

Code of conduct on
corporate social
responsibility
business essay



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Most multinational companies have adopted a code of conduct on corporate social responsibility whereas relatively few multinational companies have concluded an international framework agreement. What does this statistic tell us about ethical considerations within multinational companies?

Case Study: 1 (HMG Paints)

Being aware of how an organizations culture can be ruined by inaction, there are many corporate houses which persistently strive to enhance the present systems and implement new initiatives. As John Falder Director of HMG Paints comments it's all about “ a bunch of decent people doing the right thing” (CBI-CSR, 2008).

HMG Paints is one such example where they have taken utmost care in the involvement process to put together and sustain an organizational culture which appreciates and shows consideration to staff as individuals. These employees who are passionate and enthusiastic about the organization and their work are seen as a critical part of the company's competitive advantage. Employees who are happy and content help HMG provide a better service and higher quality product to their customer, which is responsible for enhancing the relationships with external stakeholders and a successful CSR initiative (CBI-CSR, 2008).

Introduction: Ethical Consideration in Business

Since 1990's globalisation has taken a rapid course and has been accompanied by a growing number of political debates on international working and production standards. Some notable examples include: controversial decisions regarding product design that compromise with

quality in an attempt to cut down on cost, lack of concern for environmental damage, and unreliable standards which may affect the health and safety of employees, customers and other stakeholders (Schomann, 2008 & Chen et al., 1997). Where several reasons such as these undoubtedly add to problems, evidence indicates that they are mainly a result of lack in corporate culture that openly supports and encourages ethical decision making.

The debate on the necessity of having supra-national structures and regulation of labour standards and industrial relations as been increasing ever since the liberalisation of trade and capital movements started to disrupt the traditional national forms of social dialogue and industrial regulation. Unethical conduct is not simply an individual decision, but is also a reflection of institutional culture with the result that such conduct may be related more to attributes of the business itself than to attributes of the individual employee (McCuddy et al., 1993). Therefore, this essay will be looking to provide a non biased answer to the ethical aspects of the business.

Ethical Business Culture

CSR and adoption of codes

Not considering the specific categorization Corporate social responsibility (CSR) is simply any initiative relating to how managers should handle public policy and social issues which in turn enhances the image of the organization among its stakeholders (Collier and Esteban 2007). Gradually more and more companies are themselves recognizing that their future profitability and the

ability to operate depend on their ability to understand and take responsibility for the public and environmental consequences of their global presence (Mullerat et al., 2005). Only the consistent manifestation by the companies that their policies constantly achieve the desired social, environmental and ethical outcomes will encourage the stakeholders in believing that the organization is serious about CSR.

Now the question that arises is that to what level can companies be sure of implementing CSR programmes and policies, and what can be done to ensure that the organization is motivated and dedicated to attaining that objective? The problem occurs when a company answers this by unavoidably directing towards its agreement with the relevant good governance provisions, to its code of conduct, to its ethics training procedures, to its provision of feedback and complaints procedures and to its efforts to implement these in cross-cultural contexts. To understand this it is important to know what is the motivation for the companies for adopting the codes of conduct in CSR.

Bondy et al., (2006) suggest that there are four different groups for code adoption mentioned in the literature; stakeholder management, stakeholder communication, competitive advantage and mitigation of risks and/ or threats apart from the general reasons like self-regulation or for communication.

Stakeholder Management

The motives behind stakeholder management are centred on the application of codes as a method to guide employees and other stakeholders' behaviour

as it is connected to functioning of the organization and the stakeholder groups (Aaronson and Reeves, 2002). This group also incorporates third party codes written by a broad range of stakeholder groups such as non-profit organizations, government, business associations, in order to direct or influence the performance of the business (Kolk, van Tulder and Welters, 1999). Some policies are also made official in the corporate ethics which have been written by the senior management who feel a personal commitment to do the right thing (Thompson, 2002).

Stakeholder Communication

These codes are not proposed to manage but are designed specifically for communicating all the elements of corporate beliefs, actions and performance to both internal and external stakeholders. The proposed reason for the introduction of this group is the desire by corporations to make sure of a continuous societal license to function (Kagan et al., 2003) where codes are used to formalize this commitment, to achieve trust, legitimacy and credibility of corporations with its stakeholder groups.

Competitive Advantage

Business Dictionary Definition: “ Superiority gained by a firm when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation”.

Therefore, competitive advantage is a result of harmonizing core competencies to the opportunities. As the definition suggests the motivations in this group are based on the organizations using codes to benefit them by creating a market advantage for the company. These codes

are used to protect or improve their already existing reputation within the marketplace (Diller, 1999). This results into the organization becoming a leader or innovator either in their particular field or with regard to CSR issues. Another motivation for the code creation is the need to improve relationships with customers and other stakeholders (Diller, 1999).

Mitigation of Risks or Threats

The most frequently noticed driving forces for corporations in implementing codes are to avoid government law enforcement, involvement, or pressure and reducing or avoiding negative public attention (Diller, 1999), influence from other corporations in the same business or industry associations (Lenox and Nash, 2003). Anticipating consumer boycotts or solutions via the legal system (Diller, 1999) are also considered as other forms of risks. Codes are also used to prove due diligence in court proceedings as a defence against legal sanction or to reduce legal penalties (Carroll and McGregor-Lowndes, 2001) or to indicate appropriate internal control systems in place to secure bank loans and reduce insurance premiums (Thompson, 2002).

Context and commitment

The usually believed link between codes of conduct and their function as a tool of CSR has been questioned with some serious doubts and is flawed with some critical issues (Bondy et al., 2006). Bondy et al., argue that the main reasons for deliberate code adoption given are ‘ guide for behaviour’, ‘ consistency across global operations’ and reputation aspect. On the whole there is a strong governance of making sure to comply by using these codes with a focus on pleasing internal audiences. This is emphasized upon by the style of the codes which is largely stipulative and, to a minor extent

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commitment and principle oriented. Stakeholders are only one third of the target audience of codes, which is shocking given that stakeholders are usually considered the target audience of communication efforts on CSR and code issues.

Bondy et al., (2006) have found that corporations do not seem to differentiate greatly between codes which are more in synchronization towards general corporate governance or penalizing issues or that have a stronger CSR focus. The main problem is that corporations implement all types of codes and have a tendency to present them similarly. This issue is of a great concern since it shows that corporations make use of these codes similarly to indicate their commitment in CSR and hence, are expected to show some type of business-society relationship – different types of codes are treated in the same manner, and no kind of information is provided on the different types of codes existing and neither is any explanation given on the particular type of code chosen. Thus, codes, either internal or external are used by corporations to hint their responsibility to a set of issues often thought to deal with the business-society interface. Nonetheless until good ethics plans are considered and managed with a strong ‘steer’ from the top of the management, no organization will be successful in carrying out its ethical obligations and inducing internal and external trust unless.

Case study: 2 (UNI-Telefónica Code of Conduct)

Source: European Foundation for the Improvement of Living and Working Conditions (2008)

About the agreement

One of the best examples on trade union and workers' rights is the way Telefónica's international framework agreement takes the form of a 'code of conduct'. The agreement was signed with the presence two Spanish trade union organisations – the Trade Union Confederation of Workers' Commissions (Confederación Sindical de Comisiones Obreras) and the General Workers' Confederation (Unión General de Trabajadores) on 12th March, 2001 together with the Telefónica's top management and UNI. Since the international framework agreements were just introduced then and a fairly small number of people knew about the term, therefore, this agreement was referred to as a code of conduct.

The reason for the creation for this agreement is the consequence of social dialogue at global platform between Telefónica and UNI. A social code of behaviour on international agreements, endorsed by the same above mentioned companies in April 2000, laid the foundation for the international framework agreement. The agreement was further revised in December 2007.

The outcome of the agreement has been positive on the business associations at Telefónica and harbours greater respect for human rights at the workplace in Telefónica's worldwide locations. Even though there have been disputes between the agreement and acknowledgment of trade union rights as well as local legislation, both, the organization and the trade unions have put the agreement into practice to adopt a better approach in solving the difficulties that came across. Thus, as an instrument of alternative dispute resolution and an early warning system, the agreement has a high <https://assignbuster.com/code-of-conduct-on-corporate-social-responsibility-business-essay/>

added value for both the trade unions and management. In principle, and according to UNI Global Union, international framework agreements do not fall into the category of transnational collective bargaining, but are about negotiating agreements between the Global Union Federations and MNCs that guarantee respect for fundamental labour rights, at the minimum, for all workers in that company in all locations around the world. Such agreements therefore fall into the category of local collective bargaining.

International Framework Agreement (IFA) and applications

International framework agreements (IFAs) are significantly regarded as new mechanisms throughout the world in cultivating international industrial relations that co-exist with other labour law rules and regulations, and different forms of employee representation on global levels. The IFAs came into existence because of the concerns raised by different trade unions, NGOs and consumer organizations. Numerous organizations at an international level such as the OECD, the ILO and the UN have published documents demanding clearly defined social rights for workers in MNCs. And at business level many MNCs have given more consideration to corporate social responsibility (CSR) in order to deal with the increasing public awareness on labour standards and to avoid more cases of bad publicity. The expansion and acceptance of corporate codes of conducts as voluntary or an affirmative instrument (Aaronson and Reeves, 2002) is a result of this development. Therefore the increase in the number of IFAs is correlated to the further value they correspond to labour law standards. Apart from the involvement towards the corporate culture, and the quality of social dialogue, IFA can also contribute to the ' definition of minimum standards, a

reaffirmation of core labour rights or the creation of more effective enforcement of labour laws among the different subsidiaries of the company and within the company, as well as among its suppliers' (Schomann, p. 21 (2008)).

Topics covered in IFAs

The termination of an IFA can be a long-standing result of building global harmony. IFA operations are co-ordinated and led by the Global Union Federations. The majority number of the IFA's contains the International Labour Organisations (ILO) minimum labour standards. The ILO is part of the United Nations, the following recognized principles have been agreed by governments, employers and unions and are fundamental to human rights at work.

Fundamental social rights

According to Schomann's finding (2008) roughly all IFAs (90%) include agreements on the prevention of discrimination and the encouragement of diversity. A relative examination of the other three fundamental social rights defined by the ILO demonstrates that for all a very high percentage is achieved. In the case of the right of freedom of association, the coverage in IFAs is even higher (95%). The prohibition of child and forced labour appears in 90% of all documents. Bearing these results in mind, it is clear that the fundamental social rights are of exceptional significance for the companies involved in the elaboration of IFAs.

Reference to international standards

The orientation of the majority IFAs to ILO principles validates their overall aim to encourage core labour standards. Due to the involvement of global union federations as signatory parties of IFAs, it strengthens their responsibility as a promoter of labour relations regulations at the global platform. Furthermore the reference to ILO conventions serves as an added value and increases the legitimacy, since the agreements compel requirements on those countries that have earlier ratified them. In particular, if an organization refers to the ILO standards in its IFA, it is involuntarily committed to support and effectively implement the specified standards. This also applies to countries which have not approved ILO core labour standards themselves. 27 per cent of the existing IFAs refer to the UN Declaration on Human Rights, the Global Compact is mentioned in 24 per cent and the OECD Guidelines for Multinational Enterprises in 19 per cent of all cases. However, 73 per cent of all IFAs include a general reference to the ILO (Druin, 2005).

Working and employment conditions

The reason for the being of IFAs is social dialogue, thus in this specific procedure, social associates concur to exchange information on a variety of workers' relevance-related topics at an international level. Accordingly, the topics which are a part of this review are joint agreements or remuneration and working hours, and more recently the social impact of restructuring or training. This explains most of IFAs dealing with such issues. The percentage of IFAs including reference to health and safety issues (80%), wages (71%) and working hours (59%) are also comparably high (Schomann, 2008).

CSR or business ethics issues

IFAs mainly deal with fundamental social rights and other labour standards due to the role of the international trade unions and as a driving force behind. However, issues related to the societal well being such as CSR or business ethics are not excluded. A fairly small but rising number of IFAs (15%) are dealing with AIDS and are including awareness campaigns or health related programmes for employees and their families. Companies are trying to display CSR through the impact of business engagement in a region; some of the IFAs also incorporate provisions for local community development (15%). More or less, half of the agreements include environment protection provision (44%). As these challenges are of increasing importance, it is a positive development that these issues are taken into account by social partners (Hammer, 2005).

The Scope of IFAs and its application

For assessing the impact of an IFA, it is vital to identify the possibility of its application. In practice, on the whole IFAs do not influence the privileges of workers in the EU who are bound with legal contract of employment with the corporation and who come under national and European labour law standards. On the other hand, these agreements may have a significant political importance for workers in other parts of the world, particularly in subsidiaries and subcontracting companies. By definition, the geographical coverage of IFAs is universal, i. e. global. Nonetheless, as recent analysis on transnational texts negotiated show that IFAs also include global structures, World Works Councils or employee committees, together with regional structures, such as European Works Councils and European Industry

Federations and there is also a growing number of transnational agreements covering only the European economic area (Pichot 2006).

Application to subsidiaries

More than 80% (Schomann, 2008) of the IFAs clearly specify that their norms apply to the whole group. Some IFAs propose that a company's agreement may differ according to the degree of power it holds within its different subsidiaries. Such a division seems reasonable and has the benefit of not generating expectations that may not be fulfilled subsequently. As a matter of fact, a company's headquarters can be held responsible for adherence to the IFAs in subsidiaries under its direct control. In other cases, the headquarters can only try to convince the management of subsidiaries outside of their direct control. This case of various application procedures depending on the level of control for example is illustrated in the IFA of the French company Arcelor: " group subsidiaries over

which Arcelor exercises a dominant influence ensure that the provisions of this agreement are implemented [...]. In the subsidiaries where the Arcelor Group has a significant presence, but does not exercise a dominant influence, the signatory parties undertake to jointly put to use all of the resources at their disposal in order to promote the principles stated in this agreement" (Schömänn 2008).

Application to suppliers

About three fourth of the current IFAs (Schomann, 2008) include provisions defining their application to the company's suppliers and subcontractors, which shows that the demand for efficient social regulation for the

employees in global supply chains has been considered between the companies that have signed the agreement. This shows the importance IFAs have given to this particular area. On the other hand, the terms of the article relating to the application of the suppliers and subcontractors differ significantly among the different texts. In many cases, the company ensures to inform or encourage the suppliers and subcontractors to respect the related parts of the agreement.

Conclusion

The chief objective of this essay was to assess the impact of CSR and international framework agreements (IFAs) at the global level, both from a theoretical viewpoint and in realistic terms, by scrutinizing the approach of MNCs towards their ethical considerations and case studies of good practice.

In order to realize the role of CSR and IFAs, it is essential to study not only their official content and profile, but also the prospect they have in terms of application and determining basic principles of labour relations and social dialogue.

CSR - It is wrong to consider CSR as an additional tool for increasing business profits. Each and every company, particularly the ones that function at a multinational level, apart from being accountable for the ethical conduct of their business are also responsible for their impact on all their current and future stakeholders. Achieving effective CSR practice is such an undertaking that it becomes crucially vital in circumstances where companies function globally in multicultural environments, where the decisions have to be taken by the on-ground staff without the advantage of discussion. All the threats

and consequences must be administered and reduced by taking decisions that are moral in practice and ethical in its objectives and results. Such situations can be handled efficiently only by the workers whose values and vision are the same as the organization whom they work for.

IFA - International framework agreements are written and decided between global or European trade union federations and the board of members of individual multinational companies to identify labour standards and joint principles of industrial relations. These principles are usually build on fundamental social rights as classified by the core ILO standards. On the whole, the broad character of the IFAs promotes corporate approval for their adoption, but, in implementation, it gives priority to local laws and thus provides the enforcement of agreement. And where local laws break or lack compatibility with ILO standards, the central IFA principle acts as an instrument of global governance.

The content analysis of international framework agreements shows that international framework agreements can be considered as one of the reason to support the respect of fundamental social rights among multinational companies and their financial associates. As a result, international framework agreements have a tendency to correspond to an emerging form of social dialogue at the global platform. Most of the existing international framework agreements draw attention to that the agreements aim at regulating labour relations within multinational companies, even though at times they may be related to broader issues. In the case of international framework agreements, labour standards are the main focus. There are certain objective factors of influence that may favour the negotiation of <https://assignbuster.com/code-of-conduct-on-corporate-social-responsibility-business-essay/>

international framework agreements, such as the sector or the nationality of the company.

This paper tries to demonstrate that only to have mission statements and codes of ethics is not enough. It is essential for ethics to become fixed in the corporate culture of the business as well as in the stakeholders' perspective. It is important that those who are in charge for planning and direction that they respond to the challenge of facilitating and fostering employee commitment to CSR so that the business expands an integrative CSR culture where social responsibility becomes a core idea in the combined search for the common good and a sustainable future. Both codes of conduct and IFAs can have an impact on the subcontractors and business partners of companies and thereby contribute to the improvement of labour relations in global supply chains. Indeed, the relevance of regulations and norm-setting for suppliers and business partners has grown over the last few years. This means that both instruments can complement existing labour standards in a global context or help to make them more effective through efficient systems of monitoring and reviews. But it should also be stressed that they are neither intended nor are able to replace the responsibility of national authorities in implementing these standards.