

Chapter VIII

Corporate social responsibility and transnational corporations

Introduction

The widespread liberalization of policies regarding foreign direct investment (FDI) observed in the preceding chapter, as part of a broader deregulation and liberalization trend, has given enterprises more freedom to make their investment decisions and to operate, both at home and abroad. More freedom also means more responsibility, including social responsibility. This fact is recognized by firms when they adopt codes of corporate ethics and by business schools that have given this topic an enhanced place in their curricula. It is also being recognized by shareholders and movements emphasizing social responsibility. Transnational corporations (TNCs), being central actors in domestic and international markets, are perhaps more directly and diversely involved with it than other firms, partly because they are among the largest firms and partly because their functional and geographic scope is broader than that of domestic firms; the emergence of an integrated international production system, if anything, underlines the increasingly international nature of their strategies and structures. As a result, responsibility, including social responsibility, extends beyond borders as well. In this process, a tension (and dynamic) may arise between being a good corporate citizen — a concept grounded in the values of individual countries — and being a socially responsible transnational corporation — a concept grounded in values that are shared more broadly.

More specifically, the term “good corporate citizenship” suggests that TNCs have an obligation to act as responsible members of societies that grant them legal standing. Corporate social responsibility is a related but broader concept. Its application to good corporate conduct

generally implies responsibilities that go beyond meeting minimum legal requirements. Thus, corporate social responsibility involves notions of voluntary corporate conduct that is both acceptable and beneficial to various social constituencies that surround business enterprises.

By their very nature, TNCs operate simultaneously in often dissimilar societies around the world where values, standards and expectations of corporate conduct may differ quite radically. This great diversity in cultures, attitudes and systems makes it more difficult than in a relatively homogeneous national business setting to determine common standards for desirable corporate conduct.

In its application, the concept of TNC social responsibility relies on the notion of appropriate roles as ordered and directed by the subsidiarity principle according to which responsibility is best exercised closest to a given situation (box VIII.1). Societies are organized and administered by governments, which bear primary rights and responsibilities regarding the welfare of their people. By contrast, corporations are principally responsible for matters most directly related to their own economic purpose and function, operating within prevailing legal frameworks. However, voluntary corporate actions on broader social goals can derive from business capabilities and impacts. In exceptional circumstances, TNCs may even be called upon to assume added responsibilities where other actors, including governments, do not or cannot carry out critical duties. In this respect, the role for TNC social responsibility may be broadest in developing countries and countries with economies in transition where the liberalization trend described in the preceding chapter is underway, but governmental or free market regulating mechanisms are not yet fully formed or effective (Tavis, 1982). In a sense, therefore, the growing convergence towards the acceptance of free market principles and the new openness of formerly centrally planned and developing economies to foreign investors increases, almost by default, the self-regulatory burden on corporations. A TNC's intersocietal presence presents it with a distinct challenge, and a special opportunity, in addressing social responsibility issues, especially where prospective host countries lack the legal framework, societal infrastructure or established traditions and experience of a market economy system (De George, 1993, chs. 3 and 8).

Simultaneously with the growing diversity among host societies, TNCs themselves are undergoing fundamental transformations. In particular, the spread of complex corporate strategies, a growing number of international strategic alliances and the expansion in low or non-equity forms of investment can alter a TNC's organizational structure and require closer coordination among business units that are increasingly linked through novel mechanisms. These changes, in turn, increase the difficulties of establishing and maintaining a corporate identity (UNCTAD-DTCI, 1993a) that can support corporate social responsibility actions through a consistent set of policies implemented over widely dispersed and perhaps only partially controlled affiliates. For example, with the emergence of an integrated international production system, TNCs develop common organization and governance systems to coordinate production functions. An increasingly interdependent global economy clearly motivates these organizational changes; but, just as clearly, the world's political, legal and social issues remain predominantly national or regional in character. Glaring disparities exist in economic development and living standards while differences in culture and social values persist among and within countries. Such a multi-variate global environment raises difficult issues regarding when, where and how to define and implement a TNC's social responsibility.

This chapter discusses the concept of corporate social responsibility, explores its special application to TNCs and examines how this concept relates to important human resource management issues. More specifically, section A reviews several theories and approaches that describe the general concept of corporate social responsibility. Section B applies the concept to TNCs, examining special dimensions and issues that give the social responsibility of TNCs a distinctive character. Section C explores how TNC social responsibility relates to some employ-

ment and human resource management situations, the special topic of this volume. Taken together, these components depict how TNCs can relate to individual societies while simultaneously operating in the midst of an evolving international political and economic milieu.

Box VIII.1. The principle of subsidiarity

The principle of subsidiarity in political decisions

The principle of subsidiarity is commonly associated with political decision-making, and European institutions, in particular, have emphasized it. The principle is well stated in Article 4.3 of the Council of Europe's European Charter of Local Self-government:

"Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy."^a

The Treaty on the European Union ("Treaty of Maastricht") expresses the spirit of subsidiarity in its Article A, which talks of "decisions taken as closely as possible to the citizen". Article 3b explicitly names the principle of subsidiarity. A reference to the principle can also be discerned in Principle 10 of the Rio Declaration on Environment and Development, which states that "environmental issues are best handled with the participation of all concerned citizens, at the relevant level".^b

Social entities and the principle of subsidiarity

The origins of the principle do not lie so much in the political world as in that of other social institutions. It developed largely within the Christian churches. The Protestant Synod of Emden (1571) is considered as providing one of the earliest statements of it: "One will not submit to provincial and general synods questions which have already been handled and collectively decided [at a lower level] ... Questions will be submitted only if they could not be settled [at a lower level] or if they concern all the parishes of the province".^c The Roman Catholic Church developed the principle of subsidiarity in canon law, applying it clearly to social groups in general:^d

- Negatively: a large group should not accomplish tasks that a small group is capable of accomplishing.
- Positively: the large group must do everything possible to enable the small group to fulfill to the greatest extent it can the functions it is capable of fulfilling.
- Subsidiarily: the large group will intervene with respect to the small group only to provide functions or services which are beyond the possibilities of the latter.

"Subsidiarity" and "subsidy" have the same etymological root. Subsidiarity concerns providing *subsidium*, i.e., support, to lower levels when they are unable to cope on their own.

Enterprises count among the social groups of society. Indeed, subsidiarity reflects a common approach to management practice within TNCs. The usual rule is that matters are not submitted to higher-level management for decision unless they cannot be settled at a lower level.

a Adopted on 15 October 1985 (*European Treaty Series*, No. 122).

b Adopted by the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992.

c This passage on the roots of subsidiarity in Christian Churches draws extensively on Commission of the European Communities, Forward Studies Unit, *Note de dossier: histoire philosophique du concept de subsidiarité*, No. 64/92, 1992, pp. 7-8.

d Ibid.

A. The concept of social responsibility of firms

The concept of corporate social responsibility can be understood and applied by combining three defining elements:

- The first asserts that an enterprise is a distinct, identifiable actor with both a capability and responsibility for its collective actions.
- The second element describes the nature of a corporation's relationship with society, which includes (but is not delimited by) legal requirements that are more narrowly drawn than a firm's social charter.
- The third component provides organizing principles to help determine which societal groups fall within a corporation's circle of social responsibility, and why.

Although these propositions have their critics as well as defenders, they constitute the basic core of most broadly accepted notions of the social responsibility of firms (Hoffman et al., 1994; Hoffman and Moore, 1984; Desjardin and McCall, 1990; Donaldson, 1989).

1. Corporate versus individual actions

The concept of corporate social responsibility requires an acceptance of the corporation as a collective entity, with a discernible identity, decision-making power and action capability (Goodpaster and Matthews, 1984; De George, 1986, pp. 92-99). An alternative concept is to perceive enterprises as simply a grouping of individuals in which each individual bears personal responsibility for his or her action, but neither praise nor blame can be attributed to the collective organization. The notion of a distinguishable corporate personality is a central feature of market-oriented legal systems where corporations can be chartered as legal entities distinct from their individual employees, managers or shareholders. An analogous approach to establishing a collective corporate identity for purposes of discussing social responsibility can be developed from the description of a "corporate internal decision" structure that permits attribution of responsibility for action (or inaction) to a corporate entity (French, 1984).¹ As described in this approach, actions that pass through a firm's chain-of-command approval procedures and are consistent with established policies are deemed corporate undertakings; those that lack one or both of these official sanctioning processes are more properly seen as actions of individuals who quite possibly are breaching their corporate authority and should not be seen as acting on behalf of the corporation. This theory therefore suggests that the corporation, as a collective entity, can also assume social responsibilities. A firm can incorporate accepted standards of good corporate conduct into its established policies and approve corresponding actions through its management decision-making structure. These processes are often embodied in company statements of corporate responsibility that set forth a firm's guiding principles, policy standards and decision-making procedures (for an example, see box VIII.2) (Leisinger, 1994; Kline, 1985, pp. 120-22).

2. Social contract theory

Social contract theory offers a way to define and contrast the concept of corporate social responsibility with the realm of legal rights and obligations (Donaldson, 1984; 1989, chapter 4). Several general theories posit the existence of mutual rights and responsibilities among all members of a society by virtue of their membership. A distinction can be drawn, however, between the inherent human rights of an individual person that exist independently of his or her membership in a particular political society, and the role of a corporation as an artificial legal person. Corporations are granted a right to exist by each political society in which they operate; they have no independent right of existence.

Box VIII.2. Statement of corporate responsibility: the example of General Mills

General Mills published a "Statement of Corporate Responsibility" in 1985, reissuing the document several times, most recently in 1994. This document addresses corporate policy on a range of issues, essentially constituting a code of conduct for the firm's operations. The following excerpts from the Statement focus on two portions of the "Key Issues" section that reflect some basic concepts of corporate social responsibility, including its application to international business.

"Business Ethics"

General Mills has a strong commitment to corporate citizenship and the concept that companies, as well as individuals, must contribute to the well-being of society. The corporation believes it makes a contribution by providing quality products and services, by conducting its business with integrity, and by taking an active interest in the quality of life enjoyed by its employees and members of the communities in which it exists.

Obedying the law is a minimum. Ethical business conduct should normally exist at a level well above the minimum required by law and company policy.

One of our most valuable assets is our reputation for integrity. If that is tarnished, customers, investors and desirable employees will seek affiliation with other, more attractive companies. We intend to hold to a single standard of integrity everywhere. We will keep our word. We will not promise more than we can reasonably hope to deliver nor will we make commitments we do not intend to keep.

International Business

General Mills believes that the pursuit of business excellence and profit is the best means yet found for enhancing economic development and for efficiently producing and distributing goods and services. Therefore, we seek out profitable opportunities for growth in many parts of the world.

People throughout the world have differing beliefs, customs, and laws. Any corporation operating on an international scale may occasionally be confronted with conflicting laws, regulations, and social standards in the various countries in which it conducts business.

We respect these differences among peoples. It is not for us to say what is right or wrong in another people's culture. But we can and do state the moral and ethical standards governing our own behavior wherever we may do business.

We have no separate corporate policy for our international operations. Each of the policy statements included in this corporate responsibility pamphlet applies to all General Mills' operations, both foreign and domestic".

Source: General Mills. "Statement of Corporate Responsibility" (Minneapolis: General Mills, 1994), mimeo., pp. 4, 6.

A social contract evolves over time in line with changing societal expectations of corporate social responsibility (Anshen, 1993; Bowie, 1993a; CED, 1971, chapter 1). Social contract terms are conceptual, enabling enterprises to respond flexibly to meet their responsibilities under diverse circumstances and conditions. By contrast, except for founding constitutional documents, laws are usually specific but reactive, setting forth mandates to correct abuses or omissions serious enough to merit the time and attention of political leaders. Thus, the social contract theory suggests it is in a corporation's self-interest to respond voluntarily and proactively to changing societal expectations before these desires are turned into new legal mandates (Cavanagh, 1984; CED, 1971, ch. 3; Mintzberg, 1989). The adoption of specific legal requirements reduces business operating flexibility and may produce less responsive and effective results under diverse socio-economic conditions than voluntary corporate actions (Kline, 1992).

The social contract theory can also be linked to notions of minimal and maximal corporate social responsibilities (Donaldson, 1989, chapter 4):

- A minimum "floor" is established because, presumably, societies would not grant (or continue) a corporation's right to exist unless the enterprise meets two conditions: first, the firm must produce some benefit for the society (otherwise, why permit its creation or continuation?); second, the enterprise must not intentionally do any harm, and any harm that occurs must be sufficiently outweighed by the benefits produced. This normative condition constitutes a minimal duty or obligation under a social contract theory,² even though it is not taken for granted in every society.
- Maximal corporate social responsibilities rise above this minimum floor to add further benefits that a firm can voluntarily provide. The full package of benefits can vary considerably, depending on a firm's operations, its product, competitive and comparative advantages and other factors. Not all types of benefits can be expected to accrue in equal proportion from every firm. Thus, compared to the minimal obligations floor, corporations do not have a determinative duty to provide a specific package of maximal benefits to each society. Competitive market forces operating within a prevailing legal framework determine the availability of corporate resources and the firm's permissible and expected role within a given society.³

A corollary distinction should also be drawn concerning corporate social responsibility and corporate philanthropy. The former term focuses on the nature of a firm's operations and includes both minimal and maximal responsibilities. Philanthropy, on the other hand, is only one possible component of maximal social responsibility actions. Corporate philanthropy is a fully voluntary action, generally guided by self-interest considerations, whose appropriateness is determined by the individual enterprise and by societal circumstances. In addition, philanthropic programmes cannot excuse or offset violations of minimal operational standards.⁴

3. Shareholder versus stakeholder approaches

Narrow definitions of corporate social responsibility hold that a private corporation's responsibility in a market system is to pursue profits for its shareholders. According to this view, undertaking additional social responsibilities, including philanthropy, that might detract from this obligation would violate a firm's fiduciary duties and would involve it in inappropriate activities that are rightly the province of other societal groups, particularly governments (Friedman, 1983; 1984; Levitt, 1983).

A broader concept of corporate social responsibility suggests that firms should also consider their impact on a range of stakeholders, i.e., parties that affect or are affected by a corporation's actions (Freeman, 1984). This approach reaches beyond shareholders to include other groups such as employees, managers, suppliers, customers and even competitors, local communities and governments (box VIII.3). The nature and degree of corporate social responsibility that an individual firm may have towards these various groups depends on an examination of the characteristics that relate an enterprise to a specific issue. Among such characteristics are an enterprise's capability (with greater power goes greater responsibility), proximity (under the subsidiarity principle, the capable agent closest to the problem has the greatest responsibility to act), awareness, knowledge and impact on the issue (Davis, 1983; Simon, Powers and Gunne-mann, 1993).

The size and power of large modern corporations give them an enormous potential impact on the societies around them. In terms of social responsibility, this influence can be exercised through acts of both commission and omission. The former presents a clearer cause-and-effect

relationship, but the latter can be just as serious in terms of societal impact when a highly capable corporate entity decides not to act.

The narrow view of shareholder responsibility argues that profit-making goals are sufficient because a firm plays its proper societal role by taking directives from the economic market-place, within the accepted framework of public regulation. Stakeholder theorists (Carroll, 1989; Donaldson and Preston, 1994; Freeman, 1984) point out that many parties affected by institutional corporate activity may have neither the economic ability to signal their needs through market-place mechanisms nor the political power to ensure their representation through government regulation.⁵ These situations can therefore invoke the subsidiarity principle where both a firm's capability and its impact on those around it become critical factors in determining the nature and degree of a corporation's social responsibilities. Taking into consideration the concept of "last resort", firms may be called upon to accept maximal corporate social responsibilities where market and governmental regulatory rules and mechanisms prove insufficient or ineffective (Simon, Powers and Gunnemann, 1993).

Box VIII.3. Shareholders and stakeholders: Caterpillar's approach

First issued by Caterpillar in October 1974, "A Code of Worldwide Business Conduct and Operating Principles" has served as a model for other TNCs considering the formulation of a code dealing with corporate social responsibility. The following excerpts are drawn from its 1 August 1992 revision:

"Business mission"

The overall purpose of Caterpillar is to enhance the long-term interests of those who own the business -- the stockholders.

This in no way diminishes the strong and legitimate claims of employees, dealers, customers, suppliers, governments, and others whose interests touch upon our own -- nor, indeed, of the public at large. . . .

. . . We believe we can best serve stockholders and the long-term profitability of the enterprise through fair, honest, and intelligent actions with respect to all our constituencies.

Competitive conduct

Fair competition is fundamental to the free enterprise system. We support laws prohibiting restraints of trade, unfair practices, or abuse of economic power. And we avoid such practices everywhere -- including areas of the world where laws don't prohibit them.

Public responsibility

We believe there are three basic categories of possible social impact by business:

1. First is the straightforward pursuit of daily business affairs. . . . developing desired goods and services, providing jobs and training, investing in manufacturing and technical facilities, dealing with suppliers, paying taxes, attracting customers and investors, earning a profit...
2. The second category has to do with conducting business affairs in a *way* that is socially responsible. It isn't enough to successfully offer useful products and services. A business should, for example, employ and promote people fairly, see to their job safety and the safety of its products, conserve energy and other valuable resources, and help protect the quality of the environment.
3. The third category relates to initiatives beyond our operations, such as helping solve community problems. To the extent our resources permit -- and if a host country or community wishes -- we will participate selectively in such matters. Each corporate facility is an integral part of the community in which it operates. Like an individual, it benefits from character building, health, welfare, educational, and cultural activities. And like individuals, it also has citizen responsibility to support such activities."

Source: Caterpillar Inc. "A Code of Worldwide Business Product and Operating Principles" (Peoria: Caterpillar, 1992), mimeo., pp. 1, 7, 9.

B. Corporate social responsibility applied to transnational corporations

General concepts of corporate social responsibility pertain equally to both domestic and transnational enterprises. However, applying these concepts to TNCs established in diverse global settings raises special considerations and issues that may modify a firm's specific response. In fact, it gives rise to a tension that is specific to TNCs, namely, on the one hand, the duty to behave as good corporate citizens in the host countries in which a TNC is established and, on the other hand, the duty of adhering to broader self-imposed social responsibility standards formulated to apply across the TNC's system as a whole. This tension is, furthermore, a dynamic one, at least in two respects:

- In defining social responsibility for itself, a TNC as a system (like any other system) is subject to constant learning, both from its environment and from its individual constituent parts. In the process, new values may enter the corporate system from any of the countries in which the firm operates.
- When operating in host countries (including through forward and backward linkages), introducing various components of its business culture and carrying out their social responsibilities, TNCs invariably affect the host country's business culture system, including precepts of social responsibility. In this respect, TNCs are agents of change.

This dynamic tension that TNCs face makes the formulation, adaptation and, above all, implementation of social responsibility a particular difficult challenge for them.

1. Social contracts and transnational business

Transnational corporations secure competitive advantage from their transnational organization, enabling them to utilize resources on an international, intra-firm basis to benefit the corporation as a whole. In this sense, TNCs develop and promote unity in corporate organization, purpose and strategy, giving the enterprise the type of collective identity (and social responsibility attributes) associated with a corporate internal decision system. Social responsibility standards and actions therefore relate to the TNC as an integrated enterprise and not just to its national constituent units. A corporate code of conduct is sometimes used to provide some unity and consistency in social responsibility policies and their implementation across a TNC's global network, although individual affiliates may further elaborate their own standards on its basis (box VIII.4).

Comparing a corporation's legal status with its theorized social contract also becomes more complex when applied to TNCs. Because firms cannot be incorporated through a global charter, the TNC as a whole has no legal personality and therefore possesses no formal nationality (UNCTAD-DTCI, 1993a, p. 187). Politically, TNCs are generally associated with the State in which their parent firms' headquarters are located, an image that can be reinforced if that country also claims some extraterritorial jurisdiction over the parent firms' foreign operations. On the other hand, individual foreign affiliates gain legal standing as conferred by each host country's government under the laws of that State.

A particularly critical time for TNCs is the decision to invest in a country, an action that establishes both a legal and, *de facto*, a social contract with that society. No TNC will invest — nor should it be expected to invest — under legal conditions that do not permit it to conduct its business properly, effectively and profitably; similarly, no TNC should invest where social contract responsibilities cannot be carried out in an equally proper, effective and beneficial manner (Werhane, 1994).

Legal contracts and social contracts often overlap, but they are not necessarily coterminous, even in terms of minimal obligations. Some, but not all, minimum social responsibility conditions may be identified and defined by legal regulations governing a firm's existence in a society. Transnational corporations may also find their operations caught between competing and perhaps conflicting legal mandates from different political sovereigns. In a parallel fashion, national legal requirements may occasionally require corporate actions that would violate basic human rights that supersede national political standards. On these occasions, corporate social responsibility may lead firms to decline investment (or withdraw from operations) in a society

Box VIII.4. Providing a framework for social responsibility: the example of Royal Dutch/Shell

The following excerpts are taken from the "Statement of General Business Principles" issued by the Royal Dutch/Shell Group of Companies in June 1990:

"10. Application

The reputation of the Royal Dutch/Shell Group of Companies depends on the existence and knowledge of clearly understood principles and responsibilities and on their observance in day to day practice in widely different environments. Individual operating companies may elaborate their own statements to meet national situations, but this Statement of General Business Principles serves as a basis on which companies of the Royal Dutch/Shell Group, in their operations, pursue the highest standards of behaviour.

Group companies are involved in many joint ventures. Shell companies participating in a joint venture will promote the application of these principles and will take into account their ability to do so in deciding whether to participate in any joint venture.

2. Responsibilities

Four areas of responsibilities are recognized:

a) To shareholders

To protect shareholders' investment and provide an acceptable return.

b) To employees

To provide all employees with good and safe conditions of work, good and competitive terms and conditions of service; to promote the development and best use of human talent and equal opportunity employment; and to encourage the involvement of employees in the planning and direction of their work, recognizing that success depends on the full contribution of all employees

c) To customers

To develop and provide products and services which offer value in terms of price and quality, supported by the requisite technological and commercial expertise. There is no guaranteed future: Shell companies depend on winning and maintaining customers' support.

d) To society

To conduct business as responsible corporate members of society, observing applicable laws of the countries in which they operate giving due regard to safety and environmental standards and societal aspirations.

These four areas of responsibility are seen as inseparable. Therefore, it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on the basis of that assessment.

4. Voluntary Codes of Conduct

Policies of Shell companies are consistent with the two existing internationally agreed voluntary codes of conduct for multinational enterprises, namely the OECD Declaration and Guidelines for International Investment and Multinational Enterprises and the ILO Tripartite Declaration of Principles."

Source: Royal Dutch/Shell Groups of Companies. "Statement of General Business Principles" (London: Shell, 1990), mimeo., paras. 10, 2, 4.

where they cannot operate legally without causing harm to fundamental human rights; a number of TNCs made that choice in South Africa during the days of apartheid (Donaldson, 1989, chapter 8; Kline, 1991).

Once established, TNCs are expected to fulfill local legal requirements and meet minimal social responsibility obligations as these evolve in the interaction between TNCs and the host society. In pursuing maximal social responsibility objectives, corporations will normally work cooperatively with legitimate governmental authorities to produce benefits desired by the society, consistent with local culture, values and expectations. At the same time, TNCs are especially valuable for sharing intangible assets related to business culture derived from their broad and varied international operations. Among the areas that can benefit in this respect are labour relations and safety standards, environmental protection processes, financial accounting procedures and product-quality and servicing requirements (box VIII.5). However, the appropriateness and impact of externally-derived practices on a host society and its culture need to be evaluated prior to their introduction, recognizing at the same time that their introduction may change the host society.

2. Social responsibility in global operations

Several characteristics of the concept of social responsibility suggest that differences may exist in the nature and degree of TNC social responsibility dependent on the type and structure of a firm's operations. For example, both TNC capability and impact may prove unusually large in relative terms when a TNC is an established global enterprise from a developed country and is operating in a small developing country. A TNC's capability to affect the host economy, and the impact of its actions, can be especially significant in the case of foreign direct investment (FDI) in the natural resources sector of developing countries that are dependent on a single commodity export. The capability and potential impact of large TNCs in the financial industry can be equally significant for smaller, highly indebted countries whose export trade and development projects are often linked to services provided by international financial markets. Traditionally, distinctions between trade and investment operations helped determine the nature and degree of corporate social responsibility in a particular country. Foreign investors are more proximate, aware and knowledgeable about local social circumstances in the countries in which they are established than companies that engage only in external trade and are geographically and socially separated from the foreign buyer or supplier. Therefore, an exporter or importer without a significant local presence abroad does not have as extensive a capability or social responsibility to the foreign society compared to a TNC established there.

Social expectations may be changing as the definition of TNCs expands to cover more low or non-equity business arrangements, such as subcontracting, franchising and licensing. For example, long-term contractual agreements for the purchase of imports from an otherwise unaffiliated foreign supplier may establish a non-equity TNC-related link that can be interpreted to involve some expectations of social responsibility for the TNC importer.⁶ In an increasingly interdependent world, a major TNC importer becomes closely connected to foreign suppliers, leaving its corporate reputation vulnerable to questionable practices by its foreign partner as well as gaining potential capability to affect certain conditions surrounding the foreign firm's operations. Such business tie-ins may require a responsibility on the part of TNCs to be aware and knowledgeable about the production practices of long-term subcontractors, franchisees, licensees or other business partners on issues such as product and process safety, environmental protection and employment conditions, including the possible use of child or prison labour.

It is not, in such cases, that TNCs are directly causing harm. However, the commercial ties connecting a TNC to possible abuses, even indirectly and at a great distance, are perceived to give a TNC some capacity to affect the outcome. The question is, therefore, to what extent, in such

Box VIII.5. Areas of contribution: guiding principles at Toyota

The first comments printed below were signed by Shoichiro Toyoda, President of Toyota Motor Corporation, as an introduction to the firm's 1992 "Guiding Principles at Toyota"; the subsequent excerpts are drawn from those Principles.

"A Word about the Guiding Principles"

Our activities at Toyota are assuming an increasingly global dimension as we approach the 21st century. Our company is becoming a member of the community of nations worldwide. More than ever, we need to adapt our operations, our organization, and even our corporate culture to accommodate the different values and circumstance of our employees, partners, and neighbors in each country and region.

Toyota always has been a company devoted to enhancing the quality of life for people around the world by providing useful and appealing products. Toyota also is a company committed to addressing issues of common concern to people everywhere, such as safety and the environment. In the years ahead, we must accompany our growth and development as a corporate citizen of the world with unflagging efforts to help resolve the pressing issues of our time.

I want to call on everyone at Toyota to take part individually and collectively in reinforcing our corporate identity as a company where the greater good of society is the first consideration in all endeavors..."

* * *

"1. Be a company of the world"

Observe internationally accepted standards of corporate ethics.

- Conduct business in a manner consistent with international concepts of fairness and openness.
- Solicit opinions and advice about pertinent issues from authoritative third parties, and take their views into consideration in framing corporate policy.

Implement personnel policy that reflects the international scope of the company's operations.

- Foster managers in every nation who understand and implement the tenets of Toyota philosophy, and provide them with meaningful opportunities for advancement, including career paths that lead to positions at corporate headquarters in Japan.
- Implement systematic programs to ensure that executives dispatched to overseas operations adopt an international perspective and a sense of involvement in the local community.

2. Serve the greater good of people everywhere by devoting careful attention to safety and to the environment

Assign top priority to safety and the environment in products and in operations.

Develop applied technology and basic technology to heighten safety and to minimize environmental impact.

Find ways--such as setting up new enterprises--to share the benefits of original advances in safety and environmental technologies...

4. Become a contributing member of the community in every nation

Handle as much work as possible locally in every market.

- Provide operations in principal markets with capabilities for handling the entire sequence from product development through production to marketing and after-sales service.
- Equip operations in every nation with state-of-the-art technology, and provide the necessary training to develop a productive, world-class workplace.
- Manage operations in each nation in ways that maximize opportunities for employment and advancement and that promote the cultural values of the local community.

Distribute management functions globally.

- Invest local management in every region with sufficient authority to manage their operations in ways that accommodate local circumstances and values.

- Establish a clear division of labor in management between overseas operations and headquarters in Japan.

Support and upgrade local management functions overseas with an eye to making local operations individually accountable for profitability.

5. *Foster a corporate culture that honors individuality while promoting teamwork*

Generate synergistic gains in productivity through a dynamic fusion of individual creativity and group teamwork.

- Combine the virtues of Japanese-style teamwork with the creativity of Western-style individualism.
- Evaluate employees with objective measures of ability and performance.

Strive to heighten the appeal of careers in the automotive industry and in manufacturing in general.

- Develop new production systems and modes of work in response to changing values and lifestyles.
- Lead an industrywide effort—encompassing other automakers and suppliers—to enhance working conditions”

Source: Toyota Motor Corporation, “Guiding Principles at Toyota” (Tokyo: Toyota, 1992), mimeo., paras. 1, 2, 4, 5.

situations, TNCs have a responsibility to seek to curtail any abuses, or to terminate their commercial ties that might be supporting them. Some TNCs have accepted this responsibility (box VIII.6).

Few observers contend that importers far removed from overseas production sites have a primary responsibility in such cases. Under the subsidiarity principle, more proximate and capable public or private actors would bear the principal responsibility to act. However, when an abuse is serious enough, a chain of social responsibility could extend back through long-term purchasing contracts to involve even major foreign importers.⁷ Transnational investors who are actually present with personnel, assets and relevant commercial authority or influence carry correspondingly greater social responsibility under such conditions. The more directly connected the social problem is to the nature of a TNC’s operations, the higher that situation should rank on the firm’s corporate social responsibility agenda.

3. Developing countries and economies in transition

The subsidiarity principle applied to TNCs (box VIII.7) does not mean that corporations are responsible for correcting or improving all the social ills that may be present in a host country. However, it does mean that TNCs may have a compelling reason in many countries to opt for a stakeholder rather than a shareholder view of corporate social responsibility. Despite the growing internationalization of TNC listings on global stock exchanges, most host countries, and certainly the vast majority of peoples affected by TNC operations, would be excluded from a corporate responsibility circle if a narrow shareholder perspective were adopted. Without voluntary corporate concern and attention, the unequal distribution of world wealth means that the human interests of most people might be dismissed because they lack the financial capacity to become partial owners of the corporation. The impact of TNCs in societies around the world may simply be too large to accept the notion that a TNC’s only responsibility lies with a relatively small core

Box VIII.6. Global social responsibility at Levi Strauss & Co.

Levi Strauss & Co. is the world's largest apparel manufacturer with one of the most famous consumer brand names in the world. This privately-held TNC markets products in over 60 countries through a variety of arrangements, including wholly owned affiliates, joint ventures, licensees and distributors. In 1993, the company recorded \$5.9 billion in sales, had 76 production facilities in 24 countries and employed about 36,000 people worldwide, some 9,000 in its international division. The firm is well-known and recognized for its corporate social responsibility programmes that are guided by a series of corporate documents and policies. Perhaps the briefest, its "Mission Statement", reads:

"The mission of Levi Strauss & Co. is to sustain responsible commercial success as a global marketing company of branded casual apparel. We must balance goals of superior profitability and return on investment, leadership market positions, and superior products and service. We will conduct our business ethically and demonstrate leadership in satisfying our responsibilities to our communities and to society. Our work environment will be safe and productive and characterized by fair treatment, teamwork, open communications, personal accountability and opportunities for growth and development."

These broad goals are supplemented by other more specific statements, policies and programmes to carry out the objectives. According to Bob Dunn, a company vice-president and member of a team that devised the criteria for selecting the firm's global contractors: "As we expanded our operations to diverse countries, we felt we needed to set standards to ensure that our products were being made in a manner consistent with our values, that would not be damaging to our brand image."b The firm's internal policy specifies "Terms of Engagement and Guidelines for Country Selection" with its business partners that provide, among other things, for environmental requirements, ethical standards and policies on worker health, safety and employment practices (reprinted below). For example, the firm favours partners who utilize less than 60 hour work weeks, with one day free each week; workers must be paid fairly with wages meeting local standards and there must be no use of child or prison labour. In light of these policies, after evaluating nearly 700 clothing manufacturers in some 50 countries with whom it does business, the firm terminated its relations with about five per cent of its contractors and demanded improved conditions from nearly one-quarter.

In one difficult case, Levi Strauss & Co. became aware that two of its foreign contractors in Bangladesh were employing children under 14 years old, reportedly legal under local law but below the standards set by the company's "terms of engagement" policies. Normally, the children would have to be fired if the contractors were to retain Levi's business. However, after studying the situation, the company also discovered these children were their families' only source of income and likely would turn to begging in the streets if they were not employed. In an agreement illustrating a maximal social responsibility approach to improving this situation, the contractor agreed to pay the children full wages and benefits if they attended school until age 14. Levi Strauss pays for the childrens' tuition, books and school uniforms. When the children reach age 14, they will be offered the choice of returning to work in the factory. This action is in line with comments made by Peter Jacobi, President of Levi Strauss International, when he was discussing the firm's "terms-of-engagement" standards. "Keep in mind that we are talking about guidelines, not laws. To reach the best possible outcome, you must draw heavily on your own best judgment, personal background, expertise, values, and vision of the future." He termed the compromise solution in Bangladesh "an honest effort to reconcile our corporate idealism with Third World realities" (Nichols, 1993, p. 16).

The corporation also uses a list of criteria for "country selection" that excludes States that are politically and socially unstable as well as countries where there are pervasive violations of human rights, using the United Nations Declaration of Human Rights as a benchmark. The firm made headlines when, following months of study, it decided, in May 1993, not to make direct investments in China and to phase out its business with 30 Chinese clothing contractors. Similarly, in 1992, the firm withdrew from Myanmar after determining that it was impossible to do business there without directly supporting the country's military Government that was charged with serious violations of human rights.

In terms of human resources management policies and programmes, a published interview with the firm's Senior Vice President of Human Relations, Donna Goya, claimed that Levi Strauss and Co. has

become truly global. She explained that becoming global means using good ideas from everywhere, no matter where they originated, and "developing global human resource managers" by drawing people from their overseas operations and creating opportunities for others to move abroad. Human resource managers are allowed flexibility in developing programmes in their own countries, but the results turn out very consistent. According to Goya, "Our values aren't San Francisco values, or California values, or U.S. values. They're global values" (Laabs, 1992, p. 39).

LEVI STRAUSS & CO.: BUSINESS PARTNER TERMS OF ENGAGEMENT AND GUIDELINES FOR COUNTRY SELECTION

"Levi Strauss & Co. has a heritage of conducting business in a manner that reflects its values. Because we source in many countries with diverse cultures, we must take special care in selecting business partners and countries whose practices are not incompatible with our values. Otherwise, our sourcing decisions have the potential of undermining this heritage, damaging the image of our brands and threatening our commercial success.

Business Partner Terms of Engagement

Terms of Engagement address issues that are substantially controllable by our individual business partners.

We have defined business partners as contractors and subcontractors who manufacture or finish our products and suppliers who provide material (including fabric, sundries, chemicals and/or stones) utilized in the manufacture and finishing of our products.

1. Environmental requirements

We will only do business with partners who share our commitment to the environment and who conduct their business in a way that is consistent with Levi Strauss Co.'s Environmental Philosophy and Guiding Principles.

2. Ethical standards

We will seek to identify and utilize business partners who aspire as individuals and in the conduct of their businesses to a set of ethical standards not incompatible with our own.

3. Health & safety

We will only utilize business partners who provide workers with a safe and healthy work environment. Business partners who provide residential facilities for their workers must provide safe and healthy facilities.

4. Legal requirements

We expect our business partners to be law abiding as individuals and to comply with legal requirements relevant to the conduct of their businesses.

5. Employment practices:

We will only do business with partners whose workers are in all cases present voluntarily, not put at risk of physical harm, fairly compensated, allowed the right of free association and not exploited in any way. In addition, the following specific guidelines will be followed.

- Wages and benefits

We will only do business with partners who provide wages and benefits that comply with any applicable law and match the prevailing local manufacturing or finishing industry practices.

- Working hours

While permitting flexibility in scheduling, we will identify prevailing local work hours and seek business partners who do not exceed them except for appropriately compensated overtime. While we favor partners who utilize less than sixty-hour work weeks, we will not use contractors who, on a regularly scheduled basis, require in excess of a sixty-hour week. Employees should be allowed at least one day off in seven.

- Child labor

Use of child labor is not permissible. Workers can be no less than 14 years of age and not younger than the compulsory age to be in school. We will not utilize partners who use child labor in any

of their facilities. We support the development of legitimate workplace apprenticeship programs for the educational benefit of younger people.

- Prison labor/forced labor

We will not utilize prison or forced labor in contracting relationships in the manufacture of our products. We will not utilize or purchase materials from a business partner utilizing prison or forced labor.

- Discrimination

While we recognize and respect cultural differences, we believe that workers should be employed on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs. We will favour business partners who share this value.

- Disciplinary practices

We will not utilize business partners who use corporal punishment or other forms of mental or physical coercion.

6. Community betterment

We will favor business partners who share our commitment to contribute to the betterment of community conditions.

Guidelines for country selection

The following country selection criteria address issues which we believe are beyond the ability of the individual business partner to control.

1. Brand image

We will not initiate or renew contractual relationships in countries where sourcing would have an adverse effect on our global brand image.

2. Health & safety

We will not initiate or renew contractual relationships in locations where there is evidence that Company employees or representatives would be exposed to unreasonable risk.

3. Human rights

We should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights.

4. Legal requirements

We will not initiate or renew contractual relationships in countries where the legal environment creates unreasonable risk to our trademarks or to other important commercial interests or seriously impedes our ability to implement these guidelines.

5. Political social stability

We will not initiate or renew contractual relationships in countries where political or social turmoil unreasonably threatens our commercial interests."

Sources: Material for this description is drawn from printed company fact sheets and published news accounts, including Louise Kehoe, "Levi makes bold fashion statement: US jeans maker chooses principles over profits", *The Financial Post*, 12 May 1993; Laabs, 1992; "Levi only comfortable dealing with countries that fit its image", *The Dallas Morning News*, 9 January 1994; "Levi Strauss decides against investing in China", *Los Angeles Times*, 4 May 1993; "A stitch in time", *The Economist*, 6 June 1992; and Nichols, 1993.

a Levi Strauss, "Mission Statement" (San Francisco, Levi Strauss, 1994), mimeo., p. 1.

b Kehoe (1993).

c Levi Strauss & Co. "Mission Statement, Business Partner Terms of Engagement and Guidelines for Country Selection" (San Francisco, Levi Strauss, 1994), mimeo.

of shareholders disproportionately concentrated in just a few of the affected countries. Such a conclusion would effectively ignore, as far as the TNC decision-making is concerned, a great number of people, whatever the firms' effects on their lives.

A concept that partially bridges the gap between the shareholder and stakeholder perspectives is the productivity/social separation principle (Tavis, 1982). This principle also offers a way to apply the social contract theory to TNCs in a manner that recognizes differential corporate responsibilities in the diverse societies where they operate. Under this principle, corporations that operate in a society governed by efficient market forces and effective democratic institutions can responsibly concentrate on enhancing productive outputs without assuming extra responsibilities for non-production issues. In the "ideal" democratic market model, the societal impact of corporate operations is best directed by competitive market forces, adjusted where necessary by responsible governmental institutions. In these systems, efficient free markets direct economic activity within the framework of effective laws and regulations enforced by a Government representative of a social consensus. Competitive markets and Government regulation essentially relieve firms of a responsibility to address the non-productivity needs of society because these devices will assure that the corporation produces its best benefit package for the society.

Box VIII.7. Subsidiarity and the social responsibility of transnational corporations

One application of the subsidiarity principle to the relationship between public authorities and private organizations is that the State should leave room for private organizations to take responsibility for their own affairs. More specifically, in a properly functioning democracy, political processes establish the regulatory framework within which private organizations, including enterprises, are free to act. A basic application of the subsidiarity principle in business relates to a decentralization of authority, suggesting that the most responsible, proximate and capable person -- the one closest to the issue -- should make decisions and take resulting actions. This formulation combines three important elements. First is the definition of roles as individuals define their degrees of responsibility differently depending on their relationship to the issue involved. The second element, proximity (in terms of geography, hierarchy or function) suggests that the actor closest to a problem is likely the most aware, knowledgeable and capable of effectively and efficiently resolving an issue. Capability, however, implies more than proximity and thus can also be seen as a third element. Capacity to act can bring a responsibility to do so if an essential need would otherwise go unmet because more responsible and proximate actors fail to fulfill their responsibilities.

Within this framework, enterprises can pursue their business in the strict sense of the term, since the authorities are responsible for other matters. However, a sort of *de minimis* consideration applies. Even properly functioning political processes respond only to abuses or omissions serious enough to merit the time and attention of political authorities. There remain areas in which enterprises must exercise social responsibility if it is to be exercised at all. Similarly, if political authorities are confronted with problems beyond their means, TNCs may themselves have a responsibility of *subsidiarity*, an obligation as social organizations to come to the assistance of the weaker body by providing the functions or services which are beyond the capabilities of the authorities; this raises the question of the duty to intervene.^a In extreme cases, where the requirements of the authorities or the expectations of the host society are utterly at odds with the outlook of a corporation, a TNC may do better to take its business elsewhere. Some TNCs made this choice with respect to South Africa in the days of apartheid.

Hence, although the subsidiarity principle is generally based on identifying the most responsible, proximate and capable actor, its application can also trace backwards in a chain of links to locate the next most responsible, proximate and capable actor if the primary ones fail to meet their responsibilities. It is this application of the subsidiarity principle to TNCs that suggests the need for greater voluntary corporate actions in societies where normal governmental or market-place mechanisms do not function effectively.

^a That is, *devoir d'ingérence*; see Millon-Delsol, 1993.

However, TNCs encounter numerous situations in their host countries in which these posited ideal conditions are not present. While even many developed countries fail to reach the "ideal" model, developing countries and the countries in transition usually lack efficient free market mechanisms and often suffer political instability as well. Over the past decade, many of these countries have moved away from centrally planned economies towards free market models while also enhancing or establishing democratic institutions. Nevertheless, until new competition and regulatory mechanisms are efficient and effective, the "ideal" conditions allowing firms to concentrate solely on business productivity goals are absent.

Consequently, in countries in which societal guidance and protection mechanisms are not fully effective, TNCs have a greater corporate social responsibility for self-regulation to assure they do not harm, and do positively benefit, the people of those host societies (box VIII.8). For instance, where fair market practices are not enforced, corporate social responsibility standards would still call for firms to behave in a responsible manner rather than seeking to extract exploitative profits to the society's detriment. Social responsibilities do not give TNCs a right to make political or social choices for a society. Instead, the concept calls for greater TNC sensitivity to the corporation's capability and impact on a country's social condition as well as its economic productivity goals. Cooperation with governmental authorities and other local leaders is essential to help guide appropriate corporate responses to the society's needs (Tavis, 1988; Werhane, 1994).

Cultural relativism versus transcultural principles

Operating in numerous individual societies as well as in an interdependent global economy, TNCs are subject to broader, more numerous and different societal expectations than solely domestic enterprises. This reality raises the issue of cultural relativism, i.e., whether firms should follow the edict "When in Rome, do as the Romans do", or instead be guided by certain universal principles that are transcultural in their application (Leisinger, 1994, pp. 11-12). There are strong arguments that corporate self-interest requires adherence in any culture to at least basic normative standards that permit markets to function on fundamental assumptions, such as trust, credibility and the honouring of contracts. Support for minimum standards of justice are also necessary for societal stability that permits long-term business planning (Bowie, 1993b). Other norms derive from human rights standards that must be respected for all individuals, regardless of particular cultural or societal circumstances (Frederick, 1993).

The challenge for TNCs is how to foster cultural responsiveness without falling prey to cultural relativism.⁸ Historically, many TNCs exhibited ethnocentric tendencies flowing from heavy reliance on directives from a centralized headquarters in the parent firm's home country. The increased use of complex corporate strategies and the proliferation of international strategic alliances introduce more organizationally dispersed authority and operations. This change could enhance a TNC's learning experiences, thus improving its responsiveness on social issues and reducing its ethnocentrism by making it more sensitive, knowledgeable and adaptable to globally diverse societies. A TNC still requires a common core of selected values if it is to maintain a unified corporate identity. However, by drawing on more globally diverse experiences, these internal norms may come closer to matching external public expectations regarding how corporations should behave in relation to evolving international standards.

No authority yet exists to issue a global legal charter for TNCs, and no single social contract defines comprehensively the corporate social responsibilities of TNCs. However, societal expectations do extend to cover TNC conduct outside a single society's boundaries and a variety of international guidelines promote standards of good corporate conduct, applicable in any country (Frederick, 1993). Examples of relevant intergovernmental instruments are the International Labour Organization's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO, 1991c) and the Organisation for Economic Co-operation and

Box VIII.8. Social responsibility in developing countries: the example of Ciba

The following policies and programme descriptions were excerpted from the 1993 *Report of the Ciba-Geigy Foundation for Cooperation with Developing Countries* to illustrate a particular application of TNC social responsibility principles to business in developing countries:

"Ethical behavior"

Corporations that act responsibly in a number of obvious areas reduce the potential for conflict between a socially and economically viable development policy and the impact of a corporation's involvement in a developing country. In this context these are the minimum requirements for good business practices:

- As far as the consumer is concerned, there should be no fundamental difference between industrialized and developing countries in the quality of products and services, their safety and information for their use (e.g. indications and side-effects of drugs).
- The same objectives and principles must be adopted in the safety of production and environmental protection all over the world. Double standards in areas which affect the lives and health of people are unacceptable.
- If better information or greater insight reveals problem areas which fall within the responsibility of a company, it must take corrective action, regardless of existing regulations.
- Multinationals should set an example in their wage and social policies. Applying the standards of local industry or simply observing the legal minimum is, in many cases, inappropriate for the social conditions in poor countries.
- A multinational corporation which operates in different legal and social frameworks, and which strives for uniform ethical standards, is well advised to develop corporate policies for sensitive activities in the developing world—whether in marketing environmental protection or other areas. Not everything legal is morally acceptable.

Basic principles for Ciba's activities in developing countries

Convinced that the best basis for long-term corporate success is that all parties benefit, Ciba observes the following basic principles in its business activities:

1. Ciba acts in partnership with developing countries to advance their economic potential in the interest of both parties. It fully observes the rights and duties arising out of such a partnership.
2. In making business decisions about the developing world (for example, about products, services, technologies and investments), Ciba takes into account their impact on the development of the host country in addition to economic criteria. Ciba is prepared to take a long-term view of profit in developing countries.

Development's Guidelines for Multinational Enterprises (OECD, 1992e) (see chapter IX). Other principles and guidelines can evolve from initiatives by private sector groups, including steps by the business community to establish voluntary standards. Examples are:

- International codes. An example is the International Chamber of Commerce's Business Charter for Sustainable Development (ICC, 1991) which has also been used by firms to formulate their own codes (box VIII.9.)
- National codes by business associations. An example is the Japanese Guidelines for Overseas Direct Investment adopted by a group of Japanese business organizations (Keidanren, 1987 — box VIII.10). Naturally, codes adopted by business organizations tend

3. If a developing country adopts measures to protect its economy (for example, import restrictions, export obligations, or conditions for ownership), Ciba cooperates as long as partnership and adequate returns are not jeopardized in the long-term.
4. Ciba considers it its duty to advise its partners against undertakings of doubtful benefit (for example, prestige projects), even if such a move proves detrimental to our economic interests.
5. Ciba has progressive social and personnel policies in the developing countries, adapted to local conditions. In particular Ciba trains employees locally if possible, and abroad if necessary, allows capable staff to gain international experience in the company and considers nationals for executive positions.
6. The quality of Ciba's products is the same in all countries.
7. In environmental protection and safety Ciba pursues the same objectives in all countries. Through the transfer of technology Ciba helps to make chemicals more environmentally sound and safer.
8. Information and advice is based on the same scientific knowledge in all countries. Ciba thus pursues safe and proper use of its products.
9. The prices of Ciba products are determined by the particular national market and competitive conditions.

The Risk Fund

Ciba's corporate management authorized the establishment of an in-house Risk Fund in the summer of 1988. This was based on the conviction that long-term profitability in the developing world also depends on finding new creative and innovative approaches to its markets and the courage to take risks. The Fund should encourage Divisions, even in economically unfavorable times, to take on projects with new strategies, long lead times, high initial investments or costly services, if they make long-term commercial sense. The Risk Fund is intended to help the company to overcome the special conditions which limit entrepreneurial action in developing countries and to live up to our "vision" (i.e. striking a balance between economic, social and ecological obligations) even under difficult conditions. The Risk Fund is yet another step forward to our objective of selling not only products, but solutions to problems."

* * *

Among the projects supported by Ciba's Risk Fund are a social marketing programme for the treatment of epilepsy, implemented in collaboration with local epilepsy associations initially in Ecuador, Egypt, Indonesia and Kenya; studies in India, Mexico and Zimbabwe to develop methods to foster the safe and effective use of plant protection products among small-scale farmers; the promotion of printed fabric exports from Senegal's labour-intensive textile industry; and agricultural advisory assistance for a farming resettlement colony in Bolivia.

Source: The Ciba-Geigy Foundation, Report of the Ciba-Geigy Foundation for Cooperation with Developing Countries, (Basle: Ciba-Geigy Foundation, 1993), pp. 29, 33-34.

to be less forceful than codes adopted by individual firms, as they need to reflect the consensus of all their members.

Individual corporate codes of conduct (Kline, 1985, Business Roundtable, 1988). Examples of such codes were cited in a number of boxes in this chapter. A review of these documents and others suggests a range of topics relevant to TNC social responsibility, including relations with governments and local communities, competition practices, consumer rights, marketing methods, anti-bribery standards, environmental protection, and employment and employee relations.

C. The social responsibility of transnational corporations in human resources management

As examined in Part Two of this volume, TNCs play an important role in employment, human resource development and industrial relations in the countries in which they operate. Corporate social responsibility will often lead TNCs to exceed legal requirements, drawing on their international experience to assist and advance local practices. Issues of appropriateness and choice may be raised where foreign methods and standards are introduced into different cultural and socio-economic settings. Under these circumstances, the concept of TNC social responsibility could suggest principles and processes to maximize the benefits and minimize possible disruptions related to the impacts of foreign affiliates. Many TNCs set forth their policies towards employees in documents ranging from brief statements of principles to detailed policy manuals (box VIII.11 contains an example). A review of such documents reveals a distinction between policies that focus on specifying the responsibilities of employees to the corporation, and an approach that recognizes and addresses corporate responsibilities to employees as well as vice versa (Kline, 1985, pp. 99-102). Corporate social responsibility standards would recognize the mutual nature of these rights and responsibilities. For TNCs, these standards need to be crafted so as to address diverse global conditions and provide management guidelines for operating on an intersocietal basis.

The following sections analyse — by way of example — some of the key issues that constitute core topics for TNC social responsibility discussions regarding human resource management.

Employment. As was discussed earlier in this volume, total direct TNC employment is less significant for most host countries than the general economic stimulus and multiplier effects associated with the operations of those firms. Social responsibility considerations therefore focus

Box VIII.9. Using international documents as a basis for corporate codes: the example of Unilever

Transnational corporations can use internationally-agreed public and private sector documents, such as the ICC's Business Charter for Sustainable Development, to help guide application of their social responsibility standards on specific issues. The excerpt below is drawn from "Introducing Unilever 1993", a publication of Unilever External Affairs in London and Rotterdam:

"Social Responsibility"

In meeting the needs of consumers across the world, Unilever takes care to respect the physical, economic and social environments of the communities in which it operates. It has a strong tradition of commitment to good citizenship, believing that the success of the company and the welfare of the community go hand in hand.

Minimising the use of raw materials and the production of waste in both products and packaging so as to reduce their impact on the environment is an important element in Unilever's business strategy. Recent product advances include the introduction of a fabric conditioner formulation based on a new active ingredient with an excellent environmental profile, being easily and completely biodegradable. Unilever has expressed its commitment to the goal of sustainable development by signing the International Chamber of Commerce Business Charter for Sustainable Development, and takes a leading role in efforts to promote responsible environmental initiatives, such as those on packaging and recycling.

Unilever is committed to maintaining the highest standards of fairness and integrity in all its dealings with consumers, customers, suppliers, employees and other stakeholders."

Source: Unilever. "Introducing Unilever 1993" (London: Unilever, 1993), p. 7.

more on the treatment of TNC employees and industrial relations than on their total numbers, although actions responsive to national job creation merit consideration whenever competitively feasible.

Conditions of work. Non-discrimination is a widespread tenet of corporate social responsibility standards on employment. In their global operations, TNCs encounter individuals with

Box VIII.10. National codes of business associations: the Japanese guidelines for foreign direct investment

A group of major Japanese economic organizations issued a set of "Guidelines for Investment Activities in Developing Countries" in June 1973. These guidelines were reviewed and updated, and new "Guidelines for Overseas Direct Investment" were issued in April 1987. The sponsoring organizations included the Japan Federation of Economic Organizations (Keidanren), The Japan Chamber of Commerce and Industry, the Japan Association of Corporate Executives (Keizai Doyukai), The Japan Federation of Employers' Associations (Nikkeiren), the Japan Foreign Trade Council Inc., the Kansei Economic Federation (Kandeiren) and the Japan Overseas Enterprises Association (JOEA). The excerpts below on foreign employee relations are taken from the English translation of the original Japanese edition "Kaigai Toshi Kodo Shishin":

4. "Establishment of Sound and Fair Labor-Management Relations

To establish sound and fair labor-management relations by deepening both knowledge and understanding of labor union organizations and labor practices of the host country, and by promoting mutual understanding between labor and management through exchange of information and opinions.

5. Employment and Promotion of Local Personnel

To employ local personnel and to promote those qualified to higher positions in order to contribute to the expansion of employment opportunities in the host country.

Furthermore, to take into consideration local circumstances when deciding working conditions and to improve the work environment so as to ensure safety and hygiene for employees.

6. Promotion of Education and Training for Local Employees

To organize in-house education and training programs for local employees to improve their job-related abilities, and if deemed necessary, to provide them with the opportunity to acquire skills and techniques (including business and management skills) by sending them to Japan and/or elsewhere for training and education.

To give consideration to the necessity of technology transfer when implementing education and training programs, particularly in developing countries or wherever it is required."

Source: Japan Federation of Economic Organizations (Keidanren) et al., "Guidelines for Overseas Direct Investment" (Tokyo, Keidanren, 1987), mimeo., pp. 2-3.

widely varying personal characteristics and cultural backgrounds. Both in hiring practices and in the treatment of individuals once employed, TNC social responsibility standards could be expected to prohibit discrimination on the basis of distinctions such as race, sex, religion or ethnicity.⁹ As with other global norms, the challenge is in the application in particular countries where such discrimination is legally required or socially entrenched.

Basic terms of employment are governed by local laws that may introduce some variations into the specific application of general standards. For example, international norms recognize the need to regulate the employment of groups such as children or prisoners who would not have the competence or freedom to choose their terms and conditions of work (ILO, 1988, pp. 29-64). In practice, societies may define and interpret child labour standards differently, choosing age limits

in line with their own culture and traditions. Enforcement of local laws may also be a problem for TNCs themselves, as reflected in the recent decision to address labour issues in the World Trade Organization in the context of practices that can create unfair trade conditions (see chapter IX). Transnational corporations cannot avoid deciding the extent to which they will respect local laws that the authorities do not enforce. In terms of social responsibility, it is often suggested that TNCs ought to promote practices that adhere to the spirit of recognized international principles without violating local laws or offending official standards. Following this rule would promote the globalization of these principles. In so far as they are principles endorsed by recognized international bodies like the United Nations, the ILO or UNEP, or in so far as the principles are important to the efficient working of TNCs that bring widespread benefits, this approach merits attention (box VIII.12 contains an example; others are contained in chapter IX).

Wages and fringe benefits. Transnational corporations are often subject to contrasting standards when measured against home and host country practices. Social responsibility considerations include both minimum subsistence norms and an evaluation of fair and beneficial compensation standards relative to local requirements and practices. As shown in chapter IV,

Box VIII.11. Social responsibility and employees: the example of S.C. Johnson & Son

The following excerpts on employee policies are drawn from "This We Believe", a statement of company philosophy first discussed and ratified by delegates at a Johnson Wax Global Management Conference held in 1976 and subsequently refined and reissued after more than ten years of experience:

"Introduction

Our statement of corporate philosophy has been translated and communicated around the world – not only within the worldwide company, but also to key external audiences. It has served as well by providing all employees with a common statement of the basic principles which guide the company in all the different cultures where we operate. It has also provided people outside the company with an understanding of our fundamental beliefs. It communicates the kind of company we are.

...

Employees

We believe that the fundamental vitality and strength of our worldwide company lies in our people, and we commit ourselves to:

- * Maintain good relations among all employees around the world based on a sense of participation, mutual respect, and an understanding of common objectives, by:
 - Creating a climate whereby all employees freely air their concerns and express opinions with the assurance that these will be fairly considered.
 - Attentively responding to employees' suggestions and problems.
 - Fostering open, two-way communications between management and employees.
 - Providing employees with opportunities to participate in the process of decision-making.
 - Encouraging employees at all levels and in all disciplines to work as a team.
 - Respecting the dignity and rights of privacy of every employee.
- * Manage our business in such a way that we can provide security for regular employees and retirees, by:
 - Pursuing a long-term policy of planned, orderly growth.
 - Retaining regular employees, if at all possible, as conditions change. However, this may not always be possible, particularly where major restructuring or reorganization is required to maintain competitiveness.
 - Retraining employees who have acceptable performance records and are in positions no longer needed, provided suitable jobs are available.

TNCs generally compensate employees somewhat above the local average but not to a degree that unfairly disadvantages local employers or offsets international comparative advantage considerations.

Given the widely varying economic, political and social settings within which they operate, TNC social responsibility standards do not dictate that firms set the same compensation levels across their entire network. Geographical differences in production cost factors, including labour, underlie the fundamental economic principle of comparative advantage. For TNCs to establish the same compensation standard for their workers worldwide would create short-run distortions in local labour markets while reducing longer-run investment in many labour-surplus countries by negating their comparative cost advantage.

Compensation policies by TNCs conform to local law while being bounded by minimal obligations to provide subsistence wages under any conditions, and maximal responsibilities to grant additional real benefits consistent with local regulations, competitive conditions and the need to make a profit. Fringe benefit policies offer opportunities to aid employees through

- * Maintain a high level of effectiveness within the organization, by:
 - Establishing clear standards of job performance.
 - Ensuring that the performance of all employees meets required levels by giving appropriate recognition to those whose performance is good and by terminating those whose performance, despite their managers' efforts to help, continues below company standards.
- * Provide equal opportunities in employment and advancement, by:
 - Hiring and promoting employees without discrimination, using qualifications, performance, and experience as the principal criteria.
- * Remunerate employees at levels that fully reward their performance and recognize their contribution to the success of their company, by:
 - Maintaining base pay and benefit programs both of which are fully competitive with those prevailing within the relevant marketplaces.
 - Maintaining, in addition to our fully competitive pay and benefit programs, our long-standing tradition of sharing profits with employees.
- * Protect the health and safety of all employees, by:
 - Providing a clean and safe work environment.
 - Providing appropriate safety training and occupational health services.
- * Develop the skills and abilities of our people, by:
 - Providing on-the-job training and professional development programs.
 - Helping employees qualify for opportunities in the company through educational and development programs.
- * Create environments which are conducive to self-expression and personal well-being, by:
 - Fostering and supporting leisure-time programs for employees and retirees.
 - Developing job-enrichment programs.
 - Maintaining the long tradition of high quality and good design in our offices and plants.
- * Encourage initiative, innovation, and entrepreneurship among all employees, thereby providing opportunities for greater job satisfaction while also helping the worldwide company achieve its objectives."

Source: Johnson Wax, "This We Believe" (Racine: Johnson Wax, 1993), mimeo., pp. 1, 3-5.

Box VIII.12. Observing international labour standards: the example of Reebok

In mid-1992, a task force at Reebok completed work on a set of formal, uniform guidelines that establish standards for the treatment of workers in factories worldwide that produce Reebok products. Some fifty independently owned and managed companies in more than six countries manufacture such products. Drawing from their own experience and advice from the United Nations, human rights organizations and Levi Strauss & Co. (box VIII.6), the company issued the "Reebok Human Rights Production Standards", reprinted below:

"Non discrimination"

Reebok will seek business partners that do not discriminate in hiring and employment practices on grounds of race, color, national origin, gender, religion, or political or other opinion.

Working hours/overtime

Reebok will seek business partners who do not require more than 60 hour work weeks on a regularly scheduled basis, except for appropriately compensated overtime in compliance with local laws, and we will favor business partners who use 48 hour work weeks as their maximum normal requirement.

Forced or compulsory labor

Reebok will not work with business partners that use forced or other compulsory labor, including labor that is required as a means of political coercion or as punishment for holding or for peacefully expressing political views, in the manufacture of its products. Reebok will not purchase materials that were produced by forced prison or other compulsory labor and will terminate business relationships with any sources found to utilize such labor.

Fair wages

Reebok will seek business partners who share our commitment to the betterment of wage and benefit levels that address the basic needs of workers and their families so far as possible and appropriate in light of national practices and conditions. Reebok will not select business partners that pay less than the minimum wage required by local law or that pay less than prevailing local industry practices (whichever is higher).

Child labor

Reebok will not work with business partners that use child labor. The term "child" generally refers to a person who is less than 14 years of age, or younger than the age for completing compulsory education if that age is higher than 14. In countries where the law defines "child" to include individuals who are older than 14, Reebok will apply that definition.

Freedom of association

Reebok will seek business partners that share its commitment to the right of employees to establish and join organizations of their own choosing. Reebok will seek to assure that no employee is penalized because of his or her non-violent exercise of this right. Reebok recognizes and respects the right of all employees to organize and bargain collectively.

Safe and healthy work environment

Reebok will seek business partners that strive to assure employees a safe and healthy workplace and that do not expose workers to hazardous conditions."

Source: Reebok International Ltd.. "Human Rights Production Standards" (Stoughton: Reebok, 1992), mimeo..

assistance in areas such as health care, education and housing that are particularly needed in developing countries. However, these benefits need to be shaped to the appropriate local culture and social circumstances and ought not to skew the entire compensation package beyond the comparative competition considerations already discussed.

Safety. Concern for worker safety is a core social responsibility requirement to avoid doing harm. Levels of acceptable risk may vary among countries, but TNCs can adopt standards for risk minimization, and informed consent regarding retained risk, that are applicable throughout their operations. Corporations could also continually assess and improve production processes to enhance safety, including the transfer of beneficial experience and technology from affiliated enterprises.¹⁰

Training. Personal and societal advancement can come from worker and management training programmes that are self-interested corporate goals increasingly vital to maintaining competitiveness in a dynamic global economy (chapter V). Host societies benefit both from a firm's improved performance and from the transfer of skills through collaboration ventures with local partners and job mobility between the TNC affiliate and local firms. Sharing skills and knowledge with local employees can be an expression of a TNC's responsibility to fill a role when governments cannot. Transnational corporations can work with local governments, labour unions and other societal representatives in exploring cooperative links between public and private sector programmes to benefit the socio-economic needs of particular host societies (box VIII.10).

Special advantages accrue to host economies when TNCs integrate lessons from their global experience into local training programmes and rotate key personnel through overseas affiliates to broaden their skills and provide a deeper understanding of foreign markets (UN-TCMD, 1992a, pp. 175-82; Kline, 1994). The best results for host countries emerge when a cooperatively designed strategy coordinates available public and private sector resources to meet basic education and training needs while avoiding a wasteful duplication of effort. Social responsibility calls for a willingness to cooperate in such undertakings which will, not coincidentally, also help assure a necessary base of properly skilled personnel for business ventures.

Closures and adjustment. Disruptions and dislocations are unavoidable in an interdependent global economy. Plant closures, employee lay-offs and the accompanying personal and community adjustments that follow are among the most traumatic and criticized effects of TNC activity. Non-TNC businesses cause similar impacts, but a TNC's size and international options engender more concern about its responsiveness to local needs. On the other hand, major foreign investors have a longer-term self-interest in taking socially responsible actions in these circumstances compared to smaller enterprises or those that are engaged principally in external trading relationships. Affiliated TNC investments in the host country or even unrelated business interests elsewhere could be damaged by negative reactions to socially irresponsible behaviour whereas smaller firms and foreign traders have relatively less at stake.

Several types of actions could be undertaken by TNCs consistent with social and business conditions, and a number of them have been specified in the ILO Tripartite Declaration and the OECD Guidelines (chapter IX). Independent of these, the stakeholder concept would call for communication with significantly affected parties, such as employees or community leaders, along with a willingness to explain decisions being taken and to discuss possible ways to avoid or ameliorate resulting dislocations (chapter IX). It is a mark of evolving societal expectations that a regulatory proposal on transnational mechanisms for corporations to inform and consult with their workers is under consideration in the European Union (chapter IX).

Possible corporate actions regarding displaced employees could include retraining programmes and/or relocation assistance that aids individual adjustment while retaining valuable human resources within the firm. These efforts can complement governmental programmes such as the adjustment and retraining initiatives sparked in the United States by the North American Free Trade Agreement (Hufbauer and Schott, 1993). Outplacement support and incentives for early retirement have also become more common, particularly for middle management affected by recent restructuring or "downsizing" moves in some industries. However, if societies place

extensive adjustment obligations on corporations by law, turning social contract expectations into legal mandates, the unintended effect can lead to labour sector rigidities. Firms can become reluctant to hire more permanent workers in order to avoid costly adjustment regulations if market dynamics compel labour-force reductions.

Trade unions. The basic relationship between TNCs and organized labour is defined principally by national law. Most TNCs are experienced at professional labour-management relations and work with labour unions under conditions specified by a society's law and practices (chapter VI). Depending on the extent of the legal provision, however, socially responsible behaviour could suggest a more forthcoming behaviour of both social partners, with a view towards establishing productive cooperative relationships between management and trade unions. Of course, corporations can also pursue maximal social responsibility goals, for example by supporting employee efforts to form union representation where it will serve the workers' interests in a collective bargaining process as well as promote other societal objectives.¹¹

Conclusions

The concept of corporate social responsibility helps to organize and apply abstract notions about how a firm relates to its surrounding society. Corporations are governed by law, but specific regulations cannot cover the full range of corporate activities. More general societal expectations regarding business conduct are often subsumed under the term "good corporate citizenship." For TNCs, the notion of both citizenship and social responsibility are more complicated than for enterprises that operate only in a single country. Applying theories of corporate social responsibility to TNCs requires adjustment for the more numerous and diverse social circumstances they encounter as well as for their complex business patterns of operation and control.

The emergence of an integrated international production system is going hand-in-hand with new TNC organizational structures. Traditional models of a single headquarters controlling hierarchically a set of wholly-owned foreign affiliates are being replaced by an array of international intra- and inter-corporate arrangements where equity, research, production, marketing and other business functions are shared among many variously related enterprises, often including principal competitors. In terms of corporate social responsibility, these complex and shifting structures make it difficult, but important, to establish and maintain a consistent corporate identity that will define and operationalize voluntary good conduct standards across a TNC network.

As TNCs alter management and organizational processes to accommodate the demands of an integrated international production system, broader agreements are likely to evolve in areas such as accounting rules and financial management standards to facilitate operational coordination at the international level. There is an equal need to search for common grounds of understanding and applying corporate social responsibility principles to TNC operations. Broader agreement on what the concept of corporate social responsibility entails would make it easier for TNCs to set their own standards and pursue complex corporate strategies within a commonly understood boundary of international good corporate citizenship.

The globalization of TNC structures and strategies is taking place in a world undergoing fundamental change, particularly as many states move to more democratic political systems and market-driven economies.¹² A concept of global corporate social responsibility could help TNCs meet the realities and challenges of this new world. Transnational corporations are sought throughout the world as agents of development; they can also play a leadership role in promoting high standards of corporate social responsibility, including serving as an example for evolving or emerging local enterprises that lack direct experience or even other types of private sector models.

This role could be especially important to sustain support for market economy principles in countries in which both free markets and representative democratic structures are not yet fully efficient, effective and stable.

The social responsibility of TNCs is driven by the dual forces of corporate goodwill and public opinion (UNCTAD-DTCI, 1993a, p. 199). Long-run corporate self-interest argues for socially responsive actions that generally rises above the floor set by strict legal mandates. Corporate decision-making could include a specific assessment of a firm's social responsibilities, guided by reference to concepts such as the subsidiarity principle outlined in this chapter. These concepts can be applied to human resource management as well as to other types of issues facing TNCs in their evolving global operations.

Notes

- 1 For dissenting views on the corporate internal decision structure, see Danley, 1984 and Keeley, 1983.
- 2 The content of exactly what constitutes a minimum benefit or creates an unacceptable harm is subject to debate. For a well developed argument applied specifically to TNCs, see Donaldson, 1989, ch. 5.
- 3 A different conceptual formulation of corporate social responsibilities suggests categories of economic, legal, ethical and discretionary responsibilities. See Carroll, 1981, pp. 32-37.
- 4 To quote from the 1993 "Report of the Ciba-Geigy Foundation for Cooperation with Developing Countries", p. 49: "Humanitarian commitment is no substitute for ethical behavior. The overall impact on development of a multinational company depends largely on its structure and the quality of its activities in normal business. Humanitarian assistance is always desirable as it helps reduce distress and human suffering. But charitable projects and programs are no substitute for ethical behavior. Nor do they compensate for economic, social or ecological irresponsibility."
- 5 For a summary of basic arguments for and against these two views of corporate social responsibility, see Davis, 1977.
- 6 For example, see Dinah Lee and Rose Brady, "Long, hard days: at pennies an hour," *Business Week*, 31 October 1988, pp. 46-47; Matt Moffett, "Underage laborers fill Mexican factories, stir U.S. trade debate," *The Wall Street Journal*, 8 April 1991; Frank Swoboda, "Apparel firms on U.S. Pacific island accused of 'slave labor' conditions," *The Washington Post*, 12 February 1992; and Amy Borrus and Joyce Barnathan, "Stanching the flow of China's gulag exports," *Business Week*, 13 April 1992, pp. 51-52.
- 7 This application draws from the "Kew Gardens Principle"; see Simon, Powers and Gunnemann, 1993, p. 63. In one early example, foreign companies buying coffee beans from Uganda voluntarily ended their purchases when their sales were shown to be supporting rampant human rights abuses under the Government of Idi Amin (Gladwin and Walter, 1980, pp. 182-84).
- 8 One effort to assist TNC managers in making difficult decisions in this area is the use of an "ethical algorithm" (Donaldson, 1989, pp. 101-106). From another perspective, an innovative attempt to bridge the gap between empirical and normative research on business ethics suggests the concept of macrosocial and microsocial contracts. Using more specific microsocial contracts, firms can be responsive to the bounded cultural conditions in different societies. However, they are prevented from slipping into cultural relativism by a requirement that actions be consistent with their macrosocial contracts and with transcultural "hypernorms" defined similarly to human rights standards (Donaldson and Dunfee, 1994).
- 9 Debates in the United States over the extraterritorial extension of United States non-discrimination guarantees for employees have included discussions of the international basis for such principles (Quinn and Petrick, 1994, pp. 107-118).
- 10 For an interesting analysis of corporate social responsibility considerations related to employees when an asbestos manufacturing plant moves from the United States to Mexico, see De George, 1986, pp. 367-72. Related safety issues concerning the tragedy involving a Union Carbide plant in Bhopal, India are examined by Donaldson, 1989, ch. 7.

11 The amplified "Sullivan Principles" asked TNCs doing business in South Africa to "secure rights of black workers to freedom of association" while the subsequent United States State Department Principles called for "recognizing the right of all employees, regardless of racial or other distinctions, to self-organization and to form, join or assist labor organizations." With these initiatives, many TNCs did recognize black unions. While in one sense a "workplace" issue, black union organization also was an important stimulus for change in the apartheid system (Kline, 1991).

12 Donaldson and Dunfee (Donaldson and Dunfee, 1994), suggested that ethical rules for business practices are stipulated for the economic systems chosen by a society rather than being given by nature. This situation leads to potentially large variations in normative standards among countries that choose radically different economic models. Under this conception, the recent global convergence toward market economies and democratic institutions could make it easier to agree on a common set of social responsibility principles to guide TNC conduct.