

## 2. Benefits of CSR and Ethics in International Business

**Prof. Avinash Kumar Chauhan**

Assistant Professor,  
GNIOT,  
Greater Noida.

**Dr. Sameena Z. Mir**

Assistant Professor of Sociology,  
School of Law,  
Ajeenkya DY Patil University,  
Pune.

**Abstract:**

*The interplay between Corporate Social Responsibility (CSR) and ethics in the ever-expanding realm of global business. It navigates crucial inquiries surrounding the moral compass of international business, the universal applicability of ethics, responsible outsourcing, and the ethical guardians of our corporate landscape. It begins by defining ethics and social responsibility as guiding beacons in corporate decision-making, instrumental in realizing organizational aspirations and instilling a sense of purpose among employees. It probes the challenges of crafting universal moral codes, acknowledging the diversity of cultural practices, while highlighting international organizations' endeavors to forge ethical guidelines for global business conduct.*

*It scrutinizes the ethical facets of international trade, especially within nations displaying dubious moral standards, and how this impacts global business dynamics. Ethical considerations in outsourcing are debated, recognizing its positive effects on profitability while underlining the imperative of responsible practices. The study discerns organizations championing ethical stewardship, underscoring their pivotal role in shaping responsible corporate behavior. In closing, it accentuates the paramount significance of ethics in business decisions, advocating for a conscientious approach to international business that not only upholds ethics but also respects diverse cultures and safeguards the well-being of stakeholders, leaving us with the enduring question:*

*"If it's legal, is it just?"—a question that underscores the ethical imperative in global commerce.*

**Keywords:**

*Business Ethics, Corporate Social Responsibility (CSR), Globalization and Ethics, International Business Ethics, Outsourcing and Ethical Responsibility, Nongovernmental Organizations (NGOs) in ethics.*

## **2.1 Introduction:**

"Every successful experiment commences with a client who possesses a deep understanding of not only the problems users are trying to solve but also how these issues align with their own needs. As the global economy expands, today's clientele is increasingly diverse, comprising both international and local customers. This global demand has been spurred by companies like Pfizer, Microsoft, and others. According to the World Bank, global GDP is projected to grow by 2.7% and 3.0% in 2010, and in 2011 it reached 2%. Consequently, modern companies are driven to gain a competitive edge by delivering products or services that cater to the needs of a worldwide customer base. To achieve success in marketing their products or services globally, these companies must ensure that each individual within their organization possesses a clear understanding of social and ethical issues. Embedding these ethical and social standards within the organization's core values is essential to make them more predictable and advantageous for all.

To assist companies in developing ethical and cultural practices that enable success in international business, this research paper will address the following questions:

Are countries with poor moral standards similar to corporations?

- Is ethics universally applicable?
- Which organizations can effectively practice ethics?
- How will ethics and accountability shape the future world?

## **2.2 Defining Social Responsibility and Ethics:**

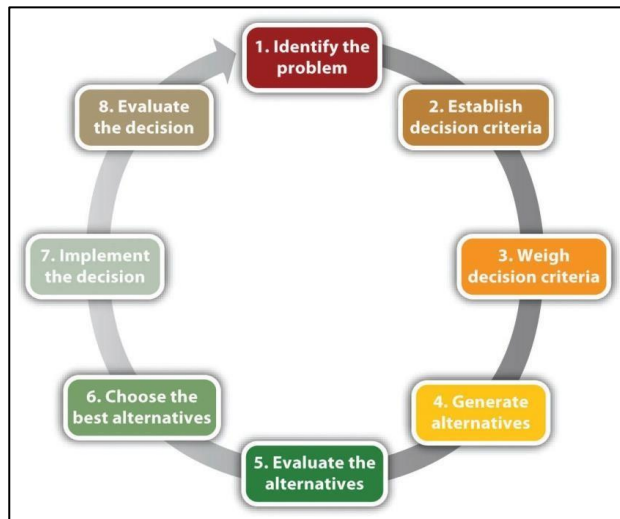
According to Merriam-Webster, ethics is defined as "the discipline concerned with distinguishing between good and bad, right and wrong, or morality and responsibility," while its role in society is described as "a moral, legal, or spiritual imperative." These two definitions together form the guiding principles and characteristics that influence the decision making of both companies and individuals.

It's important to note that morality should not be confused with personal emotions, as doing what is morally right may not always align with one's personal feelings. In reality, ethics and responsibility involve assessing and managing one's morals according to established standards. The amalgamation of these two elements contributes to the economic value represented by a company. These values enable the company to achieve the following objectives:

Establishing an organization that makes a positive impact on its industry.

- Becoming a responsible leader.
- Defining a clear purpose to guide its stakeholders.

To establish a moral framework, eight essential steps must be taken to fulfill its purpose, as illustrated in the figure below.



**Figure 2.1: Establish a Moral Framework, Eight Essential Steps**

At the outset of a company's ethical journey, it is important for employees to remember that "good leaders don't just pursue profits; they believe in the mission, and the results will follow."

### **A. Can Business Ethics Be Applied Globally?**

Developing universal moral codes presents challenges, mainly due to the diversity of religious, ideological, and cultural practices worldwide. While certain moral values such as honesty, fairness, and justice are integral to most societies, the voluntary adherence to these values varies across cultures. Consequently, addressing ethical issues in international business becomes increasingly complex for global companies. In recent times, many scholars have advocated for international organizations to establish clear and specific codes of conduct outlining their purpose, role, and responsibilities in the international markets they operate in. These guidelines should apply consistently throughout all divisions and branches of the organization.

To be truly effective, ethical standards must consider the interests of both the host country and its citizens. Another dimension of ethics is its dynamic nature, as it evolves over time in response to changing cultural norms. To comprehend ethics fully, we must dissect its components, where morality constitutes one part of ethics and is influenced by various factors, including society, culture, education, and family upbringing. As cultures evolve, so do values, morals, and ethics. For instance, the Roman Empire once celebrated gladiator contests as socially acceptable entertainment, whereas today, such practices would be deemed immoral and unethical. Therefore, when assessing morality, it is crucial to understand the context and circumstances surrounding a situation rather than simply labeling an action as moral or immoral. Evaluating the ethics of the world requires consideration of facts and circumstances. However, the complex nature of human behavior adds another layer of complexity. In terms of values, each individual is unique, much like their DNA.

Our value systems and how we prioritize them are distinct, leading to diverse interpretations and actions. Furthermore, disparities between countries can exacerbate conflicts, underscoring the importance of instilling a sense of ethical responsibility among all employees to promote ethical behavior.

## **B. Do Morally Corrupt Countries Attract Trade?**

Evidence suggests that some countries are willing to sacrifice wages, workplace safety standards, and maximum working hours to compete with other nations. Applying our definition of morality, these actions can be seen as indicative of low moral standards. The question arises as to whether such ethics are appealing to businesses. While there may be some attractiveness to these practices, particularly in terms of cost savings, in most respects, the answer is negative. Increased competition for foreign investment among developing countries can lead to a "race to the bottom," where regulatory standards are significantly lowered to attract investment. While most multinational corporations are not known to directly violate human rights, they may indirectly contribute to such violations. For example, Chinese companies have engaged in contracts to cultivate rubber trees in Myanmar, despite a growing food crisis in the region.

The displacement of local farmers to accommodate Chinese investments in the absence of intervention by these Chinese companies is concerning. Historically, even American companies like United Fruit Company engaged in manipulating local politics to maintain economic dominance, contributing to the creation of "banana republics" in unstable countries dependent on limited agriculture and influenced by transnational corporations. Despite this evidence, there is also a growing body of research indicating that countries with high moral standards are less attractive to businesses. There is limited evidence to suggest that companies are shifting their investments to countries with lower labor or environmental standards. Claims that economic liberalization leads to weaker governance standards have been scrutinized by various international organizations, including the OECD and the World Bank, with no conclusive evidence to support such claims.

The preponderance of evidence challenges the conventional wisdom by demonstrating that countries with robust labor rights tend to attract more foreign direct investment, primarily driven by higher economic growth rates, making FDI more attractive. In a recent survey of various international business heads and experts, respondents were asked to rate the importance of different factors related to the location of FDI on a scale of 0 to 5, where 0 signifies no importance and 5 signifies very important. Market potential ranked highest, followed by policy and security (fourth), while labor costs were rated ninth. Furthermore, research indicates that countries with strict ethical and environmental standards do not deter FDI. In fact, there is evidence that U.S. companies invest more in polluting industries in countries with stringent standards. Given the significance of international trade for industrialized nations, many countries opt to operate with the highest international standards, whereas most developing countries believe this approach imposes a heavy burden on them.

Nevertheless, the notion of a "race to the bottom" in ethics and standards remains contentious.

### **2.3 The Ethical Rules and Responsibilities of Outsourcing:**

Outsourcing has long been a subject of debate, with discussions revolving around whether it is fair for companies to relocate operations to maximize profits. However, the ethical and moral responsibilities of these companies towards their employees in foreign markets are often overlooked. Social responsibility and ethics should not be confined to domestic operations alone; they should extend to foreign markets as well. Some may question why companies should incorporate social and ethical considerations into their business practices when entering foreign markets. Many argue that foreign businesses should only be embraced if they meet the same or slightly higher ethical and cultural standards as domestic companies. If they fall short of these standards, companies should assume some degree of responsibility. While outsourcing can enhance a company's profitability, companies should always recognize that they bear a certain level of leadership and ethical responsibility when expanding into foreign markets.

### **2.4 Organizations Safeguarding Ethics Effectively:**

The concept that businesses have a moral responsibility toward people has gained ground. Prior to the 1970s, there was a consensus that a business's responsibility rested solely with its owners. However, various scandals and reported abuses have reshaped the perception of Corporate Social Responsibility (CSR). Voluntary initiatives like the Global Sullivan Principles, Cox Principles, and Serres Principles, along with legal frameworks, have emerged to define responsible business practices. The United Nations has issued guidelines through the Commission for the Protection and Promotion of Human Rights, setting ethical and legal requirements for different companies. Notably, non-governmental organizations (NGOs) have played a pivotal role in monitoring and reporting transnational corporations' misconduct. Two such NGOs, the Fair Labor Organization and Fair Trade International, have developed a quality assurance system for retail businesses known as SA8000. Trust in NGOs has been on the rise across regions, including a significant increase in China. Several factors have contributed to the prominence of NGOs:

- a. Delegation of authority from nation-states to multilateral organizations.
- b. The inadequacy of existing international laws in holding multilateral organizations accountable for ethical and environmental matters.
- c. The growth of international protest movements.
- d. A shift by major international human rights organizations towards focusing on the political and economic exploitation inherent in certain practices.
- e. A willingness of some NGOs to collaborate with multinational corporations.

NGOs employ various approaches to make an impact, including oppositional, collaborative, or hybrid strategies. While protests remain prevalent, they are gradually declining as NGOs increasingly adopt collaborative tactics, such as partnerships. A notable example of such collaboration is the Marine Stewardship Council (MSC), a partnership between the nonprofit WWF and commercial fish producer Unilever. MSC was established to address overfishing, working closely with industry and conservation experts to promote sustainable fishing practices.

## **2.5 Conclusion:**

Ethics forms the foundation of morality and values. These moral values are unique to each individual and are influenced by personal backgrounds and upbringing. To make fair judgments about situations, we must consider the circumstances that have shaped them. Differences in ethics, values, and conflicts among individuals persist due to variations in ethical standards. Contemporary companies seek to address this issue by integrating ethical cooperation into their policies and doctrines. While these policies may vary among companies, the key takeaway is that every employee must understand the importance of ethics. International companies face significant decisions that often involve a trade-off between increased revenue and becoming responsible partners. Throughout history, there have been cases of companies prioritizing the former, resulting in harm to innocent individuals. The enduring question within multinational corporations is whether legality equates to justice. The concept of morality can shed light on the causes of human behavior and the actions necessary to promote human well-being. Some argue that ethics only apply to individuals, not to corporations, as businesses are more like machines than people. Critics of CSR assert that a company's primary responsibility is to its shareholders, not to society at large. Some contend that businesses can distribute dividends to shareholders, allowing them to decide how to allocate the funds, including donating to charities. Others argue that businesses act as entities with goals and behaviors, and like individuals, they can be judged on the basis of morality. Perhaps there is no definitive answer, as businesses depend on people who are responsible for their actions. However, they are also shaped by laws and cultures that guide them, necessitating responsibility for the effects of institutional artifacts. In many cases, adopting the ethical norms of the host country may suffice, as long as these norms align with or slightly surpass domestic company standards. In cases where host country ethics fall short, companies should assume some level of responsibility. While establishing factories and operations in foreign markets, especially in developing countries, can boost profitability for both the company and the host country, it is imperative for businesses to be aware of their social and ethical responsibilities in these new locations and represent their nation positively.

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