

# The Social Accountability of Corporations



NSS Ethics and Religious Studies Curriculum  
Supporting Materials

Personal and Social Issues :  
Business and Economic Ethics

## Introduction

Ethics and Religious Studies (ERS) is one of the electives in the senior secondary curriculum. It is built on the *Religious Studies (Christianity) Curriculum for Secondary 4-5* (implemented in 1998), *Buddhist Studies* (HKCE Examination Syllabus) and the *Advanced Supplementary Level Ethics and Religious Studies Curriculum* (implemented in 2001). It also follows the general direction set out in the *Personal, Social and Humanities Education Key Learning Area Curriculum Guide (Primary 1- Secondary 3)* (CDC, 2002) and extends the prior knowledge, skills and values and attitudes students developed through the Personal, Social and Humanities Education (PSHE) curriculum in basic education.

The *NSS Ethics and Religious Studies Curriculum Supporting Materials: Personal and Social Issues-Business and Economic Ethics* is part of a series of learning and teaching materials being developed by the Curriculum Development Institute for the implementation of the ERS.

Schools are encouraged to adapt the materials for educational use according to their contexts. NO part of the documents shall be duplicated for commercial purpose.

We welcome feedback and suggestions from teachers. Please send them to:

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# Issue: The Social Accountability of Corporations

## Topic: Business and Economic Ethics

### Teaching Objectives:

By researching and studying the contents and practice of the Social Accountability Standard (SA8000), explore the corporate social responsibilities and related ethical concerns. Hence, understand how SA8000 can bring opportunities and challenges to corporations in developing countries through case studies.



Source: ETHICS, 2<sup>nd</sup> Issue (2006), Information Center for Social Sciences, RUC.

### Suggested Time allocation: 3 teaching periods

#### Period 1:

Students study Material 1 and 2 with the teacher, so as to acquire the background knowledge of the issue and enhance the ability to critically examine the issue.

#### Period 2 and Period 3:

Through the activity “Set out to the World – Mr. Hu’s Choice”, help students understand from different perspectives the reasons of developing the SA8000, the ways to put SA8000 into practice and various stakeholders’ response and concerns. According to the students’ ability and interest, teacher can make use of Material 3 and 4 to hold various activities, such as role-playing, group discussion, reading and discussion forum. Teacher can also design worksheets and ask students to comment on the opinions given by different stakeholders. Students can also help Mr. Hu improve his plan “Set out to the World”.



### Related Concepts:

Globalization; Business Ethics; Social Accountability; Stakeholders; Labour Rights; Moral Responsibilities; Economic Profit.



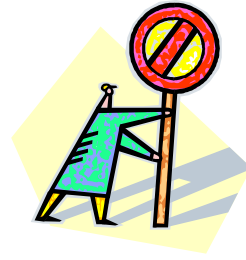
## Introduction:

WTO, Singapore Ministerial Declaration in late 1996 affirmed their support towards the International Labour Organisation (ILO) in promoting the labour standards (e.g. wage protection, fair working hour and workers' welfare etc.) and requested the corporations to bear their corporate social responsibilities. They believed that economic growth and development fostered by increased trade and further trade liberalization contributed to the promotion of these standards. In addition, they rejected the use of labour standards for protectionist purposes, and agreed that the comparative advantage of countries, particularly low-wage developing countries, might in no way be put into question. Thus, not only the advantages enjoyed by the labour force in the developing countries were acknowledged, but also the labour standards in various countries were well concerned and the use of the standards for protectionist purposes was rejected.

Under the global economy, several systems of rules related to free trade have been subject to queries and reforms. "Social Accountability Standard" (Social Accountability 8000, SA8000) thus arose in such a situation with a lot of controversies. As the most up-to-date international standard, SA8000 is becoming the threshold for corporations to enter the global market. Moreover, its moral restrictions on the corporations and how these restrictions impose positive effect on business ethics have begun to attract attention.



# Material 1:



In December 2001, the first revised edition of the SA8000 was released. 9 issues were listed:

1. No workers under the age of 15;
2. No forced labor;
3. Provide a safe and healthy working environment; take steps to prevent injuries; develop system to detect and reduce threats to health and safety;
4. Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining;
5. No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation;
6. No corporal punishment, mental or physical coercion or verbal abuse;
7. Comply with the applicable law and the industry standards about working hours; voluntary overtime must be paid at a premium rate; overtime may be mandatory if part of a collective bargaining agreement;
8. Wages paid for a standard work week must meet the legal and industry standards; no disciplinary deductions;
9. Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practice.



## Material 2:

### **Should it be a must for all corporations to implement SA8000? Can they join according to their free will?**



Under the global economy, if all the countries aim at raising their competitiveness by lowering the labour standards, race to the bottom is the only possible outcome, which will further lead to “labour dumping” and “social dumping” (“social dumping” is the tactic to lower the product and service price so as to raise its market competitiveness, however will exert pressure on the social security of that country; “labour dumping” refers to the tactic to lower the labour cost or all the expenses related to the labour, such as the expenses for improving the labour standards and investing in the labour welfare, so as to raise the competitiveness of the corporation, however will worsen the labour’s survival condition). In the end, it is the labour all over the world who will suffer.

The nature of social responsibilities is both active and passive. Its activity is related to the fact that if failed to fulfil the responsibilities, a corporation would be considered violating the law or moral standards. Otherwise, it falls into the category of passive responsibilities. In the past, people usually consider social responsibilities as active ones. However recently, some stress that there should be penalties for those who fail to fulfil their responsibilities, whether the responsibilities are active ones or not. Social responsibilities are combinations of legal responsibilities (inflexible constraints) and moral responsibilities (flexible constraints), which cover all the responsibilities a corporation should bear towards the society and the possible legal and moral consequences when the corporation fails to fulfil its responsibilities. For example a corporation is responsible for protecting the environment and it has to control and prevent pollution according to the environmental protection legislation. If it cannot fulfil its responsibility, it will be accused of violating the moral standards even if it is not sued.

Corporations are borne with social responsibilities. They have to do what they think is moral. The role it plays in the society and its behaviour affect the community. A lot of social problems would have arisen if corporations care only about making profit but neglect their social responsibilities, thus burdening the society. In contrary, if the corporations are conscious of their social and moral responsibilities while making profit, they can establish good images, improve the reputation of their products and service, thus creating opportunities for themselves to make profit. This is a kind of “moral capital”. Corporate social responsibilities include having keen sense of responsibilities towards its product and service suppliers and its customers, as well as the society and the environment. Most importantly, it should respect and care about its employees, defending their rights and benefit. Whether it is out of their initiative, the managerial staff should provide the employees with an appropriate and moral working environment, so that they can recognize their own values to the company and explore their potential with passion.



# Material 3:

## Set out to the World - Mr. Hu's Choice



HU Fu-min is the CEO and the major shareholder of a mid-sized corporation in Mainland China. His company has been established for 12 years. It produces toys and housewares for children, being sold in China and other Asian countries. The accomplishment has been outstanding. Mr. Hu plans to expand his business to Europe and the US. He is considering whether to apply for the certification of SA8000 – the Social Accountability Standard, so as to create opportunities to trade with other transnational corporations. He is having a meeting with several officials and listening to their opinions about his plan.



Mr. Hu,  
CEO

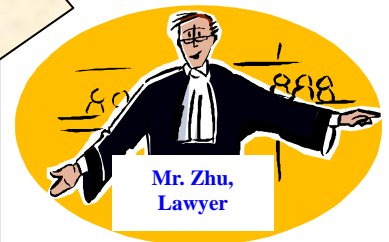
I believe all of you may have already heard of our company is going to be verified by the SA8000, which I think has positive effects on doing business, or else there won't be so many entrepreneurs applying. The Social Accountability Standard pays close attention to the relations between workers and employers. It aims to introduce labour rights to the code of conduct for corporations, demanding the corporations to be responsible to the society, especially to the stakeholders. In other words, it is the guiding principle for corporate about social responsibility and labour standards. All of you sitting here are the seniors in our company. What do you think about our company going to be verified by the SA8000?



Mr. Wen  
Factory Director

This is not new at all. During the 90's, Levi Strauss – the clothing company from the US brought up its first "Corporate Social Responsibility" to improve its image. Later, some other big companies followed and formulated similar regulations. Various multilateral organisations which concern the corporate social responsibilities have been established in Europe, the US and Australia, which gradually forms the campaign on corporate social responsibility. I think these standards are nothing more than public relations strategies to improve the image of the company.

It is widely believed that corporations seek profit by selling products or providing service. However during these 20 years, some people have brought up something different. A corporation is an independent organisation established based on mutual agreement. Despite its economic functions, it should have possessed "morality". In other words, corporations not only have to care about maximizing profit, they have to bear certain social responsibility related to business ethics (social responsibility is slightly different from social accountability where the former simply refers to the moral responsibilities and the latter refers to being accountable for something, which is somehow coercive).



Mr. Zhu,  
Lawyer



**Miss Wu,  
Manager**

These are the so-called moral standards. For the labour-intensive corporations in developing countries including China, it would be rather rigorous to join the SA8000. China's external trade has been soaring in recent years. According to estimation, exporting goods worth USD 100 million creates job opportunities for 12 thousand people. Then according to the exporting scale in 2004 (USD 600 billion), job opportunities for 70 million people will be created. It's thus clear that external trade is extremely important to the national welfare and the people's livelihood. It's true up till now, the SA8000 has not yet affected China's exporting industry to a large extent. However in recent years, thousands of corporations in the coastal areas have been investigated by some transnational companies. Since China is fulfilling her commitment to the WTO, if a corporation fails the SA8000, it may lose its customers and the corresponding orders. The corporation may even need to close down due to the economic loss! Let's read the information I've collected and you'll know why we have to take the SA8000 seriously.

- In 2002, some American customers investigated a toy factory in Shenzhen and discovered serious violation of labour rights, such as overtime working and low wages. The working hours of labour was also found to be untruthful. The factory thus lost its distributorship and its customers cancelled their orders one after another. In the end this company with 8000 workers was forced to close down.
- In 2003, a toy factory in Quanzhou, Fujian was found hiring child labour. Exporting orders of a few ten million dollars were cancelled.
- Since March 2003, 16 factories in China, which manufactured and sold products to the US, had been investigated by the National Labour Committee in the US and had received negative reports.
- In February 2004, Wal-Mart Stores, Inc., one of the largest retailers in the world, was accused of violating the international labour standards in Guangdong, which led to serious reverberations.
- In 2004, a lot of companies terminated the deals with various corporations in Guangdong and Jiangsu because these corporations refused to adopt the SA8000.



**Mr. Hu,  
CEO**

I have no idea the SA8000 have brought such negative impact to other corporations. However, I think these measures favour the sustainability of corporations in the long run. Firstly, SA8000 standard stresses the importance of humanity during production and while making profit, so as to make sure the products are up to the moral standards; secondly, by concerning the labour rights and providing them a healthy and safe working environment, internal operation can be improved and this can help our workers develop a sense of belonging to the company; thirdly, increasing the transparency of our operation and being honest about our conditions of production give us reputation for being accountable to the society, thus reinforcing the confidence our customers have in us; lastly, standardizing the labour rights save our customers' effort to formulate and verify the moral standards.





Miss Wu,  
Manager

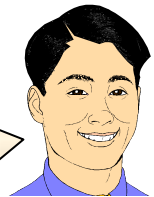
In 1999, the US proposed that the WTO establish a working group on trade and labour. Also, both the US and the European Union proposed including the queries about the labour standards into the agenda for the multilateral negotiation. During the Doha Development Round in 2001, developed countries and developing countries were strongly against each other. The majority of the developing countries were afraid that these standards were tactics used by the developed countries to oppress them. If those developing countries were like China, being forced to raise the wages, production cost would increase and they would lose their original competitive advantages. I would say, with the unfair economic order in the modern world, it is conceivable that the developing countries worry a lot about SA8000.



Mr. Hu,  
CEO

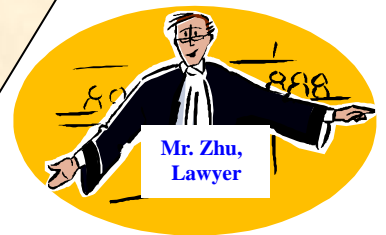
SA8000 standard can be commonly used in and applied to different countries, different industries and different corporations. Although there are a lot of debates about blending the labour standards with international trade, paying attention to the labour rights and improving the labour standards are the irresistible general trend.

There is a very wide gap between the levels of China and that of the developed countries in terms of production safety, labour welfare and other aspects, and the gap cannot be eliminated shortly. On one hand, promoting the campaign on corporate social responsibility in accordance with the market penalties, help improve the labour standards and their conditions, thus enhancing the entrepreneurs' legal sense for defending the labour and their managerial skill; on the other hand, promoting the campaign will increase the cost of doing external trade and export, thus reducing their advantages in low-cost competition. This will even threaten the survival of the corporation. Only if SA8000 can harmonize with the national conditions and actual situation in China can the labour rights be defended, or else it will create negative impact to the corporations.



Mr. Wen  
Factory Director

Mr. Wen was right. Profit will be affected if the corporation loses advantages in low-cost competition because the profit it can earn will then be affected. But this is only considered from the viewpoint of the stockholders. The point that a corporation should bear moral responsibilities towards its workers is neglected. Although morality is neither the solution nor the accord for any labour-management controversy, it provides a framework about what responsibilities to bear, demanding respect among parties. All negotiation must be carried out with moral restriction. Only when social responsibility has taken root is there the chance of acceptance and agreement. More importantly, a corporation not only affects the profit-seeking stockholders, but also some other people who are affected by the decisions and actions made by the corporation (actions that are real, potential, direct and indirect), namely the stakeholders. Stakeholders who are supposed to enjoy the profit brought by the corporation include the employees and the supplier of the corporation, its customers, even the society and the environment. Thus, how to satisfy each and every party becomes a major question in business ethics, i.e. how to treat these stakeholders well and how to maintain the relations with these parties. Corporations have to try their best not to harm the harmony of the society.



Wherever there's profit, there are moral problems. Morality balances profit. The responsibility a corporation has to its stockholders is to maximize the profit gained by their investment. Thus, this is a kind of economic responsibility. However, a corporation is accountable to its stakeholders as well. It should bear moral responsibility, which act as an important condition for maintaining a good relation between the two parties.

However, measuring the advantages and disadvantages of the SA8000 is as difficult as measuring profit and accountability. Mr. Wen, since this plan affects the employees the most, let's listen to their opinions.

# Material 4: What do they think?



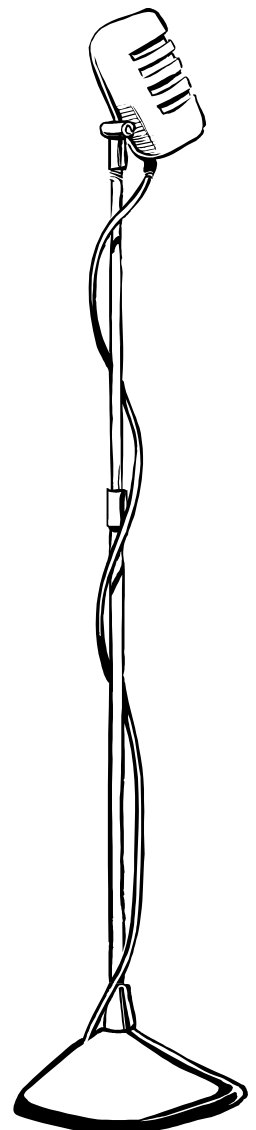
## Mr. Marco Ma (Engineering Technician)

Employees are for sure on the same boat with the employers. It is always the best for everyone if the company is doing well. SA8000 protects the workers a lot. The operation of the company will be monitored by foreign organisations of larger scales. Under the protection of SA8000, I don't think we have to work overtime everyday in order to meet the deadlines anymore. Furthermore, Chinese workers' wages must be too low in the eyes of foreigners. Isn't it better if they can speak for us to ask for higher wages? When our bosses know that every little detail in the company may be disclosed, they will be very careful to make sure workers will not be treated unfairly. When everyone follows the regulations, life will be better. I strongly support the idea of applying to be verified by the SA8000.



## Mrs. Leung (Packer)

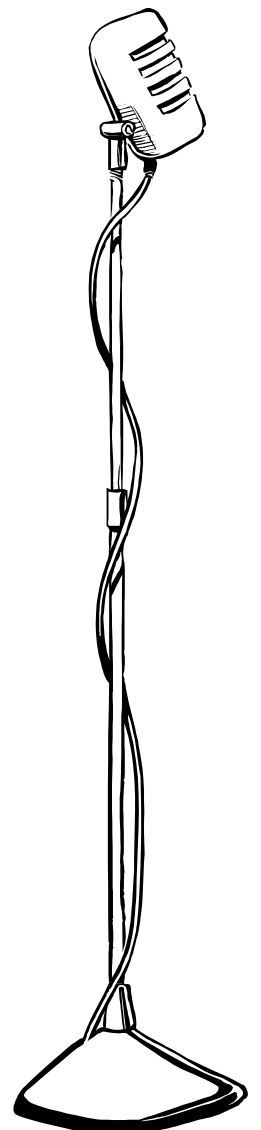
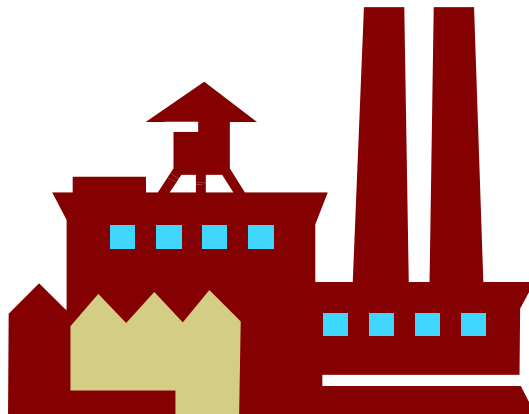
For the past 3 years, my employer has allowed me to work overtime everyday and earn a few hundreds more every month because he knows my husband is very sick and my family has financial problems. My son is studying at a primary school nearby. He comes everyday after school to help clean out the place, by doing so he earns his pocket money. During weekends and on holidays, he does part-time in the packing room. He earns more than a hundred a month. But if our company is verified by the SA8000, workers will not be allowed to work 15 hours a day. No child labour will be employed. Our livelihood will again be affected. Of course I'd like my company to soar in the market. But these regulations, neglecting the special cases like mine, scare me. When it comes to the time our company has to join SA8000, my son and I have no choice but to quit our jobs.





**Mr. Eric Lam (Quality Controller)**

The factory which my wife is working for joined the SA8000 last year. They thought it would bring them more orders. But there are too many inspections a week. Either the air quality or the working hour, or whatever is not up to standard, foreign customers can cancel their order at any time. Later, the company decided to re-install the ventilation and lighting systems in the factory. Thus, the factory closed down for at least six months, which was no different to unemployment. These so-called social accountability standards are tricks performed by the foreigners, forcing we Chinese to work according to their standards, so that our business is under their control. Increasing work place standards raises production cost, thus pulls up the market price of our products, lowering the competitiveness of Chinese products in the market. To every worker, his job is more important than any other kind of welfare. Without the job, any protection and ethical standard become useless even if they are important. I am against our company's decision to join the SA8000.





# Material 5:

## What are Labour Rights?

Labour rights are a group of rights concerning a labour before, during and after his employment, including the individual labour rights and the collective labour rights. The individual labour rights include the right to work, the right to equal pay, the right to rest and leisure, the right to labour safety and hygienic working condition, the right to job skills training, the right to social insurance and the right to requesting solutions for labour dispute; the collective labour rights include the right to joining trade unions, the right to collective bargaining and the right to participating democracy, which are all demonstrated through the actions of trade unions. “The right to work and other rights one should enjoy during his/her employment not only form the core part of the economic rights in a society, they are basic human rights as well. According to the aims and contents of these rights, the major criterion of the human right related to work is ‘labouring’ (working).” Labour rights are also one of the groups of rights which develop the most in this generation.

