollag/org_site/encyclop/contingency.html)), is generally applied and it is agreed that there is not one singular best leadership style for a global organization.

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## **5.2. Post-activity discussion / UNIT 2 – Global Leadership and Integrity**

DO YOU THINK THE LEADERS OF ENRON HAD INTEGRITY?

What topics in the code of conduct can you identify?

Compare and contrast that code of conduct with the one you created at the beginning of class

Identify any similarities or differences in that company's code of conduct with the general code of conduct you created at the beginning of class.

Share the codes of conduct with others in class. Are there any themes that are constant for all or most of the companies?

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## **6. Assignment specifications**

Choose a multinational company and do some research on their corporate code of conduct. Find any issues that the company addresses in their code of conduct.

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## **7. Assessment**

Choose one multinational company which you would like to learn more about their stances on corporate social responsibility. Using the information presented in the module, identify the three most relevant corporate social responsibility issues (issues involving human rights, corruption, employment practices, and/or environment) that you think might be important to this company. Then, identify why exactly you believe that these issues should be addressed by this company and why.

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