Globalization and the need for Enhanced Standards of Corporate Accountability from Multinational Corporation (MNCs)

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Thank you Mr. Chairman. Ladies and Gentlemen.

It is indeed a privilege to have this opportunity to speak to such a distinguished audience. The members of IAJBS represent a constituency of business students and thus future leaders of corporations and other economic institutions all over the world. You have an important role to play in shaping their character, their view of the world, and how they discharge their responsibilities as professional managers. Therefore, I earnestly hope that my remarks today will add to your own perspective as to the proper role business institutions and notably large corporations in an increasingly integrated and inter-dependent world.

The new wave of globalization during the last two decades has had an enormous impact - both positive and negative – in all parts of the world. The trend toward increased globalization and the move toward open markets has created an increase in the aggregate wealth and in the movement of capital from industrially advanced countries to developing ones. There is, however, considerable debate about the real and alleged benefits of globalization, because many assessments ignore most, if not all, of the negative second-order consequences of globalization, especially its effects on environment, workers, and sociopolitical institutions in developing countries.

The principal agent of change in the current wave of globalization has been the large multinational corporation (MNC). The free trade, however, aspect of globalization has enabled the MNC to move its capital resources in search for lower cost and cheap labor and thereby enhance their economic efficiency and profitability. The free trade has not been so free with workers in poorer countries whose lack of mobility puts them at a distinctively competitive disadvantage in dealing with the MNCs to gain a fair share of the increased productivity from globalization.

I contend that the paramount concern for all of us should be to find ways where we can maintain the essential elements of free trade and improved productivity. At the same time, we must redefine the role of the multinational corporations in a manner that ensures that MNCs' actions will also contribute to the well being of the masses of workers in the poorer countries without whose participation globalization will fail to deliver on its promise of prosperity, enhancement democratic values, and furtherance of human rights.

My focus in these remarks is not on the past, but on the future. I emphasize the need for charting a new direction on the part of MNCs. My aim is to create more proactive cooperation between the MNCs and other players with whom they interact in the global economic arena. Given the critical role of MNCs in an increasingly integrated global markets, we believe that enlightened leadership on the part of MNCs will elicit a similarly positive response from other important constituencies and institutions of civil society. In particular, I address four issues:

1. What is the impact of globalization on increased wealth creation; the role and power of MNCs; the equity of distribution of productivity gains; and in particular,

the impact of MNC activities on employment, wages and working conditions, human rights, and the environment?

2. What is the impact of increased globalization on the social and cultural bonds between MNCs, local communities, and other constituencies? How has the weakening of these bonds affected the traditional notions of corporate social responsibility and people's expectations? How might these traditional bonds be replaced and modified to bind the corporation with its multiple stakeholders in the MNC's home country and all those communities around the world where MNC operations are located.
3. The twin factors of increased MNC economic power and political influence, and a weakening of the traditional notions of corporate responsibility, call for a re-examination of the relative responsibilities and obligations of the MNCs to their various stakeholders. How might we establish realistic expectations of acceptable bounds of corporate conduct and the means by which the MNCs can assure various segments of society as to the veracity of their performance claims?
4. One of the ways by which the MNCs have demonstrated their adaptation to altered societal expectations is through their codes of business conduct. These codes are seen as voluntary corporate efforts that bridge the gap between legally mandated standards and evolving social needs. To date, most of these codes, and the performance of the MNCs advocating them, have been disappointing. Rather than narrowing the credibility gap between the MNCs and society, they have enlarged it. They have contributed to a further erosion of societal trust in

corporate conduct. An important question, therefore, is to find ways by which to increase the effectiveness of these codes in a manner that is feasible for the MNCs and acceptable to important segments of society.

The Blessings and Perils of Globalization

A strong argument can be made that globalization and the unrestricted flow of capital, goods, and services lead to creation of wealth and prosperity among all participating nations. Comparative advantage allows both industrially advanced nations and developing countries to maximize their gains from trade. Industrially advanced countries make better use of their technology and capital by exporting it to less developed or poorer countries, which in turn make better use of their cheap and abundant labor by exporting their low-tech, labor-intensive products to the richer countries.[1]

Advocates of globalization point to increases in wealth creation in all parts of the world, which have followed moves toward open markets since the 1970s. They point to the increase in merchandise exports from developing countries, both in absolute and in percentage terms of their GDP. Developing countries have witnessed large inflows of capital and technology, and have recorded high rates of growth in their GDP. Trade liberalization (read globalization) has been inextricably linked with a country's economic reforms and growth in GDP.[2]

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[1] Jagdish Bhagwati, A Stream of Windows--Unsettling Reflections on Trade, Immigration, and Democracy (Cambridge: MIT Press, 1998); Robert Baterson and Murray Weidenbaum, The Pros and Cons of Globalization (St. Louis: Center for the Study of American Business, Washington University, January 2001), p. 22; and, "Globalization and its Critics," *The Economist*, September 29, 2001,p. 30.

[2] Jeffery Sachs and Andrew Warner, ibid., 1–118.

There is evidence of strong linkage between participation in international trade and domestic economic growth. In "The Promise and Pains of Globalization," Dennis Rondinelli and Jack Behrman state that between 1960 and early 1990s, the economies of countries that exported only a small proportion of their output grew less than three percent a year when compared with growth rates of five to seven percent a year for countries exporting a large proportion of their output.[3]

The proponents of globalization cite these and similar data to support the case for even greater globalization. Unfortunately, this is not the entire story. Globalization and economic growth have had adverse side effects. Distribution of gains from international trade and investment has been highly skewed in favor of those who control the capital and against those who contribute human labor, especially in the developing countries. Thus we are faced with the phenomenon of expanding disparity between the richer and the poorer countries, and also between the richer and poor people in individual countries. According to the World Bank, the disparity between rich and poor countries has grown ten times wider during the last thirty years.

It is claimed that the number of people living on less than $1.00 a day has been reduced by over 60 percent in an eight-year period and that it is largely due to globalization. However, it should be clear that the 1998 $1.00 is grossly decimated by inflation from the 1990 $1.00. Moreover, the current prevailing rate of $1.50 to $2.00 per day for ten-hour days, worked by most low-skilled and unskilled workers in Asian and Latin American countries, can hardly be called progress when one realizes the

[3] Dennis Rondinelli and Jack Behrman, "The Promise and Pains of Globalization," *Global Focus*, 12, No. 1 (2000): p. 6 (cited in Weidenbaum Murray, *Looking for Common Ground on U.S. Trade Policy* (Washington D.C.: CSIS Report August 2001), p. 6.

abysmally unsafe working conditions under which these workers toil to earn what we euphemistically call "a living."

In their overseas operations, MNCs have ensured that products made for them in developing countries meet quality standards acceptable to consumers in the industrially advanced counties. However, when it comes to workers and working conditions, MNCs have been indifferent, if not downright negligent, about ensuring the health and welfare of the workers who make those products. Consequently, we are finding widespread worker exploitation and abuse, and harm to the environment.[4]

Need for Altered expectations of Multinational Corporations

Multinational corporations are at a crossroads. The path they choose will impact the scope and direction of globalization. Even more important, it will define the terms of engagement between business institutions, notably large multinational corporations, and other sociopolitical institutions.

Commenting on the recent World Economic Forum in New York, Alan Murray of the Wall Street Journal wrote: "In the big picture view that is encouraged at these conferences, seemingly unconnected events begin to look like a trend. The rise of the anti-globalization protesters, the collapse of the NASDAQ, the terrorist attacks on September 11th, and the Enron Scandal, all are cited as challenge to the reigning social order. Such sentiments could prove ephemeral—the temporary byproducts of

[4] "Global Capitalism: Can it be Made Better?" *Business Week*, November 6, 2000, pp. 72–90; "Take a Break, Trade Bullies," *Business Week*," November 6, 2000, pp. 100–01; S. P. Sethi, "Human Rights and Corporate Sense," *Far Eastern Economic Review*," October 19, 2000, p. 37.

recession, and outbreak of terrorism, and a passing corporate scandal. But there are at least some here who sense more. I think we are at a turning point,' says David Rothkopf, chief executive of Intellibridge Corp., which advises companies on global trends. `In every meeting I've been in there is an undercurrent of resentment to the U.S. corporate establishment. There's a sense that the system doesn't work for everybody.' What comes next, he says, is unclear; but the order is changing."[5]

At the same forum, Richard Edelman of Edelman Public Relations reported his findings from a survey of how American public attitudes have changed in just the past year. "The number of people who held favorable attitudes toward business declined only modestly, he said, to 40 percent from 43 percent; but those with favorable attitudes toward government shot up to 46 percent from 23 percent. Attitudes toward nongovernmental organizations such as Amnesty International and the World Wildlife Fund, who often find themselves pitted against corporate interests, have improved sharply as well."[6]

Mr. Murray felt that a preponderance of sentiment at the forum suggested that this might be a decisive decade in the history of capitalism. "Twenty-five years of increased reliance on markets and reduced interference by governments produced an unprecedented era of prosperity, particularly for the world's fortunate few. But like all social trends, this one nurtured the seeds of reaction. Something new is afoot, and America's corporate leaders may not find it entirely to their liking."[7]

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[5] Alan Murray, "Aura of Social Charge Cloaks Economic Forum," *Wall Street Journal*, February 4, 2002, p.1.

[6] *Ibid.*

[7] *Ibid.*

Under the new globalization, market conditions are highly imperfect and give great advantages to the multinational corporation. MNCs cannot argue that wages paid to workers in developing countries are the outcome of demand-supply conditions in the marketplace when it is apparent that both the industrially advanced countries and MNCs have skewed these conditions in their favor. The lack of competition is further exacerbated by structural rigidities in the labor markets and production processes introduced by the MNCs. At the lowest level of labor-intensive production — where most of the sweatshop conditions and human rights abuses predominate — production systems (implemented by the MNCs) discourage skill and knowledge-based differences in the local labor market and reduce labor to the level of commodity. MNCs prefer this approach because it reduces the need for capital. It creates conditions in which most production economies must emanate from low-wage labor. This commoditization of labor then forces developing countries to compete with each other to attract business from the MNCs.[8]

The power of the MNCs and the resultant distributive gains result from three sources.

1. ***Information Imbalance:*** MNCs have greater access to information regarding labor supply and market conditions that impact demand for labor. MNCs use this information leverage to induce greater competition among local workers and entrepreneurs. This puts the local workers and entrepreneurs at a competitive disadvantage. Companies use this leverage to demand ever-lower prices for the products they buy from manufacturers in developing countries.

[8] For a further discussion of these arguments, see Chapter 1in S. Prakash Sethi, Creating Global Standards: Guidelines for setting Codes of Conduct in Multinational Corporations (New York: John Wiley & Sons, 2003), in press.

2. ***Bargaining Power Imbalance:*** MNCs exercise substantial control over the markets where these products are sold. This result from brand-name recognition and control of technology, supply chains, and retail outlets. Foreign entrepreneurs must depend on the MNCs as the primary, if not the only, outlet for their products, which are invariably made in response to specific contracts from the MNCs. The branded products have only one buyer, the MNC. This situation gives the MNCs enormous power to learn the minutest details of the cost structure of local entrepreneurs. MNCs can dictate prices at which they will purchase goods. They force the lowest possible operating margins on the local entrepreneurs and appropriate for themselves the maximum profit that can be squeezed from such an exchange.[9]

3. ***Remedy and Relief, and Adjudication Imbalance:*** In dealing with local manufacturers, the MNCs hold all the cards. They dictate the prices at which they will buy local products, especially in industries that are labor intensive and employ low-skilled and unskilled workers. MNCs can also dictate the conditions under which these products are made. Given their substantial control over the prices to be paid to local manufacturers, MNCs can, and quite often do, exercise considerable influence on how local manufacturers deal with workers, wage rates, and working and living conditions. This situation is quite evident when we realize how MNCs induce their local partners to comply with codes of conduct. Quite often, local manufacturers strongly resist these impositions because the

[9] Ibid., see chapters 1 and 3. See also, S. Prakash Sethi, "Globalization and the Good Corporation", Text of Keynote Speech, *International Conference on Business Ethics in the Knowledge Economy,* Hong Kong Baptist University, Hong Kong, April 2-4, 2002 (to be published in a forthcoming issue of *Journal of Business Ethics* (Approximate publication date, 2003).

same MNCs that insist on code compliance are generally unwilling to share increased costs. Local manufacturers then have to cut corners, which invariably results in shortchanging local workers. It is apparent that MNCs had to be quite aware of this situation since they are themselves are partly responsible for this situation. Instead, the MNCs put the entire blame of sweatshop conditions and human rights abuses at the door of local manufacturers. When confronted with public pressure to curb these conditions, these MNCs are apt to plead helplessness because "they have no control over the local entrepreneurs."[10]

Moving from "Cost" Culture" to "Value" Culture

The traditional approach to efficiency in competitive markets is through cost reduction at the micro level. At the macro level, market competition is supposed to allocate resources among different factors of production. This condition does not hold true when a single buyer or a handful of buyers control most of the demand and access to markets. Under these conditions, a seller is reduced to opting out of the market unless the manufacturer is willing to accept what the buyer wants to pay.

A more equitable manner for sharing gains from production is to consider not the minimum cost, which the MNC can extract from the supplier, but the total value that the MNC generates from the use of local sources. This point can be best illustrated by using labor costs in developing countries. For ease of explanation, we have somewhat simplified our assumptions and relative labor costs.

Most experts agree that average hourly wages range between US$0.20 and US$0.30 in developing countries that make labor-intensive products using low skilled

[10] Op.cit., supra note 8, see chapter 9.

and unskilled workers. The cost to the MNC, if these products were to be made in their home countries, e.g., the United States, would be at least $5.50/hr. if not higher. Thus the added value of this $0.30/hr. worker to the MNC is about $5.00/hr. If markets were more efficient, i.e., competitive, the workers in poorer countries would certainly earn more than $0.30/hr.[11] This would hold true even after accounting for extra costs associated with overseas production, such as transportation, long lead times, customs duties and tariffs, and additional requirements for quality control. As it stands now, almost all of the value gains are appropriated by the MNC and are shared by other elements of the supply chain.[12] Now assume that effective demand for these products would decline if the MNC tried to pass on the additional costs to the consumer. Therefore, the increased costs of labor cannot be passed on to the consumer. In that case, all other elements of the supply chain would have to adjust their prices, which would now be closer to the real value of their contribution to the making and selling of these products.

And why should this readjustment be considered unreasonable or irrational? It does not depress ultimate consumer demand. It forces other elements in the supply chain to become more efficient and makes the entire process more productive. The reason why this is not currently happening should also be apparent. The other elements of the supply chain have no incentive to become more efficient — to work harder or smarter — when it is easier to squeeze costs from those who are least able to resist such pressure.

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[11] Op.cit., Supra note 8, see chapter 3.

[12] Ibid.

My extensive experience with companies that depend on outsourcing in developing countries has repeatedly demonstrated a variety of flaws in supply chain management. Often, inefficient management leads to imbalances between demand and supply for products, poor planning of production schedules, and frequent changes in product design. These problems lead to additional manufacturing costs, transportation delays. They fill distribution centers with products for which there is little demand, causing inventory write-downs and millions of dollars in losses. These are only a few of the problems.

Therefore, in the new world of globalization:

- The ***socially responsible*** MNC would be judged by the extent to which it does not maximally exploit its market power against those stakeholders, especially labor, who are unfairly situated because they suffer from asymmetric information and unequal bargaining power. This could take many forms, including information sharing; technological assistance to achieve increased productivity; an enlightened policy of pricing aimed at a more equitable sharing of "surplus value" created by the outsourcing process; and, investment in building human capital through education and training of the workers in poorer countries.

Thus an MNC might voluntarily consider (a) paying wages approaching the level of a "living wage" appropriate for that country and (b) investing money in training programs for workers to enhance their non-job-related skills, which would equip them for better paying jobs once they leave their current employment. It should be noted that U.S. companies in South Africa under the aegis of the Sullivan Principles previously

tried this approach.[13] The apartheid laws of South Africa had forced lower wages on the Black workers of South Africa. The U.S. companies voluntarily paid anywhere from 25–75 percent premium on the legally mandated minimum wages. This was often done against the wishes of the South African government so as to provide Black workers with pay equity—equal pay for similar work—and compensation that was at least equal to something approaching a living wage.[14]

In the current circumstances, a similar approach can be justified on ethical and economic grounds. The ethical rationale is that of equity and fairness. The economic rationale is that of imperfect markets in which wages are based on unequal bargaining power and MNCs are the beneficiaries. Reforms would not be an unbearable burden for the MNCs. Available data shows that the ex-factory cost of goods produced in these countries is generally less than 15 percent of the retail price. And the labor component of the ex-factory cost is even smaller.[15] Thus even a significant percentage increase over the current low base in the labor cost component would not materially affect the overall cost of these products. Furthermore, the MNC should be able to recover these costs through extracting efficiencies in other components of the supply chain.

- The ***socially responsible*** MNC would also be held *accountable* for restitution of "lost" wages that have been misappropriated by local manufacturers, especially when the MNCs' own codes of conduct specifically prohibit such practices.

[13] S. Prakash Sethi and Oliver F. Williams, *Economic Imperatives and Ethical Values in Global Business: The South African Experience and International Codes of Conduct Today* (Boston: Kluwer Academic Publishers, 2000), paperback version, University of Notre Dame Press, Notre Dame, Indian(2001).

[14] Ibid.

[15] Op.cit., Supra note 8, see chapter 3.

Our investigation with codes of conduct all over the world has shown that one of the major violations of host country labor laws and MNC codes occurs when local manufacturers cheat workers by not paying even the legally mandated minimum wages.[16] However, to the best of my knowledge, upon discovery of such violations, no MNC has required its vendors to pay back the wages that were literally stolen from the workers. At best, the vendor is asked to refrain from this practice in the future, but is allowed to keep the ill-gotten gains. This approach rewards the plant managers by allowing them to keep their ill-gotten gains while penalizing the workers. If the MNCs are willing to work with these vendors then they should also be held responsible, *and* accountable, for such conduct on the part of their vendors. They should either force the vendors to make good on those wages. We realize that it is not always possible. However, at the very least the MNCs should insist that local manufacturers should pay "all back wages" for the entire period to those workers who are currently on the factory payroll or those who had been on the factory payroll during the previous twelve months. Otherwise, the MNCs must compensate these workers from their own resources. There can no ethical, economic, or legal rationale that gives MNCs the right to act otherwise.

Recommendations. It would best serve the long-term interests of the MNCs and all groups who are impacted by their actions, either directly or indirectly, to incorporate the following elements in their codes of conduct:

- **Provide expeditious enforcement** of corrective actions to compensate individuals and groups that have suffered monetary losses or a diminution in

[16] Op.cit, Supra note 8, see chapter 3, 9 and 10.

their employment conditions through illegal or inappropriate actions on the part of the MNC and its vendors.

- The MNC will hold itself ***accountable and liable*** for ensuring that effective remedial actions are taken in a timely manner.
- The implementation process will be made known to all the parties involved. It will be made transparent and subject to independent external monitoring and verification.
- With regard to wages paid to workers, the legally mandated wages will be treated as a ***benchmark of corporate accountability***, which must be adhered to without exception.
- As a measure of ***corporate social responsibility and enlightened self-interest*****,** the MNCs will create a plan of action to share their gains from the value-added surplus with workers and other factors of production. MNCs will be able to improve these workers' current income and also invest in human capital for future growth.

Acts of Good Corporate Citizenship

The conventional notion of a socially responsible corporation is that of a financially successful and economically efficient company that marries profit making with social responsibility; provides stable and well-paid jobs with generous benefits; supports culture and the arts; encourages employees to become involved in their communities; and is a good corporate citizen. In a word, we seek a corporation that is paternalistic and benevolent. The reason that a good corporation is also socially responsible should be all too apparent. It is based on the notion of voluntariness.

Corporate managers do not have to be "good" or "socially responsible" in the sense that social responsibility is a necessary prerequisite for the company to gain its social franchise. Instead, the notion of good conduct is embedded in the ethical values of the individual managers and those of the corporation as an institution. Another ancillary reason for corporate social responsibility is ethnocentric, since most corporations have a local-national orientation, if not in terms of products and services, then in terms of the people who control and manage assets and resources.

The current trends in globalization have drastically changed these historical assumptions. The new forces of globalization have unlinked, to a large extent, the connection between market imperfections, the ethnocentric notion of community, and corporate citizenship and social responsibility.[17] How might one otherwise justify the conduct of large corporations where they have laid off hundreds of thousands of workers, unilaterally reduced pensions and health care benefits, and seen drastic dilution in the shareholders equity? At the same time, corporate leaders have managed to increase their own salaries and stock options to unprecedented levels.[18] These disparities are even more apparent in the international arena when we consider the co-existence of sweatshop conditions with enormous power and profitability of multinational corporations.

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[17] S. Prakash Sethi, "Corporate Codes of Conduct and the Success of Globalization," *Ethics and International Affairs*, Vol. 16, No. 1, (New York: Carnegie Council on Ethics and International Affairs) vol. 16, No. 1, (2002), pp. 89-106.

[18] *Ibid*. See also, S. Prakash Sethi, "Globalization and the Good Corporation", Text of Keynote Speech, *International Conference on Business Ethics in the Knowledge Economy,* Hong Kong Baptist University, Hong Kong, April 2-4, 2002 (to be published in a forthcoming issue of *Journal of Business Ethics* (Approximate publication date, 2003); S. Prakash Sethi, "Standards for Corporate Conduct in the International Arena: Challenges and Opportunities for Multinational Corporations," *Business and Society Review*, *107*(1) (2002), pp. 20–40.

The increasing globalization and resulting competition in the marketplace have made it highly improbable that we will ever find modern business institutions playing the older role of the benevolent corporation. What is more, we should not even seek that role for these corporations. A more appropriate approach would be to move from **corporate social responsibility to corporate social accountability.** Corporate social responsibility may supplement, but it should not supplant corporate social accountability.

Recommendations

In the area of corporate citizenship, we recommend that the MNCs consider incorporating the following elements in their codes of conduct as a measure of ***corporate citizenship and corporate responsibility***:

- The MNC will provide a minimum level of support to improve social and cultural conditions and undertake quality of life measures at a level that is commensurate with other MNCs of similar size and profitability.
- The MNC will distribute its corporate citizenship dollars in a manner that is not ethnocentric and does not favor the city or country where its home office is located. Instead, it will allocate resources fairly and equitably to all locations worldwide where its operations are located.
- The MNC will consult with its local partners and workers with regard to activities that will be suitable for the MNC support.
- For the socially responsible MNC, it is not the magnitude of effort on the part of the “good corporation” that would be the determining factor; but its capacity to undertake such actions and the extent to which the corporation acts voluntarily.

Improvements in the Scope and Implementation Practices of Current International Codes of Conduct

Notwithstanding the current level of public distrust, we believe that corporate codes of conduct offer perhaps the best and last opportunity to create a new framework in which conflicts between business and society can be voluntarily resolved through a consensus-building process that takes into consideration:

(a) the ethical and moral dimensions of business-society conflicts;

(b) the issues of fairness in distributing productivity gains among various players when competitive markets have largely failed to provide acceptable levels of distributive justice; and

(c) strengthening of the forces of democratic capitalism, including open economies, competitive markets, consumer choice, and, voluntary compliance.

We should learn from the lessons of the last fifteen years to find ways to improve the scope, effectiveness, and public credibility of these codes. A failure in this area will lead to dire consequences by imposing greater regulation and oversight on corporate conduct.

It is imperative that leaders of large multinational corporations take steps to restore public confidence in their ethics and professionalism. People must believe in the integrity of their corporate leaders. Transparency of corporate actions and public trust in corporate leaders go hand in hand. Therefore, given the current low level of trust, a high level of transparency is called for if MNCs are to gain public confidence. Another important part of this effort has to do with the corporation's commitment to what the institution stands for,

both legally and as a measure of good corporate citizenship. Creating and implementing meaningful codes of conduct will be the first step the MNCs must take to achieve this goal. This is not going to be easy, because the MNCs need to undo a large measure of the rhetoric and many of the practices that they have advocated to date. MNC leaders face a number of challenges.

Voluntary Codes of Conduct to Implement Legally Mandated Actions

It is ironical that a majority of the MNC codes of conduct currently in vogue have, for the most part, confined themselves to “complying with the legally mandated conditions of wages, working hours, and, safe and healthy work environment." To this minimum standard, other measures are added, such as refusing to exploit child labor, which are no more than minimum decencies in civilized societies.

At the expense of being absurd, one might ask why is it necessary to have a code of conduct in which the company commits itself to do only what it must do as a law-abiding corporate citizen? And to add insult to injury, these corporations insist that they will not publicly disclose any information as to how well they are complying with these minimal, and legally mandated, standards. Instead, they expect the public to accept corporate assurances at face value.

Compliance with legally mandated and otherwise minimal standards of compliance should be considered a *measure of corporate social obligation.* These standards are benchmarks of corporate social accountability. MNCs should not be allowed to withhold information from the public as to their compliance.

Necessary and Important Elements of International Codes of Conduct

In creating a code of conduct, it is necessary that MNCs pay special attention to the following factors:

1. From the corporate viewpoint, such a code must be economically viable and competitively feasible. While it should meet the industry benchmarks, it is not necessary or even desirable that a company's code should merely mimic other corporate codes in the industry. If product differentiation is desirable for a company to gain competitive advantage, it is even more important to have a code of conduct that differentiates the MNC from other companies in terms of corporate vision, ethical values, and performance standards in the social arena. Such an individual code will enhance corporate reputation and build public trust.

2. MNC codes should not attempt to indulge in PR hype by promising more than they can deliver. Nothing damages a corporation's reputation more than a sense of betrayal when it fails to live up to its promises.

3. MNC codes of conduct must be substantive and address issues that are of concern to society while at the same time they highlight corporate contributions to building an economically and socially viable community.

4. No code of conduct will be successful unless it has the total commitment of corporate leadership. It must also be integrated in the corporate value system and be part of corporate strategy and operations. In the final analysis, a corporation can do more good, and more harm, through its normal business operations and their second-order effects on the community. Therefore, the

notion of corporate citizenship and social responsibility cannot be a peripheral activity but must be part of the corporation's raison d'être.

5. Codes must provide for highly objective measurement standards that are transparent and outcome oriented.

6. Finally, codes must be subject to independent, external monitoring to verify compliance.

Filling the Ethical Void

Most often, these "voluntary" codes of conduct do no more than agree to comply with the legal norms of society. But MNC rhetoric has increasingly equated them as the ultimate achievement of high moral rectitude. In the process, MNCs have debased these codes from "promises voluntarily made" as an expression of the MNC's higher ethical and professional standards of responsible corporate citizenship. Thus reduced to mechanistic measures of evaluating corporate performance, they have become yet another aspect of corporate governance that is mindlessly repetitive, boringly bureaucratic, and eventually devoid of any sense of social responsibility. Nothing differentiates one corporation from another than its level of corporate citizenship by going beyond these benchmarks and becoming good corporate citizens in how they conduct their business in the economic and sociopolitical arena.

The MNC codes of conduct must stand for something above and beyond legally required standards of conduct, or minimal standards that are considered as the absolute must for individual and institutional members of a society. Whether we like it or not, the notion of "above and beyond" must be rooted in our concepts of human values. And yet corporations have consistently resisted ceding any moral justification for business actions.

This tendency is even more pronounced in the case of multinational corporations when their leaders avoid any reference to ethical norms or human values, allegedly for fear of alienating their local hosts. And yet it goes without saying that in the real world a corporate action of any significance simply cannot take place in a moral vacuum. Instead of taking the high moral ground, even the most enlightened corporate leaders fabricate the most tortuous economic arguments to justify their actions, which clearly contain elements of human values of compassion, fairness, and respect for the environment.[19]

Whither Goes the Future?

The emerging global economic order of the 1980s and 1990s saw capitalism and its principal actor, the large corporation, reach the apex of social institutions. This was in sharp contrast to the 1960s, when the multinational corporation was seen as a threat to national sovereignty and political freedom. This New World viewed the multinational corporation as an agent of positive change. However, in less than three years, a mere eye wink in terms of history, all our senses have been assaulted by the excesses emanating from these cathedrals of capitalism, and especially by the venalities of their high priests. It has once again raised all the hidden fears of the public that underneath the veneer of hope and expectation, lies the ever-present danger of the unaccountable corporate behemoth, and its potential for doing harm through abuse of power. The paradox of economic globalism has inevitably created two societies that are quite

[19] Ronald Dworkin, *Sovereign Virtue: The Theory and Practice of Equality* (Cambridge: Harvard University Press, 2000); Richard DeGeorge, *Competing with Integrity in International* Business (New York: Oxford University Press, 1993); and, Thomas Donaldson, *The Ethics of International Business* (New York: Oxford University Press, 1989).

disparate in their needs and resources, as well as in their aspirations and potential for fulfillment.[20]

The economic and sociopolitical problems of the twenty-first century will be largely connected with the interdependent nature of the world and its people, a word in which individual goodwill is not possible without thought for the common good. It makes no sense to separate moral principles from institutional behavior, political power from economic influence, and environmental values from material rewards. To do so is to divorce the social system from its basic element, the human being, who does not behave in a fragmented manner.

The large corporation, and especially the multinational corporation, must become an active agent for social change if it is to make the world safe for democracy, and indeed, for capitalism. For the latter can survive only in an environment of individual choice, voluntarily exercised, in both the political and economic arenas. As a dominant institution in society, the corporation must assume its rightful place and contribute to shaping the public agenda instead of simply reacting to policy choices advocated by others. The right of advocacy, however, cannot be taken for granted. It must be earned through public trust in corporate intent and faith in corporate promises made in the name of "public interest."

[20] S. Prakash Sethi, Joel A. Kurtzman, and Bharat B. Bhalla, “The Paradox of Globalism: The Myth of the ‘Global Village’ –The Changing Role of Multinational Corporations,” *Business and the Contemporary World* *6*(4) (1994), pp. 131–142.