

The Social Responsibilities
of Multinational Corporations

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problems concerning the multinational corporation. It will attempt to probe to determine the degree to which, if any, social responsibility can be regulated or controlled at the international level. Also, this paper will attempt to determine whether or not a strong international organization can be created to perform this function as well as to examine other alternatives.

The rise of the MNC as a global force is a remarkable event of the second half of the twentieth century. It is one of the most dynamic and powerful entities in the world. In a world that is becoming increasingly interdependent, the MNC bridges the gap of the global economic system and becomes the focus of debate and controversy. The MNC has come to be viewed as the embodiment of almost anything disconcerting about modern industrial society. Certain attributes of the MNCs can be singled out for the dubious distinction. One attribute is its huge size, another is the kinds of activities in which the corporation has specialized, and the third is the patterns of management and control.² An understanding of the characteristics of the MNCs along with the historical perspective of their evolution into such a significant force provides an insight into the scope of their power. Their primary motive is to make a profit; however, due to their special nature and magnitude they have significant

influence over the lives of many. They must, therefore, take into account their social responsibility.

Social responsibility is expressed in two ways: (1) positive support other than through production and distribution of goods and services motivated solely by profit expectations, and (2) abstention for actions believed by society to be against its interests. This can take many specific forms extending from negligible to substantial, depending upon corporate capabilities, attitudes, and policies.³

The degree to which one would want to regulate the MNC depends upon one's attitude and perception of the MNC and their role in society, both in developed as well as underdeveloped countries. Proponents of the MNC emphasize the economic rationality saying that the MNC represents the common interests of the majority. It is considered the only real instrument for total economic development because it can overcome the separate interests of the individual nation-states. Also it is argued that the multinational corporation enhances competition, breaks local monopolies, and stimulates entrepreneurial activity. It is also an effective instrument for the diffusion of technology as well as for the transfer of capital to the developing world.

The critics of multinational corporations would argue for more control of them. They feel that the MNCs tend to increase the feelings of nationalism because the

interests of the individual subsidiaries and their host nations are sacrificed to the interests of the parent company. Critics argue that the MNCs do not promote competition since its sheer size and scope represent unfair competition to local enterprises. Also, the transfer of technology is often minimal because the research and development (R&D) is performed by the parent company and is closely guarded. Also, it is felt the training of host nationals for management positions is minimal, as well as the capital is often costly and real profits are manipulated to avoid taxation.

A major source of conflict is that the developing countries see the MNC as trying to alter their value systems, social attitudes and behaviors while the countries themselves are trying to preserve them.. The MNC feels justified in doing so, feeling that this will ultimately reduce barriers to communications between people and form the basis for a stable world order. Such arguments concerning the MNC reveal the complexity of the situation.

It is important to note that the topic of regulating social responsibility is addressed from a multinational corporation standpoint rather than merely a corporate standpoint in that it transcends one nation's realm of regulation. Also, it differs from an international corporation.

When discussing the multinational corporation, it is important to understand what it is. It is distinguished from the international firm in that management begins to devote attention to becoming globally-oriented in marketing, production, investments, and considers alternative opportunities around the world. A multinational corporation is just one of many types of international corporations. It has a substantial worldwide commitment of its resources in international business, engages in international production in a number of countries; and it has a worldwide perspective in its management.

Although a multinational may not do business in every region or country, it does consider its opportunities on a world basis. Also, a considerable portion of its assets are invested on an international level with a substantial part of its sales and profits from overseas operations. Some estimate that a company is becoming global when 20 percent of its assets are overseas. Another definition as to when a firm becomes multinational is when foreign operations account for at least 35 percent of its total sales and profits. There is not a precise point that determines when a company actually becomes multinational; it is more than a matter of such quantitative criteria.⁴

Becoming a multinational is an evolutionary process in international business.. Eventually, levels of foreign

involvement increase until the corporation no longer views the foreign operations as secondary but instead views the entire world as one market and makes business decisions based upon its opportunities available in all countries.

There are many characteristics of a multinational. It is distinguished by its diversification in products and also by its ownership by stockholders of many countries. One central characteristic of the MNC is that the parent company generally is from developed countries. Altogether, the U.S. alone accounts for about a third of the total number of foreign affiliates; and, combined with the United Kingdom, West Germany, and France, it accounts for over three-quarters of the total.⁵

Another notable characteristics of the MNC is size. There is a definite relationship between size and effectiveness. In 1971, there were 211 manufacturing companies in the market economies of the world with sales exceeding one billion dollars. Ninety-five percent of these companies were significantly involved in multinational operations. Obviously, there is an overwhelming association between company size and international involvement.⁶

The statistics reveal to some extent the degree of the MNCs' concentration of power through their size. For instance, the ten largest multinational corporations in the world each have more gross revenue than two-thirds

of the countries in the world.⁷ Also, one-tenth of the productive capacity of the world is controlled by MNCs. Multinational corporations are usually very large. For example, American Telephone and Telegraph produces more than does the entire economies of countries such as Greece, Israel, Norway and Venezuela. Manufacturing firms such as General Motors and Exxon produce more than do the national economies of either Ireland, New Zealand, or Pakistan.⁸

The MNC presents problems in the realm of social responsibility that are unique. In attempting to determine the future course of action concerning regulation of the MNC, it is important to examine those factors which enabled its tremendous growth.

The phenomenal growth of the MNC dates to the period following World War II. It was at this point that there was a move toward economic interdependence versus nation-state economic independence. The main impetus for its growth came from opportunities for adopted advanced technologies of WWII to produce consumer goods for the world markets. There were several factors which enabled this rapid growth, including: the international financial framework, the strategy and structure of the MNC, the communication technology, and the political attitudes.

One significant item of the international framework was the Bretton Woods agreement of 1944 which enabled

companies and individuals to trade on a global scale-- thus facilitating the MNC's growth. The amount of economic exchange was also encouraged by the operation of the International Monetary Fund (IMF), the General Agreement of Tariffs and Trade (GATT), and the World Bank. The European Common Market helped with the removal of trade barriers as well as a variety of financing institutions such as the International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank. These were incentives which helped to reduce the risks and the complexities of doing business in different countries. Currently, the system fluctuates according to the market forces and the world financial system as well as according to the stability of governments. This present system has greater day to day uncertainty but is more sensitive to market pressures. Because the rates are not held constant, and therefore not artificial, there is less uncertainty about medium and long-term exchange rates.⁹

The strategy and structure of the MNC also enabled its rapid growth. Within the organizations themselves evolved a willingness to adopt a divisional structure.

This was based upon the assumption that responsibility can be delegated and that divisional activities can be managed within the framework delegated and that divisional

activities can be managed within the framework of planning and control systems. The structure and nature of the MNC explain why it could act so efficiently in this environment. First, the MNC can maximize profit in a world of imperfect markets. Secondly, when the markets are imperfect in intermediate products they can be bypassed by the creation of internal markets. This involves putting all of the activities which are linked by the market under one common ownership and control. Thirdly, the internalization of markets can extend beyond national boundaries. All of these factors generated the growth of the MNC.¹⁰

The explosion of transportation and telecommunication technologies facilitated growth. It made the barriers such as distance and time minimal and led to the progress of the MNC. Such technologies brought the world closer and distance was no longer considered to be a boundary concerning trade. With the problems associated with distance and time being minimized, the MNC could more efficiently coordinate its activities.

The political climate of this time was another significant variable enabling rapid growth. Generally, societies move to and from nationalism and interdependency in order to find the ideal. After WWII, a period when nationalism ran high, society moved rapidly away from nationalism toward international cooperation and increased

economic interdependencies. There was also a worldwide commitment for growth that was a driving force, not only through diversification into new products and technologies but also through diversification into new markets.

Collectively, MNCs were the most rapidly growing sector and without them much of the rapid post-war growth of European and South American economies would have been forfeited. The MNCs tend to be concentrated in high technology, high-skilled industries with heavy research and development investment. They not only have higher than average labor productivity, but also have higher than average profits. They undertake more R&D per unit of sales than other firms. Since WWII, world exports have been growing slightly faster than the gross world product while international production has been growing faster than world exports. Since most large corporations account for most of the international production--this trend has led to forecasts that before the end of this century world business will be dominated by approximately 300 supergiant MNCs. Some would say that this would render the nation-state obsolete, and the international political system would be changed.¹¹

I feel that this is a bit overstated for while some foresee this rapid trend toward becoming multi-nationally oriented, others foresee the MNCs' demise--

pointing to hierarchial authoritarian structures of these large corporations and implying that they will eventually sink under their own weight in competition with the smaller, flexible local enterprises.¹² This also seems to be an overstatement. It discounts other forces that are factors beyond the multinational corporations' control. The MNC is an effective vehicle which bridges the gap leading to an increasingly more interdependent economy. As MNCs' experience (volume) grew, they learned how to work smarter, and more efficiently. Also, their large size and large capacity for R&D will be to their advantage in many instances. For example, the time lag between investment and pay off in new technologies is growing. General Electric waited an estimated 20 years to break even in its Gas Turbine business, which today is a major profit generator for General Electric as well as an important new source of power.¹³

In the future, a growing number of companies will become increasingly involved in large-scale international transfers of technology. It has been estimated that international business is likely to account for 25 percent of the world's GNP by 1985.¹⁴ This technology is due to the great strides in R&D. As was illustrated in the General Electric example, it took the size of the MNC to be able to absorb the costs of its research while waiting for their efforts to pay off. Smaller corporations would not be able to do this.

There are some concerns regarding these large entities. One concern involves the technology-based MNC as opposed to the resource-based MNC. The technology-based industries have weakened the bargaining power of host countries. This is because it is difficult for any host government to exert control and enforce accountability when the firm can easily liquidate its investments and move elsewhere. Another problem of accountability is that many MNCs are internationally owned and not held solely accountable to any one particular government. Host countries' positions are further weakened by the MNCs' diversity; many of the larger corporations operate in over 100 countries.

Clearly, the MNCs are beyond the realm of one governing body. They are left unchecked to a great extent especially in the area of social responsibility. Due to their size, their decisions affect many in society. One question that needs to be addressed is what are their attitudes concerning business ethics--particularly in the area of social responsibility.

It has been suggested that "business is business and ethics is not business."¹⁵ Peter Drucker states: "But there is neither a separate ethics of business, nor is one needed."¹⁶ He continues to argue that because business managers are members in the leadership groups of the society of organizations, they can face peculiar

ethical problems that differ from their problems as private individuals. If Drucker's argument is true, then as these managers handle these ethical problems peculiar to business, they will use some principles other than those they use as private individuals. That is the area under separate investigation--the specific principles for ethics peculiar to business.

Business ethics deals with whatever business actions, policies and practices that have significant impact on the business institution itself or on the lives of people in the society.¹⁷ Business ethics deals with what is right and wrong. This could deal with areas such as white collar crime, unethical kinds of individual actions, and more importantly unethical kinds of business actions--including social responsibility.

One MNC which exhibited a clear definition of its distinction between right and wrong is Polaroid, evidenced through their involvement in South Africa. This corporation was not only noted for its cameras and sunglasses, but also for its high standards as well. Polaroid maintained high principles, even to the extent of turning down a multimillion dollar deal with the South African government at a time when the company's sales were down. This decision was based on moral grounds.¹⁸ In 1970, Polaroid's sales to South Africa was roughly .5 percent,

equivalent to that of a large American department store. At this time Polaroid conducted its business through an independent distributor, having no plant, investments, nor company in South Africa.

South Africa embraced an apartheid policy--one of white supremacy. The word "apartheid" in the African language means "apartness", in other words, separate and segregated. One action to maintain segregation was the "Pass Laws" that were biased policies requiring non-whites to obtain permission before entering or remaining in the urban areas. This prevention of movement prohibited the worker from attaining permanent status.

Polaroid's products were being used for these programs and came under attention when a revolutionary group demanded that American business stop trade with South Africa. This was because the American's mere presence meant support of the government's apartheid policy which suppressed blacks. Polaroid disapproved of the policy and expressed this disapproval through their refusal to sell any identification equipment to the South African government for the use of the Apartheid Pass Book program. Polaroid's values and deep concerns for individual rights were best expressed by Dr. Land, the founder of Polaroid:

"It seems to us to be a peculiar indignity for us to work together to build something wonderful, like our camera and film,...and then see that product, our own tradition, used for the purpose of the apartheid program. We are explicitly and vigorously opposed to the apartheid program." 19

Polaroid realized that their action of prohibiting the direct sales of film to government could be countered through indirect sales via retailers. A committee set up to study the problem examined which actions would have the greatest impact for improving the situation for the black people of South Africa. They questioned the possibilities of leaving South Africa, increasing business within South Africa, setting up their own company there, or working within the existing framework to change the situation.

Up to this time, foreign investors had played a relatively passive role in the country. Nonetheless, Polaroid announced its program for future involvement. The main points of this plan involved an experimental program for one year. Polaroid improved salaries and other benefits for black employees, started a training program for blacks for important positions, and set aside a proportion of their South African profits for black education.²⁰

These actions were excellent, but they also acted as a catalyst for change. Due to its high visibility in the press, Polaroid made the public aware of the conditions in South Africa. This was one MNC's reaction when a country's practices are contrary to the values that a company stands for. This case is an excellent one which raises many questions such as: What is the

responsibility of the firm to its society? Should a firm actively take a side concerning social or political issues? What are the boundaries of a firm's behavior?

In contrast to Polaroid there is the Nestle case. This case illustrates the dichotomy between social needs and the requirements of profit-oriented production. This case establishes an excellent argument for the necessity to establish control of the MNCs.

It is a good example to illustrate not only because the home country was developed (then Swiss-based), but also because it is the second-largest food manufacturer and the largest of the eighteen international marketers of infant formula. The campaign against Nestle developed to end infant formula abuse in developing countries. The problem developed from Nestle directing a campaign, using hard-selling techniques, to a target market incapable of making a competent decision.

Nestle's campaign to capture the third world market caused much controversy. Their practices were considered unethical. They aimed their target market not only to mothers using bottle feeding, but directed their campaign towards mothers who breast fed. They discouraged women from breast feeding through the use of giving away free samples, enough for a week, which would be long enough for the mother's milk to dry up and thereby causing women to continue the usage of bottle feeding.

Many doctors advocated this for their own lucrative gains in that Nestle made contributions to the medical profession in the form of direct payments as well as contributions to their retirement funds. Most women relied unquestioningly upon the authority of the doctors and milk nurses. (Milk nurses were no more than sales agents dressed in appropriate white uniforms who visited the new mothers and gave them their first week's supply of formula.)

Nestle argued that their promotion was directed to the middle- and upper-class mothers. Yet, they can not account for the widespread presence of Nestle infant formula products in the barrios of Bolivia, village pharmacies in rural Guatemala and the Phillipines, Nicaraguan refugee camps, and in poor urban and rural areas of Africa.

Their advertising campaign included mass media infant formula promotion including press ads, billboards, loudspeaker vans, television, cinema and radio. Their ads had been translated into 70 languages, and the advertising was extensive. Western values were pushed upon the developing countries as evidenced by such jingles as "white man's powder that will make baby grow and glow" with the emphasis of having that healthy American baby look.²¹ Social responsibility had been neglected when one considers the affordability of the formula. The U.N. Protein Advisory Group computes the

cost of feeding a six-month baby on bottled formula to be 47% of a Nigerian family's total income, and 62% of a Pakistani's. Another problem concerns illiteracy. Some could not read the directions and would dilute the formula so much in order to make it last, that their babies suffered from malnutrition. Others did not realize the importance of sanitary conditions while mixing the formula and would use the same water as they did for laundry and sewage.²² Still others did not heat the formula up. Taking into account the problem of illiteracy is an avenue of social responsibility that more and more MNCs will need to address in the future.

Church groups and consumer groups joined together to mount an attack against Nestle's practices. Their goal was not to eliminate the market for infant formula, but to make it consistent with the real need for it--not an artificially created one. This contradicts the generally accepted marketing practice to expand one's market and maximize profits. This raises the question as to who defines how much one can expand a market. Also, how far should Nestle go in announcing its conviction that breast feeding is best for most babies. as this action would reduce their profits. How far should Nestle go in **pro**tecting the rights of others--especially since the women themselves made the choice to buy their product.

The critics of Nestle did band together to effect change and proved to be a sufficient check against this MNC. With their operating budget consisting of donations and volunteer efforts versus Nestle's counter-advertising budget of hundreds of thousands of dollars, the groups were effective. The groups attempted to modify company policies by shareholder resolutions. Although they received no more than 5% of the votes cast, the fact that they were able to bring the issues before the shareholders was an accomplishment. This action resulted in Nestle stopping many of the practices in which it engaged before.

Some would argue against governmental regulation in regards to social responsibility on the grounds that government regulation steps in where the private sector cannot control. Since the private groups were able to manipulate change it is argued that government action is unnecessary.

If, however, the conclusion drawn would be to take action to insure some degree of social responsibility, there is the problem of administering rules and determining to what degree to regulate. In the Nestle example, many countries involved did not take action against the MNC because they were dependent upon them for their economic growth. Other countries did take action by blocking importation, while others made nipples and bottles available

only by prescription.

On the international level, many organizations held meetings addressing this problem. The World Health Organization was a step in the right direction, yet their actions gave the boycotting groups little encouragement due to the corporation's record of unresponsiveness to their recommendations. Nestle did attempt to bolster its image and even led a number of infant formula companies into the formation of the International Council of Infant Food Industries (ICIFI) to examine the issues in depth and recommend strict and appropriate marketing practices. However, this self-policing effort came too late and was too lenient. The United Nations thought that their code was too vague. In fact, several of the companies refused to join because the code was vague. Another reason for the companies' refusals to join was that if they became organized and agreed on practices and policies, they might be involved in anti-trust action. They could be accused of restricting trade.

Multinational corporations realize that there is a tendency to associate the bad image of one multinational to all. Therefore, it is to the advantage of the multinationals to tell their own story and be more aggressive in their promotion of their goodwill. The carry over effect works both positively as well as negatively. This is an example which illustrates an industry's self-regulation in the area of social responsibility. Questions

are brought up concerning how much control should be exerted, administered by whom, as well as how should rules be enforced. These questions will be addressed.

As the Nestle case has evidenced, the subject of MNCs can be quite controversial. The degree of regulation to be administered will be determined by the degree of the problem perceived. If it is of general consensus that the Nestle case is representative of the norm rather than being an isolated example, then regulation of social responsibility would be pursued. If, however, it is felt that the Nestle case was in effect an isolated example of MNC abuse of power, then no action to generate regulations would be pursued.

Critics of regulation would agree that unforeseen examples will occur that could not be prevented through regulation. Yet the problem will work itself out. Not everyone feels that the problems of the MNCs necessitate international regulation or attention. Many would rather the problems be dealt with on the national level through national legislation and regulation. Others would favor trouble shooting through more effective negotiation with MNCs at the time of entry in regards to the MNC's intentions on future continuing operations within that host country. Still others would do nothing. Among those who feel that action is

unnecessary are those who argue that the role of the MNC is grossly exaggerated and not in true perspective. MNCs are not as powerful and threatening as they appear.

There is indeed a tendency among some MNCs to exaggerate the ability of the MNC in order to escape national jurisdiction and control. It is important to note that when looking at the size and impact of a MNC the practice of comparing gross revenue of a MNC with the gross product of a country is common; however, these comparisons, although dramatic, cannot automatically be equated with forces of influence. There are distinct limitations to the MNCs. Economic power is not of the same quality or kind as political power. The smallest nation-state has absolute, unquestionable authority over the largest corporation. Ultimately a company has but one real power -- to get out. Senator Church emphasized this point to the Senate Foreign Relations Subcommittee on MNCs when he said, "It is possible that murder (of the MNC) could occur... For despite their enormous growth and wealth, it is still an unequal contest... each government does possess... the power to tax, to restrict, to discriminate against, or to nationalize foreign-owned businesses."²³

It has also be argued that social responsibility is a moral issue and not a legal one. Regulation concerning MNCs' social responsibilities would have to be on a global nature, due to the global nature of the MNCs. An inherent problem of this is the diverse nature of each corporation's management, industry, and countries (both home and host). What might be deemed socially responsible for one industry might not hold true for another. Also to be considered would be the potential economical impact of these social regulations, and would they even be worthwhile.

Conflicts concerning the host and home countries should not be overlooked. Host countries feel that they have been exploited and have sought to break free from their economic, cultural and political dependency.

They look upon themselves as having been exploited and feel victimized by some of the predatory practices of MNCs. These would include such practices as MNCs' involvement into political affairs of the host country. Multinational corporations' funds have been used to support political parties as well as to influence their home country's politics. An example of this would be the U.S. involvement in subverting Allende's regime in Chile.²⁴ Host countries are exploited when their resources are stripped. Multinational corporations oftentimes take the raw materials from one country and process them in

another country. In exchange for their limited raw materials the host countries are demanding that the MNCs engage in processing the materials in their country. Also, the host countries are insisting that more nationals be used for management positions--this ususally means the MNCs must provide the training.

Using nationals in management positions relieves tension between the MNCs and the host governments. The government feels that their citizens are in a better position to reflect the host country's concerns of social policy. It reduces the conflict concerning the economic goals of a corporation and the broader social needs of a nation-state.

The question of centralization and decentralization of managerial decision making is a key one. In reality, the problem is more a question of degree the authority is to be decentralized.

If a MNC tries to impose its organization structure and leadership system without taking the host country's concerns into account then friction occurs. This stifles the MNC's effectiveness and gives them a neocolonialist image as well as incites negative political reaction.²⁵ These negative political reactions can thwart the MNC's markets or even result in nationalizing. The degrees of centralization and decentralization are infinite. It is important that each company develop its own structure to suit its unique situation and needs.

Multinational corporations are met with negative reactions when the host country's cultural concerns are discounted. Multinational corporations transmit the values and lifestyles of global capitalism. They reproduce the products and ideas that originated in developed countries. The Western countries tend to push their values and lifestyles on to the host country which causes ill-will. The perceived threat to the host country's traditions and heritage often affronts the nationalistic forces of the country.²⁶

However, host countries do not remain completely helpless. Realizing that their economies were heavily reliant on the exportation of one or two raw materials, they took steps to prevent this vulnerability. They improved their knowledge and bargaining position. The development of cartels had a significant impact upon this bargaining position as evidenced by the success of OPEC (the Organization of Petroleum Exporting Countries). This is one political weapon enabling the redistribution of wealth. Another weapon is nationalization. This occurs when the host country takes over the operations and rights of the corporation within the country.

Tensions are felt by the home country as well as host countries. Multinational corporations are the primary supplier of technology. This transfer of

technology as well as skills is one of the major elements of direct investment. In the U.S. the labor unions view this with contempt. The effect upon the balance of payments and employment cause them to believe that this is merely exporting jobs. Although society and labor as a whole benefit from these shifts in allocation of technology and skills, it is the worker who is most directly affected and bears the brunt of the adjustment costs.

If investment was not made abroad, U.S. facilities would probably be closed as imports increased. It is not international trade that causes the problems so much as the policies of the host countries. It is import protection, subsidized prices, and other government policies that lead private decisions to differ from socially desirable ones.²⁷

When one attempts to regulate ideals and values such as one's beliefs as to what constitutes "social responsibility", many problems are encountered. One man who is strongly opposed to any form of regulated social responsibility is Milton Friedman.

The idea that a "business" has responsibilities is a poor argument for it is his opinion that only people can have responsibilities. A corporation is merely an artificial person and as such may have artificial responsibilities, but for business as a whole, they cannot

be said to have responsibilities. According to Friedman, "there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."²⁸

One drawback to this statement is in determining just what are "the rules of the game," and if a company violates these rules, what measures are to be taken against him? Who determines what is deception and fraud?

Friedman's point states that decisions of the MNC are conducted by individuals. It is the managers, acting as agents of the owners, who conduct business. Their primary responsibility is to the owners. If, however, the corporate executive has a "social responsibility" as a business man, he would be spending someone else's money for a general social interest. Insofar as his actions reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to his customers, he is spending their money. Insofar as his actions lower the wages of some employees, he is spending their money.²⁹ The point is that if one would act with other than the economic standard for evaluating one's business decisions, a manager would usurp political power and perform inefficiently both economically and socially. Conducting business in accord with the owner's

desires is the only responsibility of the business manager. It is then that as much profit is earned as possible while still conforming to the basic rules of society which are determined both by law and custom.

Friedman's ideas are based upon an economic model of pure competition in which market forces theoretically leave business without any social power, and therefore no social responsibility. This theory, however, is inconsistent with the power realities of modern organizations. Multinational corporations possess such great economic assets, initiative, and power that their actions do have social effects. Denial of social responsibility for business other than economic responsibility does two things; it accepts a model of pure competition economics, and accepts that ethical responsibility goes with social power.

Despite disagreement on social responsibility, there seems to be a fundamental agreement that activities by organizations should and do undergo ethical evaluation in respect to what kind of power is exercised, who controls the exercise, and what is the social effect of the exercise in reference to values accepted in some social consensus.³⁰

Examining the social power relation is very complex, yet a breakdown of four important terms comprising this relation provides insights into understanding the scope of this concept.

There are four terms in the social power relation: the power itself, the effects of the power, the standard for the legitimization of the power, and those who wield the power. The pros and cons of social responsibility deal with each of these areas. For example, should the power be established? Will the new regulations accomplish what it intended to resolve or merely add to more red tape? Who is to determine the standards? Will these standards be voluntary? What measures will be taken to insure compliance with the standards?³¹

I could argue this issue from a purely philosophical position, or from a nation-state position, but neither position is adequate. When evaluating social responsibility for MNCs it is best to approach it from a perspective that not only is concerned with an international approach but also a position that takes into account the unique problems and cultures of all countries and corporations involved.

The argument concerning the power itself has drawbacks. Measuring social responsibility's effectiveness in terms of quality of life is difficult. Some points to be

highlighted are about the positive aspects of social responsibility. Social responsibility is good public relations. Many MNCs value their public relations and the consequent positive image of the firm. This image is considered a function of the actions of investors and customers. Therefore, good public relations means higher profits.

Social responsibility may also be considered a long-term investment. The social environment contributes both directly and indirectly to the success of the corporation. Contributions to the environment will show up in specific forms such as the quality of the labor force, lower employee turnover and absenteeism, and less taxes for public service forces. Social responsibility also reduces the threat of government regulations which is a definite restriction to the MNC's realm of power in decision-making.

I could argue for social responsibility from a humanitarian perspective as well. With the new advancements in communications and travel, the world is getting smaller and smaller. Those who are involved in a social system, either as individuals or as managers of institutional firms benefit from the system and therefore have a debt to contribute to the quality of the system.³²

Since the multinational corporation is global in nature it seems appropriate to examine the standards for the legitimation of power on a global level. One approach to control the MNCs is through taxation.

There are problems concerning the allocation of any MNC's worldwide income. One of the most troublesome aspects of the allocation problem is that of transfer pricing. The sale by a parent company to its foreign subsidiary, or by one subsidiary to another is affected at an internal transfer price. Since there is often no market price for the goods in question this can be arbitrary. The distribution of this pricing is important since it determines the profits of the parent company or the subsidiary that sells the good.

Although the worldwide taxing countries have unilaterally granted credit for income tax paid abroad, double taxation or undertaxation has not been avoided altogether. Because of similarities in the economies of developing countries as well as a two-way flow of income between them they can have bilateral tax treaties which guard against excess taxation. But due to the flow of investment income between developed countries and developing countries is predominantly in one direction, the subsidiary cannot offer a meaningful concession to its partner in exchange for the developing country to keep its withholding tax rates low.³³

A universal agreement might solve these problems by providing a universal tax on the global profits of a MNC, regardless of where the profit nominally appears. This would remove the incentive to engage in transfer pricing and other manipulations of income. A global tax system would also generate capital for Third World countries.

There are three problems to initiating this international tax system. First, it would impede national sovereignty. Second, a formula would need to be determined on the basis of profits, assets, taxation of sales or as a percentage of payroll dollars in each country. Third, many countries who use tax incentives and access to credit as a means to attract foreign investment might oppose this. These efforts appear years away.³⁴ This is one alternative course of action that would break down the isolation barriers between nations, yet it does not appear to be a feasible way to regulate social controls.

Efforts attempting to create an international code of conduct for MNCs resulted from the belief that the global character of these corporations are unmatched by corresponding coordination of actions by governments or by an international set of rules.

Since 1970 there have been proposals to deal with the MNC. Prior to this regulation of the MNC either on the national or international level was not explicitly dealt with, as was the case of the Bretton Woods system. Recently, the United Nations, the Organization of Economic Cooperation and Development (OECD), the Organization of American States (OAS) and others have addressed themselves specifically to this subject.

Historically, international organization (both governmental and non-governmental) have dealt in a highly fragmented fashion with various specific issues concerning MNC activities. Now they realize the importance of dealing with multinational activities as a whole.

One group that is evaluating the role of the MNCs and is representative of each nation's concerns is the United Nations. The United Nations has established study committees to tackle the questions of the status of MNCs in the world society, their rights and responsibilities and the regulatory structures that should apply to them. The efforts of the United Nations (UN) are becoming more widely known.

Their response to the MNCs has been wide in scope and potentially far-reaching. Five of the six principal bodies and eighteen of the fifty-two related agencies in the UN system have direct impact upon the activities of MNCs. Because all nations participate in the UN its efforts are handled with all interests in mind.

The United Nations used to focus on specific issues based on the particular interest of a specific body versus the interests of the whole. This is changing with the creation of various agencies which provide a central focus which will enable the UN to consider the multinational situation in a comprehensive manner. This does include the Group of Eminent Persons and the Commission on Transnational Corporations.

The primary result of the Report of the Group of Eminent Persons was the creation of the Commission of Transnational Corporations. This committee would be a standing committee. Its objectives were: (1) to enhance the understanding of the nature and impact of MNC activities in political, social and economic spheres of the international and domestic relations of home and host countries, developed and developing, and (2) to obtain effective international arrangements for MNC operations which promote their contribution to national goals while minimizing their costs.³⁵

These objectives fell into five broad areas: preliminary work for formulating a code of conduct; establishment of a comprehensive information system; research into the social-political-economic effects of MNC activities; organization of technical cooperation plans at the request of UN members; and work leading to a definition of the multinational.

This code was considered to be a consistent set of recommendations which gradually evolved and can be revised as experience or circumstances require. Although they are not compulsory in nature, they act as an instrument of moral persuasion, strengthened by the authority of international organizations and the support of public opinion.³⁶ These efforts represent a move toward the creation of an international order, even a legal order, in regards to the activities of the MNC. There are, however, certain limitations to the UN. It is for this reason, as well as the lack of any statement as to what the normative outline and content of what a new international order should contain, that will prevent immediate concrete action.

The United Nations has no powers of compulsion, only the strength implicit in the process of a forum. The problem is not to write regulations, or even to pass them, but in the implementation of these regulations and the lack of ability to enforce them. There will be great benefits resulting from the studies themselves in the conceptualizing of the complex issues surrounding MNCs. The MNCs will be analyzed as a form of organization with potential benefits and identifiable dangers. The studies will help to separate conclusions that have been derived from analysis versus those based on emotions.

Addressing the problem of the MNCs as well as the problem of international investment in general is the OECD. Their guidelines provide an international review of certain aspects of operations. Although it is an initial step in providing some degree of public accountability for overall activities of MNCs, its voluntary nature restricts its impact. It did provide a consensus that encompasses a balance of both governmental and corporate responsibilities.

The very characteristics of MNCs places them beyond the exclusive reach of any individual government or social group. The type and amount of benefits accruing to individual states and social groups depend to a great extent on the bargaining power of both sides.

The best solution offered in controlling the MNCs is one in which the domain of control is equal to that of the MNCs, that is, global. However, if an approach at the global level is not feasible, there are alternatives. Second-best solutions are alliances of a limited number of countries. This could be either on a regional basis like the Andean Common Market, or it could be on a product basis, like OPEC. Third-best solutions are actions of the individual host countries.³⁷

Determining what level of authority (international, regional, national, subnational, or corporate) is important. International responses to multinational

corporations are reflective of individual nations' interests. As is the case in other areas of international policies, these interests have no consensus. The international approach falls under the scope of the UN. It is ideally the most universal solution, yet realistically, the least feasible. The regional approach to international control may have the greatest potential for success in the foreseeable future. Governments have found it easier to agree on goals in the context of regional interest as opposed to on a global interest.

Recognizing that a code of conduct is likely to be ineffective unless it is incorporated in some way into the national laws, the national response is of great concern. It is the national laws that give force even to regional agreements.³⁸ This brings everything back to square one. Actions concerning the practice of multinational corporations are already being dealt with on the national level.

Efforts on the national level can indeed be effective. Some home countries, such as Sweden, have taken the initiative in controlling direct investments abroad. A Swedish firm must obtain authorization from the Bank of Sweden for investments outside of Sweden. Social conditions, including nondiscriminatory employment policies, promotion and division of work and adequate provisions

for training, along with social security and social welfare are among the criteria required by Sweden for foreign investment guarantees. Thus, the guarantees are only made available for investments which would improve the economic development of a host country.³⁹

It is my opinion that more attention be given to the potential of each nation-state in improving the social responsibility of MNCs. This should be done not only by developed countries but developing countries as well. As I have outlined the problems with establishing an international organization to regulate MNCs in the area of social responsibility is not feasible.

There is a problem of feasibility in establishing programs. How accurately will foreign governments assess their social needs? Are corporate leaders capable of recognizing and adequately responding to social needs? Which cultural factors must be considered? How will these programs be perceived under a different set of circumstances? All of these questions reflect concerns of the unknown outcome of establishing programs. Also illustrated was the problem of feasibility in implementing programs.

This paper examined the complexities and problems of the multinational corporations and the potential abuses as a result of their powerful size.

It is my conclusion that due to the complexities of the nature of multinational corporations, their role in international economics, and the diverse industries and nature of each multinational, that more data should be collected before a law be enacted. Not enough is known yet concerning the ramifications from such a law. Actions taken in the area of regulating social responsibility could cause more problems than they would solve.

One comprehensive policy cannot adequately deal with the differences and unique situations concerning multinationals in various countries. It is up to each government, each multinational, and each citizen to uphold ethical rights in the area of social responsibility. Their role should not be ignored. The examples provided illustrate the significant impact to be felt by each. Polaroid's involvement with Africa showed that although their involvement there was on a small-scale, they still effected change. Sweden illustrated a government's active concerns to effect change as did the consumer and church groups effecting change in Nestle's policy. Every little bit of influence was significant and did make a difference. It will take each of these groups to work together to provide a checks and balance system in regulating social responsibility.

NOTES

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- ³ John M. Hutzal, Strategy Formulation in the Multinational Business Environment: A Guide to International Political Forecasting, San Jose, California, The Institute for Business and Economic Research, 1974, p. 259.
- ⁴ William A. Dymaza, Multinational Business Strategy, New York, McGraw-Hill Book Company, 1972. p. 7.
- ⁵ United Nations Department of Economic and Social Affairs, Multinational Corporations in World Development, New York, Praeger Publishers, 1974, p. 5.
- ⁶ Norman A. Baglini, Risk Management in International Corporations, New York, Risk Studies Foundation, 1976, p. 10.
- ⁷ Lee D. Unterman and Christine W. Swent, eds., The Future of the United States Multinational Corporation, Charlottesville, Virginia, University Press of Virginia, 1975, p. 3.
- ⁸ Peter J. Buckley and Mark Casson, The Future of the Multinational Enterprise, New York, Holmes and Meier Publisher, Inc., 1976, p. 11.
- ⁹ Michael T. Skully, A Multinational Look at the Transnational Corporation, Sydney, Australia, Dryden Press Australia, 1978, p. 26.

- ¹⁰Buckley, op. cite., p. 33.
- ¹¹Skully, op. cite., p. 22.
- ¹²Ibid. p. 29.
- ¹³Ibid. p. 30.
- ¹⁴Ibid. p. 22.
- ¹⁵Thomas Donaldson and Patricia H. Werhane, Ethical Issues in Business: A Philosophical Approach, Englewood Cliffs, New Hersey, Prentice-Hall, Inc., 1979, p. 1.
- ¹⁶W. L. LaCroix, Principles for Ethics in Business, Washington D.C., University Press of America, Inc., 1979, p. 1.
- ¹⁷Ibid. p. 2.
- ¹⁸Roland C. Christensen, Kenneth R. Andrews, and Joseph L. Bower, "The Polaroid Experiment in South Africa," Business Policy: Text and Cases, Homewood, Illinois, Richard D. Irwin, Inc., 1978, p. 562.
- ¹⁹Ibid. p. 575.
- ²⁰Ibid. p. 571.
- ²¹Barbara Bedway, "Nestle Feels Crunch in Baby Bottle Boycott," Feature, February 1979, p. 58.
- ²²"The Infant Formula Issue: Other Perspectives," The Christian Century, June 20-27, 1979, p. 58.
- ²³Skully, op. cite., p. 33.
- ²⁴Solomon, op. cite., p. 95.
- ²⁵Thomas Aitken, The Multinational Man: The Role of the Manager Abroad, London, George Allen & Unwin Ltd. 1973, p. 57.

²⁶United Nations, op. cite., p. 78.

²⁷Carl Madden, The Case for the Multinational Corporation. New York, Praeger Publishers, 1977, p. 86.

²⁸Donaldson, op. cite., p. 197.

²⁹Ibid. p. 193.

³⁰LaCroix, op. cite., p. 102.

³¹Ibid. p. 101.

³²Ibid. p. 104.

³³United Nations, op. cite., p. 75.

³⁴Solomon, op. cite., p. 135.

³⁵Robert Black and Stephen Blank and Elizabeth C. Hanson, Multinationals in Contention: Responses at Governmental and International Levels, New York, The Conference Board, Inc., 1978, p. 221.

³⁶Ibid. p. 222.

³⁷Ibid. p. 152.

³⁸Ibid. p. 230.

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