

Expanded ethics: Developing a macroethical perspective for multinational companies in South Africa

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ABSTRACT

In this article, it is argued that multinational companies (MNCs) that operate in South Africa should include a *macroethical* perspective in their ethical reflection. MNCs in South Africa are subjected to significant societal changes. At the same time, they are in a position to exert their influence in a way that affects more people than simply their shareholders, clients and employees. It is argued that a macroethical perspective can assist MNCs in coming to terms with these changes by expanding their understanding of their responsibility towards South African society and future generations.

Key words: Ethics, macroethics, multinational companies, responsibility, South Africa

INTRODUCTION

Changes in the nature and extent of the influence of multinational corporations (MNCs) have created the need for changed modes of ethical reflection. However, this does not imply that ethical reflection on the social impact of MNCs in South Africa is new. The first King Report on Corporate Governance already included ethics and corporate responsibility as important elements of the corporate governance regime in postapartheid South Africa. The current version of the King Report develops this notion further by requiring of the board of a company to ensure that the company is a responsible corporate citizen (Institute of Directors of Southern Africa, 2009). Coupled with the requirement of the Companies Act of a Social and Ethics Committee that should “monitor whether the company complies with relevant social, ethical and legal requirements and best practice codes”, “bring to the attention of the board any relevant matters within the scope of its mandate” and “report to shareholders on matters that fall within the scope of its mandate” [Section 72 (4)], MNCs operative in South Africa are clearly sensitised to their responsibility towards society.

In this article, it is argued that these already high expectations are appropriate, and also

that the ethical reflection of MNCs in South Africa should be expanded to include a macroethical perspective.

REASONS FOR EXPANDED ETHICAL REFLECTION

MNCs in South Africa are subjected to significant societal changes

MNCs in South Africa are faced with significant processes of societal change, particularly in the political and economic spheres. At least two processes of societal change are of relevance in this discussion.

Politically, the continuing process of democratic consolidation exerts a significant influence on all societal actors, not the least of which is MNCs. Larry Diamond, one of the foremost theorists on the topic, defines democratic consolidation as “the process by which democracy becomes so broadly and profoundly legitimate among its citizens that it is very unlikely to break down” (Diamond, 1994:15). Accordingly, this process of normalisation of democratic politics requires “the expansion of citizen access (to political participation)”, “development of democratic citizenship and culture, broadening of leadership recruitment” and “political institutionalisation” (Diamond, 1994:15).

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Democratic consolidation in South Africa and its relevance for business leadership can best be understood with reference to Schedler's levels of democratic consolidation. Building on the work done by Diamond and others, Schedler suggests that the behavioural, attitudinal and structural foundations of a democracy represent the level of democratic consolidation of a country.

According to Schedler, "behavioural foundations" of a democratically consolidating society refers to elections that are free and fair, violence and political competition having been decoupled and the limits of political power being respected (Schedler, 2001:71-72). South Africa's behavioural foundations are generally viewed as in place, as its designation as "free" by Freedom House (Freedom House, 2012) illustrates – but "new media regulations and evidence of pervasive corruption within the African National Congress leadership" are highlighted as potential threats to the democracy of South Africa (Freedom House, 2012).

"Attitudinal foundations" also seem to be in place – or, at least, not severely in danger. Schedler views societal consensus on the importance of democracy as the attitudinal foundation of a consolidating democracy (Schedler, 2001:4-80). In the most recent Democracy Index of the Economist Intelligence Unit, South Africa is described as a "flawed democracy" (Economist Intelligence Unit, 2011). Possibly, the "structural foundations" (Schedler, 2001:80) of the South African democratic consolidation, in particular, present MNCs with the greatest challenge.

Schedler identifies two dimensions of the structural foundations of a democracy, which can help us to systematise the political changes that MNCs in South Africa continue to experience. Firstly, the socioeconomic foundation of the democracy of South Africa remains weak. Schedler views a strong socioeconomic foundation as fundamental in the consolidation of any democracy. The level of poverty in South Africa, for example, remains high, which, in turn, leads to specific patterns of political participation and political power that require of the political discourse to take a specific form. What is often missed is that continued poverty (one can add inequality) exerts a fundamental influence on the very political systems that should address it. In the words of Neeta Misra-Dexter and Judith February, weak socioeconomic foundations are a "defining characteristic of South Africa's democracy" (Misra-Dexter *et al.*, 2010:vii). They remind us of the fact that "citizens who struggle to gain access to employment, housing and transport, and suffer from ill-health, a lack of clean drinking water and inadequate education are limited in their political participation" (Misra-Dexter *et al.*, 2010: vii). This situation impacts on a wide range of business issues, ranging from the cohesion of the communities in which MNCs operate, through the choice of employees of a business enterprise to the way in which MNCs can expect to engage their consumers and stakeholders.

Secondly, MNCs are subjected to the process of the consolidation of South African institutions (Schedler, 2001:81). The institutionalisation of an effective bureaucracy is a pertinent challenge for any consolidating democracy, and the country shares difficulties, such as retaining adequately qualified personnel, insufficient co-ordination, political influencing, administrative inefficiency and the like, with other young democracies (Smith, 2005:165). Therefore, the developing institutional capacity of the state can be seen as influencing the effective and efficient implementation of policy (Taljaard, 2010). One may even view the relatively high levels of corruption as a sign that the institution of a strong bureaucracy still lacks consolidation.

MNCs in South Africa are not only subjected to major processes of political change. They are also subjected to processes of economic redress, of which the Broad-Based Black Economic Empowerment (B-BBEE) is possibly the most significant. After the first democratic election of the country in 1994, there was consensus amongst the most important role players in the different spheres of South African society that a process of restorative justice should be initiated to include the majority of the inhabitants of the country in the mainstream economy. This required of business a comprehensive understanding of its role in society.

To initiate and guide a process of restorative justice in the corporate sector, a number of Acts were promulgated, with the Employment Equity Act and Skills Development Act coming into effect in 1998 (South Africa, 1998). The significant B-BBEE Act came into effect in 2003, and is accompanied by a Code of Good Practice from the Department of Trade and Industry, which guides MNCs in their implementation of legislation and in voluntarily enhancing their corporate citizenship (South Africa, 2003). The core aim of the Act is to enable state intervention to address the systemic exclusion of black South Africans from fully participating in the economy. This Act consists of industry-specific charters and specific targets, aimed at broadening Black participation in the economy of South Africa.

By means of these Acts and related material, MNCs are required to extend their social responsibility far beyond the confines of voluntary philanthropic actions. Indeed, B-BBEE illustrates the far-reaching influence business people can exert in restoring justice in South Africa and, in this way, ensure the long-term stability of both the country and their own interests (cf. Naudé and Fourie, 2011).

The changes to which South African MNCs are subjected, discussed above, are neither brought about by the actions of isolated individuals, nor is their influence restricted to the lives of isolated individuals. These changes are systemic and institutional in nature, and require ethical reflection that

transcends the individual as the primary frame of reference. Without the competence to reflect on the ethical quality and the associated ethical expectations of these changes, MNCs will have difficulty in positioning themselves competitively, and making a constructive contribution to society will be challenging.

MNCs in South Africa have the potential to effect societal change

MNCs are not only subjected to processes of societal change. A second reason for the expansion of their ethical reflection is the fact that MNCs have developed the potential to initiate or effect social change. This can be ascribed, in particular, to two developments.

Firstly, as is well established, the nature of big business has changed significantly over the past few decades. As early as the 1950s, corporations were no longer large and professionally managed, with widely held shares (cf. Vogel, 2008:188). Companies were no longer owned by individuals or families (Crane *et al.*, 2008:22), but mostly by institutional shareholders, and managed by professional managers with the freedom “to pursue corporate goals unrelated to the bottom line” (Vogel, 2008:190). The result is that today’s business enterprise is not simply a collection of individual ethical actors, but has developed into an ethical actor in its own right.

This is linked, secondly, to a fundamental change in the influence of MNCs. To understand this change, we first need to take note of the so-called “crisis of the welfare state” (Garriga *et al.*, 2008:84). Worldwide, democratically elected governments are experiencing difficulty in providing the basic human needs of all their citizens. This is especially the case in countries with maturing democratic institutions and developing economies, many of which are situated in sub-Saharan Africa. Particularly the regulation and control of economic activities are becoming increasingly complex. New economic spaces are being created outside the borders of national states (Crane *et al.*, 2008:457). MNCs are becoming more mobile, and this ability to relocate to other countries to take advantage of their favourable regulatory environments adds to the pressure on national governments. Governments are, consequently, “reluctant to impose extra regulation on business for fear of losing employment and tax income” (Crane *et al.*, 2008:23).

A substantial increase in financial resources and political leverage has put business in a completely new position of power with regard to political institutions and society. Business is no longer solely dependent on decisions made by democratically elected political leaders and their bureaucracies. Companies – particularly those operative in a number of countries – have the power to make decisions, even when understood as purely financial, practical or organisational, that influence not simply employees,

customers or shareholders, but also the general public of a certain territory. Advances in, and applications of, information technology and biological sciences further add to this influence.

This development has led to what the political scientist Mathias Koenig-Archibugi describes as “gaps in the accountability” of MNCs and political actors, particularly in developing contexts (Koenig-Archibugi, 2004). Collusion between government officials and MNCs, for example, makes it possible for these enterprises to distort the outcome of political processes (Koenig-Archibugi, 2004:239). Even implicitly supporting authoritarian regimes by refraining from meaningful criticism can maintain repressive and unaccountable political structures. By leveraging its financial power, MNCs may also be in a position to initiate regulatory competition between different (often developing) countries, in this way ensuring regulatory environments with deficient accountability structures (Koenig-Archibugi, 2004:241-242). In the same vein, Koenig-Archibugi argues that the institutional weaknesses of failing states can be used to mislead the respective societies, for example, by MNCs engaging in dangerous marketing practices (Koenig-Archibugi, 2004:244). He argues that the influence of MNCs has never been as great as it is today.

When expressed in the terminology of Ulrich Beck, one can say that MNCs have become the “producers and legitimators of threats they cannot control” (Beck *et al.*, 1994:5). In the context of sociopolitical changes, technological advances multiply and legitimise “systematically-produced” “self-threats,” increasing residual threats that can have an immensely destructive effect (Beck *et al.*, 1994:5). The long-term effects of the use of fossil fuel and the possible effects of nuclear disasters are but two examples of these systematically produced self-threats.

Although it is acknowledged that differences in the nature and extent of the influence of MNCs operative in South Africa exist, the discussion above was aimed at proving that MNCs, on the one hand, are subjected to systemic and institutional societal change. This, in itself, requires the ability of MNCs to reflect on appropriate actions from an expanded perspective. On the other hand, it was shown that MNCs are increasingly in a position to effect systemic and institutional changes. In the next section, it will be argued that a macroethical perspective can assist MNCs in South Africa in expanding their ethical reflection, and that existing ethical resources can be synthesised to assist MNCs in conceptualising a macroethical perspective.

CONCEPTUALISING A MACROETHICAL PERSPECTIVE

The aim of this article is not to define macroethics as an end in itself, but rather to synthesise existing theory, to come to a working definition of an expanded ethical perspective

that can enable MNCs to reflect ethically on their potential influence in South Africa.

At first sight, the concept *macroethics* seems to refer to ethical reflection on the impact of systems and institutions. This intuitive understanding of the term is confirmed by numerous historical examples of people and groups challenging systems, institutions and other corporate actors. In South Africa, the struggle against apartheid can be viewed as the result of macroethical reflection. The Sullivan Principles, for example, can be seen as a response to the macroethical problem of doing business ethically within an unethical political system (Bernasek and Porter, 1997; Seidman, 2003).

However, when one investigates macroethics – that is, a macroethical perspective in ethics – in a systematic manner, a more complex and textured definition emerges. A macroethical perspective in ethics is an eclectic and collaborative endeavour that draws on insights from a range of different fields and communities including Marxism, utopianism and theology. In this section, theological contributions will be applied in the construction of a significant narrative in conceptualising a macroethical perspective.

Possibly the most significant theological impetus for macroethical reflection in recent times can be found in religious communities, particularly within the social teachings of Roman Catholicism (Barrera, 1999:287). In the encyclical *Rerum Novarum* of Pope Leo XIII, promulgated in 1891, the issue of a just society is addressed in the search for an “opportune remedy” for “the misery and wretchedness pressing so unjustly on the majority of the working class” (*Rerum Novarum*, Article 3). A number of documents reflecting a macroethical perspective followed, including *Quadragesimo Anno* to commemorate the 40th anniversary of *Rerum Novarum* and reacting to the economic crisis of 1929, *Mit brennender Sorge* in 1937 in reaction to the political situation in Germany at the time, *Pacem in Terris* of Pope John XXIII on the challenge of peace in a time of nuclear proliferation and the significant pastoral constitution, *Gaudium et Spes*, of the Second Vatican Council, covering a range of themes.

Roman Catholic macroethical reflection was soon followed by similar endeavours in Protestantism. The plight of the working class poor at the end of the 19th century that gave rise to Roman Catholic social teaching is generally viewed as also the genesis of Protestant social ethics (Jäger, 1981:20). New forms of societal and personal uncertainty, poverty and the changed power relations brought about by industrialisation created the need for new forms of ethical reflection. Socialist Protestant theologians in Germany especially responded to this challenge, notably the theorists Leonhard Ragaz and Hermann Kutter (Jäger, 1981:19).

In the German context—where arguably the most important initial work in social ethics was done – the critique of the supposed independence of societal spheres was supplemented by detecting the legitimate orders (*Ordnungen*) present in society. Social microstructures, such as the state, marriage and society became the theme of social ethics (Wendland, 1961:19), and continued a tradition of addressing groups (and the well-being of these groups) outside of the church.

Despite decidedly religious roots, macroethical perspectives are presently often associated with reflection on macroeconomic issues. In his classic article, written in 1987, DeGeorge reminds us that the teaching of the Roman Catholic Church in the 1870s may indeed be viewed as the first source of modern-day business ethics (DeGeorge, 1987:201). DeGeorge proceeds, however, by identifying a number of stages that eventually led to both the emancipation of business ethics from the religious roots of the church and the development of its macroethical perspective.

The revolt against authority during the 1960s and the related questions on the social responsibility of corporations formed the basis for the decoupling of business ethics and religious ethics (DeGeorge, 1987:202). The 1970s saw the rise of business ethics as an “emerging field” (DeGeorge, 1987:202), particularly due to the growing participation of philosophers. The work of Rawls in justice is a salient example in this regard. The “polemical, ideological, shoddy, and ill-informed” reflection that characterised business ethics up to then was being replaced by a more systematic approach (DeGeorge, 1987:203). The 1980s could therefore usher in a period of some consolidation. Business ethics became institutionalised as the self-reflection of businesses regarding the discipline grew, and an increasing number of academic institutions started to develop courses in business ethics (DeGeorge, 1987:203).

Business ethics is now generally understood as considering the ethical aspect of economic activity (Rossouw, 2004:1). It is concerned, chiefly, with three dimensions of economic activity: The macro-economic dimension, which includes the institutional and policy framework of economic activity, the meso dimension of economic activity, which refers to the “relation between economic organisations and those with whom they interact” and a microdimension, which mainly concerns the actions and decisions of individual economic actors, mostly within an organisation (Rossouw, 2004:2). This general agreement on the scope of business ethics serves as basis for the intradisciplinary differentiation of business ethics (cf. diverse contributions, such as, e.g., those by Svensson and Wood, 2008, and Solomon, 1991).

From the discussion above, a number of characteristics of a macroethical perspective can be distilled. Firstly, systematic

reflection on the ethical dimension of systems, institutions and societal processes seems to have been given impetus by fundamental changes in society – particularly in the economic and political spheres. Secondly, the diversity of sources and practitioners seems to confirm that macroethics represents an eclectic endeavour. It seems to be clear, thirdly, that societal consensus is growing regarding the need for macroethical reflection. Macroethical reflection has a collaborative character. It is dependent on a variety of different sources and different perspectives in making a meaningful contribution. The growing complexity and differentiation of, especially, democratic societies make collaboration essential.

In conclusion, this working definition of a macroethical perspective is applied to the challenges faced by MNCs in South Africa, brought about by the significant societal changes and changes in the influence of MNCs. It is argued that a macroethical perspective has the potential to expand the perception of MNCs of their responsibilities towards society and future generations.

IMPLICATIONS OF A MACROETHICAL PERSPECTIVE FOR THE ETHICAL REFLECTION OF MNCs IN SOUTH AFRICA: EXPANDED RESPONSIBILITIES

The classical theory on responsibility holds that responsibility should match the potential influence of an ethical actor (cf. Huber, 1990). This implies that MNCs – particularly in a developing context such as South Africa – should continue to develop a broadened understanding of their responsibility towards their different stakeholders and society. In this section, it is argued that a macroethical perspective can assist MNCs in expanding their perception of their responsibilities. These responsibilities can be expanded in at least two respects.

The first relates to the responsibility of business towards society. This is neither a novel nor an equivocal idea. The metaphor of “corporate citizenship” can provide a meaningful theoretical model for systematising the complex and, at times, contradictory issues related to the relationship between business and society. Particularly, the extended definition developed by Matten and Crane (2003) may provide important suggestions for conceptualising possible societal responsibilities.

In their extended definition of corporate citizenship, Matten and Crane suggest that the nature of corporate citizenship can neither be equated with that of natural persons nor can it be divorced from classical theories on citizenship. In the light of the changed influence of both the state and business, Matten and Moon suggest that corporate citizenship is located “at the point where the state ceases to be the only guarantor of citizenship any longer” (Matten *et al.*, 2003:11). They proceed by showing that companies have

the opportunity to provide social rights that “government actors have retreated from” (Matten *et al.*, 2003:11), that they should respect civil rights, even in contexts where states are weak (Matten *et al.*, 2003:12), and that companies should take an “increasingly active role” in advocating the protection of political rights (Matten *et al.*, 2003:12).

MNCs operating in South Africa are uniquely positioned to leverage their influence to contribute to a stable, sustainable and dignified society. By complementing mere compliance with taking proportional responsibility for social, civil and political rights, MNCs in South Africa can contribute directly to creating a more humane and stable society. This, of course, raises profound questions regarding the relation between corporate citizenship and profit, and also the structures of engagement needed for balancing responsibility of the business with accountability.

The second respect in which the responsibility of South African business can be broadened relates to the responsibility of business towards future generations. The ethicist Hans Jonas developed this thought in the 1980s (Jonas, 1988). He argues that the future must be included in the process of ethical decision-making, as the ability of humanity to influence the life of future generations has never been so great. Jonas modifies the categorical imperative of Kant to include the new possibilities of self-destruction technology, stating: “Act in such a way that the consequences of your action comply with permanent and genuine human life on earth” (Jonas, 1988:36). This means that actions of which the potential consequences can endanger permanent and genuine human existence on earth should be abandoned rather than risked.

He further argues that such an ethical principle should be characterised by a departure from “anthropological optimism”. Put plainly, he encourages nothing to be left to chance, as a blind trust in human ethical abilities inevitably leads to crises. He gives three reasons for this, namely, that human nature is not static but fluid, the recognition of what is right is not simple, and may, in some instances, be impossible and the consequences of human actions are not always predictable (Jonas, 1988:15).

To be responsible, also towards future generations, Jonas suggests criteria by means of which this broadened responsibility can be enacted (Jonas, 1988:63-64). He is of the opinion that when the possibilities that technological progress brings about are taken into account, actions should be directed by a heuristic of fear. In accordance with his conviction that ethics should revise its anthropological optimism, he is of the opinion that the human ability to destroy cannot be underestimated.

The suggestion of Jonas to expand responsibility is certainly radical. Developments since the publication of his initial

book further remind us that his suggestion may also be too limited – he gives very little attention to the possible intrinsic rights of nature itself. Of importance in this discussion is his inclusion of future generations in our consideration of responsibility. This is certainly relevant to business in South Africa, and is directly related to questions of the environmental and social sustainability of business practices. Incorporating the rights of future generations into their understanding of responsibility maybe one of the greatest opportunities for MNCs in South Africa to pioneer innovative, sustainable business practices.

However, this suggestion for expanding the understanding of business responsibility also raises unavoidable and complex questions, for example, regarding how the rights and possibilities of future generations can be conceptualised, whether the thoughts of Jonas may imply an unethical measure of paternalism (who are we to decide on their behalf?) and the extent to which such a consideration will give MNCs with a short-term view of responsibility, an unethical competitive advantage.

CONCLUSION

In this article, a macroethical perspective was employed to reflect on the current and potential influence of business in South Africa. It was argued that the importance of a macroethical perspective can be motivated on, at least, two grounds. Firstly, MNCs in South Africa are subjected to significant processes of social change. A macroethical perspective can enable managers to, in a constructive manner, understand and integrate these changes into their business practices. Secondly, MNCs in South Africa have the potential to effect societal change, which requires the ability to reflect ethically on their role in society. It was shown that a macroethical perspective can provide the impetus for expanding the understanding of MNCs of their responsibility towards society and future generations.

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