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Social Responsibility and the Future of Multinationals: Guidance Without Rules

by Professor Dr Ingo Walter, New York *

While voluntary behavior and social responsibility have so far played a peripheral role in multinational corporations' global strategies, the author argues that the non-market social responsibility dimension will have to be incorporated systematically in management's forward planning as a growing factor if the multinationals want to secure their future.

Recently, the managing partner of a major US public accounting firm said that the main reason why multinational firms have run into serious trouble by bribing foreign government officials is the absence of coherent guidelines. Only after the fact are multinational companies now being charged with doing something wrong.

The implications are both clear and ominous: Multinational firms will be inclined to do whatever they can get away with in their ventures abroad, unless confronted by clear-cut rules and regulations. They cannot reasonably be expected to impose behavioral guidelines upon themselves. If this view is indeed widely held by corporate managers abroad, and if indeed it describes their actions in the real world, I would suggest that it will eventually bring about the end of the multinational firm as we know it today.

Let me first try to define social responsibility in a very precise and rather narrow way. It is the voluntary, or "discretionary", action on the part of managers to help achieve prevailing social objectives in ways *other than* those dictated by market forces or imposed upon the firm by public policy. It is the exercise of self-guidance by the firm and those who manage it. And above all, it is the systematic adherence to particular moral and ethical standards by the firm as a cohesive and structured organizational system.

Peripheral Role of Voluntary Behavior

Defined in this way, social responsibility is not a concept that is easy to sell. Economists will argue that competitive conditions in the marketplace set very tight constraints — even under oligopolistic conditions — on how much voluntary behavior firms can realistically afford to undertake. Businessmen tend to agree, and vigorously resist suggestions that they should undertake binding behavioral commitments or forego market opportunities without competitors being compelled to

do likewise. They also contend that the existing maze of government regulation has eliminated much of whatever freedom of action remains. Social theorists argue that managers in any case have no public mandate to set society's goals and, through voluntary action, decide how to achieve them — that the political mechanism is the only legitimate vehicle for this purpose. Government officials tend to agree, and look with favor on increased regulation and new forms of public-sector involvement as the most reliable way of ensuring that business performance comes closer to their perceptions of social expectations. All of this is set against the backdrop of growing public skepticism, both here and abroad, of the profit motive as the appropriate lynchpin of modern economies in the last quarter of this century.

I would concede that in a highly advanced nation such as the United States managerial voluntarism and social responsibility do indeed play a peripheral role. Regulatory agencies like the Federal Trade Commission, Food and Drug Administration, National Labor Relations Board, Antitrust Division of the Department of Justice, Environmental Protection Agency, and many others were created over the years for reasons having to do in part with perceived failures of the private sector in carrying out its proper role in society. Each replaces one or more forms of voluntary behavior, and together they form the complex and robust web of social controls within which business survives and prospers.

It is a dynamic and confrontive system, wherein business behavior that is considered socially damaging soon gives rise to new strands in this confining web, even as firms consistently challenge in the political forum its overall design and its parts as they evolve. We really do not expect much beyond superficial voluntary behavior on the part of managers because we have developed

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other, more positive ways of achieving it. But we in the industrial countries have also created an environment which, as the home-base for essentially all of the world's multinational companies, may lead to conflict and disruption abroad precisely because of its de-emphasis of voluntary managerial behavior at home.

Complexity of Economic Interaction

The reasoning is quite simple. Social expectations differ widely, both between countries and over time. So do levels of economic development and political systems. And so does the pattern of societal control of business. In advanced countries such as France, Germany, Japan, Great Britain, Sweden or the United States it is as well or even more highly developed than in the multinational's home country — although each has found a unique pattern appropriate to its own situation. In developing countries like Brazil, Malaysia, Nigeria or Saudi Arabia the web itself may be in the early stages of construction or only partially complete, with wide gaps between the desire for effective control and the ability to carry it out. Yet the multinational operates with a unified managerial structure across this array of highly variegated control systems, motivated by the same kinds of profit-maximizing considerations as at home but facing, on the whole, far less resistance in the regulatory setting abroad. Conditioned by its home environment to place little value on managerial voluntarism or restraint, the firm may indeed push the system as far as it can in each country. And given the state of the host countries' control systems as well as asymmetrical role and power factors, it can often push these systems very far indeed.

One of the things that make the problem so difficult is the enormous complexity of the economic interaction between the multinational firm and the outside world. Broad-gauge indictments of the multinational enterprise are just as fallacious as pedantic defenses of business as usual. Multinational corporate decisions alter the flow of international trade and payments, patterns of production and employment, availability and prices of products. They affect the degree of competition in national markets, the wage rate and cost of capital, the development, transfer and adaptation of technology. The firm has a good deal of flexibility in where it pays taxes, whom it employs to manage its operations, how it deals with the consumer and the natural environment, and how large an equity stake it wants or needs in a particular operation. It is, above all, flexible and responsive to changing conditions, so that very little in its behavior can be taken as given, and bargaining power may be skewed accordingly. Such complexity means that there are never any

simple answers to questions surrounding the multinational firm, especially when each firm behaves differently and each country has a different and often ambiguous view of what it really wants out of its involvement with the multinational enterprise.

Needs Versus Performance

The questions appear even more complex when there are serious conflicts between the countries in which the firm operates — or between pressure-groups in those countries. How does an American firm with an affiliate in England respond to British desire to expand trade with Cuba in the face of a US embargo on such trade? How does the multinational with substantial operations in South Africa respond to the crosscurrents of opinion that focus on the apartheid issue? These are not academic questions, but real ones where management cannot avoid setting policy.

On the other hand, should managers of multinationals really impose upon other people technologies or standards of conduct that may be required at home but have not yet been applied in host countries? And in an era in which the vast majority of the world's nations do not have democratically elected governments, how well does national policy really represent the interests and expectations of the people? May these not sometimes coincide as well or better with the firm's interests than with the interests of their own government, so that the firm itself takes on some of the attributes of a quasi-political institution? Again, answers have to be found, and what seems reasonable and defensible today may well be condemned as socially irresponsible tomorrow.

The solutions to such complex questions, it seems to me, clearly do require a good dose of managerial discretion and voluntary behavior — behavior that is conceived and promulgated at the highest corporate levels and targeted on a very specific range of issues where it is both effective and makes sense. It implies a clear policy commitment coupled to the organization's reward system, one that is both centralized enough to be effective and flexible enough to cope with highly specific local issues. In other words, it implies the development at headquarters level of a new "technology" of management designed to cope consistently and efficiently with non-market social issues as they arise in company operations around the world.

If this is the goal, multinationals certainly have a long way to go. Current research shows that multinational corporate headquarters in the area of external affairs are preoccupied largely with such "obstacles" to the conduct of business as

rising nationalism and labor's intrusions into management prerogatives abroad. Coping with social issues is left almost entirely to the management of foreign affiliates in a decentralized, fragmented and uncoordinated pattern, with little headquarters interest in or knowledge about social issues at the local level. Indeed, the independence of foreign subsidiaries comes through primarily as a convenient excuse for inaction.

Of 35 firms interviewed in a recent study, only two provided any headquarters guidance at all on how to cope with social pressures abroad, and only one becomes systematically involved in its foreign affiliates' external affairs¹. Social responsibility is viewed as "separable" — among individual affiliates, on the one hand, and between each affiliate and corporate headquarters, on the other. Little or no attention is paid to sensitivity and ability to manage social issues in selection or promotion of personnel. Few multinationals attempt to forecast non-market external or internal pressures or build them into the planning process. There is an apparent myopia that equates social responsibility with political and managerial fuzziness, and that confines action to charitable donations, public affairs and governmental relations activities. Serious effort on social issues confronting the firm tends to be unplanned and reactive in nature, in response to crises that suddenly materialize and that have to be dealt with as best they can in an *ad hoc* way.

Development of External Controls

If a managerial "technology" for dealing in a discretionary way with social issues in a multinational setting is still in its infancy, the need for it is rapidly emerging. The existence and impact of the multinational firm has greatly accelerated and intensified open-ended debate around the world on the proper role of business in modern society — what are the costs, the benefits, the alternatives? New and fundamental questions are being raised and new answers are on the way. There is widespread disenchantment with the market mechanism, and even here at home powerful voices are being raised in favor of some form of national economic planning. Governments are striving for increased political independence even as their countries' interdependence with the world economy becomes ever more apparent. Developed and developing countries still confront each other over the distribution of income and wealth, even as the haves and have-nots within each group strain the bonds of solidarity. In all of these pressures and currents, the multinational firm stands in the middle as perhaps the most prominent and pervasive form of international economic organization of the Twentieth Century.

The options seem clear. Either the multinationals quickly turn their prodigious managerial and organizational talents toward the development and dissemination of a new technology for coping with non-market social issues, or they will soon be overtaken by events in ways that will substantially narrow the scope for discretionary behavior and freedom of action. They will either learn how to guide themselves effectively without rules, or face a growing and complex set of social constraints abroad far more diffuse and difficult to cope with than those existing at home.

Increasing Pressures for Social Constraints

Already the pressures for such constraints are mounting. Advanced and developing countries alike are designing new ways of controlling foreign-owned firms. Labor laws are being altered to reduce employment instability on the part of multinationals. Entire economic sectors are being carved out and reserved for national ownership. Exchange controls are becoming more sophisticated. Terms of corporate entry into countries are being modified to redress perceived imbalances in benefits and costs. Tax systems are being revised. Competition is being more strictly enforced. There are incessant calls for more information, for a "transparency" of the multinational firm that itself may be a harbinger of greater external controls yet to come. Even the multinationals' legendary flexibility is being attacked through proposals for common sets of policies and constraints among groups of countries like the European Communities and the Andean Pact, as well as international "codes of conduct" intended eventually to impose on firms standards of behavior they are unwilling or unable to impose upon themselves.

Will these developments so narrow the freedom of action of multinational firms as to obviate the need for coherent and planned corporate discretionary responses to social issues? I doubt it. Nations will indeed try to exert tighter controls, but unless they make an ideological commitment to do without the multinational firm these controls will be kept broadly within reasonable bounds. Greater control invariably alters the firm's incentive structure, and the operational changes that result may impose upon the nation politically unacceptable economic costs. As an alternative to increased national control, international agreements are subject to even more serious limitations. This is because political and economic conditions — as well as national objectives and priorities — differ much too widely among countries, and what is acceptable to one

¹ David H. Blake, *The Management of Social Policy in US Multinationals*, paper presented at the Academy of International Business, Dallas, Texas, 28 December, 1975.

tends to be unacceptable to another. Communities of interest will continue to be severely limited, even on such narrow issues as consumer protection, regulation of competition, financial disclosure, and pollution control. Instead, international initiatives are likely to consist of general guidelines that set only the broadest kinds of behavioral constraints and leave the scope for discretionary action more or less intact, at least for the time being. If I am right, multinationals still have time to design and implement the kind of technology of social policy they have so far successfully avoided, and to forestall the further erosion of confidence that could seriously jeopardize their future.

Outlines of a New Technology

How might the multinational firm go about this task? First, it needs to find a way to focus specifically on sources of conflict that are amenable to constructive planned action on a voluntary basis². This means leaving out of consideration sources of conflict where, to be realistic, controls alone can provide adequate guidance. Examples include international taxation, operations in foreign exchange markets, impact of its activities on local labor and capital markets, and the like. Firms in such cases should maintain strict compliance with existing controls, and employees who knowingly violate the law should be dismissed. But the firm need not voluntarily go *beyond* the law, and outcomes are best left to hard bargaining and the exercise of normal competitive behavior.

There is a second set of conflicts where the extent of voluntary behavior by management is effectively limited to *avoidance* of the problem, and to maintaining a low profile. These sorts of conflicts can be traced to the very nature of the multinational firm, and can be fully resolved only by abandoning the operations in question. Conflicts arising out of virulent nationalism, inter-country policy differences, and pressure groups in one country associated with political developments in another are a few examples. Problems of this sort are often temporary, and an essentially passive orientation for the multinational, perhaps combined with a vigorous public defense of its own role, may be the only viable alternative.

We can thus identify a third set of conflicts where neither compliance nor avoidance provides the answer. Issues concerning consumer protection, labor relations, pollution control, expatriate management, foreign ownership of productive facilities,

adaptation of technology to local conditions, and instability of operations are some examples. These are areas where external controls in many countries are ambiguous, poorly defined, and subject to rapid change over time. They are also areas that lend themselves well to sensitive *adaptation* and alignment of corporate policy to widely divergent social values and expectations.

I have tried to make the argument that adequate self-guidance is today important for the survival of multinational firms in an environment where the social controls of business are weak, inconsistent, variegated, ambiguous and subject to dramatic change. I have argued that this is not a temporary state of affairs, and that prospects for effective international regulations and guidelines at present remain dim. I have also argued that the development of a real "technology" of corporate social policy may be as important to the prosperity of multinationals in the future as the development of other types of technologies has been in the past. Lastly, I have argued that different kinds of conflict besetting the multinational firm call for careful assignment of different policy responses, ranging from strict compliance, to corporate passivity and conflict-avoidance, to a systematic application of cooperative voluntarism. We already know, or think we know, that multinationals today do not in fact incorporate social issues into overall corporate planning and performance measurement. I would like to close with a few thoughts on the implementation of multinational corporate social policy at a time when the non-market pressures on the firm seem to be growing to unprecedented levels around the world.

Basic, it seems to me, is a recognition at the highest management levels that the world is indeed changing — that in order to do well in the 1980s and 1990s the multinational firm must look increasingly to non-traditional forms of business involvement and new ways of anticipating and responding to external events. Even more important is high standard of personal conduct set for the enterprise by its chief executive and his successors that is infused into the corporate personality, made widely known, and carefully built into the corporate reward structure. Individual conduct is greatly influenced by its corporate setting, and this is one reason why such wide variations are found in multinational corporate images. Corporate codes of conduct can help, particularly in institutionalizing and perpetuating an ethical standard. But there can be no substitute for a personal commitment on the part of a strong and informed chief executive who carefully defines behavioral imperatives that will pervade the life of the firm.

² For a detailed discussion see Ingo Walter, A Guide to Social Responsibility of Multinational Enterprise, in: Jules Backman (ed.), Social Responsibility and Accountability, New York, New York University Press, 1975. See also Raymond Vernon, Foreign Operations, in: James McKie (ed.), Social Responsibility and the Business Predicament, Washington, D.C., The Brookings Institution, 1975.

Within this setting, the multinational firm needs to systematically build social policy into its planning apparatus. This might begin with a few issues such as bribery where the corporate ethic is so pervasive that a uniform policy can be implemented worldwide. It might be coupled to vigorous and public dissociation from corporate wrongdoing by others, readiness to participate in the design and assessment of international behavioral guidelines, and a willingness to sacrifice business opportunities from time to time for the sake of principle.

Next is a recognition that — apart from such baseline ethical uniformity and leaving out fairly well-defined areas of conflict where discretionary behavior makes little sense — adaptive corporate reaction to external pressures will differ widely both in time and space. Primary responsibility must therefore reside in the management of the local affiliates themselves. These, in turn, ought to have continuous supportive guidance and no-nonsense performance monitoring from headquarters, with tangible signals given through personnel decisions. By reacting to different pressures in different ways in different countries, the firm can in a fairly short period of time generate a repertoire of tested responses that will continue to develop in quality and usefulness in the future. This accumulated stock of knowledge and experience is the “technology” of social policy I mentioned earlier, and in my view can be stored, transferred and adapted within the multinational corporate system just as effectively and profitably as the conventional technologies which form the basis of its competitive advantage in the international economy. It requires, though, a purposeful shift from a pattern of reaction in crisis situations to constructive anticipation and planning for the problems and opportunities that derive from social change.

To accompany this, multinationals might begin to take a much more active stance on the public issues that affect them and on the broader role

of the multinational firm in modern society. The case for multinational corporate involvement is usually an eminently defensible one, and managers at both headquarters and (perhaps more importantly) affiliate levels need to make their case well and often. They may be unused to the role of business statesmen, but in an increasingly politicized environment they had better learn. If new standards of corporate pro-active conduct do prevail and successfully close off some of the less visible channels for expressing the firm's interests in the political arena, and if widespread public feelings of conspiracy, powerlessness and unease about multinational companies is to be effectively defused, a more open and forthright approach will be the only alternative. Besides, there is growing evidence that what ordinary people think does, in the end, have a critical role to play.

Conclusions

To conclude, it should be obvious by now that I believe social responsibility and voluntary action do matter — far more so in the environment confronting multinational firms than in the more coherent national regulatory environment that exists here at home. The world will look a lot different in a decade or two than it does today, and so will the multinational company. There is now a substantial body of opinion that multinationals have shed much of their former lustre — at a loss for something impressive to do for an encore and caught in a rising tide of worldwide nationalism and skepticism. Such views are probably just as unrealistic now as the alleged omnipotence of multinational corporations was only a few years ago. In my opinion the multinational does indeed have a future. But to secure that future and to carry out its basic obligation to its shareholders, management's forward planning today must systematically incorporate the non-market social responsibility dimension as a growing factor in its global strategy.

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